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

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

(Stock Code: 1666)

INTERIM RESULTS ANNOUNCEMENT
FOR THE SIX MONTHS ENDED 30 JUNE 2019

HIGHLIGHTS

- For the six months ended 30 June 2019, the Group's revenue represents a decrease of approximately 11.73% as compared with the corresponding period in 2018.
- For the six months ended 30 June 2019, profit attributable to the owners of the Company represents a decrease of approximately 11.52% as compared with the corresponding period in 2018.
- For the six months ended 30 June 2019, earnings per share attributable to owners of the Company amounted to RMB0.30.
- The Board does not recommend the distribution of an interim dividend for the six months ended 30 June 2019.

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 2019 (the “**Reporting Period**”) as follows:

Condensed Consolidated Income Statement (Unaudited)

		For the six months ended 30 June	
		2019	2018
		(Unaudited)	(Unaudited)
		RMB'000	RMB'000
	Note		
Revenue	6	2,474,627	2,803,420
Cost of sales		<u>(1,189,777)</u>	<u>(1,335,125)</u>
Gross Profit		1,284,850	1,468,295
Distribution expenses		(406,961)	(552,057)
Administrative expenses		(181,965)	(185,451)
Net impairment losses on financial assets		<u>(5,898)</u>	<u>(1,489)</u>
Operating profit		690,026	729,298
Finance income	7	24,768	14,299
Finance costs	7	<u>(9,885)</u>	<u>(8,900)</u>
Finance income, net	7	14,883	5,399
Share of losses of investments accounted for using the equity method		(315)	(892)
Other gains		<u>425</u>	<u>88</u>
Profit before income tax		705,019	733,893
Income tax expense	9	<u>(116,778)</u>	<u>(122,220)</u>
Profit for the period		<u>588,241</u>	<u>611,673</u>
Profit attributable to:			
Owners of the Company		382,631	432,453
Non-controlling interests		<u>205,610</u>	<u>179,220</u>
		<u>588,241</u>	<u>611,673</u>
Earnings per share for profit attributable to owners of the Company during the period			
- Basic and diluted	10	<u>RMB0.30</u>	<u>RMB0.34</u>

Condensed Consolidated Statement of Comprehensive Income (Unaudited)

	For the six months ended 30 June	
	2019	2018
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Profit for the period	588,241	611,673
Other comprehensive income		
<i>Items that may be reclassified to profit or loss</i>		
Foreign currency translation differences		
- Group	14,271	15,692
- Joint ventures and associates	241	176
<i>Items that will not be reclassified to profit or loss</i>		
Change in the fair value of financial assets at fair value through other comprehensive income	(1,826)	904
Other comprehensive income for the period, net of tax	12,686	16,772
Total comprehensive income for the period	600,927	628,445
Attributable to:		
Owners of the Company	388,029	439,544
Non-controlling interests	212,898	188,901
Total comprehensive income for the period	600,927	628,445

Condensed Consolidated Balance Sheet (Unaudited)

		30 June 2019 (Unaudited) RMB'000	31 December 2018 (Audited) RMB'000
	Note		
ASSETS			
Non-current assets			
Leasehold land and land use rights	12	188,328	164,370
Property, plant and equipment	12	2,118,212	2,029,183
Right-of-use assets	3.1	111,941	-
Intangible assets		69,322	73,990
Investments accounted for using the equity method		26,394	26,469
Financial assets at fair value through other comprehensive income		11,747	13,553
Prepayments for purchases of non-current assets		78,204	33,038
Deferred income tax assets		33,990	37,585
		<u>2,638,138</u>	<u>2,378,188</u>
Current assets			
Inventories		2,286,789	2,361,161
Trade and bills receivables	13	1,126,218	1,048,988
Amounts due from related parties	18(d)	266,550	214,778
Other financial assets at amortised cost		42,401	53,273
Prepayments and other current assets		100,085	100,490
Financial assets at fair value through profit or loss		31,350	29,000
Financial assets at fair value through other comprehensive income		115,812	141,827
Short-term bank deposits		1,753,885	1,538,125
Cash and cash equivalents		1,864,583	1,904,036
		<u>7,587,673</u>	<u>7,391,678</u>
Total assets		<u>10,225,811</u>	<u>9,769,866</u>

Condensed Consolidated Balance Sheet (Unaudited) (Cont'd)

		30 June 2019 (Unaudited) RMB'000	31 December 2018 (Audited) RMB'000
	Note		
EQUITY AND LIABILITIES			
Equity attributable to owners of the Company			
Share capital	14	1,280,784	1,280,784
Reserves		4,193,356	4,035,868
		<u>5,474,140</u>	<u>5,316,652</u>
Non-controlling interests		<u>2,086,262</u>	<u>1,960,197</u>
Total equity		<u><u>7,560,402</u></u>	<u><u>7,276,849</u></u>
LIABILITIES			
Non-current liabilities			
Borrowings		908,924	911,331
Lease liabilities	3.1	68,546	-
Deferred income tax liabilities		5,613	5,679
Deferred income - government grants		81,054	83,680
		<u>1,064,137</u>	<u>1,000,690</u>
Current liabilities			
Trade and bills payables	15	621,049	665,038
Salary and welfare payables		92,495	92,970
Advances from customers		30,738	51,297
Contract liabilities		3,103	4,324
Amounts due to related parties	18(d)	155,266	154,678
Current income tax liabilities		101,720	50,282
Other payables		484,093	273,592
Borrowings		68,195	200,146
Lease liabilities	3.1	44,613	-
		<u>1,601,272</u>	<u>1,492,327</u>
Total liabilities		<u><u>2,665,409</u></u>	<u><u>2,493,017</u></u>
Total equity and liabilities		<u><u>10,225,811</u></u>	<u><u>9,769,866</u></u>

Condensed Consolidated Statement of Cash Flows (Unaudited)

	For the six months ended 30 June	
	2019	2018
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Cash flows from operating activities:		
Cash generated from operations	658,790	478,216
Interest paid	(7,143)	(16,853)
Income tax paid	(61,873)	(73,684)
Net cash generated from operating activities	589,774	387,679
Cash flows from investing activities:		
Purchase of property, plant and equipment	(131,776)	(176,858)
Purchase of land use rights	(18,910)	-
Purchase of other long-term assets	(239)	(2,494)
Prepayments for deposits of land use rights	(44,650)	-
Proceeds from government grants relating to property, plant and equipment	-	5,724
Proceeds from disposals of property, plant and equipment	102	67
Proceeds from disposals of land use right	-	460
Proceeds from disposals of other long-term assets	46	-
Net increase in short-term bank deposits	(215,760)	(354,926)
Proceeds from wealth management products	92,430	45,000
Increase in wealth management products	(94,780)	(45,000)
Interest received	14,658	10,890
Others	425	19,050
Net cash used in investing activities	(398,454)	(498,087)

Condensed Consolidated Statement of Cash Flows (Unaudited) (Cont'd)

