



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

2020

Interim Report

中期報告



CORPORATE INFORMATION

DIRECTORS

Executive Directors

Ding Yong Ling (*Chairman*)
Zhang Huan Ping
Lin Man

Non-executive Director

Chen Fei

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

Tsang Fung Yi

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

cm.tongrentang.com

REGISTERED ADDRESS

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Convention Plaza, 1 Harbour Road
Wanchai
Hong Kong

LEGAL ADVISER

DLA Piper Hong Kong
25th Floor
Three Exchange Square
8 Connaught Place
Central, Hong Kong

AUDITOR

PricewaterhouseCoopers
Certified Public Accountants and
Registered Public Interest Entity Auditor
22nd Floor, Prince's Building
Central, Hong Kong

STOCK CODE

3613

FINANCIAL HIGHLIGHTS

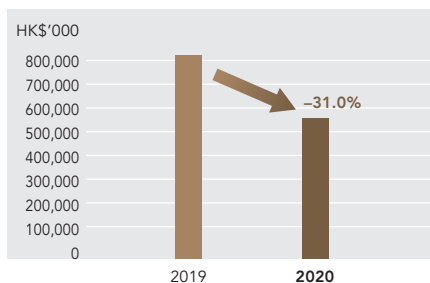
Six months ended 30 June

(HK\$'000)	2020	2019	Change
Revenue	567,423	822,485	- 31.0%
Gross profit	389,379	600,602	- 35.2%
Profit attributable to owners of the Company	226,580	358,575	- 36.8%
Earnings per share	HK\$0.27	HK\$0.43	- HK\$0.16

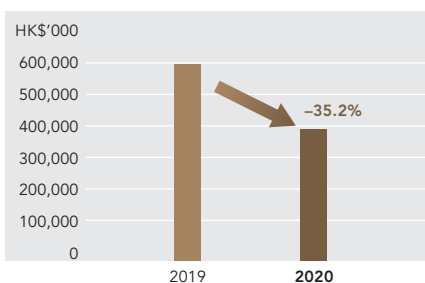
(HK\$'000)	30 June 2020	31 December 2019	Change
Cash and bank balances	1,806,401	1,968,366	- 8.2%
Total assets	3,166,697	3,138,321	+ 0.9%
Total equity	2,791,891	2,765,636	+ 0.9%

For the six months ended 30 June 2020

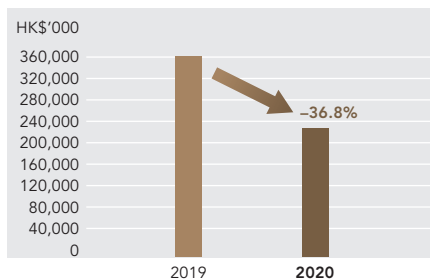
Revenue



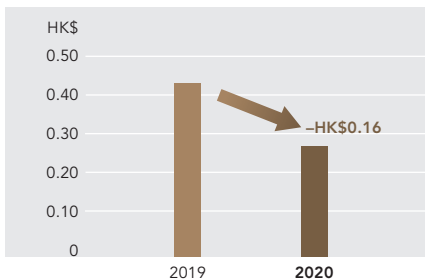
Gross profit



Profit attributable to owners of the Company



Earnings per share





BUSINESS REVIEW

The global economy experienced a tough time in the first half of 2020 when the coronavirus disease 2019 (COVID-19) spread across the world. Coupled with the China-US trade tension, the world economy apparently underwent a downturn. To cope with the epidemic outbreak, Beijing Tong Ren Tang Chinese Medicine Company Limited (the “Company”) and its subsidiaries (collectively the “Group”, “we” or “us”) have established a “global coronavirus prevention and treatment expert team”, through which high-quality Traditional Chinese medicine (“TCM”) resources were integrated, and our global presence covering more than 20 countries and regions was utilized. TCM Masters and TCM experts at home and abroad presented their tailor-made “one country one strategy” TCM epidemic prevention solutions to overseas, jointly contributing their wisdom and strength to the global health community.

