



Beijing Tong Ren Tang
Chinese Medicine Company Limited
北京同仁堂國藥有限公司

(Incorporated in Hong Kong with limited liability)

(於香港註冊成立之有限公司)

Stock code 股份代號: 3613

Interim Report 2018
中期報告





DIRECTORS

Non-executive Director

Mei Qun (*Chairman*)

Executive Directors

Ding Yong Ling
Zhang Huan Ping
Lin Man

Independent Non-executive Directors

Tsang Yok Sing, Jasper
Zhao Zhong Zhen
Chan Ngai Chi

AUDIT COMMITTEE

Chan Ngai Chi (*Chairman*)
Tsang Yok Sing, Jasper
Zhao Zhong Zhen

NOMINATION COMMITTEE

Tsang Yok Sing, Jasper (*Chairman*)
Chan Ngai Chi
Ding Yong Ling

REMUNERATION COMMITTEE

Zhao Zhong Zhen (*Chairman*)
Chan Ngai Chi
Ding Yong Ling

COMPANY SECRETARY

Lin Man

COMPLIANCE OFFICER

Ding Yong Ling

AUTHORISED REPRESENTATIVES

Ding Yong Ling
Lin Man

HONG KONG SHARE REGISTRAR

Computershare Hong Kong Investor
Services Limited
Shops 1712–1716
17th Floor, Hopewell Centre
183 Queen's Road East
Wanchai, Hong Kong

COMPANY'S WEBSITE

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REGISTERED ADDRESS

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LEGAL ADVISER

DLA Piper Hong Kong
17th Floor, Edinburgh Tower
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Hong Kong

AUDITOR

PricewaterhouseCoopers
Certified Public Accountants
22nd Floor, Prince's Building
Central
Hong Kong

STOCK CODE

3613



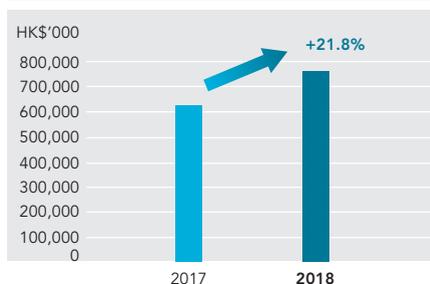
FINANCIAL HIGHLIGHTS

(HK\$'000)	Six months ended 30 June		
	2018	2017	Change
Revenue	759,533	623,775	+ 21.8%
Gross profit	548,114	460,092	+ 19.1%
Profit attributable to owners of the Company	307,505	257,349	+ 19.5%
Earnings per share	HK\$0.37	HK\$0.31	+ 19.4%

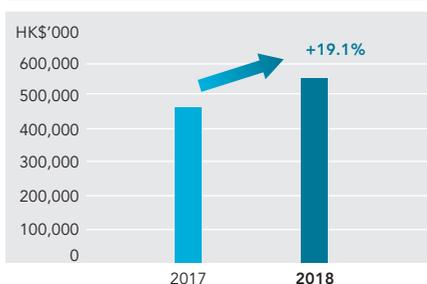
(HK\$'000)	30 June		Change
	2018	31 December 2017	
Cash and bank balances	1,971,115	1,897,781	+ 3.9%
Total assets	2,964,051	2,760,655	+ 7.4%
Total equity	2,747,827	2,608,177	+ 5.4%

For the six months ended 30 June 2018

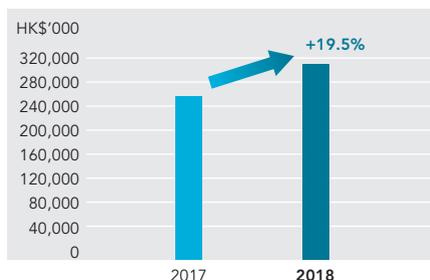
Revenue



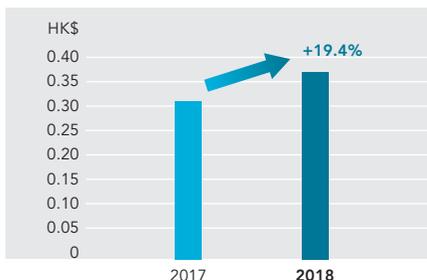
Gross Profit



Profit attributable to owners of the Company



Earnings Per Share





BUSINESS REVIEW

For the six months ended 30 June 2018 (the “Period”), Beijing Tong Ren Tang Chinese Medicine Company Limited (the “Company”, and its subsidiaries, together the “Group”, “we” or “us”) continued to pursue its approach of seeking progress amidst stability. It recorded a revenue of HK\$759.5 million (2017: HK\$623.8 million), representing an increase of 21.8% over the same period of last year, and profit attributable to owners of the Company of HK\$307.5 million (2017: HK\$257.3 million), representing an increase of 19.5% over the same period of last year.