	For the six months ended 30 June	
	2019	2018
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Cash flows from financing activities:		
Proceeds from borrowings	1,000	130,982
Repayments of borrowings	(135,571)	(172,838)
Capital injection from non-controlling interests	42,630	2,310
Repayments of lease liabilities	(22,830)	-
Dividends paid to shareholders of the Company	(9,435)	-
Dividends paid to non-controlling interests	(120,723)	(94,928)
Purchase of non-controlling interests of a subsidiary	-	(1,948)
Net cash used in financing activities	(244,929)	(136,422)
Net decrease in cash and cash equivalents	(53,609)	(246,830)
Cash and cash equivalents at beginning of the period	1,904,036	2,023,561
Exchange gains on cash and cash equivalents	14,156	16,445
Cash and cash equivalents at end of the period	1,864,583	1,793,176

Condensed Consolidated Statement of Changes in Equity (Unaudited)

	Attributable to owners of the Company										Non-controlling interests	Total equity
(Unaudited)	Share capital <i>RMB'000</i>	Capital reserve <i>RMB'000</i>	Statutory surplus reserve fund <i>RMB'000</i>	Statutory public welfare fund <i>RMB'000</i>	Tax reserve <i>RMB'000</i>	Foreign currency translation differences <i>RMB'000</i>	Financial assets at FVOCI reserve <i>RMB'000</i>	Other reserve <i>RMB'000</i>	Retained earnings <i>RMB'000</i>	Total <i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Balance as at 1 January 2019	1,280,784	412,245	492,112	45,455	102,043	32,690	546	156,851	2,793,926	5,316,652	1,960,197	7,276,849
Comprehensive income												
Profit for the period	-	-	-	-	-	-	-	-	382,631	382,631	205,610	588,241
Change in fair value of financial assets at fair value through other comprehensive income (“FVOCI”)	-	-	-	-	-	-	(695)	-	-	(695)	(1,131)	(1,826)
Foreign currency translation differences												
- Group	-	-	-	-	-	6,001	-	-	-	6,001	8,270	14,271
- Joint ventures and associates	-	-	-	-	-	92	-	-	-	92	149	241
Transactions with owners in their capacity as owners												
2018 dividends paid to shareholders of the Company	-	-	-	-	-	-	-	-	(230,541)	(230,541)	-	(230,541)
2018 dividends paid to non-controlling interests	-	-	-	-	-	-	-	-	-	-	(129,463)	(129,463)
Capital injection from non-controlling interests	-	-	-	-	-	-	-	-	-	-	42,630	42,630
Balance as at 30 June 2019	1,280,784	412,245	492,112	45,455	102,043	38,783	(149)	156,851	2,946,016	5,474,140	2,086,262	7,560,402

Condensed Consolidated Statement of Changes in Equity (Unaudited) (Cont'd)

(Unaudited)	Attributable to owners of the Company										Non-controlling interests	Total equity
	Share capital <i>RMB'000</i>	Capital reserve <i>RMB'000</i>	Statutory surplus reserve fund <i>RMB'000</i>	Statutory public welfare fund <i>RMB'000</i>	Tax reserve <i>RMB'000</i>	Foreign currency translation differences <i>RMB'000</i>	Financial assets at FVOCI reserve <i>RMB'000</i>	Other reserve <i>RMB'000</i>	Retained earnings <i>RMB'000</i>	Total <i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Balance as at 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 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	<u>1,280,784</u>	<u>412,245</u>	<u>440,904</u>	<u>45,455</u>	<u>102,043</u>	<u>179</u>	<u>842</u>	<u>156,851</u>	<u>2,599,772</u>	<u>5,039,075</u>	<u>1,735,700</u>	<u>6,774,775</u>

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 by the board to be issued on 26 August 2019.

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 2019 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 2018, 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 2018, 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 2019:

Amendments to IAS 12	Income Taxes
Amendments to IAS 19	Plan Amendment, Curtailment or Settlement
Amendments to IAS 23	Borrowing Costs
Amendments to IAS 28	Long-term Interests in Associates and Joint Ventures
Amendments to IFRS 3	Business Combination
Amendments to IFRS 9	Prepayment Features with Negative Compensation
IFRS 16	Leases
Amendments to IFRS 11	Joint Arrangements
IFRIC 23	Uncertainty over Income Tax Treatments

IFRS 16 Lease

The Group has adopted IFRS 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 new leasing rules are therefore recognised in the opening balance sheet on 1 January 2019.

(a) Adjustments recognised on adoption of IFRS 16

On adoption of IFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as “operating leases” under the principles of IAS 17 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 weighted average lessee’s incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 4%-6%.

3. Accounting Policies (Cont'd)

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

IFRS 16 Lease (Cont'd)

(a) Adjustments recognised on adoption of IFRS 16 (Cont'd)

	2019 (Unaudited) RMB'000
Operating lease commitments disclosed as at 31 December 2018	126,841
Discounted using the lessee's incremental borrowing rate of at the date of initial application	110,328
(Less): short-term leases recognised on a straight-line basis as expense	(18,121)
(Less): contracts reassessed as service agreements	(581)
Add: adjustments as a result of a different treatment of extension	31,442
Lease liability recognised as at 1 January 2019	123,068
Of which are:	
Current lease liabilities	40,260
Non-current lease liabilities	82,808
	123,068

The associated right-of use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the balance sheet as at 31 December 2018. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

3. Accounting Policies (Cont'd)

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

IFRS 16 Lease (Cont'd)

(a) Adjustments recognised on adoption of IFRS 16 (Cont'd)

The recognised right-of-use assets relate to the following types of assets:

	30 June 2019 (Unaudited) <i>RMB'000</i>	1 January 2019 (Unaudited) <i>RMB'000</i>
Leasehold land and land use rights	3,188	4,260
Property, plant and equipment	108,753	119,628
Total right-of-use assets	111,941	123,888

Impact on segment disclosures and earnings per share

Adjusted profit before income tax for the six months ended 30 June 2019 decreased and adjusted segment assets and segment liabilities for 30 June 2019 increased as a result of the change in accounting policy. The following segments were affected by the change in policy:

	Profit before income tax (Unaudited) <i>RMB'000</i>	Segment assets (Unaudited) <i>RMB'000</i>	Segment liabilities (Unaudited) <i>RMB'000</i>
The Company	(22)	2,553	2,573
Tong Ren Tang Chinese Medicine Company (北京同仁堂國藥有限公司) ("Tong Ren Tang Chinese Medicine")	(1,823)	97,780	98,763
All other Segments	(215)	11,608	11,823
	(2,060)	111,941	113,159

Earnings per share decreased by RMB0.13 cent per share for the six months to 30 June 2019 as a result of the adoption of IFRS 16.

3. Accounting Policies (Cont'd)

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

IFRS 16 Lease (Cont'd)

(a) Adjustments recognised on adoption of IFRS 16 (Cont'd)

Practical expedients applied

In applying IFRS 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.

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 IAS 17 “Leases” and IFRIC 4 “Determining Whether an Arrangement Contains a Lease”.

3. Accounting Policies (Cont'd)

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

IFRS 16 Lease (Cont'd)

(b) The Group's leasing activities and how these are accounted for

The Group leases various property, plant and land use rights. Rental contracts are typically made for fixed periods of 1 to 20 years. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

Until the 2018 financial year, leases of property, plant and equipment were classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease.

From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. 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 shorter of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payment that are based on an index or a rate;
- amounts expected to be payable by the lessee under residual value guarantees;
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

3. Accounting Policies (Cont'd)

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

IFRS 16 Lease (Cont'd)

(b) The Group's leasing activities and how these are accounted for (Cont'd)

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs; and
- restoration costs.

