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BEIJING TONG REN TANG CHINESE MEDICINE COMPANY LIMITED

北京同仁堂國藥有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 3613)

2019 INTERIM RESULTS ANNOUNCEMENT

The board of directors (the “**Board**”) of Beijing Tong Ren Tang Chinese Medicine Company Limited (the “**Company**”) is pleased to announce the unaudited results of the Company and its subsidiaries for the six months ended 30 June 2019. This announcement, containing the full text of the 2019 interim report of the Company, complies with the relevant requirements of the Rules (the “**Listing Rules**”) Governing the Listing of Securities of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) in relation to information to accompany preliminary announcement of interim results. Printed version of the Company’s 2019 interim report will be delivered to the shareholders of the Company and available for viewing on the websites of the Stock Exchange at www.hkexnews.hk and of the Company at www.tongrentangcm.com on or before 30 September 2019.

By order of the Board
Beijing Tong Ren Tang
Chinese Medicine Company Limited
Ding Yong Ling
Chairman

Hong Kong, 7 August 2019

As at the date of this announcement, the Board comprises the executive directors, namely Ms. Ding Yong Ling (Chairman), Mr. Zhang Huan Ping and Ms. Lin Man; and the independent non-executive directors, namely Mr. Tsang Yok Sing, Jasper, Mr. Zhao Zhong Zhen and Mr. Chan Ngai Chi.

CORPORATE INFORMATION



DIRECTORS

Executive Directors

Ding Yong Ling (*Chairman*)

Zhang Huan Ping

Lin Man

Independent Non-executive Directors

Tsang Yok Sing, Jasper

Zhao Zhong Zhen

Chan Ngai Chi

AUDIT COMMITTEE

Chan Ngai Chi (*Chairman*)

Tsang Yok Sing, Jasper

Zhao Zhong Zhen

NOMINATION COMMITTEE

Tsang Yok Sing, Jasper (*Chairman*)

Chan Ngai Chi

Ding Yong Ling

REMUNERATION COMMITTEE

Zhao Zhong Zhen (*Chairman*)

Chan Ngai Chi

Ding Yong Ling

COMPANY SECRETARY

Lin Man

COMPLIANCE OFFICER

Ding Yong Ling

AUTHORISED REPRESENTATIVES

Ding Yong Ling

Lin Man

HONG KONG SHARE REGISTRAR

Computershare Hong Kong Investor

Services Limited

Shops 1712–1716

17th Floor, Hopewell Centre

183 Queen's Road East

Wanchai, Hong Kong

COMPANY'S WEBSITE

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LEGAL ADVISER

DLA Piper Hong Kong

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The Landmark, 15 Queen's Road Central

Hong Kong

AUDITOR

PricewaterhouseCoopers

Certified Public Accountants

22nd Floor, Prince's Building

Central

Hong Kong

STOCK CODE

3613



FINANCIAL HIGHLIGHTS

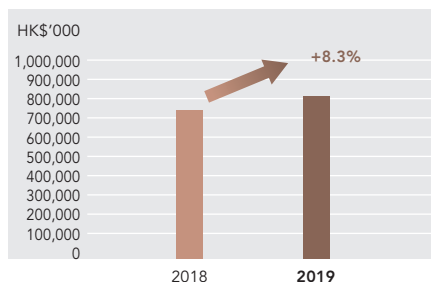
Six months ended 30 June

(HK\$'000)	2019	2018	Change
Revenue	822,485	759,533	+ 8.3%
Gross profit	600,602	548,114	+ 9.6%
Profit attributable to owners of the Company	358,575	307,505	+ 16.6%
Earnings per share	HK\$0.43	HK\$0.37	+ HK\$0.06

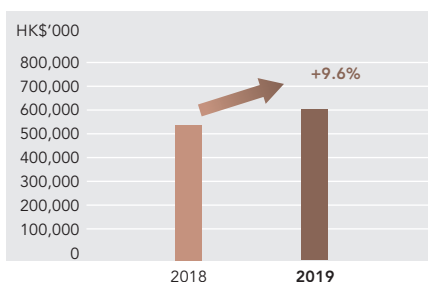
(HK\$'000)	30 June 2019	31 December 2018	Change
Cash and bank balances	2,334,730	2,265,440	+ 3.1%
Total assets	3,507,814	3,171,085	+ 10.6%
Total equity	3,174,991	3,024,227	+ 5.0%

For the six months ended 30 June 2019

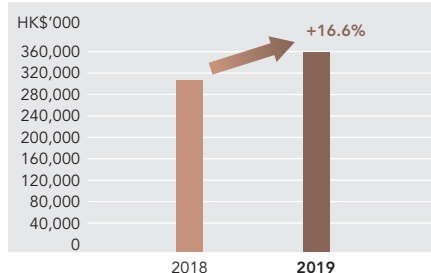
Revenue



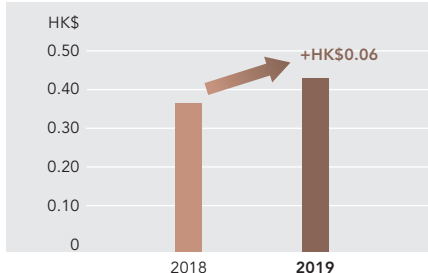
Gross profit



Profit attributable to owners of the Company



Earnings per share





BUSINESS REVIEW

Though there was no apparent improvement in the trend of global economy recovery, coupled with the China-US trade tensions and other surrounding uncertainties, as well as the influence of rising prices of raw materials and stringent supervision over endangered raw materials, Beijing Tong Ren Tang Chinese Medicine Company Limited (the "Company", and its subsidiaries, together the "Group", "we" or "us") continued to pursue its approach of seeking progress amidst stability and was committed to developing into an elite, strong and long lasting economic entity according to the requirements of "Quality Advancements Year " proposed by China Beijing Tong Ren Tang Group Co., Ltd. ("Tong Ren Tang Holdings"). For the six months ended 30 June 2019 (the "Period"), it recorded a revenue of HK\$822.5 million (2018: HK\$759.5 million), representing an increase of 8.3% over the same period of last year, and profit attributable to owners of the Company of HK\$358.6 million (2018: HK\$307.5 million), representing an increase of 16.6% over the same period of last year.

This year marks the 350th anniversary of the founding of Tong Ren Tang and the 15th anniversary of the establishment of the Group. Over the past 15 years, Beijing Tong Ren Tang has planted our roots in Hong Kong and expanded outwards. Following the introduction of "the Belt and Road Initiative", we have presented to the world the Traditional Chinese medicine ("TCM") products, services and culture which have been inherited for 350 years, and have shown people around the world a new way to live healthier. During the Period, the Group further optimized our business layout and the Group's business coverage outside of the PRC has covered 20 countries and regions and with a total of 74 retail outlets. We are now transiting from rapid development to quality development.