Traditional Chinese medicine (“TCM”) is not only a medical and health tradition with more than a thousand years of history, but also a treasure of Chinese people’s culture passing from generation to generation. Beijing Tong Ren Tang adheres to the corporate motto of “Complexity and quality are not to be forfeited by costs” and upholds our self-discipline to offer products and services with quality. Building on its heritage, Beijing Tong Ren Tang seeks innovation and safeguards human’s health. As the first time-honored Chinese medicine enterprise to go global, the Company, since its listing five years ago, has been developing into a platform for the TCM culture to spread overseas and for the provision of TCM products and services to foreign customers. During the Period, we carried on consolidating existing market. After the establishment of one retail outlet in Hong Kong and the USA respectively, the Group’s business coverage has extended to 82 retail outlets across 21 countries and regions outside the PRC, which has facilitated the ongoing development of the global retail network.

Market Exploration

During the Period, the Company participated with the concepts of “Preventive Treatment” and “Healthcare Should Be Early” in the “Health Expo” at the Hong Kong Convention and Exhibition Centre in Wanchai for the second time to strengthen the principal market in Hong Kong. At the product presentations and health seminars, we raised public awareness about cerebrovascular healthcare, diseases of affluence and preventive measures. We cooperated with renowned online platform “Day Day Cook” in Hong Kong and shared seasonal disease prevention tips through its WeChat account, so that our promotional messages reached and appealed to the audience effectively. We enhanced brand visibility with the use of social network, which allowed us to communicate useful information directly. As part of our active marketing campaign for women health products, we combined video advertising and online media strategy. Under the theme of “What Life Has Taught Me”, we told stories of “Health”, “Beauty” and “Wisdom”, showcasing the life insights of women at different ages to resonate with the wisdom of Beijing Tong Ren Tang accumulated in 349 years of Chinese medicine practice.



MANAGEMENT DISCUSSION AND ANALYSIS

In order to step up marketing efforts, we installed big advertising screens at places with high foot traffic to promote our flagship products, including Angong Niu Huang Wan and Sporoderm-broken Ganoderma Lucidum Spores Powder Capsules (“GLSPC”). This has broadened our reach to consumers by displaying our brand and product information with cartoons. Meanwhile, we used video advertising and set up product website for our flagship product GLSPC, with “Health is Priceless” as the theme for consumers to gain a better understanding of the supreme quality and efficacy of this product. During the Period, we jointly organized the 2nd “International Chinese Medicine Cultural Festival” with International Chinese Medicine Cultural Festival Limited again and held a series of colorful activities in Beijing and Hong Kong. The key event of this year was the “Calm and Nurturing” music concert in Hong Kong, where the guqin performer played melodies of emotions and unfolded the secrets of Chinese medicine. In addition, we hosted the “Chinese Medicine Culture “Let’s Move” and “Let’s Go” — “Doctors’ Tale” and “Chinese Medicine Without Border”” book launch event during the Period. We also held the 2018 “Capital State-owned Enterprises Open Day” at the flagship store in Central, Tai Po Production Base in Hong Kong and Tong Ren Tang company located in South Africa again this year, so as to deliver the new fashion message of the time-honored Chinese brand to Hong Kong citizen and the public in South Africa with content-rich programs.

During the Period, Beijing Tong Ren Tang continued to receive well recognition and acclaim from the public for its diligent efforts. We are once again awarded the 18th “Capital Outstanding Enterprise Awards — Outstanding Chinese Medicine Group” by Capital magazine in Hong Kong.

Production, Research and Development

Committed to the principle of corporate development, we have started the research and development of new TCM products, research and production of high-end healthcare products, overseas registration of premium TCM as well as follow-up research and derivative development. During the Period, we proceeded to promote product registration in the overseas markets. In terms of scientific research of products, we have continued our cooperation with overseas scientific research Institutions and focused on the safety, pharmacodynamics and action mechanism studies of several key products such as Angong Niu Huang Wan. Supported with a solid theoretical ground, we are able to garner reputation, win market recognition and provide technical support for key products in the overseas markets.



Future Prospects

As an age-old yet evolving tradition, TCM reflects the wisdom of Chinese people in battling diseases over the past thousands of years. Tong Ren Tang, being a time-honored Chinese brand with 349 years of history, is dedicated to its role as “a carrier of both the economy and the culture”. In sharing Chinese medicine with the world, it gives priority to promoting our culture. We keep abreast of the latest trend and implement new development strategies for rapid and high-quality growth. By establishing a complement industry, culture and value chain, we will pave way for the hallmark of Tong Ren Tang to rise and thrive in the overseas market.

Human Resources

As at 30 June 2018, we had a total of 818 employees (2017: 753 employees). During the Period, the staff cost of the Group was HK\$90.8 million (2017: HK\$78.7 million). In order to attract and retain talents, the Group reviewed its remuneration policy on a regular basis and offered discretionary bonus to qualified employees according to the results and personal performance.