Payments associated with short-term leases and leases of low-value assets 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 has no lease of low-value assets.

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

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 2020 or later periods, but have not been early adopted by the Group.

Amendments to IAS 1 and IAS 8	Definition of Material ⁽¹⁾
Conceptual Framework for Financial Reporting 2018	Revised Conceptual Framework for Financial Reporting 2018 ⁽¹⁾
Amendments to IFRS 3	Definition of a Business ⁽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 or after 1 January 2020

(2) Effective for the accounting period beginning on or after 1 January 2021 (likely to be extended to 1 January 2022)

(3) No mandatory effective date yet determined

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 condensed 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 2018.

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 2018.

There have been no significant changes in any risk management policies since year end of 2018.

6. Revenue

	For the six months ended 30 June	
	2019	2018
	(Unaudited)	(Unaudited)
	<i>RMB'000</i>	<i>RMB'000</i>
Sales of Chinese medicine products		
- Mainland China	1,873,762	2,310,368
- Outside Mainland China	556,888	449,432
	2,430,650	2,759,800
Advertising services		
- Mainland China	19,611	22,209
Service income		
- Mainland China	2,459	-
- Outside Mainland China	21,432	21,016
	23,891	21,016
Royalty fee		
- Outside Mainland China	475	395
	2,474,627	2,803,420

7. Finance Income and Costs

	For the six months ended 30 June	
	2019	2018
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Finance income		
Interest income	24,374	12,445
Exchange gains, net	394	1,854
	<u>24,768</u>	<u>14,299</u>
Finance costs		
Interest on bonds	(12,024)	(12,011)
Interest on bank borrowings	(4,890)	(4,842)
Interest on lease liabilities	(2,029)	-
Less: amounts capitalised on qualifying assets	9,058	7,953
	<u>(9,885)</u>	<u>(8,900)</u>
Finance income, net	<u><u>14,883</u></u>	<u><u>5,399</u></u>

8. Expenses by Nature

	For the six months ended 30 June	
	2019	2018
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Depreciation of property, plant and equipment	35,132	36,868
Amortisation of prepaid operating lease payments	2,154	1,809
Amortisation of right-of-use assets	23,125	-
Amortisation of other long-term assets	5,566	2,523
Provision for impairment of inventories	10,592	2,221
Provision for impairment of receivables	5,898	1,489
Net loss on disposals of non-current assets	1,098	788

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 2019 and 2018, 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 2019 is 15% (corresponding period in 2018: 15%).

Hong Kong Special Administrative Region of the PRC (“**Hong Kong**”) profits tax has been provided at the rate of 16.5% (corresponding period in 2018: 16.5%) on the estimated assessable profit for the six months ended 30 June 2019.

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	
	2019	2018
	(Unaudited)	(Unaudited)
	<i>RMB'000</i>	<i>RMB'000</i>
Current income tax expense		
- Mainland China	56,128	68,410
- Hong Kong	55,070	48,691
- Overseas	2,094	2,615
	113,292	119,716
Deferred income tax charge	3,486	2,504
	116,778	122,220

10. Earnings per Share

Basic earnings per share is calculated by dividing the profit attributable to owners of the Company of approximately RMB382,631,000 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 2019 and 2018.

	For the six months ended 30 June	
	2019	2018
	(Unaudited)	(Unaudited)
	<i>RMB'000</i>	<i>RMB'000</i>
Profit attributable to owners of the Company	382,631	432,453
Weighted average number of ordinary shares in issue (thousands)	<u>1,280,784</u>	<u>1,280,784</u>
Earnings per share	<u>RMB0.30</u>	<u>RMB0.34</u>

11. Dividends

The Board does not recommend the distribution of an interim dividend for the six months ended 30 June 2019 (for the six months ended 30 June 2018: Nil).

On 19 March 2019, the Board proposed a cash dividend in respect of the year ended 31 December 2018 of RMB0.18 (including tax) per share based on the total share capital of 1,280,784,000 shares, amounting to a total of RMB230,541,120 which has been approved by the shareholders at the 2018 annual general meeting of the Company held on 11 June 2019 (the "AGM"). These dividends have been paid on 8 August 2019.

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

For the six months ended 30 June 2019, the additions to leasehold land and land use rights of the Group was RMB26,062,000 (corresponding period in 2018: Nil).

For the six months ended 30 June 2019, the additions to property, plant and equipment of the Group was approximately RMB124,480,000 (corresponding period in 2018: RMB192,120,000).

13. Trade and Bills Receivables

	30 June 2019 (Unaudited) RMB'000	31 December 2018 (Audited) RMB'000
Trade receivables	744,119	462,030
Bills receivables	408,473	608,514
	1,152,592	1,070,544
Less: provision for impairment	(26,374)	(21,556)
Trade and bills receivables, net	1,126,218	1,048,988

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 2019 and 31 December 2018, the ageing analysis of trade and bills receivables based on invoice date was as follows:

	30 June 2019 (Unaudited) RMB'000	31 December 2018 (Audited) RMB'000
Within 4 months	746,237	857,710
Over 4 months but within 1 year	331,370	152,335
Over 1 year but within 2 years	57,716	48,283
Over 2 years but within 3 years	10,045	6,002
Over 3 years	7,224	6,214
	1,152,592	1,070,544

14. Share Capital

	30 June 2019 (Unaudited)		31 December 2018 (Audited)	
	Number of shares	Nominal value <i>RMB'000</i>	Number of shares	Nominal value <i>RMB'000</i>
Total share capital	<u>1,280,784,000</u>	<u>1,280,784</u>	<u>1,280,784,000</u>	<u>1,280,784</u>
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	<u>628,704,000</u>	<u>628,704</u>	<u>628,704,000</u>	<u>628,704</u>
	<u>1,280,784,000</u>	<u>1,280,784</u>	<u>1,280,784,000</u>	<u>1,280,784</u>

15. Trade and Bills Payables

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

	30 June 2019 (Unaudited) <i>RMB'000</i>	31 December 2018 (Audited) <i>RMB'000</i>
Within 4 months	448,353	475,392
Over 4 months but within 1 year	63,198	101,996
Over 1 year but within 2 years	107,589	86,236
Over 2 years but within 3 years	954	529
Over 3 years	<u>955</u>	<u>885</u>
	<u>621,049</u>	<u>665,038</u>

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 in the Board for the purposes of allocating resources and assessing performance.

The Directors in the Board consider the business from an operational entity perspective. Generally, the Directors in the Board consider the performance of business of each entity within the Group separately. Thus, each entity within the Group is an operating segment.

The reportable operating segments derive their revenue primarily from: (i) the manufacture and sale of Chinese medicine of the Company in Mainland China (“**The Company**” Segment), and (ii) Tong Ren Tang Chinese Medicine 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 in the Board assess the performance of the operating segments based on revenue and profit after income tax of each segment.