Under various economic uncertainties, market consumption was weak. A series of precautionary and control measures were implemented in China, Hong Kong, Macao and other countries in the world, which significantly affected the Group’s businesses in China, Hong Kong and Macao. For the six months ended 30 June 2020 (the “Period”), the Group recorded a revenue of HK\$567.4 million (2019: HK\$822.5 million), representing a decrease of 31.0% over the same period of last year, and profit attributable to owners of the Company of HK\$226.6 million (2019: HK\$358.6 million), representing a decrease of 36.8% over the same period of last year.

Market Exploration

Being committed to the corporate spirit of “Nurturing kindness and virtue, Preserving tranquility and wellness”, the Group has established a “Tong Ren Tang global coronavirus prevention and treatment expert team” for the epidemic. The team has publicized 77 sets of “Fuzheng Biwen Decoction” formula to 35 countries and regions across the world at the end of June 2020 with an aim to provide a Tong Ren Tang solution for people to deal with the control of global epidemic. The “Fuzheng Biwen Decoction” was jointly prescribed by 20 overseas TCM experts of Tong Ren Tang under the lead of Mr. Tang Zuxuan, a famous TCM Master, in reliance upon the neural network modelling technology and the intelligent big data analysis framework. Given the feature of one specific policy for one country or one region, the formula has safeguarded the health of the people in countries and regions suffering from the widespread epidemic. Meanwhile, the Group initiated the “Care for others and fights the epidemic” campaign, under which it urgently mobilized its retail outlets in 20 countries and regions to set up “epidemic prevention medicine counters” and provide services such as free online medical consultations and mailing of medicine, and donated various types of epidemic prevention products to mainland China, Hong Kong and overseas. The Group demonstrated the philanthropic spirit of a Chinese brand name by delivering TCM-based anti-epidemic services in an efficient way.

MANAGEMENT DISCUSSION AND ANALYSIS

New advertisement contents were created for the key products of the Group, namely Angong Niu Huang Wan and Sporoderm-broken Ganoderma Lucidum Spores Powder Capsules (“GLSPC”). For Angong Niu Huang Wan, its unparalleled status as a royal medicine was accentuated by the unique functions, two natural precious ingredients (natural Bovis Calculus and Moschus) and efficacy as an emergency medicine. “Red” spores powder of Ganoderma lucidum is the only ingredient of GLSPC with high sporoderm-broken rate and its immunity enhancement efficacy was highlighted. Meanwhile, the Group introduced the “one-product-one-policy” retail business promotion strategy in its core market in Hong Kong and strengthened promotion in a comprehensive manner to enhance the market competitiveness of its products and stimulate sales performance.

The Group continued to disseminate healthcare information and maintain the “TCM Healthy Lifestyle Column” by means of newspaper, Facebook, WeChat platform, its official website, store brochures, etc.. It also organized online health seminars to deliver health information and promote the Tong Ren Tang brand and TCM culture to the public.

Given the evolving global consumption pattern, the Group launched the Beijing Tong Ren Tang online shopping mall on its official website in order to explore more diversified and up-to-date sales channels with modern technologies, provide customers with seamless online and offline shopping experience, and capitalize on new business opportunities.

Production, Research and Development

During the Period, the Group continued to focus on its core businesses and enrich its product mix, and successfully completed the proprietary Chinese medicine registration for one new product in Hong Kong.

We continued to ride on the development trend of the comprehensive healthcare industry and started developing new products to satisfy the extensive market demand for products which can adjust body functions and prevent illness. Apart from new product research and development, the Group has been actively focusing on the scientific research of our key products, products upgrade as well as facilitating product development in the future. In order to achieve better results in scientific researches, we continued to conduct researches on safety, mechanism and other aspects of our key products with internationally renowned institutions. It is expected that the results of such scientific researches will provide a reliable basis with scientific support that helps our products enter the mainstream overseas market.