FINANCIAL REVIEW

Financial Resources and Liquidity

As at 30 June 2018, the Group continued to be in a strong financial position with cash and bank balances amounting to HK\$1,971.1 million (31 December 2017: HK\$1,897.8 million). During the Period, the Group funded its liquidity by resources generated internally. Based on the Group’s steady cash inflow from operations, coupled with sufficient cash and bank balances, the Group has adequate liquidity and financial resources to meet the current working capital requirements as well as to fund its expansion plans.

As at 30 June 2018, the Group’s cash and bank balances were mainly denominated in Hong Kong dollars, Renminbi, Macao pataca, Singapore dollar, Australian dollar, Canadian dollar and United States dollar and were deposited in reputable financial institutions with maturity dates falling within one year.

As at 30 June 2018, the Group had total non-current assets, net current assets and net assets of HK\$438.0 million, HK\$2,315.6 million and HK\$2,747.8 million, respectively (31 December 2017: HK\$405.8 million, HK\$2,207.4 million and HK\$2,608.2 million respectively). The current ratio of the Group, defined as the ratio of current assets to current liabilities, was 12.0 as at 30 June 2018 (31 December 2017: 16.0), which reflects the abundance of financial resources of the Group. The gearing ratio of the Group, defined as the borrowings to total equity, was 0.04% as at 30 June 2018 (31 December 2017: 0.02%).



MANAGEMENT DISCUSSION AND ANALYSIS

Capital Expenditure

During the Period, the Group's capital expenditure was HK\$44.3 million (2017: HK\$19.2 million), which was mainly used for the establishment of new retail outlets and purchase of a property for operation purpose.

Foreign Currency Risk

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

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

Major Investment, Acquisitions and Disposals

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

Charges over Assets of the Group

At 30 June 2018, the Group's property with a net book value of HK\$11.5 million (31 December 2017: HK\$12.3 million) has been pledged as securities for a long-term borrowing. Such borrowing in Australian dollars bears interest at 1.5% plus the bank bill rate in Australia per annum and is wholly repayable in 2020.

Contingent Liabilities

At 30 June 2018, the Group did not have any significant contingent liabilities.

Dividends

The board of Directors ("Board") does not recommend the payment of any interim dividend for the six months ended 30 June 2018 (2017: Nil).

CONDENSED CONSOLIDATED INCOME STATEMENT



The Board is pleased to announce the unaudited condensed consolidated results of the Group for the six months ended 30 June 2018 together with the comparative unaudited figures for the corresponding period in 2017 as follows:

	Note	Unaudited Six months ended 30 June	
		2018 HK\$'000	2017 HK\$'000
Revenue	6	759,533	623,775
Cost of sales	7	(211,419)	(163,683)
Gross profit		548,114	460,092
Distribution and selling expenses	7	(113,081)	(95,715)
General and administrative expenses	7	(58,626)	(50,018)
Other gains		1,299	869
Operating profit		377,706	315,228
Finance income		7,274	6,229
Finance costs		(12)	(17)
Finance income, net		7,262	6,212
Share of losses of investments accounted for using the equity method		(681)	(398)
Profit before income tax		384,287	321,042
Income tax expense	8	(65,276)	(55,018)
Profit for the period		319,011	266,024
Profit attributable to:			
Owners of the Company		307,505	257,349
Non-controlling interests		11,506	8,675
		319,011	266,024
Earnings per share attributable to owners of the Company (expressed in HK\$ per share)			
Basic and diluted	9	0.37	0.31

The notes on pages 13 to 30 are an integral part of this condensed consolidated interim financial information.



CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Unaudited Six months ended 30 June	
	2018 HK\$'000	2017 HK\$'000
Profit for the period	319,011	266,024
Other comprehensive income:		
<i>Item that may be reclassified to profit or loss</i>		
Change in value of available-for-sale financial asset	1,110	1,500
Currency translation differences	(9,031)	10,360
Other comprehensive (loss)/income for the period	(7,921)	11,860
Total comprehensive income for the period	311,090	277,884
Attributable to:		
Owners of the Company	302,328	266,516
Non-controlling interests	8,762	11,368
Total comprehensive income for the period	311,090	277,884

The notes on pages 13 to 30 are an integral part of this condensed consolidated interim financial information.