16. Segment Information (Cont'd)

The segment information provided to the Directors in the Board for the reportable segments for the six months ended 30 June 2019 is as follows:

(Unaudited)	The Company	Tong Ren Tang Chinese Medicine	All other Segments	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Segment revenue	1,628,715	711,617	385,018	2,725,350
Inter-segment revenue	(64,310)	-	(186,413)	(250,723)
Revenue from external customers	1,564,405	711,617	198,605	2,474,627
Timing of revenue recognition				
At a point in time	1,564,405	687,252	178,993	2,430,650
Over time	-	24,365	19,612	43,977
	1,564,405	711,617	198,605	2,474,627
Profit for the period	260,664	320,154	7,423	588,241
Interest income	4,480	18,772	1,122	24,374
Interest expense	(5,494)	(1,766)	(2,625)	(9,885)
Depreciation of property, plant and equipment	(15,691)	(8,093)	(11,348)	(35,132)
Amortisation of prepaid operating lease payments	(949)	(234)	(971)	(2,154)
Amortisation of right-of-use assets	(1,011)	(20,287)	(1,827)	(23,125)
Amortisation of other long-term assets	(787)	(3,653)	(1,126)	(5,566)
Provision for impairment of inventories	(10,337)	(255)	-	(10,592)
(Provision for)/reversal of impairment of receivables	(7,166)	-	1,268	(5,898)
Share of profit/(losses) of investments accounted for using the equity method	246	(561)	-	(315)
Income tax expense	(48,558)	(62,588)	(5,632)	(116,778)

16. Segment Information (Cont'd)

(Unaudited)	Tong Ren			Total
	The	Tang Chinese	All other	
	Company	Medicine	Segments	
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Segment assets and liabilities				
Total assets	5,148,772	3,089,551	1,987,488	10,225,811
Investments accounted for using the equity method	9,033	17,361	-	26,394
Additions to non-current assets ^[1]	66,641	15,052	125,411	207,104
Total liabilities	1,991,424	288,429	385,556	2,665,409

^[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 2018 is as follows:

(Unaudited)	Tong Ren Tang Chinese Medicine			All other Segments	Total
	The Company				
	<i>RMB'000</i>	<i>RMB'000</i>		<i>RMB'000</i>	<i>RMB'000</i>
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	<u>1,919,132</u>	<u>620,310</u>		<u>263,978</u>	<u>2,803,420</u>
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
	<u>1,919,132</u>	<u>620,310</u>		<u>263,978</u>	<u>2,803,420</u>
Profit for the period	<u>294,815</u>	<u>260,026</u>		<u>56,832</u>	<u>611,673</u>
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 losses of investments accounted for using the equity method	(337)	(555)		-	(892)
Income tax expense	<u>(59,076)</u>	<u>(53,206)</u>		<u>(9,938)</u>	<u>(122,220)</u>

16. Segment Information (Cont'd)

The divisional assets and liabilities as for the ended 31 December 2018 is as follows:

(Audited)	The Company	Tong Ren Tang Chinese Medicine		All other Segments	Total
		<i>RMB '000</i>	<i>RMB '000</i>		<i>RMB '000</i>
Segment assets and liabilities					
Total assets	5,116,939	2,782,233	1,870,694	9,769,866	
Investments accounted for using the equity method	8,787	17,682	-	26,469	
Additions to non-current assets ^[1]	182,720	45,063	223,423	451,206	
Total liabilities	1,846,590	126,454	519,973	2,493,017	

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

16. Segment Information (Cont'd)

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

The amounts provided to the Directors in the Board with respect to total assets and liabilities are measured in a manner consistent with that of the financial 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 RMB2,155,612,000 (31 December 2018: RMB1,980,384,000), and the total of these non-current assets located in other countries and regions is RMB436,789,000 (31 December 2018: RMB346,666,000).

During the six months ended 30 June 2019 and 2018, 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 summarized below:

	For the six months ended 30 June	
	2019 (Unaudited) RMB'000	2018 (Unaudited) RMB'000
Entities under control of ultimate holding company	581,328	678,084
Customer A group	310,362	345,035
	891,690	1,023,119

17. Commitments

(a) Capital commitments

As of 30 June 2019, the Group had capital commitments of RMB221,326,000 which were contracted but not provided for in the unaudited condensed consolidated interim financial information of the Group (31 December 2018: RMB245,914,000).

18. Related Party Transactions

Related parties include the Group and its subsidiaries, other majority state-owned enterprises and their subsidiaries directly or indirectly controlled by the PRC government, other entities and corporations in which the Company is able to control or exercise significant influence in making financial and operating decisions and key management personnel of the Company as well as their close family members.

The ultimate holding company is beneficially owned by the State-owned Assets Supervision and Administration Commission of People's Government of Beijing Municipality, so it is a state-owned enterprise and is controlled by the PRC government, which also owns a significant portion of the productive assets in the PRC. In accordance with IAS 24, "Related Party Disclosures", state-owned enterprises and their subsidiaries, other than the ultimate holding company and its subsidiaries, directly or indirectly controlled by the PRC government are also defined as related parties of the Group.

A portion of the Group's business activities are conducted with other state-owned enterprises. The Group believes that these transactions are carried out on normal commercial terms that are consistently applied to all customers. For the purpose of related party transactions disclosure, the Group has identified, to the extent practicable, those corporate customers and suppliers which are state-owned enterprises based on their ownership structure. It should be noted, however, that substantially all of the Group's business activities are conducted in the PRC and the influence of the PRC government in the Chinese economy is pervasive. In this regard, the PRC government indirectly holds interests in many companies. Many state-owned enterprises have multi-layered corporate structure and the ownership structures change over time. Some of these interests may, in themselves or when combined with other indirect interests, be controlling interests. Such interests, however, would not be known to the Group and are not reflected in the disclosures below. In addition, a portion of the Group's revenue from sales of goods are of a retail nature to end users, which include transactions with the employees of state-controlled entities while such employees are key management personnel and their close family members. These transactions are carried out on normal commercial terms that are consistently applied to all customers. Due to the volume and the pervasiveness of these transactions, the Group is unable to determine the aggregate amount of these transactions for disclosure. Therefore, the revenue from sales of goods disclosed below does not include retail transactions with these related parties. However, the Group believes that meaningful information relating to related party disclosures has been adequately disclosed.

During the Reporting Period, the Group had the following material transactions with related parties, which were entered into at terms mutually agreed with these related parties in the ordinary course of business.

18. Related Party Transactions (Cont'd)

(a) Transactions with the ultimate holding company

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

	For the six months ended 30 June	
	2019 (Unaudited) RMB'000	2018 (Unaudited) RMB'000
Trademark license fee (Note (i))	1,600	1,500
Rental expense (Note (ii))	-	1,182
Property leasing expense (Note (iii))	4,009	1,750
Interest on lease liabilities	<u>124</u>	<u>-</u>

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 agreement fee is RMB3,000,000 with an annual increase of RMB300,000 thereafter.

18. Related Party Transactions (Cont'd)

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

Notes (Cont'd):

- (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.

On 19 March 2019, the Board has resolved to revise the annual caps for the continuing connected transactions under property leasing framework agreements of the Group as the lessee for the year ending 31 December 2019, based on the total value of right-of-use assets related to the leased property. Please refer to the announcement of the Company dated 19 March 2019.

For the six months ended 30 June 2019, rental expense and property leasing expense are only related to the short-term leasing expense recognised on a straight-line basis and leases for which the underlying asset is of low value (if applicable) under IFRS 16 (For the six months ended 30 June 2018, rental expense and property leasing expense represented the total leasing expense under IAS 17).