Market Exploration

Hong Kong is the core market of the Group. We have been strengthening our advertising and marketing efforts in Hong Kong, and are committed to enhancing the brand image of Tong Ren Tang. During the Period, in order to spread the message of "Perseverance To Good Health" and the brand's 350 years of persistence on professional craftsmanship, we have placed a series of large scale advertisements in Hong Kong to promote our cardiovascular and cerebrovascular health products as well as Sporoderm-broken Ganoderma Lucidum Spores Powder Capsules. It is the fourth consecutive year that we have the entire billboard advertisement on the tram station outside of our flagship store on Des Voeux Road Central in Central. This tram station has already become the symbol of Beijing Tong Ren Tang in Hong Kong to most of Hong Kong people. The advertisement placed at the tram station adopts the theme of "350 years of persistence on professional craftsmanship", with four major brand spirits of "Cultural Heritage, Craftsmanship, Integrity and Classic" to highlight Beijing Tong Ren Tang's ongoing efforts in spreading its corporate ethos underlined by the vision of "Healthy Life, Global Choice". In order to interact with and stay closer to the public, we update our Facebook page every month to provide timely information on TCM and healthcare, especially healthy seasonal recipes which are the most popular among our followers.



MANAGEMENT DISCUSSION AND ANALYSIS

Moreover, we held the fourth “Capital State-owned Enterprises Open Day” at our Tai Po Production and R&D Base on 24 May. This event has attracted over hundreds of Hong Kong citizens and was reported by several major media organizations. Since this year marks both the 70th anniversary of the founding of the PRC and the 350th anniversary of the founding of Tong Ren Tang, we were honoured to have Mrs. Carrie Lam Cheng Yuet-ngor, Chief Executive of the Hong Kong Special Administrative Region, as our guest and delivered a speech at the event. It was also the first time that a Chief Executive participated in our “Capital State-owned Enterprises Open Day” activities. Numerous indoor and outdoor activities were held at our Tai Po Production and R&D Base that day. We have set up a herb garden and arranged a Ba Duan Jin (Eight-Section Brocade) demonstration at the outdoor area to let people learn about different kinds of Chinese herbs and to encourage people to stay healthy by doing more exercises. For the indoor area, visitors could find the exhibition foamboards introducing Beijing Tong Ren Tang’s overseas activities under “the Belt and Road Initiative”, and the demonstrations of rounding of herb pills, gold coating and herbs weighing as well as a Chinese Herbal Cabinet. We have also arranged tours of our production workshops and culture museum, healthcare seminars and free medical consultations for visitors, so that they would have a better understanding of Beijing Tong Ren Tang’s history and our stringent supervision over the whole manufacturing processes of our products.

While taking Hong Kong as our core market, it is the Group’s strategy to go international. For the overseas business of Beijing Tong Ren Tang, we have upheld the vision of “wherever there is a need for health, there is Tong Ren Tang”, and connecting the global needs of public health through TCM. Beijing Tong Ren Tang won the “Leader of Natural Medicine” Award in the 9th Business Women Congress, 2019 held in Poland in recognition of Beijing Tong Ren Tang’s highly recognised quality services and products in Poland, and making us the first and only enterprise to receive such award. During the Period, Beijing Tong Ren Tang (Auckland) Company Limited co-organised the 2019 “China Tourism Culture Week — TCM Culture and New Zealand Healthy Journey Promotion” held in Wellington (the capital of New Zealand), and had offered free medical consultations with medical practitioners at the event. It was the first time for Beijing TCM “Healthy Tour” being introduced overseas. Such cultural experience activities provided locals with in-depth experience and understanding of TCM culture, which was an expansive initiative to promote TCM culture in New Zealand. We have also increased our efforts in promoting TCM culture in Australia and Dubai by organising large-scale free medical consultations and healthcare seminars with an aim to bring TCM culture into the local community and enhance overseas influence of TCM and Tong Ren Tang brand. We are committed to promoting TCM culture wherever Tong Ren Tang has located and sharing TCM with people looking for a healthy life around the world.



Production, Research and Development

Our Tai Po Production and R&D Base adopted a stringent quality control system with high safety factors. It has obtained the GMP (Good Manufacturing Practice) for Proprietary Chinese medicine certification, and also obtained certification on several international standards, such as the ISO 22000:2005 (Food Safety Management Systems) and the HACCP (Hazard Analysis and Critical Control Points), which provide comprehensive protection for the high-quality products production and excellent consumer experience and safety of medicine consumption.

During the Period, the Group continued to focus on its core businesses and enrich its product mix, and has successfully completed the proprietary Chinese medicine registration for two new products in Hong Kong. We continued to ride on the development trend of the comprehensive healthcare industry and have started developing new products to satisfy the extensive market demand for products which can adjust the function of our body and prevent illness. Apart from new product research and development, the Group has been actively focusing on the scientific research of our key products, products upgrade as well as facilitating product development in the future. In order to achieve better results in scientific research, we continued to conduct researches on safety, mechanism of action and other aspects of our key products with internationally renowned institutions. It is expected that the results of such scientific researches will provide a reliable basis with scientific support that helps our products enter the mainstream overseas market.

Future Prospects

“Healthy Life, Global Choice” has always been the vision and mission of the Group. Under economic globalization, the idea of “Heal the Sick and Serve the Society” shall be redefined. With the “Belt and Road Initiative” being scaled up, the traditional Chinese culture will continuously spread further. The Group will continue to rely on its “Five Continent Layout”, and constantly instill Chinese essence into the global health system. Started from Hong Kong, we will connect the world by satisfying the desire for health from people around the globe with TCM, and continuously provide new alternatives to enhance their health.

Human Resources

As at 30 June 2019, we had a total of 838 employees (2018: 818 employees). During the Period, the staff cost of the Group was HK\$95.1 million (2018: HK\$90.8 million). In order to attract and retain talents, the Group reviewed its remuneration policy on a regular basis and offered discretionary bonus to qualified employees according to the results and personal performance.



MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Financial Resources and Liquidity

As at 30 June 2019, the Group continued to be in a strong financial position with cash and bank balances amounting to HK\$2,334.7 million (31 December 2018: HK\$2,265.4 million). During the Period, the Group funded its liquidity by resources generated internally. Based on the Group's steady cash inflow from operations, coupled with sufficient cash and bank balances, the Group has adequate liquidity and financial resources to meet the daily operations and working capital requirements as well as to fund its expansion plans.

As at 30 June 2019, the Group's cash and bank balances were mainly denominated in Hong Kong dollars and Renminbi and were deposited in reputable financial institutions with maturity dates falling within one year.

As at 30 June 2019, the Group had total non-current assets, net current assets and net assets of HK\$520.6 million, HK\$2,727.7 million and HK\$3,175.0 million, respectively (31 December 2018: HK\$424.6 million, HK\$2,605.5 million and HK\$3,024.2 million, respectively). The current ratio of the Group, defined as the ratio of current assets to current liabilities, was 11.5 as at 30 June 2019 (31 December 2018: 19.5), which reflects the abundance of financial resources of the Group. The gearing ratio of the Group, defined as the borrowings to total equity, was 0.04% as at 30 June 2019 (31 December 2018: 0.04%).