CONDENSED CONSOLIDATED BALANCE SHEET



		Unaudited 30 June 2018 HK\$'000	Audited 31 December 2017 HK\$'000
ASSETS			
Non-current assets			
Leasehold land	11	15,738	16,008
Property, plant and equipment	12	293,731	263,555
Intangible assets	13	77,805	79,001
Investments accounted for using the equity method		20,128	20,766
Available-for-sale financial asset		16,428	15,318
Deposits paid for purchase of property, plant and equipment		2,584	1,988
Deferred income tax assets		11,627	9,132
		438,041	405,768
Current assets			
Inventories		288,508	235,536
Trade receivables and other current assets	14	266,387	221,570
Short-term bank deposits		1,557,975	1,147,338
Cash and cash equivalents		413,140	750,443
		2,526,010	2,354,887
Total assets		2,964,051	2,760,655
EQUITY AND LIABILITIES			
Equity attributable to owners of the Company			
Share capital	15	938,789	938,789
Reserves			
— Other reserves		(16,224)	(11,047)
— Retained earnings		1,713,606	1,565,150
		2,636,171	2,492,892
Non-controlling interests		111,656	115,285
Total equity		2,747,827	2,608,177



CONDENSED CONSOLIDATED BALANCE SHEET

		Unaudited 30 June 2018 HK\$'000	Audited 31 December 2017 HK\$'000
LIABILITIES			
Non-current liabilities			
Borrowings		1,139	605
Deferred income tax liabilities		4,675	4,419
		5,814	5,024
Current liabilities			
Trade and other payables	16	134,171	114,486
Current income tax liabilities		76,239	32,968
		210,410	147,454
Total liabilities		216,224	152,478
Total equity and liabilities		2,964,051	2,760,655

The notes on pages 13 to 30 are an integral part of this condensed consolidated interim financial information.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY



Unaudited

	Attributable to owners of the Company							Non-controlling interests HK\$'000	Total equity HK\$'000
	Share capital HK\$'000	Merger reserve HK\$'000	Other reserve HK\$'000	Statutory reserve HK\$'000	Exchange reserve HK\$'000	Retained earnings HK\$'000	Total HK\$'000		
At 1 January 2017	938,789	(13,124)	355	5,295	(18,827)	1,210,053	2,122,541	104,696	2,227,237
Comprehensive income									
Profit for the period	-	-	-	-	-	257,349	257,349	8,675	266,024
Other comprehensive income									
Change in value of available-for-sale financial asset	-	-	1,500	-	-	-	1,500	-	1,500
Currency translation differences									
— the Group	-	-	-	-	7,167	-	7,167	2,693	9,860
— Joint ventures	-	-	-	-	500	-	500	-	500
Total comprehensive income	-	-	1,500	-	7,667	257,349	266,516	11,368	277,884
Transactions with owners in their capacity as owners									
Transfer of retained earnings to statutory reserve	-	-	-	1,658	-	(1,658)	-	-	-
Dividends relating to 2016 (Note 10)	-	-	-	-	-	(133,936)	(133,936)	(14,678)	(148,614)
Capital injection into subsidiaries	-	-	-	-	-	-	-	11,732	11,732
Total transactions with owners in their capacity as owners	-	-	-	1,658	-	(135,594)	(133,936)	(2,946)	(136,882)
At 30 June 2017	938,789	(13,124)	1,855	6,953	(11,160)	1,331,808	2,255,121	113,118	2,368,239
At 1 January 2018	938,789	(13,124)	2,360	6,229	(6,512)	1,565,150	2,492,892	115,285	2,608,177
Comprehensive income									
Profit for the period	-	-	-	-	-	307,505	307,505	11,506	319,011
Other comprehensive income									
Change in value of available-for-sale financial asset	-	-	1,110	-	-	-	1,110	-	1,110
Currency translation differences									
— the Group	-	-	-	-	(6,331)	-	(6,331)	(2,744)	(9,075)
— Joint ventures	-	-	-	-	44	-	44	-	44
Total comprehensive income	-	-	1,110	-	(6,287)	307,505	302,328	8,762	311,090
Transactions with owners in their capacity as owners									
Dividends relating to 2017 (Note 10)	-	-	-	-	-	(159,049)	(159,049)	(15,261)	(174,310)
Capital injection into subsidiaries	-	-	-	-	-	-	-	2,870	2,870
Total transactions with owners in their capacity as owners	-	-	-	-	-	(159,049)	(159,049)	(12,391)	(171,440)
At 30 June 2018	938,789	(13,124)	3,470	6,229	(12,799)	1,713,606	2,636,171	111,656	2,747,827

The notes on pages 13 to 30 are an integral part of this condensed consolidated interim financial information.



CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Unaudited Six months ended 30 June	
	2018 HK\$'000	2017 HK\$'000
Net cash generated from operating activities	286,729	249,054
Cash flows from investing activities		
Interest received	7,274	6,249
Increase in short-term bank deposits with original maturities exceeding three months	(410,637)	(355,314)
Purchase of property, plant and equipment	(41,847)	(18,907)
Proceeds from disposal of property, plant and equipment	–	40
Deposit paid for purchase of property, plant and equipment	(3,010)	(697)
Net cash used in investing activities	(448,220)	(368,629)
Cash flows from financing activities		
Drawdown of long-term borrowings	1,082	–
Repayment of long-term borrowings	(516)	–
Capital injection by non-controlling interests	2,870	11,732
Dividends paid to the Company's shareholders	(159,049)	(133,936)
Dividends paid to non-controlling shareholders	(15,261)	(14,678)
Net cash used in financing activities	(170,874)	(136,882)
Net decrease in cash and cash equivalents	(332,365)	(256,457)
Cash and cash equivalents at beginning of period	750,443	797,557
Exchange (loss)/gains on cash and cash equivalents	(4,938)	4,038
Cash and cash equivalents at end of period	413,140	545,138
Analysis of balances of cash and cash equivalents		
Cash at bank and on hand and deposits with banks with original maturity within three months	413,140	545,138

The notes on pages 13 to 30 are an integral part of this condensed consolidated interim financial information.