MANAGEMENT DISCUSSION AND ANALYSIS

To provide sufficient protection for the dominant products of Tong Ren Tang, apart from enhancing the development of independent intellectual property rights, we also closely cooperated with well-known domestic enterprises in anti-counterfeiting technology upgrade projects to avoid market impacts caused by counterfeit products, protect consumers' rights and interests, and further strengthen consumers' confidence in the Tong Ren Tang brand.

Future Prospects

TCM plays an increasingly significant role in the fight against the global epidemic outbreak and Tong Ren Tang, being a TCM company widely known by the world, makes more important contributions in the regard. In the future, when the epidemic may become persistent, TCM will turn to a new healthcare option of more and more people around the world.

Prevention comes before cure and should be our primary focus. Due to the global epidemic outbreak, health has become the common topic for human development and the idea of comprehensive healthcare has grown more popular. There is a promising future for both Tong Ren Tang and the TCM industry. With its determination to pursue a reform, the Group will take the opportunity to push forward its structural upgrade and innovative development. Through the reform of internal organizational structure and the improvement of regional management, the Group is able to master its intercontinental management system and carry out business procedure improvement and product upgrade with the support of internet technology by integrating high-quality resources and strengths. As TCM contributes remarkable momentum to the formation of a global community of shared health, Tong Ren Tang remains steadfast in its development of overseas markets. The Group will also continue to push forward its development in key strategic areas, such as Guangdong-Hong Kong-Macao Greater Bay Area and Hainan Free Trade Port, expand market deployment, optimize functional structures and strive to become a Chinese health solutions contributor in the world.

As the global outbreak of COVID-19 is far from stable given the still increasing number of confirmed cases around the world and the duration of the epidemic remains unknown, we expect that the Group's business will still be subject to impact to a certain extent in the second half of 2020. Despite the currently challenging business environment, the management of the Company have decisively taken various measures to deal with the existing predicament and focus on the target of improving profitability as soon as possible.

Human Resources

As at 30 June 2020, we had a total of 766 employees (2019: 838 employees). During the Period, the staff cost of the Group was HK\$81.4 million (2019: HK\$95.1 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 2020, the Group continued to be in a strong financial position with cash and bank balances amounting to HK\$1,806.4 million (31 December 2019: HK\$1,968.4 million). During the Period, the Group funded its liquidity by resources generated internally. Based on the Group's steady cash inflow from operations, coupled with sufficient cash and bank balances, the Group has adequate liquidity and financial resources to meet the daily operations and working capital requirements as well as to fund its expansion plans.

As at 30 June 2020, the Group's cash and bank balances were mainly denominated in Hong Kong dollars and Renminbi and were deposited in reputable financial institutions with maturity dates falling within one year.

As at 30 June 2020, the Group had total non-current assets, net current assets and net assets of HK\$485.6 million, HK\$2,373.6 million and HK\$2,791.9 million, respectively (31 December 2019: HK\$494.5 million, HK\$2,336.7 million and HK\$2,765.6 million respectively). The current ratio of the Group, defined as the ratio of current assets to current liabilities, was 8.7 as at 30 June 2020 (31 December 2019: 8.6), which reflects the abundance of financial resources of the Group. The gearing ratio of the Group, defined as the borrowings to total equity, was 3.55% as at 30 June 2020 (31 December 2019: 3.61%).

Capital Expenditure

During the Period, the Group's capital expenditure was HK\$3.9 million (2019: HK\$3.9 million), which was mainly used in renovation of retail outlets and purchase of machinery and equipment for production and operation purposes.



Foreign Currency Risk

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

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

Major Investment, Acquisitions and Disposals

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

Charges over Assets of the Group

At 30 June 2020, the Group's property with net book value of HK\$10.2 million (31 December 2019: HK\$10.5 million) has been pledged as securities for long-term bank borrowings. Such bank borrowing in Australian dollars bears interest at 1.5% plus the bank bill rate in Australia per annum and is wholly repayable in December 2020.