18. Related Party Transactions (Cont'd)

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

	For the six months ended 30 June	
	2019	2018
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Sales of Chinese medicine related products (Note (i))	561,739	656,004
Purchases of Chinese medicine related products (Note (ii))	82,222	74,213
Sole overseas exclusive distributorship (Note (iii))	21,366	39,691
Advertising services income (Note (iv))	19,589	22,080
Property leasing expense (Note (a)(iii))	<u>1,779</u>	<u>1,794</u>

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's 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.

18. Related Party Transactions (Cont'd)

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

Notes (Cont'd):

- (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**") on 8 November 2017, with an effective period from 1 January 2018 to 31 December 2020, 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 1 December 2017.
- (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.

18. Related Party Transactions (Cont'd)

(c) Transactions with other state-owned enterprises

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

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

(d) Balances with related parties

Balances with related parties consisted of:

	30 June 2019 (Unaudited) RMB'000	31 December 2018 (Audited) RMB'000
Amounts due from related parties (Note(i)):		
Subsidiaries and joint ventures of the ultimate holding company	179,683	141,003
Other state-owned enterprises	86,867	73,775
	266,550	214,778
Amounts due to related parties (Note(i)):		
Subsidiaries and joint ventures of the ultimate holding company	141,196	50,269
Other state-owned enterprises	14,070	104,409
	155,266	154,678
Lease liabilities		
Ultimate holding company	4,110	-
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 2019 (Unaudited) RMB'000	31 December 2018 (Audited) RMB'000
Within 4 months	159,841	159,684
Over 4 months but within 1 year	93,228	46,318
Over 1 year	18,841	13,057
	271,910	219,059

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

	30 June 2019 (Unaudited) RMB'000	31 December 2018 (Audited) RMB'000
Within 4 months	152,234	153,663
Over 4 months but within 1 year	2,025	141
Over 1 year	1,007	874
	155,266	154,678

- (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 2019 (corresponding period in 2018: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

In the first half of 2019, affected by factors such as macro-environment, intensified market competition, internal industrial layout adjustment and increase in costs, the Company had to cope with sustained pressure in the process of production and operation. On one hand, the production is limited by the production in production capacity, resulting in the decline in both the production volume and value. On the other hand, the raw material procurement cost and energy consumption cost continued to grow, which indicated continuous increase in industrial operating cost. Moreover, the intensified competition in major products and the bottleneck in sustained growth had certain impacts on company results. For the six months ended 30 June 2019, the Group's sales revenue amounted to RMB2,474,627,000, representing a decrease of 11.73% as compared with RMB2,803,420,000 for the corresponding period last year; net profit attributable to the owners of the Company amounted to RMB382,631,000, representing a decrease of 11.52% as compared with RMB432,453,000 for the corresponding period last year.

During the Reporting Period, with the continuing industrial layout adjustment, some production lines were transferred to new production base, the old and new production bases encountered temporary transition issues. In addition, due to production workshop modification for several existing production lines for Good Manufacturing Practices (GMP) re-certification including the Yi Zhuang branch factory, the Company confronted with insufficiency of original capacity and underutilization of new capacity. The production progress of dosage products including pills, liquid preparation was therefore delayed and led to supply shortage in some products such as Jinkui Shenqi Pills and Shengmai Liquor Oral Liquid. The Company actively responded to such difficulties, striving to strengthen product responsibility system and enhance product supply awareness, focusing on the products with urgent market demand and seasonal demand, strengthening the production process connection, analysing production capacity based on different dosage forms and products, refining performance indicator, fully utilising existing resources, rationally adjusting production paces and making best use of the existing production capacity, so as to minimize the impact of unfavourable factors.

Meanwhile, some production lines and production workshops in the Daxing Production Base ("**Daxing Branch Factory**") of the Company located in Da Xing Bio-Pharma Industrial Base of Zhongguancun Technology Park District, Beijing and Tong Ren Tang Technologies (Tangshan) Co. Ltd. ("**Tong Ren Tang Technologies Tangshan**") in Yutian County in Tangshan City of the Hebei Province have successfully received GMP certification, thus laid a good foundation for the Company to expedite industrial layout adjustment, improve industrial chain and solve the production capacity bottleneck in the future. During the Reporting Period, Daxing Branch Factory has preliminarily constructed a branch factory management organizational structure, completed the establishment of different positions and duties, and orderly proceeded with staff allocation. Tong Ren Tang Technologies Tangshan continued its improvement in internal management system in term of quality, production and finance, and received the production registration approval documents for transferred products including Shengmai Liquor Oral Liquid and Chuanbei Pipa Tangjiang in the first half of the year. Meanwhile, production process has been streamlined, and orderly progress has been made in the trial production of partial dosage forms, thus safeguarding the formal production and a stable product supply in the next phase. As of 30 June 2019, the Company has made capital investment of RMB636 million in Daxing Branch Factory. The Company has made capital investment of RMB678 million in Tong Ren Tang Technologies Tangshan.

Facing intensified pressure from market competition, some major products have encountered problems such as slowdown in retail terminal flow rate. For that reason, the Company proactively responded by adhering to the guiding ideology of “standardised management, in-depth distribution, terminal expansion, focused breakthrough” and strengthened awareness in product types, operating order and standardized management. On one hand, based on the external market condition, the existing production and supply capacity, and centered on market demand, the Company gave full play to the product portfolio advantages and product characteristics, made greater efforts in promotion, sales and service, and facilitated development of products. On the other hand, the Company rationalized its market competition strategy, enhanced awareness in distribution management, controlled inventories for distribution of some products, continued to construct channels in different areas, strengthened efforts in distribution and terminal marketing, and continued to enhance the cooperation with Tong Ren Tang pharmacy chains and other large and medium pharmacy chains nationwide, so as to boost terminal sales.

In the first half of 2019, the Company achieved single-product sales volume of more than RMB100 million for 5 product lines, RMB10 million to RMB100 million for 17 product lines, and RMB5 million to RMB10 million for 21 product lines. Among the major products, except for the increase of 12.21% in sales volume in Niu Huang Jiedu Tablets series as compared with the corresponding period last year, the sales amount of Liuwei Dihuang Pills series and Jinkui Shenqi Pills series declined respectively as compared to the corresponding period last year due to factors such as insufficient supply or intensified pressure from market competition. In addition, the Ejiao product market is still in the stage of adjustment and destocking, as a result of which the Company controlled the production and release of Ejiao products to actively reduce inventory, and a further year-on-year decline in the sales volume of Ejiao products. Meanwhile, through the efforts in the first half of the year, some products benefited from the product portfolio development strategy and recorded increase in sales volume as compared to the same period last year. Products such as Qiju Dihuang Pills series, Niu Huang Jiangya Pills series and Guanxin Suhe series recorded increase in sales volume of more than 20% as compared to the corresponding period last year.

The Company continued to strengthen the political leadership of the Communist Party and continued to enhance ideological and political construction, organizational construction, cadre team construction and ideology construction. Regarding the negative impact on the brand image of Tong Ren Tang from the “honey incident” which occurred in the other member within Tong Ren Tang Group, the Group was determined to take it as precaution and fully implement quality risk management self-check, so as to practically lower operating quality risk and safeguard and enhance the brand image of Tong Ren Tang. In the first half of the year, the Company has set up a steering committee on key project modification for the comprehensive implementation of self-check, streamlined and formulated a modification task list and proposal, conducted investigation on defects and inadequacies in areas of business operation including production and supply, quality management, marketing, brand management and safety and environmental protection. Furthermore, the Company designated specific personnel to take charge of the implementation, continuously strengthened the ratification and reform, gradually improved the initiative in risk prevention and control so as to improve the management quality of the Group.