Capital Expenditure

During the Period, the Group's capital expenditure was HK\$3.9 million (2018: HK\$44.3 million), which was mainly used in renovation of retail outlets and purchase of machinery and equipment for production and operation purposes.

Foreign Currency Risk

The Group's main business operations are conducted in Hong Kong and other overseas countries/regions. The transactions, monetary assets and liabilities of the Group are mainly denominated in Hong Kong dollar, Renminbi, and United States dollar. During the Period, there was no material impact to the Group arising from the fluctuation in the exchange rates of these currencies.

The Group did not engage in any derivatives activities and did not commit to any financial instruments to hedge its foreign exchange exposure during the Period.



Major Investment, Acquisitions and Disposals

During the Period, the Group did not have any major investment, acquisitions and disposals.

Charges over Assets of the Group

At 30 June 2019, the Group's property with net book value of HK\$10.7 million (31 December 2018: HK\$10.9 million) has been pledged as securities for long-term bank borrowings. Such bank borrowing in Australian dollars bears interest at 1.5% plus the bank bill rate in Australia per annum and is wholly repayable in 2020.

Contingent Liabilities

At 30 June 2019, the Group did not have any significant contingent liabilities.

Dividends

The board of Directors (the "Board") does not recommend the payment of any interim dividend for the six months ended 30 June 2019 (2018: Nil).



CONDENSED CONSOLIDATED INCOME STATEMENT

The Board is pleased to announce the unaudited condensed consolidated results of the Group for the six months ended 30 June 2019 together with the comparative unaudited figures for the corresponding period in 2018 as follows:

		Unaudited	
		Six months ended	
		30 June	
	Note	2019 HK\$'000	2018 HK\$'000
Revenue	6	822,485	759,533
Cost of sales	7	(221,883)	(211,419)
Gross profit		600,602	548,114
Distribution and selling expenses	7	(114,696)	(113,081)
General and administrative expenses	7	(62,768)	(58,626)
Other gains		768	1,299
Operating profit		423,906	377,706
Finance income		21,983	7,274
Finance costs		(2,045)	(12)
Finance income, net	8	19,938	7,262
Share of losses of investments accounted for using the equity method		(650)	(681)
Profit before income tax		443,194	384,287
Income tax expense	9	(72,473)	(65,276)
Profit for the period		370,721	319,011
Profit attributable to:			
Owners of the Company		358,575	307,505
Non-controlling interests		12,146	11,506
		370,721	319,011
Earnings per share attributable to owners of the Company (expressed in HK\$ per share)			
Basic and diluted	10	0.43	0.37

The notes on pages 14 to 34 are an integral part of this condensed consolidated interim financial information.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME



	Unaudited Six months ended 30 June	
	2019 HK\$'000	2018 HK\$'000
Profit for the period	370,721	319,011
Other comprehensive losses:		
<i>Item that may be reclassified to profit or loss</i>		
Currency translation differences	171	(9,031)
<i>Item that will not be reclassified to profit or loss</i>		
Change in fair value of financial asset at fair value through other comprehensive income	(2,115)	1,110
Other comprehensive losses for the period	(1,944)	(7,921)
Total comprehensive income for the period	368,777	311,090
Attributable to:		
Owners of the Company	356,318	302,328
Non-controlling interests	12,459	8,762
Total comprehensive income for the period	368,777	311,090

The notes on pages 14 to 34 are an integral part of this condensed consolidated interim financial information.



CONDENSED CONSOLIDATED BALANCE SHEET

	Note	Unaudited 30 June 2019 HK\$'000	Audited 31 December 2018 HK\$'000
ASSETS			
Non-current assets			
Leasehold land	12	15,195	15,465
Property, plant and equipment	13	280,657	286,303
Right-of-use assets	3(b)	111,152	–
Intangible assets	14	68,237	72,487
Investments accounted for using the equity method		19,735	20,181
Financial asset at fair value through other comprehensive income		13,353	15,468
Deposits paid for purchase of property, plant and equipment		4,299	2,866
Deferred income tax assets		7,990	11,851
		520,618	424,621
Current assets			
Inventories		268,465	244,535
Trade receivables and other current assets	15	384,001	236,489
Short-term bank deposits		1,924,177	1,715,609
Cash and cash equivalents		410,553	549,831
		2,987,196	2,746,464
Total assets		3,507,814	3,171,085
EQUITY AND LIABILITIES			
Equity attributable to owners of the Company			
Share capital	16	938,789	938,789
Reserves			
— Other reserves		(22,240)	(19,983)
— Retained earnings		2,152,863	1,986,821
		3,069,412	2,905,627
Non-controlling interests		105,579	118,600
Total equity		3,174,991	3,024,227

CONDENSED CONSOLIDATED BALANCE SHEET



		Unaudited 30 June 2019 HK\$'000	Audited 31 December 2018 HK\$'000
	Note		
LIABILITIES			
Non-current liabilities			
Borrowings		916	1,053
Lease liabilities	3(b)	67,456	–
Deferred income tax liabilities		4,922	4,874
		73,294	5,927
Current liabilities			
Borrowings		221	166
Trade and other payables	17	128,108	119,011
Lease liabilities	3(b)	44,812	–
Current income tax liabilities		86,388	21,754
		259,529	140,931
Total liabilities		332,823	146,858
Total equity and liabilities		3,507,814	3,171,085

The notes on pages 14 to 34 are an integral part of this condensed consolidated interim financial information.



CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Unaudited								
	Attributable to owners of the Company								Non-controlling interests
	Share capital HK\$'000	Merger reserve HK\$'000	Other reserve HK\$'000	Statutory reserve HK\$'000	Exchange reserve HK\$'000	Retained earnings HK\$'000	Total HK\$'000		Total equity HK\$'000
At 1 January 2018	938,789	(13,124)	2,360	6,229	(6,512)	1,565,150	2,492,892	115,285	2,608,177
Comprehensive income									
Profit for the period	-	-	-	-	-	307,505	307,505	11,506	319,011
Other comprehensive losses									
Change in fair value of financial asset at fair value through other comprehensive income	-	-	1,110	-	-	-	1,110	-	1,110
Currency translation differences									
— Group	-	-	-	-	(6,331)	-	(6,331)	(2,744)	(9,075)
— Joint ventures	-	-	-	-	44	-	44	-	44
Total comprehensive income	-	-	1,110	-	(6,287)	307,505	302,328	8,762	311,090
Transactions with owners in their capacity as owners									
Dividends relating to 2017 (Note 11)	-	-	-	-	-	(159,049)	(159,049)	(15,261)	(174,310)
Capital injection into subsidiaries	-	-	-	-	-	-	-	2,870	2,870
Total transactions with owners in their capacity as owners	-	-	-	-	-	(159,049)	(159,049)	(12,391)	(171,440)
At 30 June 2018	938,789	(13,124)	3,470	6,229	(12,799)	1,713,606	2,636,171	111,656	2,747,827
At 1 January 2019	938,789	(13,124)	2,510	6,229	(15,598)	1,986,821	2,905,627	118,600	3,024,227
Comprehensive income									
Profit for the period	-	-	-	-	-	358,575	358,575	12,146	370,721
Other comprehensive losses									
Change in fair value of financial asset at fair value through other comprehensive income	-	-	(2,115)	-	-	-	(2,115)	-	(2,115)
Currency translation differences									
— Group	-	-	-	-	(346)	-	(346)	313	(33)
— Joint ventures	-	-	-	-	204	-	204	-	204
Total comprehensive income	-	-	(2,115)	-	(142)	358,575	356,318	12,459	368,777
Transactions with owners in their capacity as owners									
Dividends relating to 2018 (Note 11)	-	-	-	-	-	(192,533)	(192,533)	(25,480)	(218,013)
Total transactions with owners in their capacity as owners	-	-	-	-	-	(192,533)	(192,533)	(25,480)	(218,013)
At 30 June 2019	938,789	(13,124)	395	6,229	(15,740)	2,152,863	3,069,412	105,579	3,174,991

The notes on pages 14 to 34 are an integral part of this condensed consolidated interim financial information.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS



	Unaudited Six months ended 30 June	
	2019 HK\$'000	2018 HK\$'000
Net cash generated from operating activities	294,520	286,729
Cash flows from investing activities		
Interest received	11,211	7,274
Increase in short-term bank deposits with original maturities exceeding three months	(208,568)	(410,637)
Purchase of property, plant and equipment	(2,995)	(41,847)
Proceeds from disposal of property, plant and equipment	104	—
Deposit paid for purchase of property, plant and equipment	(2,034)	(3,010)
Net cash used in investing activities	(202,282)	(448,220)
Cash flows from financing activities		
Repayment of lease liabilities	(23,424)	—
Drawdown of long-term borrowings	—	1,082
Repayment of long-term borrowings	(83)	(516)
Capital injection by non-controlling interests	—	2,870
Dividends paid to the Company's shareholders	(192,399)	(159,049)
Dividends paid to non-controlling shareholders	(15,680)	(15,261)
Net cash used in financing activities	(231,586)	(170,874)
Net decrease in cash and cash equivalents	(139,348)	(332,365)
Cash and cash equivalents at beginning of period	549,831	750,443
Exchange gains/(loss) on cash and cash equivalents	70	(4,938)
Cash and cash equivalents at end of period	410,553	413,140
Analysis of balances of cash and cash equivalents		
Cash at bank and on hand and deposits with banks with original maturity within three months	410,553	413,140

The notes on pages 14 to 34 are an integral part of this condensed consolidated interim financial information.



NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

1 GENERAL INFORMATION

The Group is engaged in manufacturing, retail and wholesale of Chinese medicine products and healthcare products and provision of Chinese medical consultation and treatments. The immediate holding company of the Company is Tong Ren Tang Technologies Co. Ltd. ("Tong Ren Tang Technologies") which is a joint stock limited liability company established in the People's Republic of China (the "PRC", and for the purpose of this interim report, excluding Hong Kong, Macao and Taiwan) and is listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The intermediate holding company of the Company is Beijing Tong Ren Tang Company Limited ("Tong Ren Tang Ltd.") which is a joint stock limited company incorporated in the PRC and is listed on the Shanghai Stock Exchange. The ultimate holding company of the Company is China Beijing Tong Ren Tang Group Co., Ltd. ("Tong Ren Tang Holdings") which is a company incorporated in the PRC.

The shares of the Company were listed on GEM of the Stock Exchange starting from 7 May 2013 and were transferred to be listed on the Main Board of the Stock Exchange starting from 29 May 2018.

The condensed consolidated interim financial information is presented in Hong Kong dollars ("HK\$"), unless otherwise stated. This consolidated interim financial information has been approved for issue by the Board on 7 August 2019.

This condensed consolidated interim financial information has not been audited.



2 BASIS OF PREPARATION

This condensed consolidated interim financial information for the six months ended 30 June 2019 has been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Listing Rules of the Stock Exchange.

The financial information relating to the year ended 31 December 2018 that is included in this condensed consolidated interim financial information as comparative information does not constitute the Company's statutory annual consolidated financial statements for the year but is derived from those financial statements. Further information relating to these statutory financial statements required to be disclosed in accordance with section 436 of the Hong Kong Companies Ordinance (Cap. 622) is as follows:

The Company has delivered the financial statements for the year ended 31 December 2018 to the Companies Registry as required by section 662(3) of, and Part 3 of Schedule 6 to, the Hong Kong Companies Ordinance (Cap. 622).

3 SIGNIFICANT 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 2018, as described in those annual financial statements.

Taxation on income in the interim periods is accrued using the tax rate that would be applicable to expected total annual earnings.



NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

3 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(a) **Adoption of new standard, interpretation and amendments to standards**

The following are the new standard, interpretation and amendments to existing standards which are relevant to the Group's operations and are mandatory for the financial year beginning on 1 January 2019.

HKAS 12 (Amendment)	Income Taxes
HKAS 19 (Amendment)	Plan Amendment, Curtailment or Settlement
HKAS 23 (Amendment)	Borrowing Costs
HKAS 28 (Amendment)	Long-term Interests in Associates and Joint Ventures
HKFRS 3 (Amendment)	Business Combinations
HKFRS 9 (Amendment)	Prepayment Features with Negative Compensation
HKFRS 11 (Amendment)	Joint Arrangements
HKFRS 16	Leases
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments

Except for HKFRS 16, the adoption of above new standard, interpretation and amendments to existing standards does not have any significant financial effect on this condensed consolidated interim financial information.

(b) **Adoption of HKFRS 16**

The Group has adopted HKFRS 16 retrospectively from 1 January 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transitional provisions in the standard. The reclassifications and the adjustments arising from the adoption of HKFRS 16 are therefore recognised in the opening balance sheet on 1 January 2019.

The Group is a lessee of various properties. Upon the adoption of HKFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as "operating leases" under the principles of HKAS 17 Leases except for short-term and low value leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. The lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 ranged between 4% to 6%. The remeasurements to the lease liabilities were recognised as adjustments to the related right-of-use assets immediately after the date of initial application.



3 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(b) Adoption of HKFRS 16 *(Continued)*

The reconciliation of operating lease commitments to lease liabilities is set out below:

	HK\$'000
Operating lease commitments disclosed as at 31 December 2018	113,543
Discounted using the lessee's incremental borrowing rate of at the date of initial application	105,825
(Less): short-term leases recognised on a straight-line basis as expense	(18,078)
(Less): contracts reassessed as service agreements	(663)
Add: adjustments as a result of a different treatment of extension and termination options	33,997
Lease liabilities recognised as at 1 January 2019	121,081
Of which are:	
Current lease liabilities	40,124
Non-current lease liabilities	80,957
	121,081

The associated right-of-use assets for property leases were measured on a retrospective basis as if the new rules had always been applied. There were no onerous lease contracts that would have required a significant adjustment to the right-of-use assets at the date of initial application.

Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the lease term on a straight-line basis.



NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

3 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(b) Adoption of HKFRS 16 *(Continued)*

The adoption of HKFRS 16 affected the following items in the consolidated balance sheet at 1 January 2019:

Increase/(decrease)	HK\$'000
<i>Non-current assets</i>	
Right-of-use assets	122,017
<i>Current assets</i>	
Trade receivables and other current assets	(1,646)
<i>Non-current liabilities</i>	
Lease liabilities	80,957
<i>Current liabilities</i>	
Lease liabilities	40,124
Trade and other payables	(710)

In applying HKFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- reliance on previous assessments on whether leases are onerous;
- the accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases;
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application; and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.



3 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(b) **Adoption of HKFRS 16** *(Continued)*

The Group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Group relied on its assessment made applying HKAS 17 and HKFRIC 4 “Determining whether an Arrangement contains a Lease”.

Assets and liabilities arising from a lease are initially measured at a present value basis.

Payments associated with short-term leases are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less.

The Group leases various properties of which rental contracts are typically made for fixed periods of 1 to 10 years but may have extension options. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. Some property leases contain variable payment terms that are linked to sales generated from a store and are recognised in profit or loss in the period in which the condition that triggers those payments occurs.



NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

3 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

The following are new standards and amendments to existing standards that have been published and are relevant and mandatory for the Group's accounting periods beginning on or after 1 January 2020, but have not been early adopted by the Group.

Conceptual Framework for Financial Reporting 2018 HKAS 1 and HKAS 8 (Amendment)	Revised Conceptual Framework for Financial Reporting ⁽¹⁾ Definition of Material ⁽¹⁾
HKFRS 3 (Amendment)	Definition of Business ⁽¹⁾
HKFRS 10 and HKAS 28 (Amendment)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ⁽³⁾
HKFRS 17	Insurance Contracts ⁽²⁾

⁽¹⁾ Effective for the accounting period beginning on 1 January 2020

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

⁽³⁾ Effective date to be determined

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



4 ESTIMATES

The preparation of interim financial information requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing this condensed consolidated interim financial information, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2018.

5 FINANCIAL RISK MANAGEMENT

(a) Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk and cash flow 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 2018.

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

(b) Liquidity risk

Compared to 31 December 2018, there was no material change in the contractual undiscounted cash out flows for financial liabilities.



NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

6 REVENUE AND SEGMENT INFORMATION

(a) Revenue

	Unaudited Six months ended 30 June	
	2019 HK\$'000	2018 HK\$'000
Sales of products	797,756	733,265
Service income	24,179	25,783
Royalty fee income	550	485
	822,485	759,533

(b) Segment information

The chief operating decision maker has been identified as the executive directors of the Company (the "Executive Directors"). The Executive Directors review the Group's internal reporting in order to assess performance and allocate resources and have determined the operating segments based on these reports.

The Executive Directors consider the Group's business and aggregate the operating segment from a geographic perspective and have determined that the Group has three reportable operating segments as follows:

- (i) Hong Kong — sale of Chinese medicine products and healthcare products and provision of Chinese medical consultation and treatments through retail outlets as well as wholesale of Chinese medicine products and healthcare products in Hong Kong. In addition, it includes the royalty fee income received from overseas entities for using "Tong Ren Tang" brand name.
- (ii) PRC — wholesale of healthcare products in the PRC and the sole distribution of Tong Ren Tang branded products of Tong Ren Tang Technologies and Tong Ren Tang Ltd. to customers outside PRC.
- (iii) Overseas — retail and wholesale of Chinese medicine products and healthcare products and provision of Chinese medical consultation and treatments in other overseas countries, including Macao.



6 REVENUE AND SEGMENT INFORMATION *(Continued)*

(b) **Segment information** *(Continued)*

Unallocated items comprise mainly corporate expenses.

Sales between segments are carried in accordance with terms agreed by the parties involved.

The Executive Directors assess the performance of the operating segments based on revenue and segment results of each segment. Management has determined the operating segments based on the location of the entities and the information reviewed by the Group's chief operating decision maker for the purposes of allocating resources and assessing performance.

Segment assets include leasehold land, property, plant and equipment, right-of-use assets, intangible assets, investments accounted for using the equity method, financial asset at fair value through other comprehensive income, deferred income tax assets, deposits paid for purchase of property, plant and equipment, inventories, trade receivables and other current assets, short-term bank deposits and cash and cash equivalents. Segment liabilities include borrowings, trade and other payables, lease liabilities and current and deferred income tax liabilities.



NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

6 REVENUE AND SEGMENT INFORMATION *(Continued)*

(b) Segment information *(Continued)*

(i) Analysis of condensed consolidated income statement

	Hong Kong HK\$'000	PRC HK\$'000	Overseas HK\$'000	Total HK\$'000
Six months ended 30 June 2019 (Unaudited)				
Segment revenue	633,182	210,219	166,376	1,009,777
Inter-segment revenue	(129,984)	(57,308)	–	(187,292)
Revenue from external customers	503,198	152,911	166,376	822,485
Timing of revenue recognition				
At a point in time	501,236	150,064	143,609	794,909
Overtime	1,962	2,847	22,767	27,576
	503,198	152,911	166,376	822,485
Segment results	392,350	9,816	5,042	407,208
Inter-segment elimination				16,698
Operating profit				423,906
Finance income	21,679	60	244	21,983
Finance cost	(556)	(28)	(1,461)	(2,045)
Share of losses of investments accounted for using the equity method				(650)
Profit before income tax				443,194
Income tax expense	(63,290)	(4,418)	(4,765)	(72,473)
Profit for the Period				370,721

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION



6 REVENUE AND SEGMENT INFORMATION (Continued)

(b) Segment information (Continued)

(i) Analysis of condensed consolidated income statement (Continued)

	Hong Kong HK\$'000	PRC HK\$'000	Overseas HK\$'000	Total HK\$'000
Six months ended				
30 June 2018 (Unaudited)				
Segment revenue	572,861	273,439	162,012	1,008,312
Inter-segment revenue	(158,683)	(90,066)	(30)	(248,779)
Revenue from external customers	414,178	183,373	161,982	759,533
Timing of revenue recognition				
At a point in time	411,691	180,647	138,202	730,540
Overtime	2,487	2,726	23,780	28,993
	414,178	183,373	161,982	759,533
Segment results	354,449	18,184	12,283	384,916
Inter-segment elimination				(7,210)
Operating profit				377,706
Finance income	7,066	88	120	7,274
Finance cost	–	–	(12)	(12)
Share of losses of investments accounted for using the equity method				(681)
Profit before income tax				384,287
Income tax expense	(59,125)	(2,599)	(3,552)	(65,276)
Profit for the period				319,011



NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

6 REVENUE AND SEGMENT INFORMATION *(Continued)*

(b) Segment information *(Continued)*

(ii) Analysis of condensed consolidated balance sheet

	Hong Kong HK\$'000	PRC HK\$'000	Overseas HK\$'000	Total HK\$'000
At 30 June 2019 (Unaudited)				
Segment assets and liabilities				
Total assets	2,778,196	356,192	373,426	3,507,814
Investments accounted for using the equity method	12,051	–	7,684	19,735
Total liabilities	(175,833)	(30,039)	(126,951)	(332,823)
At 31 December 2018 (Audited)				
Segment assets and liabilities				
Total assets	2,662,367	225,606	283,112	3,171,085
Investments accounted for using the equity method	12,708	–	7,473	20,181
Total liabilities	(82,769)	(27,289)	(36,800)	(146,858)

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION



7 EXPENSES BY NATURE

	Unaudited Six months ended 30 June	
	2019 HK\$'000	2018 HK\$'000
Cost of inventories sold	188,399	177,133
Employee benefit expenses (including directors' emoluments)	95,062	90,750
Operating leases payments	–	44,471
Expenses relating to short-term leases	19,609	–
Variable lease payments not included in the measurement of lease liabilities (Note)	593	–
Depreciation of right-of-use assets (Note 3(b))	23,491	–
Amortisation of prepaid operating lease payments (Note 12)	270	270
Amortisation of intangible assets (Note 14)	4,230	1,279
Depreciation of property, plant and equipment (Note 13)	9,371	11,012
Loss on disposal of property, plant and equipment	4	2
Write-off of inventories	36	316
Provision for impairment loss on inventories	295	–
Advertising and promotion expenses	10,536	11,160
Net exchange gain	(147)	(1,420)

Note: Variable lease payments represent the amounts which are calculated based on percentages of turnover generated by certain retail outlets that exceed their fixed rentals.



NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

8 FINANCE INCOME, NET

	Unaudited Six months ended 30 June	
	2019 HK\$'000	2018 HK\$'000
Finance income		
Bank deposits	21,983	7,274
Finance costs		
Bank borrowings	(2)	(12)
Lease liabilities	(2,043)	—
	(2,045)	(12)
	19,938	7,262

9 INCOME TAX EXPENSE

Hong Kong profits tax has been provided at the rate of 16.5% (2018: 16.5%) on the estimated assessable profits for the period. PRC corporate income tax has been provided at the rate of 25% (2018: 25%) on the estimated assessable profits for the period of the subsidiaries operating in the PRC. Taxation on overseas profits has been calculated on the estimated assessable profit for the period at the rates of taxation prevailing in the countries in which the entities operate.

	Unaudited Six months ended 30 June	
	2019 HK\$'000	2018 HK\$'000
Current income tax		
Hong Kong	63,768	59,736
PRC	2,374	4,568
Overseas	2,425	3,209
	68,567	67,513
Deferred income tax	3,906	(2,237)
Income tax expense	72,473	65,276



10 EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the profit attributable to owners of the Company by the weighted average number of ordinary shares in issue during the period.

	Unaudited Six months ended 30 June	
	2019 HK\$'000	2018 HK\$'000
Profit attributable to owners of the Company	358,575	307,505
Weighted average number of ordinary shares in issue (thousand shares)	837,100	837,100
Earnings per share (HK\$)	0.43	0.37

There were no potential dilutive shares for the six months ended 30 June 2019 (2018: Nil).

11 DIVIDENDS

A dividend of HK\$192,533,000 in respect of the year ended 31 December 2018 was paid in May 2019 (2018: HK\$159,049,000).

During the six months ended 30 June 2019, the Board did not recommend the payment of any interim dividend (2018: Nil).

12 LEASEHOLD LAND

The leasehold land represents prepaid operating lease payments and is held in Hong Kong on lease of between 10 and 50 years. Its net book value is analysed as follows:

	HK\$'000
Net book value at 1 January 2019 (audited)	15,465
Amortisation of prepaid operating lease payments	(270)
At 30 June 2019 (unaudited)	15,195



NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

13 PROPERTY, PLANT AND EQUIPMENT

The net book value of property, plant and equipment is analysed as follows:

	HK\$'000
At 1 January 2019 (audited)	286,303
Additions	3,858
Disposals	(108)
Depreciation charge	(9,371)
Currency translation differences	(25)
At 30 June 2019 (unaudited)	280,657

As at 30 June 2019, bank borrowing is secured by a freehold land and building amounted to HK\$10,707,000 (31 December 2018: HK\$10,913,000).

14 INTANGIBLE ASSETS

The net book value of intangible assets is analysed as follows:

	Goodwill HK\$'000	Other Intangible assets HK\$'000	Total HK\$'000
At 1 January 2019 (audited)	49,419	23,068	72,487
Amortisation	–	(4,230)	(4,230)
Currency translation differences	–	(20)	(20)
At 30 June 2019 (unaudited)	49,419	18,818	68,237



15 TRADE RECEIVABLES AND OTHER CURRENT ASSETS

	Unaudited 30 June 2019 HK\$'000	Audited 31 December 2018 HK\$'000
Trade receivables		
— fellow subsidiaries	119,267	74,576
— joint ventures	3,792	9,465
— an associate	2,818	911
— third parties	191,562	91,973
Trade receivables	317,439	176,925
Prepayment and other receivables	43,166	36,227
Deposits	22,282	22,223
Amount due from a joint venture	1,114	1,114
	384,001	236,489

The aging analysis of trade receivables (including amounts due from related parties of trading in nature) based on invoice date is as follows:

	Unaudited 30 June 2019 HK\$'000	Audited 31 December 2018 HK\$'000
Up to 3 months	228,725	138,079
3 to 6 months	32,343	29,121
6 months to 1 year	48,264	8
Over 1 year	8,107	9,717
	317,439	176,925



NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

16 SHARE CAPITAL

	Number of shares	Share capital HK\$'000
Ordinary shares issued and fully paid:		
At 1 January 2019 (audited) and 30 June 2019 (unaudited)	837,100,000	938,789

17 TRADE AND OTHER PAYABLES

	Unaudited 30 June 2019 HK\$'000	Audited 31 December 2018 HK\$'000
Trade payables		
— intermediate holding company	20,358	13,727
— immediate holding company	9,184	6,792
— fellow subsidiaries	113	—
— third parties	17,029	31,196
Trade payables	46,684	51,715
Accruals and other payables	77,896	62,361
Contract liabilities	3,528	4,935
	128,108	119,011

The aging analysis of trade payables (including amounts due to the related parties of trading in nature) based on invoice date is as follows:

	Unaudited 30 June 2019 HK\$'000	Audited 31 December 2018 HK\$'000
Up to 3 months	41,637	43,439
3 to 6 months	61	237
6 months to 1 year	135	7,485
Over 1 year	4,851	554
	46,684	51,715

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION



18 COMMITMENTS

Capital commitments

	Unaudited 30 June 2019 HK\$'000	Audited 31 December 2018 HK\$'000
Contracted but not provided for — property, plant and equipment	5,804	2,627

19 SIGNIFICANT RELATED PARTY TRANSACTIONS

In addition to those disclosed in other sections of this condensed consolidated interim financial information, the following transactions were carried out with related parties:

		Unaudited Six months ended 30 June	
	Note	2019 HK\$'000	2018 HK\$'000
(a) Sales of products to:			
— Joint ventures	(i)	3,956	2,718
— Fellow subsidiaries	(i)	94,602	116,247
— An associate	(i)	1,907	—
		100,465	118,965
(b) Purchases of products from:			
— Immediate holding company	(i)	13,797	10,706
— Intermediate holding company	(i)	32,989	59,739
— Fellow subsidiaries	(i)	84	194
		46,870	70,639
(c) Royalty fee income from joint ventures	(ii)	550	485
(d) Rental expense to fellow subsidiaries	(i)	2,060	2,201



NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

19 SIGNIFICANT RELATED PARTY TRANSACTIONS *(Continued)*

(e) Key management compensation

Key management includes executive directors and senior management. The emoluments paid or payable to key management for employee services is as follows:

	Unaudited Six months ended 30 June	
	2019 HK\$'000	2018 HK\$'000
Salaries and other short-term employee benefits	2,252	3,260
Pension costs — defined contribution plans	41	74
	2,293	3,334

Notes:

- (i) These transactions were conducted in the normal course of business at prices and terms mutually agreed between the parties involved.
- (ii) The royalty fee is charged annually by the Company at predetermined rates ranging from 1% to 3% on turnover of its joint ventures in accordance with the royalty agreements. Pursuant to these agreements, these joint ventures are allowed to trade under “Tong Ren Tang” brand name.



DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES

As at 30 June 2019, the interest and short positions in the shares and underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO") (Chapter 571 of the laws of Hong Kong)) of the Directors and chief executives of the Company which would have to be notified to the Company pursuant to Part XV of the SFO (including interests which they are taken or deemed to have under such provisions of the SFO) and required to be entered in the register maintained by the Company pursuant to Section 352 of the SFO or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in Appendix 10 of the Listing Rules of the Stock Exchange, to be notified to the Company and the Stock Exchange, were as follows:

Long position in shares

	Types of interests	Capacity	Number of shares	Approximate percentage of issued share capital
The Company				
Ding Yong Ling	Personal	Beneficial owner	330,000	0.039%
Lin Man	Personal	Beneficial owner	250,000	0.029%

Save as disclosed above, none of the Directors and chief executives of the Company had any interests and short positions in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code contained in Appendix 10 of the Listing Rules of the Stock Exchange.



OTHER INFORMATION

SUBSTANTIAL SHAREHOLDERS

As at 30 June 2019, the interest of the persons, other than Directors or chief executive of the Company, in the shares and underlying shares of the Company which were notified to the Company and the Stock Exchange pursuant to Part XV of the SFO and entered in the register maintained by the Company pursuant to Section 336 of the SFO, or otherwise notified to the Company were as follows:

Long position in shares

Name of shareholder	Capacity	Number of shares	Approximate percentage of issued share capital
Tong Ren Tang Technologies	Beneficial owner	318,540,000	38.05%
Tong Ren Tang Ltd. ⁽¹⁾	Beneficial owner	281,460,000	33.62%
	Interest of a controlled corporation	318,540,000	38.05%
Tong Ren Tang Holdings ⁽²⁾	Interest of a controlled corporation	600,000,000	71.67%

Notes:

- (1) Tong Ren Tang Ltd. directly holds 46.85% of the issued share capital of Tong Ren Tang Technologies. Accordingly, Tong Ren Tang Ltd. is deemed to be interested in 318,540,000 shares of the Company held by Tong Ren Tang Technologies.
- (2) Tong Ren Tang Holdings directly holds 52.45% of the issued share capital of Tong Ren Tang Ltd. which in turn directly holds 46.85% of the issued share capital of Tong Ren Tang Technologies. Tong Ren Tang Holdings also directly holds 0.74% of the issued share capital of Tong Ren Tang Technologies. Accordingly, Tong Ren Tang Holdings is deemed to be interested in 318,540,000 shares of the Company and 281,460,000 shares of the Company held by Tong Ren Tang Technologies and Tong Ren Tang Ltd., respectively.

Save as disclosed above, the Company had not been notified by any persons (other than Directors or chief executives of the Company) who had interests or short positions in the shares or underlying shares of the Company which would fall under the provisions of Part XV of the SFO to be disclosed to the Company, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO.



RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Other than as disclosed under the section “Directors’ and chief executives’ interests in shares” above, at no time during the six months ended 30 June 2019 was the Company, any of its subsidiaries, or any of its fellow subsidiaries, a party to any arrangement to enable the Directors or chief executives of the Company or their respective associates (as defined in the Listing Rules of the Stock Exchange) to have any right to subscribe for securities of the Company or any of its associated corporations as defined in the SFO or to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate.

INTERESTS IN COMPETING BUSINESSES

To ensure that the business classification between the Company, Tong Ren Tang Ltd., Tong Ren Tang Technologies and Tong Ren Tang Holdings (collectively the “Controlling Shareholders”) are properly documented and established, each of the Controlling Shareholders entered into a deed of non-competition in favour of the Company on 18 April 2013 (the “Deed of Non-competition”), details of which are set out in the prospectus of the Company dated 25 April 2013 (the “Prospectus”), mainly to the effect that at any time until their collective beneficial interest in the equity interest in the Company is less than 30%, each of them shall not, and shall procure their respective subsidiaries (except through its interests in the Group) not to, without prior written consent of the Company, directly or indirectly:

- (i) engage in the research, development, manufacture and sales of any products containing ganoderma lucidum or ganoderma lucidum spores as raw materials in markets outside of the PRC (the “Non-PRC Markets”);
- (ii) engage in the research, development, manufacture and sale of any products with “Tong Ren Tang” brands in Non-PRC Markets, except for the manufacture of the Chinese medicine products for the two independent third parties in Japan; for the avoidance of doubt and without prejudice to the generality of the Deed of Non-competition, except for the current excluded business in Japan, engage in arrangement with any other parties in the Non-PRC Markets similar to the excluded business in Japan;
- (iii) carry out any sales or registration (new or renewal) for Angong Niu Huang Wan in the Non-PRC Markets;
- (iv) engage in the distribution of any Chinese medicine products in Non-PRC Markets, except for certain existing arrangements as disclosed in the Prospectus; and
- (v) carry out any new overseas registration of “Tong Ren Tang” branded products ((i) to (v) are collectively known as “Restricted Business”).