Contingent Liabilities

At 30 June 2020, the Group did not have any significant contingent liabilities.

Dividends

The board of Directors (the "Board") does not recommend the payment of any interim dividend for the six months ended 30 June 2020 (2019: 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 2020 together with the comparative unaudited figures for the corresponding period in 2019 as follows:

	Note	Unaudited Six months ended 30 June	
		2020 HK\$'000	2019 HK\$'000
Revenue	6	567,423	822,485
Cost of sales	7	(178,044)	(221,883)
Gross profit		389,379	600,602
Distribution and selling expenses	7	(76,596)	(114,696)
General and administrative expenses	7	(53,762)	(62,768)
Other net gains		8,282	768
Operating profit		267,303	423,906
Finance income		14,481	21,983
Finance costs		(1,964)	(2,045)
Finance income, net	8	12,517	19,938
Share of losses of investments accounted for using the equity method		(1,334)	(650)
Profit before income tax		278,486	443,194
Income tax expense	9	(42,405)	(72,473)
Profit for the period		236,081	370,721
Profit attributable to:			
Owners of the Company		226,580	358,575
Non-controlling interests		9,501	12,146
		236,081	370,721
Earnings per share attributable to owners of the Company (expressed in HK\$ per share)			
Basic and diluted	10	0.27	0.43

The notes on pages 14 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	
	2020	2019
	HK\$'000	HK\$'000
Profit for the period	236,081	370,721
Other comprehensive losses:		
<i>Item that may be reclassified to profit or loss</i>		
Currency translation differences	(5,067)	171
<i>Item that will not be reclassified to profit or loss</i>		
Change in fair value of financial asset at fair value through other comprehensive income	(4,140)	(2,115)
Other comprehensive losses for the period	(9,207)	(1,944)
Total comprehensive income for the period	226,874	368,777
Attributable to:		
Owners of the Company	218,569	356,318
Non-controlling interests	8,305	12,459
Total comprehensive income for the period	226,874	368,777

The notes on pages 14 to 30 are an integral part of this condensed consolidated interim financial information.

CONDENSED CONSOLIDATED BALANCE SHEET

	Note	Unaudited 30 June 2020 HK\$'000	Audited 31 December 2019 HK\$'000
ASSETS			
Non-current assets			
Property, plant and equipment	12	189,250	194,869
Right-of-use assets		190,553	195,057
Intangible assets	13	59,765	60,669
Investments accounted for using the equity method		16,770	18,544
Financial asset at fair value through other comprehensive income		6,843	10,983
Deposits paid for purchase of property, plant and equipment		6,473	5,447
Deferred income tax assets, net		15,932	8,937
		485,586	494,506
Current assets			
Inventories		453,800	318,187
Trade receivables and other current assets	14	420,910	357,262
Short-term bank deposits		125,651	911,655
Cash and cash equivalents		1,680,750	1,056,711
		2,681,111	2,643,815
Total assets		3,166,697	3,138,321
EQUITY AND LIABILITIES			
Equity attributable to owners of the Company			
Share capital	15	938,789	938,789
Reserves			
— Other reserves		(34,993)	(26,982)
— Retained earnings		1,781,741	1,747,694
		2,685,537	2,659,501
Non-controlling interests		106,354	106,135
Total equity		2,791,891	2,765,636

CONDENSED CONSOLIDATED BALANCE SHEET

		Unaudited 30 June 2020 HK\$'000	Audited 31 December 2019 HK\$'000
	<i>Note</i>		
LIABILITIES			
Non-current liabilities			
Borrowings		1,108	833
Lease liabilities		60,757	59,395
Deferred income tax liabilities, net		5,464	5,376
		67,329	65,604
Current liabilities			
Borrowings		220	220
Trade and other payables	16	230,192	142,832
Lease liabilities		37,150	39,427
Current income tax liabilities		39,915	124,602
		307,477	307,081
Total liabilities		374,806	372,685
Total equity and liabilities		3,166,697	3,138,321