1 GENERAL INFORMATION

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

The share of the Company was listed on GEM of the Stock Exchange on 7 May 2013 and transferred to listed on the Main Board of the Stock Exchange on 29 May 2018.

The Company is a limited liability company incorporated in Hong Kong. The address of its registered office is Room 1405–1409, Office Tower, Convention Plaza, 1 Harbour Road, Wanchai, Hong Kong.

The condensed consolidated interim financial information is presented in Hong Kong dollars (“HK\$”), unless otherwise stated. This consolidated interim financial information has been approved for issue by the Board on 8 August 2018.

This condensed consolidated interim financial information has not been audited.



NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

2 BASIS OF PREPARATION

This condensed consolidated interim financial information for the six months ended 30 June 2018 has been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Listing Rules of the Stock Exchange.

The financial information relating to the year ended 31 December 2017 that is included in this condensed consolidated interim financial information as comparative information does not constitute the Company’s statutory annual consolidated financial statements for the year but is derived from those financial statements. Further information relating to these statutory financial statements required to be disclosed in accordance with section 436 of the Hong Kong Companies Ordinance (Cap. 622) is as follows:

The Company has delivered the financial statements for the year ended 31 December 2017 to the Companies Registry as required by section 662(3) of, and Part 3 of Schedule 6 to, the Hong Kong Companies Ordinance (Cap. 622).

3 SIGNIFICANT ACCOUNTING POLICIES

Except as described below, the accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2017, as described in those annual financial statements.

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



3 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(a) Adoption of amendments to standards

The following are amendments to existing standards which are relevant to the Group's operations and are mandatory for the financial year beginning on 1 January 2018.

HKAS 28 (Amendment)	Investments in Associates and Joint Ventures
HKAS 40 (Amendment)	Transfers of Investment Property
HKFRS 4 (Amendment)	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts
HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers
HKFRS 15 (Amendment)	Clarifications to HKFRS 15
HK(IFRIC)-Int 22	Foreign Currency Transactions and Advance Consideration

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

(b) Standards and amendments which are not yet effective

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

HKFRS 9 (Amendment)	Prepayment Features with Negative compensation ⁽¹⁾
HKFRS 16	Leases ⁽¹⁾
HKFRS 17	Insurance Contracts ⁽²⁾
HKFRS 10 and HKAS 28 (Amendment)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ⁽³⁾
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments ⁽²⁾

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

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

⁽³⁾ Effective date to be determined



NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

3 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(b) Standards and amendments which are not yet effective *(Continued)*

The Group will apply the above new standard and amendments to standards when they become effective. The Group is in the process of making an assessment of the impact of the above new standard and amendments to standards. Except for the expected impact of HKFRS 16 which has been disclosed in the 2017 annual report, the Group does not expect that the adoption of these new standard and amendments to standards will result in any material impact on the Group's results and financial position.

4 ESTIMATES

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

In preparing this condensed consolidated interim financial information, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2017.

5 FINANCIAL RISK MANAGEMENT

(a) Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk and cash flow interest rate risk), credit risk and liquidity risk.

The condensed consolidated interim financial information does not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 31 December 2017.

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

(b) Liquidity risk

Compared to 31 December 2017, there was no material change in the contractual undiscounted cash out flows for financial liabilities.



6 REVENUE AND SEGMENT INFORMATION

(a) Revenue

	Unaudited Six months ended 30 June	
	2018	2017
	HK\$'000	HK\$'000
Sales of products	733,265	601,710
Service income	25,783	21,682
Royalty fee income	485	383
	759,533	623,775

(b) Segment information

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

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

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



NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

6 REVENUE AND SEGMENT INFORMATION *(Continued)*

(b) Segment information *(Continued)*

Unallocated items comprise mainly corporate expenses.