OTHER INFORMATION

In addition, under the Deed of Non-competition, each of the Controlling Shareholders has also undertaken that if each of them and/or any of its associates is offered or becomes aware of any project or new business opportunity (the “New Business Opportunity”) that relates to the Restricted Business, whether directly or indirectly, it shall (i) promptly and in any event not later than seven (7) days notify the Company in writing of such opportunity and provide such information as is reasonably required by the Company in order to enable the Company to come to an informed assessment of such opportunity; and (ii) use its best endeavours to procure that such opportunity is offered to the Company on terms no less favourable than the terms on which such opportunity is offered to it and/or its associates. The Directors (including the independent non-executive Directors) will review the New Business Opportunity and decide whether to invest in the New Business Opportunity within thirty (30) business days of receipt of notice from Controlling Shareholders.

Tong Ren Tang Holdings has also granted the Company rights of first refusal to acquire its interest in Beijing Tong Ren Tang Hong Kong Medicine Management Limited, Beijing Tong Ren Tang (UK) Limited and Beijing Tong Ren Tang Tai Fong Co., Ltd. on terms which are not less favorable than the terms it wishes to sell to other parties.

In this connection, the Group adopted the following corporate governance measures to manage any potential conflicts of interest arising from any future potential competing business and to safeguard the interests of the shareholders of the Company:

- (i) the independent non-executive Directors shall review, at least on an annual basis, the compliance with and enforcement of the terms of the Deed of Non-competition by the Controlling Shareholders; and
- (ii) the Company will disclose the review by the independent non-executive Director with basis on the compliance with and enforcement of the terms of the Deed of Non-competition in its annual report.

OTHER INFORMATION



In monitoring the competing business of the Parent Group (refer to Tong Ren Tang Holdings, Tong Ren Tang Ltd., Tong Ren Tang Technologies and their respective subsidiaries, other than the Group and their respective predecessors) an executive committee (the “Competition Executive Committee”) comprising two disinterested Directors, namely Mr. Zhang Huan Ping and Ms. Lin Man, has been established with the following major responsibilities:

- (a) conduct quarterly inspection of the distribution channels of the Parent Group, including retail stores and wholesale customers, to check whether any products containing ganoderma lucidum or ganoderma lucidum spores as raw materials (other than ganoderma lucidum spores powder capsule manufactured by the Group) is sold in Non-PRC Markets; and
- (b) conduct quarterly communications with representatives of the Parent Group to confirm whether their research and development portfolio has any products which contain ganoderma lucidum or ganoderma lucidum spores as raw materials.

A supervisory committee (the “Competition Supervisory Committee”), comprising three independent non-executive Directors, namely, Mr. Tsang Yok Sing, Jasper (Chairman), Mr. Zhao Zhong Zhen and Mr. Chan Ngai Chi, has been established with the following major responsibilities:

- (a) meet quarterly and review the quarterly inspection record and daily communication records by the Competition Executive Committee (if applicable); and
- (b) report findings during its review of the records provided by the Competition Executive Committee to the Board which will be published in the Company’s annual report.



OTHER INFORMATION

PURCHASE, SALE OR REDEMPTION OF THE LISTED SECURITIES OF THE COMPANY

During the Period, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any listed securities of the Company.

COMPLIANCE WITH THE REQUIRED STANDARD OF DEALINGS IN SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 of the Listing Rules of the Stock Exchange. Having made specific enquires to all the Directors, all the Directors confirmed that they had complied with the required standard of dealings and the code of conduct regarding securities transactions by Directors adopted by the Company during the Period.

CORPORATE GOVERNANCE CODE

The Company has complied with the provisions set out in Appendix 14 of the Corporate Governance Code (the "CG Code") of the Listing Rules of the Stock Exchange during the Period, save for the interval from 11 March 2019 to 17 April 2019, during which there was a deviation from the code provision A.2.1 of the CG Code which provides that the roles of the chairman and chief executive officer should be performed by separate individuals. The roles of the chairman and chief executive officer were performed by Ms. Ding Yong Ling from 11 March 2019 to 17 April 2019. On 18 April 2019, Mr. Zhang Huan Ping was appointed as the chief executive officer of the Company and the roles of the chairman of the Board and chief executive officer have been segregated since then.

Our Chairman, Ms. Ding Yong Ling leads the Board in terms of formulating policies. While our chief executive officer, Mr. Zhang Huan Ping, is responsible for business strategic planning and day-to-day management and operation of the Group. The Board believes this segregation of duties helps to supervise and balance the power and authority of the Board and enhances the independence and accountability of the Board.



CHANGE IN INFORMATION OF DIRECTORS

The change in the information of the Directors of the Company since the publication of the 2018 annual report of the Company which is required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules is set out below:

Name of Directors	Detail of changes
<i>Executive Directors</i>	
Ms. Ding Yong Ling	Resigned as the chief executive officer of the Company on 18 April 2019.
Mr. Zhang Huan Ping	Appointed as the chief executive officer of the Company with effect from 18 April 2019.

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

RISK MANAGEMENT AND INTERNAL CONTROL

Risk management and internal control are the essential parts of the operation and governance procedures of the Group. Effective risk management and internal control systems help the Group identify and evaluate risks, adopt monitoring measures to cope with threats, effectively continue its development strategies and ensure the realization of targets set.

The Group's risk governance structure is based on the "3 lines of defense" model comprised of day-to-day operational management and control, risk and compliance oversight, and independent assurance. The Board has the overall responsibility of assessing and determining the nature and extent of risk to which the Group is willing to accept when achieving its strategic objectives, and also to ensure that the Group establishes and maintains an appropriate and effective risk management and internal control systems.



OTHER INFORMATION

In view of the ever-changing business environment, the Group takes an active and systematic approach for the ongoing risk identification and assessment in the course of business operations. During the Period, the Group updated the list of risks to enhance risk response, while the risk management team reviewed the sufficiency and effectiveness of all monitoring measures in high-risk areas. The risk management team also further defined risk control responsibilities and incorporated risk management in business/strategy, operations, finance and reporting, compliance and regulatory and other aspects of the Group, which strengthened the risk control capabilities of the Group on all fronts and helped to achieve operating targets and steady development.

During the Period, the relevant functional departments and operating units performed their respective duties according to the division of labour. Apart from daily monitoring of risks, they reported the overall status of major risks and risk management initiatives during the Period by submitting a risk control report to the risk management team. Based on the status of major risk monitoring during the Period, the risk management team prepared a risk management report and reported to the Audit Committee through the internal audit department.

AUDIT COMMITTEE

The audit committee of the Company has reviewed the 2019 interim report.

On behalf of the Board
Beijing Tong Ren Tang
Chinese Medicine Company Limited
Ding Yong Ling
Chairman

Hong Kong, 7 August 2019