The notes on pages 14 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								
	Share capital	Merger reserve	Other reserve	Statutory reserve	Exchange reserve	Retained earnings	Total	Non-controlling interests	Total equity
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2019	938,789	(13,124)	2,510	6,229	(15,598)	1,986,821	2,905,627	118,600	3,024,227
Comprehensive income									
Profit for the period	-	-	-	-	-	358,575	358,575	12,146	370,721
Other comprehensive losses									
Change in fair value of financial asset at fair value through other comprehensive income	-	-	(2,115)	-	-	-	(2,115)	-	(2,115)
Currency translation differences									
— Group	-	-	-	-	(346)	-	(346)	313	(33)
— Joint ventures	-	-	-	-	204	-	204	-	204
Total comprehensive income	-	-	(2,115)	-	(142)	358,575	356,318	12,459	368,777
Transactions with owners in their capacity as owners									
Dividends relating to 2018 (Note 11)	-	-	-	-	-	(192,533)	(192,533)	(25,480)	(218,013)
Total transactions with owners in their capacity as owners	-	-	-	-	-	(192,533)	(192,533)	(25,480)	(218,013)
At 30 June 2019	938,789	(13,124)	395	6,229	(15,740)	2,152,863	3,069,412	105,579	3,174,991
At 1 January 2020	938,789	(13,124)	(1,975)	6,229	(18,112)	1,747,694	2,659,501	106,135	2,765,636
Comprehensive income									
Profit for the period	-	-	-	-	-	226,580	226,580	9,501	236,081
Other comprehensive losses									
Change in fair value of financial asset at fair value through other comprehensive income	-	-	(4,140)	-	-	-	(4,140)	-	(4,140)
Currency translation differences									
— Group	-	-	-	-	(3,431)	-	(3,431)	(1,196)	(4,627)
— Joint ventures	-	-	-	-	(440)	-	(440)	-	(440)
Total comprehensive income	-	-	(4,140)	-	(3,871)	226,580	218,569	8,305	226,874
Transactions with owners in their capacity as owners									
Dividends relating to 2019 (Note 11)	-	-	-	-	-	(192,533)	(192,533)	(8,086)	(200,619)
Total transactions with owners in their capacity as owners	-	-	-	-	-	(192,533)	(192,533)	(8,086)	(200,619)
At 30 June 2020	938,789	(13,124)	(6,115)	6,229	(21,983)	1,781,741	2,685,537	106,354	2,791,891

The notes on pages 14 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	
	2020 HK\$'000	2019 HK\$'000
Net cash generated from operating activities	53,186	294,520
Cash flows from investing activities		
Interest received	19,339	11,211
Decrease/(increase) in short-term bank deposits with original maturities exceeding three months	786,004	(208,568)
Purchase of property, plant and equipment	(2,790)	(2,995)
Proceeds from disposal of property, plant and equipment	–	104
Deposit paid for purchase of property, plant and equipment	(1,140)	(2,034)
Net cash generated from/(used in) investing activities	801,413	(202,282)
Cash flows from financing activities		
Principal elements of lease payment	(24,790)	(21,381)
Drawdown of long-term borrowings	359	–
Repayment of long-term borrowings	(83)	(83)
Interest paid	(1,964)	(2,043)
Dividends paid to the Company's shareholders	(192,405)	(192,399)
Dividends paid to non-controlling shareholders	(8,086)	(15,680)
Net cash used in financing activities	(226,969)	(231,586)
Net increase/(decrease) in cash and cash equivalents	627,630	(139,348)
Cash and cash equivalents at beginning of period	1,056,711	549,831
Exchange (losses)/gains on cash and cash equivalents	(3,591)	70
Cash and cash equivalents at end of period	1,680,750	410,553
Analysis of balances of cash and cash equivalents		
Cash at bank and on hand and deposits with banks with original maturity within three months	1,680,750	410,553

The notes on pages 14 to 30 are an integral part of this condensed consolidated interim financial information.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

1 GENERAL INFORMATION

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

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

The condensed consolidated interim financial information is presented in Hong Kong dollars (“HK\$”), unless otherwise stated. This consolidated interim financial information has been approved for issue by the Board on 13 August 2020.