Tong Ren Tang Chinese Medicine, a key subsidiary of the Company, served as the overseas development platform of the Group. It primarily engaged in manufacturing, retail and wholesale of Chinese medicine products outside Mainland China. During the Reporting Period, Tong Ren Tang Chinese Medicine continued to regard spreading the culture of Chinese medicine as its mission. While taking Hong Kong as its core market, it is Tong Ren Tang Chinese Medicine's strategy to go international and proactively promote the global inheritance and exchange of culture of Chinese medical treatment. It won the "Leader of Natural Medicine" Award in the 9th Business Women Congress held in Poland in recognition of Beijing Tong Ren Tang's high quality services and products in Poland, and making us the first and only enterprise to receive such award. Meanwhile, it has also strengthened the efforts in promoting Tong Ren Tang Chinese Medicine culture in Australia and Dubai by organising large-scale free medical consultations and healthcare seminars with an aim to bring Tong Ren Tang Chinese Medicine culture into the local community and enhance overseas influence of Tong Ren Tang Chinese Medicine and Tong Ren Tang brand. Moreover, during the Reporting Period, Tong Ren Tang Chinese Medicine optimized its business layout, which has covered 20 countries and regions outside the PRC with a total of 74 retail outlets. It is now transiting from rapid development to quality development. As of 30 June 2019, the sales revenue of Tong Ren Tang Chinese Medicine and its subsidiaries was RMB711,617,000, representing an increase of 14.72% as compared with the corresponding period last year; net profit attributable to owners of the Company amounted to RMB309,665,000, representing an increase of 23.55% as compared with the corresponding period 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, the development of Tong Ren Tang WM was significantly obstructed at OTC ("Over the Counter") channel. Therefore, Tong Ren Tang WM actively adjusted the sales channel construction, expanded the development in shopping centres, supermarkets and e-commerce channels to enlarge the platform resources. The matching of sales model and market structure was gradually enhanced, such as the newly established cosmetic shop in "TMALL.COM". Meanwhile, Freckle-Removing Cream series and Ginkgo Hydration Facial Mask series have been selected as major promotion products and promotions have been actively conducted to further boost product sales. As of 30 June 2019, the sales revenue of Tong Ren Tang WM was RMB44,548,000, representing a decrease of 25.83% as compared with the corresponding period of last year; net profit amounted to RMB7,111,000, representing a decrease of 6.61% as compared with the corresponding period of 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 ("**Nansanhuan Zhonglu Drugstore**") are wholly-owned medical institution and retail pharmacy of the Company, respectively. The two companies adhere to serving customers with kindness. As of 30 June 2019, the two companies jointly achieved sales revenue of RMB103,727,000, representing a decrease of 10.11% as compared with the corresponding period last year. Net profit reached RMB5,771,000, representing an increase of 1.44% as compared with the corresponding period last year.

EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2019, the Group had a total of 3,895 employees (31 December 2018: 3,879 employees), of which 1,935 were employees of the Company (31 December 2018: 1,957 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 the development and growth of talents, and provides employees with skill training, career planning and development opportunities, seeking to create a platform for mutual growth 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 employees as rewards for their contributions to the Company. Other statutory benefits include the Company's contributions 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 source of funds was 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 2019, the Group's cash and cash equivalents amounted to RMB1,864,583,000 (31 December 2018: RMB1,904,036,000) in total.

As at 30 June 2019, the Group's short-term borrowings amounted to RMB63,000,000 (31 December 2018: RMB195,000,000), carrying an interest rate of 4.440% (2018: 4.501%) per annum, current portion of non-current unsecured bank borrowing amounted to RMB5,146,000 (31 December 2018: RMB5,146,000), and current portion of non-current secured bank borrowing amounted to RMB48,000 (31 December 2018: nil), total accounting for 2.56% (31 December 2018: 8.03%) of the total liabilities. Long-term borrowings amounted to RMB908,924,000 (31 December 2018: RMB911,331,000), bearing an annual interest rate of long-term bank borrowings at 1.230% (2018: 1.202%), and the actual annual interest rate of bonds was 3.008% (2018: 3.008%). The long-term borrowings represented 34.10% (31 December 2018: 36.56%) of the total liabilities. Of all the borrowings of the Group as at 30 June 2019, RMB68,146,000 will mature within one year and RMB908,924,000 will mature beyond one year.

Capital Structure

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

As at 30 June 2019, total assets of the Group amounted to RMB10,225,811,000 (31 December 2018: RMB 9,769,866,000). The funds comprised non-current liabilities of the Group amounted to RMB1,064,137,000 (31 December 2018: RMB1,000,690,000), current liabilities amounted to RMB1,601,272,000 (31 December 2018: RMB1,492,327,000), equity attributable to owners of the Company amounted to RMB 5,474,140,000 (31 December 2018: RMB5,316,652,000) and non-controlling interests amounted to RMB 2,086,262,000 (31 December 2018: RMB1,960,197,000).

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 2019, the Group's liquidity ratio (the ratio of current assets to current liabilities) was 4.74 (31 December 2018: 4.95), reflecting that the Group had sufficient financial resources. The Group's quick ratio (the ratio of liquid assets to current liabilities) was 3.24 (31 December 2018: 3.30), 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 8.55 (31 December 2018: 11.43), 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 3.74 (31 December 2018: 3.98), 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 2.13 (31 December 2018: 2.17), 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 2019, the Group's gearing ratio (the ratio of total borrowings to equity attributable to the owners of the Company) was 0.18 (31 December 2018: 0.21).

Expenses and Expense Ratio

As at 30 June 2019, the Group's distribution expenses amounted to RMB406,961,000 (30 June 2018: RMB552,057,000) and the distribution expense ratio, i.e. the ratio of distribution expenses to revenue, was 0.16 (30 June 2018: 0.20). The decrease of distribution expenses was mainly due to sales revenue declined and the decrease in business promotion and marketing expenses incurred by exhibition promotion, etc.

As at 30 June 2019, the Group's administrative expenses amounted to RMB181,965,000 (30 June 2018: RMB185,451,000) and the administrative expense ratio, i.e. the ratio of administrative expenses to revenue, was 0.07 (30 June 2018: 0.07). The administrative expenses have no significant changes compared with the corresponding period of last year and the revenue margin is reasonable.

As at 30 June 2019, the Group's finance income amounted to RMB14,883,000 (30 June 2018: RMB5,399,000) and the financial income ratio, i.e. the ratio of financial income to revenue, was 0.006 (30 June 2018: 0.002). The increase in financial income was mainly due to the increase in interest income.

Gross Margin and Net Profit Margin

As at 30 June 2019, the gross margin of the Group was 51.92% (30 June 2018: 52.38%), while the net profit margin was 23.77% (30 June 2018: 21.82%).

Research and Development Expenses

As at 30 June 2019, the research and development expenses (excluding employee benefit expense, depreciation and amortisation expense) of the Group were RMB5,876,000 (30 June 2018: RMB7,788,000), accounting for 0.08% of net assets (30 June 2018: 0.11%) and 0.24% of revenue (30 June 2018: 0.28%), respectively. The research and development expenses including employee benefit expense and depreciation and amortisation expense were RMB15,441,000 (30 June 2018: RMB15,222,000), accounting for 0.20% of net assets (30 June 2018: 0.22%) and 0.62% of revenue (30 June 2018: 0.54%), respectively.