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

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

Segment assets include leasehold land, property, plant and equipment, intangible assets, investments accounted for using equity method, available-for-sale financial asset, deferred income tax assets, deposits paid for purchase of property, plant and equipment, inventories, trade receivables and other current assets, short-term bank deposits and cash and cash equivalents. Segment liabilities include borrowings, trade and other payables, current and deferred income tax liabilities.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION



6 REVENUE AND SEGMENT INFORMATION (Continued)

(b) Segment information (Continued)

(i) Analysis of condensed consolidated income statement

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



NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

6 REVENUE AND SEGMENT INFORMATION (Continued)

(b) Segment information (Continued)

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

	Hong Kong HK\$'000	PRC HK\$'000	Overseas HK\$'000	Total HK\$'000
Six months ended				
30 June 2017 (Unaudited)				
Segment revenue	474,417	222,279	149,634	846,330
Inter-segment revenue	(156,981)	(64,838)	(736)	(222,555)
Revenue from external customers	317,436	157,441	148,898	623,775
Segment results	292,138	22,014	9,696	323,848
Inter-segment elimination				(8,620)
Operating profit				315,228
Finance income	6,054	98	77	6,229
Finance cost	-	-	(17)	(17)
Share of losses of investments accounted for using equity method				(398)
Profit before income tax				321,042
Income tax expense	(47,315)	(5,976)	(1,727)	(55,018)
Profit for the period				266,024



6 REVENUE AND SEGMENT INFORMATION *(Continued)*

(b) Segment information *(Continued)*

(ii) Analysis of condensed consolidated balance sheet

	Hong Kong HK\$'000	PRC HK\$'000	Overseas HK\$'000	Total HK\$'000
At 30 June 2018 (Unaudited)				
Segment assets and liabilities				
Total assets	2,392,164	271,411	300,476	2,964,051
Investments accounted for using equity method	12,535	–	7,593	20,128
Total liabilities	(111,895)	(65,328)	(39,001)	(216,224)
At 31 December 2017 (Audited)				
Segment assets and liabilities				
Total assets	2,260,150	203,558	296,947	2,760,655
Investments accounted for using equity method	12,900	–	7,866	20,766
Total liabilities	(86,864)	(33,576)	(32,038)	(152,478)



NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

7 EXPENSES BY NATURE

	Unaudited Six months ended 30 June	
	2018 HK\$'000	2017 HK\$'000
Cost of inventories sold	177,133	130,877
Employee benefit expenses (including directors' emoluments)	90,750	78,721
Operating leases payments	44,471	36,452
Amortisation of prepaid operating payments (Note 11)	270	270
Amortisation of intangible assets (Note 13)	1,279	1,169
Depreciation of property, plant and equipment (Note 12)	11,012	11,375
Loss on disposal of property, plant and equipment	2	50
Write-off of inventories	316	39
Advertising and promotion expenses	11,160	12,466
Net exchange gain	(1,420)	(62)



8 INCOME TAX EXPENSE

Hong Kong profits tax has been provided at the rate of 16.5% (2017: 16.5%) on the estimated assessable profits for the period. PRC corporate income tax has been provided at the rate of 25% (2017: 25%) on the estimated assessable profits for the period of the subsidiaries operating in Mainland China. Taxation on overseas profits has been calculated on the estimated assessable profit for the period at the rates of taxation prevailing in the countries in which the entities operate.

	Unaudited Six months ended 30 June	
	2018	2017
	HK\$'000	HK\$'000
Current income tax		
Hong Kong	59,736	48,699
PRC	4,568	5,527
Overseas	3,209	2,834
	67,513	57,060
Deferred income tax credit	(2,237)	(2,042)
Income tax expense	65,276	55,018



NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

9 EARNINGS PER SHARE

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

	Unaudited Six months ended 30 June	
	2018 HK\$'000	2017 HK\$'000
Profit attributable to owners of the Company	307,505	257,349
Weighted average number of ordinary shares in issue (<i>thousand shares</i>)	837,100	837,100
Earnings per share (<i>HK\$</i>)	0.37	0.31

There were no potential dilutive shares for the six months ended 30 June 2018 (2017: Nil).

10 DIVIDENDS

A dividend of HK\$159,049,000 in respect of the year ended 31 December 2017 was paid in May 2018 (2017: HK\$133,936,000).

During the six months ended 30 June 2018, the Board did not recommend the payment of any interim dividend (2017: Nil).

11 LEASEHOLD LAND

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

	HK\$'000
Net book value at 1 January 2018 (audited)	16,008
Amortisation of prepaid operating payments	(270)
At 30 June 2018 (unaudited)	15,738



12 PROPERTY, PLANT AND EQUIPMENT

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

	HK\$'000
At 1 January 2018 (audited)	263,555
Additions	44,261
Disposals	(2)
Depreciation charge	(11,012)
Currency translation differences	(3,071)
At 30 June 2018 (unaudited)	293,731

As at 30 June 2018, bank borrowing is secured by a freehold land and building amounted to HK\$11,545,000 (31 December 2017: HK\$12,343,000).