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 2020 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 2019 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 2019 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 2019, 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.

(a) Adoption of revised framework and amendments to standards

The Group has adopted the following revised framework and amendments to standards which are relevant to the Group’s operations and are effective for the financial year beginning on 1 January 2020.

Conceptual Framework for Financial Reporting 2018	Revised Conceptual Framework for Financial Reporting
HKAS 1 and HKAS 8 (Amendments)	Definition of Material
HKFRS 3 (Amendments)	Definition of Business
HKFRS 9, HKAS 39 and HKFRS 7 (Amendments)	Interest Rate Benchmark Reform
HKFRS 16 (Amendments)	Covid-19-Related Rent Concessions

The adoption of the above revised framework and amendments to standards did not have any significant financial impact on this condensed consolidated interim financial information.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

3 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(b) **New Standard and amendments to standards which are not yet effective**

The following are new standard and amendments to standards that have been published and are mandatory for the Group's accounting periods beginning on or after 1 January 2021 or later periods, but have not been early adopted by the Group.

Amendments to HKFRSs HKAS 16 (Amendments)	Annual Improvements to HKFRSs 2018–2020 ⁽²⁾ Property, Plant and Equipment — Proceeds before Intended Use ⁽²⁾
HKAS 37 (Amendments)	Onerous Contracts — Cost of Fulfilling a Contract ⁽²⁾
HKFRS 3 (Amendments)	Reference to the Conceptual Framework ⁽²⁾
HKFRS 10 and HKAS 28 (Amendments)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ⁽³⁾
HKFRS 17	Insurance Contracts ⁽¹⁾

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

⁽²⁾ Effective for the accounting period beginning on 1 January 2022

⁽³⁾ Effective date to be determined

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 and 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 2019.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION



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 2019.

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

(b) Liquidity risk

Compared to 31 December 2019, 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	
	2020 HK\$'000	2019 HK\$'000
Sales of products	551,306	797,756
Service income	16,037	24,179
Royalty fee income	80	550
	567,423	822,485

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

6 REVENUE AND SEGMENT INFORMATION *(Continued)*

(b) Segment information

The chief operating decision maker has been identified as the executive directors and the non-executive director of the Company (the “Executive Directors” and the “Non-executive Director”). The Executive Directors and the 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 the Non-executive Director consider the Group’s business and aggregate the operating segment from a geographic perspective and have determined that the Group has three reportable operating segments as follows:

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

Unallocated items comprise mainly corporate expenses.

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

The Executive Directors and the 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.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

6 REVENUE AND SEGMENT INFORMATION (Continued)

(b) Segment information (Continued)

Segment assets include right-of-use assets, property, plant and equipment, intangible assets, investments accounted for using equity method, financial asset at fair value through other comprehensive income, deferred 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, lease liabilities, trade and other payables, current and deferred income tax liabilities.

(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 2020 (Unaudited)				
Segment revenue	456,944	191,334	134,922	783,200
Inter-segment revenue	(176,856)	(38,921)	–	(215,777)
Revenue from external customers	280,088	152,413	134,922	567,423
Timing of revenue recognition				
At a point in time	279,664	149,051	122,591	551,306
Overtime	424	3,362	12,331	16,117
	280,088	152,413	134,922	567,423
Segment results	279,147	(105)	20,473	299,515
Inter-segment elimination				(32,212)
Operating profit				267,303
Finance income	14,122	34	325	14,481
Finance cost	(579)	(21)	(1,364)	(1,964)
Share of losses of investments accounted for using equity method				(1,334)
Profit before income tax				278,486
Income tax expense	(44,848)	4,385	(1,942)	(42,405)
Profit for the Period				236,081