Capital Expenditure

As of 30 June 2019, the Group's capital expenditure incurred amounted to RMB151 million (30 June 2018: RMB179 million), primarily used for the construction of production base.

Pledges over Assets of the Group

As at 30 June 2019, RMB9,419,000 (31 December 2018: RMB9,562,000) of the Group's assets was pledged as security for long-term borrowing matured within one year of RMB48,000 (31 December 2018: RMB48,000).

Contingent Liabilities

As at 30 June 2019, the Group had no contingent liabilities (31 December 2018: Nil).

Foreign Exchange Risk

The Group primarily operates in the PRC which is settled in Renminbi. However, the Group also 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 announcement, the Group does not have any plan for material investments or purchase of capital assets.

Material Acquisition/Disposal of Subsidiaries, Joint Ventures and Associates

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

FUTURE PROSPECTS

In the second half of the year, the Group will still encounter many difficulties and challenges from internal and external environment and policies. The Group will continue to focus on the main idea of “quality management enhancement”, enhance the level of marketing management and control, deepen the production layout adjustment, and lay a solid foundation for achieving the double goals of “Construction of the Communist Party” and “Operation” and for the Group’s healthy, sustainable, stable and high quality development in the future.

On one hand, facing industrial layout adjustment, production units focusing on GMP certification and workshop renovations, the Company will maintain overall control, leverage existing production capacity reasonably, and enhance the integrity and appropriateness of production capacity allocation. Meanwhile, the Group will carry out the shift in product variety and subsequent production planning, gradually release the production capacities in Daxing Branch Factory and Tong Ren Tang Technologies Tangshan, and strive to start production quickly to adapt to the demand for products. Moreover, the Group will give full play to the production and sales synergy, enhance compatibility between market demand and product supply structure, rationalize the inventory and fully cover the shortage in product supply to provide strong support for smooth operation in marketing.

On the other hand, based on regional diversity, channel characteristics and supply capacity, the Company will timely adjust product operating plan, and improve channel development strategy. Meanwhile, the Company will strengthen product portfolio construction according to market changes, analyze the characteristics of products, deeply explore the product potential, focus on channel inventory and product flow rate, and improve the market coverage of seasonal products and major products. In addition, the Company will deepen the partnerships, refine market operation plan, drive the terminal market and enrich promotion methods in a concerted effort with distributors and chain drugstores, explore the consumption potential of consumers, and further enhance the distribution and marketing capacity.

In respect of management, the Group will continue to strengthen the leadership of the Communist Party, improve high quality development, consolidate the three cornerstones of “Communist Party Construction, Quality, and Integrity”, deepen the education activities focusing on “Remaining true to the original aspirations and keeping the mission firmly in mind” under the overall arrangement of the Party Committee of the Company. The Group aims to achieve the double goals of “Party Construction” and “Operation” by integrating the theme education into the implementation of various decisions of the Party Committee and the Board of the Company, and the achievement of annual objectives and targets. Meanwhile, the Group will investigate level by level, define and divide responsibilities for problems and potential hazards in terms of quality, production, sales and management, further clarify work priorities, contents and requirements, continuously improve and actively promote and carry out “quality management enhancement”. Meanwhile, the Group will continue to focus on the development of its subsidiaries. With focus on quality, the Group will further enhance the management and control of the subsidiaries and cooperation units, strengthen the management in terms of quality, operation and finance, and continue to lower operation quality risk to realise a standardized and regulated development, so as to achieve the goal of a sustainable and healthy development of the Group.

OTHER INFORMATION

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 during the Reporting Period.

Change in Directors and Supervisors and their Remuneration

At the date of 19 March 2019, Mr. Gao Zhen Kun resigned as the executive Director, the chairman of the Board, the chairman of the Nomination Committee and the member of the Remuneration Committee, which takes effect upon the new executive Director being appointed by the Shareholders at the AGM.

At the AGM, Mr. Gu Hai Ou was appointed as the executive Director of the Seventh Session of the Board, each with a term commencing from the conclusion of the AGM to the date of the annual general meeting to be held in 2021. Mr. Gu Hai Ou, as an executive director of the Company, will not receive any Director’s remuneration from the Company.

On 11 June 2019, the Board resolved to appoint Mr. Gu Hai Ou as the Chairman of the Board, the Chairman of the Nomination Committee and the member of the Remuneration Committee, with immediate effect.

For details of the aforesaid changes, please refer to the circular of the Company dated 12 April 2019 and the announcements of the Company dated 19 March 2019 and 11 June 2019.

Change in Director's Information

The following Director's information changed during the Reporting Period, and their latest information are as follows:

Mr. Wu Le Jun, aged 44, is a senior political worker with a master's degree. Mr. Wu formerly served as the secretary of the Youth League committee of Tong Ren Tang Ltd., the deputy secretary of the Party branch, deputy head and chairman of the labour union of Tongzhou Branch of Tong Ren Tang Pharma of Tong Ren Tang Ltd., the deputy secretary of the general Party branch, deputy head, chairman of the labour union of the North Branch of Tong Ren Tang Pharma of Tong Ren Tang Ltd., the deputy director of the Party Committee office, deputy head of publicity department, secretary of the Youth League committee and deputy head of the medical management department of Tong Ren Tang Holdings, the secretary of the general Party branch, deputy head and chairman of labour union of the North Branch of Tong Ren Tang Pharma of Tong Ren Tang Ltd., head of Tongzhou Branch of Tong Ren Tang Pharma of Tong Ren Tang Ltd., and head of the department of organisation, personnel and cadres of Tong Ren Tang Holdings. Mr. Wu currently serves as the deputy Party secretary and chairman of the labour union of Beijing Tong Ren Tang Commercial Investment Group Co., Ltd.. Mr. Wu was appointed as a Director at the 2017 annual general meeting of the Company.

Mr. Wang Yu Wei, aged 52, is a senior engineer with a postgraduate qualification. He formerly served as the deputy officer of the new technology development center and the deputy factory manager of Factory 2 of Beijing Tong Ren Tang Pharma, the assistant to the general manager and the deputy general manager of the Company, the chairman of Tong Ren Tang Second Traditional Chinese Medicine Hospital and Nansanhuan Zhonglu Drugstore. He is currently the general manager of the Company, the director of Beijing Tong Ren Tang Technologies (Tangshan) Co., Ltd., Beijing Tong Ren Tang (Tangshan) Nutrition and Healthcare Co., Ltd. and Beijing Tong Ren Tang Chinese Medicine (Hong Kong) Group Co., Ltd. He is also a member of the 14th, 15th and 16th NPC of Fengtai District, Beijing. Mr. Wang was appointed as a Director at the 2008 annual general meeting of the Company.