13 INTANGIBLE ASSETS

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

	Goodwill HK\$'000	Other Intangible assets HK\$'000	Total HK\$'000
At 1 January 2018 (audited)	49,419	29,582	79,001
Amortisation	–	(1,279)	(1,279)
Currency translation differences	–	83	83
At 30 June 2018 (unaudited)	49,419	28,386	77,805



NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

14 TRADE RECEIVABLES AND OTHER CURRENT ASSETS

	Unaudited 30 June 2018 HK\$'000	Audited 31 December 2017 HK\$'000
Trade receivables		
— fellow subsidiaries	75,505	50,110
— joint ventures	2,400	2,558
— an associate	800	1,877
— third parties	137,787	116,222
Trade receivables	216,492	170,767
Prepayment and other receivables	28,928	26,080
Deposits	19,853	23,609
Amount due from a joint venture	1,114	1,114
	266,387	221,570

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

	Unaudited 30 June 2018 HK\$'000	Audited 31 December 2017 HK\$'000
Up to 3 months	168,320	126,921
3 to 6 months	29,689	31,275
6 months to 1 year	10,808	6,905
Over 1 year	7,675	5,666
	216,492	170,767



15 SHARE CAPITAL

	Number of shares	Share capital HK\$'000
Ordinary shares issued and fully paid:		
At 1 January 2018 (audited) and 30 June 2018 (unaudited)	837,100,000	938,789

16 TRADE AND OTHER PAYABLE

	Unaudited 30 June 2018 HK\$'000	Audited 31 December 2017 HK\$'000
Trade payables		
— fellow subsidiaries	6,180	–
— intermediate holding company	27,887	16,270
— immediate holding company	6,825	5,688
— third parties	41,613	30,721
Trade payables	82,505	52,679
Accruals and other payables	51,666	61,807
	134,171	114,486

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

	Unaudited 30 June 2018 HK\$'000	Audited 31 December 2017 HK\$'000
Up to 3 months	81,357	51,086
3 to 6 months	614	587
6 months to 1 year	–	981
Over 1 year	534	25
	82,505	52,679



NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

17 COMMITMENTS

(a) Capital commitments

	Unaudited 30 June 2018 HK\$'000	Audited 31 December 2017 HK\$'000
Contracted but not provided for		
— property, plant and equipment	835	3,281

(b) Operating lease commitments

The Group leases various retail outlets, warehouses and staff quarters under non-cancellable operating lease agreements. The lease terms are from 1 to 10 years and certain lease agreements are renewable at the end of the lease period at market rate.

The future minimum lease payments under non-cancellable operating leases are as follows:

	Unaudited 30 June 2018 HK\$'000	Audited 31 December 2017 HK\$'000
No later than 1 year	67,018	65,193
Later than 1 year and no later than 5 years	65,948	78,212
Later than 5 years	7,007	9,623
	139,973	153,028



18 SIGNIFICANT RELATED PARTY TRANSACTIONS

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

	Note	Unaudited Six months ended 30 June	
		2018 HK\$'000	2017 HK\$'000
(a) Sales of products to:			
Joint ventures	(i)	2,718	2,294
Fellow subsidiaries	(i)	116,247	96,487
		118,965	98,781
(b) Purchases of product from:			
— Immediate holding company	(i)	10,706	37,191
— Intermediate holding company	(i)	59,739	49,182
— Fellow subsidiaries	(i)	194	529
		70,639	86,902
(c) Royalty fee income from joint ventures	(ii)	485	383
(d) Rental expense to a fellow subsidiary	(i)	2,201	1,990



NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

18 SIGNIFICANT RELATED PARTY TRANSACTIONS *(Continued)*

(e) Key management compensation

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

	Unaudited Six months ended 30 June	
	2018 HK\$'000	2017 HK\$'000
Salaries and other short-term employee benefits	3,260	3,034
Pension costs — defined contribution plans	74	77
	3,334	3,111

Notes:

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



DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES

As at 30 June 2018, the interest and short positions in the shares and underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong) (the "SFO")) of the Directors and chief executives of the Company which would have to be notified to the Company pursuant to Part XV of the SFO (including interests which they are taken or deemed to have under such provisions of the SFO) and required to be entered in the register maintained by the Company pursuant to Section 352 of the SFO or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in Appendix 10 of the Listing Rules of the Stock Exchange, to be notified to the Company and the Stock Exchange, were as follows:

Long position in shares

	Types of interests	Capacity	Number of shares	Approximate percentage of issued share capital
The Company				
Ding Yong Ling	Personal	Beneficial owner	300,000	0.035%
Lin Man	Personal	Beneficial owner	220,000	0.026%
Tong Ren Tang Technologies				
Mei Qun	Personal	Beneficial owner	3,000,000 ⁽¹⁾	0.234%
Tong Ren Tang Ltd.				
Mei Qun	Personal	Beneficial owner	93,242 ⁽²⁾	0.007%

Notes:

- (1) These shares represent 0.46% of domestic shares of Tong Ren Tang Technologies.
- (2) All represent A shares of Tong Ren Tang Ltd..