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

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION



6 REVENUE AND SEGMENT INFORMATION (Continued)

(b) Segment information (Continued)

(ii) Analysis of condensed consolidated balance sheet

	Hong Kong HK\$'000	PRC HK\$'000	Overseas HK\$'000	Total HK\$'000
At 30 June 2020 (Unaudited)				
Segment assets and liabilities				
Total assets	2,294,292	518,733	353,672	3,166,697
Investments accounted for using equity method	9,116	–	7,654	16,770
Total liabilities	(166,642)	(107,810)	(100,354)	(374,806)
At 31 December 2019 (Audited)				
Segment assets and liabilities				
Total assets	2,458,660	323,307	356,354	3,138,321
Investments accounted for using equity method	10,376	–	8,168	18,544
Total liabilities	(225,634)	(36,376)	(110,675)	(372,685)

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

7 EXPENSES BY NATURE

	Unaudited Six months ended 30 June	
	2020 HK\$'000	2019 HK\$'000
Cost of inventories sold	144,060	188,399
Employee benefit expenses (including directors' emoluments)	81,414	95,062
Expenses relating to short-term leases	4,690	19,609
Variable lease payments not included in the measurement of lease liabilities (<i>Note</i>)	100	593
Depreciation of right-of-use assets	28,383	23,491
Amortisation of intangible assets (<i>Note 13</i>)	882	4,230
Depreciation of property, plant and equipment (<i>Note 12</i>)	7,196	9,371
Loss on disposal of property, plant and equipment	12	4
Write-off of inventories	116	36
Provision for impairment loss on inventories	–	295
Loss allowance on trade receivables	61	–
Promotion and advertising expenses	3,002	10,536
Net exchange gain	(76)	(147)

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

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

8 FINANCE INCOME, NET

	Unaudited Six months ended 30 June	
	2020 HK\$'000	2019 HK\$'000
Finance Income		
Bank deposits	14,481	21,983
Finance costs		
Bank borrowings	(1)	(2)
Lease liabilities	(1,963)	(2,043)
	(1,964)	(2,045)
	12,517	19,938

9 INCOME TAX EXPENSE

Hong Kong profits tax has been provided at the rate of 16.5% (2019: 16.5%) on the estimated assessable profits for the period. PRC corporate income tax has been provided at the rate of 25% (2019: 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	
	2020 HK\$'000	2019 HK\$'000
Current income tax		
Hong Kong	45,807	63,768
PRC	–	2,374
Overseas	3,533	2,425
	49,340	68,567
Deferred income tax	(6,935)	3,906
Income tax expense	42,405	72,473

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

10 EARNINGS PER SHARE

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

	Unaudited Six months ended 30 June	
	2020 HK\$'000	2019 HK\$'000
Profit attributable to owners of the Company	226,580	358,575
Weighted average number of ordinary shares in issue (thousand shares)	837,100	837,100
Earnings per share (HK\$)	0.27	0.43

There were no potential dilutive shares for the six months ended 30 June 2020 (2019: Nil).

11 DIVIDENDS

A dividend of HK\$192,533,000 in respect of the year ended 31 December 2019 was paid in June 2020 (2019: HK\$192,533,000).

During the six months ended 30 June 2020, the Board did not recommend the payment of any interim dividend (2019: Nil).

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION



12 PROPERTY, PLANT AND EQUIPMENT

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

	HK\$'000
At 1 January 2020 (audited)	194,869
Additions	2,904
Disposals	(12)
Depreciation charge	(7,196)
Currency translation differences	(1,315)
At 30 June 2020 (unaudited)	189,250

As at 30 June 2020, bank borrowing is secured by a freehold land and building amounted to HK\$10,173,000 (31 December 2019: HK\$10,536,000).