Ms. Fang Jia Zhi, aged 52, is a senior auditor with a university qualification. She formerly served as the deputy head and head of audit department of Tong Ren Tang Holdings, the deputy chief accountant of the Company and the director of Nansanhuan Zhonglu Drugstore and Tong Ren Tang Second Traditional Chinese Medicine Hospital, Beijing Tong Ren Tang Sichuan Chinese Medicinal Raw Materials Technologies Co., Limited and Beijing Tong Ren Tang Bencao Pharmaceutical Co., Limited. She is currently the chief accountant of the Company, the director of Beijing Tong Ren Tang Yanbian Chinese Medicinal Raw Materials Co., Limited, Beijing Tong Ren Tang Hebei Chinese Medicinal Raw Materials Technologies Co., Limited, Beijing Tong Ren Tang Xing An Healthcare Technologies Co., Limited, Beijing Tong Ren Tang Century Advertising Co., Limited, Beijing Tong Ren Tang Technologies (Tangshan) Co., Ltd. and Beijing Tong Ren Tang (Liaoning) Technologies Pharmaceutical Company Limited. Ms. Fang was appointed as a Director at the 2008 annual general meeting of the Company.

Ms. Chan Ching Har, Eliza, aged 63, JP, SBS, 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 Chairman of Hong Kong CPPCC (Provincial) Members Association and now serves as Honorary Chairman. She is vice-president of Hong Kong Friendship Association and Honorary President of Hong Kong China Chamber of Commerce. She was formerly President and Chairman of Canadian Chamber of Commerce in Hong Kong and is now its Governor.

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, Chairman of Public Complaints Committee, Chairman of Kowloon Hospital, Chairman of Hong Kong Eye Hospital, Chairman of Tseung Kwan O Hospital, member of the governing committee of Queen Elizabeth Hospital, member of the Medical Council of Hong Kong, Chairman of Pensions Appeal Panel, member of Administration Appeals Board, adjudicator of Hong Kong Immigration Tribunal, member of Disciplinary Panel of Institute of Accountants, Council member of The University of Science & Technology and Board member of 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. She is the Honorary President of Hong Kong China Chamber of Commerce, a Senior Advisor of Deloitte and Senior Consultant of Yang Chan & Jamison. 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 was appointed as a Director at the 2017 annual general meeting of the Company.

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.

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 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 2019 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 2019, 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.

Proposed Adoption of the Rules of Procedures

In order to improve and standardize the meeting and decision-making procedures of the shareholders' general meetings, the Board of Directors and the Supervisory Committee of the Company and ensure the normal order, efficiency and decision-making level of meetings, the Company formulated and proposed to adopt (i) Rules of Procedures of Shareholders' General Meetings of Tong Ren Tang Technologies Co. Ltd.; (ii) Rules of Procedures of the Board of Directors of Tong Ren Tang Technologies Co. Ltd.; and (iii) Rules of Procedures of the Supervisory Committee of Tong Ren Tang Technologies Co. Ltd. according to the relevant laws and regulations and the Articles of Association. The aforementioned rules of procedures were approved at the AGM. For details, please refer to the circular of the Company dated 12 April 2019 and announcement of the Company dated 11 June 2019.

Substantial Shareholders

As at 30 June 2019, as was known to the Directors, Supervisors and the chief executive of the Company, 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%

Name of shareholder	Capacity	Number of shares	Percentage of domestic shares	Percentage of H shares	Percentage of total registered share capital
Commonwealth Bank of Australia (Note 4)	Interest of controlled corporation by the substantial shareholder	67,924,000(L) (Note 1)	-	10.80%	5.303%
Hillhouse Capital Advisors, Ltd. (Note 5)	Investment manager	47,663,000(L) (Note 1)	-	7.58%	3.721%
Citigroup Inc. (Note 6)	Interest of corporation controlled by the substantial shareholder,	43,584,896(L) (Note 1)	-	6.93%	3.403%
	Person having a security interest in shares,	5,000(S) (Note 1)	-	0.00%	0.00%
	Custodian corporation/approved lending agent	26,420,488(P) (Note 1)	-	4.20%	2.063%
Credit Suisse Group AG (Note 7)	Interest of corporation controlled by the substantial shareholder,	35,449,664(L) (Note 1)	-	5.64%	2.768%
	Investment manager	33,430,544(S) (Note 1)	-	5.32%	2.610%

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 2019, Tong Ren Tang Ltd. was owned as to 52.45% by Tong Ren Tang Holdings. Tong Ren Tang Holdings was deemed to be interested in the 600,000,000 shares held by Tong Ren Tang Ltd.. Besides, Tong Ren Tang Holdings also directly held 9,480,000 shares.

- (3) *Yuan Sai Nan held 35,732,000 H shares of the Company in long position.*
- (4) *Commonwealth Bank of Australia indirectly held 67,924,000 H shares of the Company in long position through a series of corporations under its control.*
- (5) *Due to an internal reorganisation, the investment manager for both Gaoling Fund, L.P. and YHG Investment, L.P. changed from Hillhouse Capital Management, Ltd. to Hillhouse Capital Advisors, Ltd., effective from 1 January 2019. There was no transfer of shares of the Company as part of the reorganisation. Hillhouse Capital Advisors, Ltd. was indirectly interested in 46,106,000 H shares of the Company in long position indirectly held by Gaoling Fund, L.P. and 1,557,000 H shares of the Company in long position held by YHG Investment, L.P.*
- (6) *Citigroup Inc. indirectly held 196,408 H shares of the Company in long position and 5,000 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 26,420,488 H shares in long position of the Company as custodian corporation/approved lending agent.*
- (7) *Credit Suisse Group AG indirectly held 34,486,657 H shares of the Company in long position and 33,421,544 H shares of the Company in short position through a series of entities under its control, held 963,007 H shares of the Company in long position and 9,000 H shares of the Company in short position as an investment manager.*

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 2019.

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 Niu Huang 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), Niu Huang Jiedu Tablets (牛黃解毒片), Ganmao Qingre Granules (感冒清熱顆粒), Jinkui Shenqi Pills (金匱腎氣丸), etc. Tong Ren Tang Holdings is an investment holding company and is not involved in the production of Chinese patent medicines.

To ensure that the business classification among the Company, Tong Ren Tang Holdings and Tong Ren Tang Ltd. is properly documented and established, Tong Ren Tang Holdings and Tong Ren Tang Ltd. undertake, pursuant to an undertaking dated 19 October 2000 committed by Tong Ren Tang Holdings and Tong Ren Tang Ltd. in favor of the Company ("**October Undertaking**"), that other than Angong Niu Huang Pills (安宮牛黃丸), Tong Ren Tang Holdings, Tong Ren Tang Ltd. and their respective subsidiaries will not produce in future any products that bear the same names as those pharmaceutical products produced by the Company, which may compete directly with those pharmaceutical products of the Company.

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.

PUBLICATION OF THE INTERIM REPORT ON THE WEBSITES OF THE STOCK EXCHANGE AND THE COMPANY

The 2019 interim report of the Company, which contains the unaudited consolidated financial statements of the Group for the six months ended 30 June 2019 and all other information required under Appendix 16 to the Listing Rules, will be despatched to the shareholders of the Company and published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.tongrentangkj.com) in due course.

By order of the Board
Tong Ren Tang Technologies Co. Ltd.
Gu Hai Ou
Chairman of the Board

Beijing, the PRC
26 August 2019

As at the date of this announcement, the Board comprises Mr. Gu Hai Ou, Mr. Huang Ning, Mr. Wu Le Jun, Ms. Wu Qian, Mr. Wang Yu Wei and Ms. Fang Jia Zhi as executive Directors, Mr. Ting Leung Huel, Stephen, Ms. Chan Ching Har, Eliza and Mr. Zhan Yuan Jing as independent non-executive Directors.