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



OTHER INFORMATION

SUBSTANTIAL SHAREHOLDERS

As at 30 June 2018, the interest of the persons, other than Directors or chief executive of the Company, in the shares and underlying shares of the Company which were notified to the Company and the Stock Exchange pursuant to Part XV of the SFO and entered in the register maintained by the Company pursuant to Section 336 of the SFO, or otherwise notified to the Company were as follows:

Long position in shares

Name of shareholder	Capacity	Number of shares	Approximate percentage of issued share capital
Tong Ren Tang Technologies	Beneficial owner	318,540,000	38.05%
Tong Ren Tang Ltd. ⁽¹⁾	Beneficial owner	281,460,000	33.62%
	Interest of a controlled corporation	318,540,000	38.05%
Tong Ren Tang Holdings ⁽²⁾	Interest of a controlled corporation	600,000,000	71.67%
Greenwoods Asset Management Holdings Limited ⁽³⁾	Interest of controlled corporation	45,936,000	5.49%
Greenwoods Asset Management Limited ⁽³⁾	Interest of controlled corporation	45,936,000	5.49%
Jiang Jinzhi ⁽³⁾	Interest of controlled corporation	45,936,000	5.49%
Unique Element Corp. ⁽³⁾	Interest of controlled corporation	45,936,000	5.49%

Notes:

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



- (3) According to the disclosure forms filed by Greenwoods Asset Management Holdings Limited, Greenwoods Asset Management Limited, Jiang Jinzhi and Unique Element Corp. on 8 December 2016, the following interests in shares of the Company were held by Greenwoods Asset Management Holdings Limited, Greenwoods Asset Management Limited, Jiang Jinzhi and Unique Element Corp.:

Name of controlled corporation	Name of controlling shareholder	Percentage of control (%)	Direct interest (Yes/No)		Number of shares
Unique Element Corp.	Jiang Jinzhi	100	No	Long position	45,936,000
Greenwoods Asset Management Holdings Limited	Unique Element Corp.	81	No	Long position	45,936,000
Greenwoods Asset Management Limited	Greenwoods Asset Management Holdings Limited	100	No	Long position	45,936,000
Golden China Master Fund	Jiang Jinzhi	100	Yes	Long position	7,685,000
Greenwoods Asset Management Limited	Greenwoods Asset Management Holdings Limited	100	No	Long position	14,004,000
Greenwoods China Alpha Master Fund	Greenwoods Asset Management Limited	100	Yes	Long position	19,545,000
Golden China Plus Master Fund	Jiang Jinzhi	100	Yes	Long position	1,700,000
Greenwoods China Healthcare Master Fund	Greenwoods Asset Management Limited	100	Yes	Long position	3,002,000

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



OTHER INFORMATION

RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Other than as disclosed under the section “Directors’ and chief executives’ interests in shares” above, at no time during the six months ended 30 June 2018 was the Company, any of its subsidiaries, or any of its fellow subsidiaries, a party to any arrangement to enable the Directors or chief executives of the Company or their respective associates (as defined in the Listing Rules of the Stock Exchange) to have any right to subscribe for securities of the Company or any of its associated corporations as defined in the SFO or to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate.

INTERESTS IN COMPETING BUSINESSES

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

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



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

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

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

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



OTHER INFORMATION

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

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

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

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



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

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

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

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

CORPORATE GOVERNANCE CODE

The Company has complied with the provisions set out in Appendix 14 of the Corporate Governance Code of the Listing Rules of the Stock Exchange during the Period.

RISK MANAGEMENT AND INTERNAL CONTROL

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

The Group's risk governance structure is based on the "3 lines of defense" model comprised of day-to day operational management and control, risk and compliance oversight, and independent assurance. The Board has the overall responsibility of establishing, maintaining and reviewing the effectiveness of the risk management and internal control system to safeguard the Group's assets and shareholders' interests, minimize the operational risks, and provide reasonable assurance in the aspect of avoiding the material misstatement on financial and non-financial information.

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



OTHER INFORMATION

During the Period, the relevant functional departments and operating units performed their respective duties according to the division of labour. Apart from daily monitoring of identified risks, they reported the overall status of major risks and risk management initiatives during the Period by submitting the “Risk Control Report” to the risk management team. Based on the status of major risk monitoring during the Period, the risk management team prepared the “Risk Management Report” and reported to the Audit Committee through the internal audit department in relation to risk management.

During the Period, the management and relevant functional departments of the Group updated and optimized the existing control system and workflow on an ongoing basis with reference to the opinions of external consultants and the internal audit department.

AUDIT COMMITTEE

The audit committee of the Company has reviewed the 2018 interim report.

On behalf of the Board
Beijing Tong Ren Tang
Chinese Medicine Company Limited
Mei Qun
Chairman

Hong Kong, 8 August 2018



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