13 INTANGIBLE ASSETS

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

	Goodwill	Other intangible assets	Total
	HK\$'000	HK\$'000	HK\$'000
At 1 January 2020 (audited)	49,419	11,250	60,669
Amortisation	–	(882)	(882)
Currency translation differences	–	(22)	(22)
At 30 June 2020 (unaudited)	49,419	10,346	59,765

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

14 TRADE RECEIVABLES AND OTHER CURRENT ASSETS

	Unaudited 30 June 2020 HK\$'000	Audited 31 December 2019 HK\$'000
Trade receivables		
— immediate holding company	8,393	—
— fellow subsidiaries	190,208	155,912
— joint ventures	2,503	1,993
— an associate	2,022	3,439
— third parties	161,337	155,050
— loss allowance	(3,360)	(3,351)
Trade receivables, net	361,103	313,043
Prepayment and other receivables	39,689	24,112
Deposits	19,004	18,993
Amount due from a joint venture	1,114	1,114
	420,910	357,262

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 2020 HK\$'000	Audited 31 December 2019 HK\$'000
0–90 days	187,477	220,595
91–180 days	52,648	31,397
181–365 days	102,177	50,616
Over 365 days	22,161	13,786
	364,463	316,394

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION



15 SHARE CAPITAL

	Number of shares	Share capital HK\$'000
Ordinary shares issued and fully paid:		
At 1 January 2020 (audited) and 30 June 2020 (unaudited)	837,100,000	938,789

16 TRADE AND OTHER PAYABLES

	Unaudited 30 June 2020 HK\$'000	Audited 31 December 2019 HK\$'000
Trade payables		
— intermediate holding company	28,727	26,287
— immediate holding company	19,597	7,554
— third parties	114,618	32,068
Trade payables	162,942	65,909
Accruals and other payables	64,320	74,764
Contract liabilities	2,930	2,159
	230,192	142,832

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 2020 HK\$'000	Audited 31 December 2019 HK\$'000
0–90 days	149,538	59,702
91–180 days	9,451	1,050
181–365 days	4	308
Over 365 days	3,949	4,849
	162,942	65,909

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

17 COMMITMENTS

(a) Capital commitments

	Unaudited 30 June 2020 HK\$'000	Audited 31 December 2019 HK\$'000
Contracted but not provided for — property, plant and equipment	4,398	3,811

(b) Lease commitments

The Group has recognised right-of-use assets for leases, except for short-term and low-value leases as set out below:

	Unaudited 30 June 2020 HK\$'000	Audited 31 December 2019 HK\$'000
No later than 1 year	9,522	3,403

As at 31 December 2019, undiscounted future lease payments amounted to HK\$13,021,000 were committed by the Group but the relevant lease periods had not commenced. These lease commitments were recognised as right-of-use assets upon the lease commencement date after 31 December 2019. As at 30 June 2020, the Group has no relevant lease commitments not commenced.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

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:

		Unaudited Six months ended 30 June	
		2020	2019
		HK\$'000	HK\$'000
	Note		
(a)	Sales of products to:		
	— Immediate holding company	(i) 7,480	—
	— Joint ventures	(i) 2,834	3,956
	— Fellow subsidiaries	(i) 106,241	94,602
	— An associate	(i) 1,556	1,907
		118,111	100,465
(b)	Purchase of products from:		
	— Immediate holding company	(i) 19,782	13,797
	— Intermediate holding company	(i) 32,527	32,989
	— Fellow subsidiaries	(i) 1,314	84
		53,623	46,870
(c)	Royalty fee income from joint ventures	(ii) 80	550
(d)	Rental paid or payable in relation to rental contracts entered into with fellow subsidiaries	(i) 2,438	2,060

As at 30 June 2020, the Group recognised lease liabilities to fellow subsidiaries of HK\$11,879,000 (31 December 2019: Nil) over the relevant property leases.

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	
	2020	2019
	HK\$'000	HK\$'000
Salaries and other short-term employee benefits	1,921	2,252
Pension costs — defined contribution plans	18	41
	1,939	2,293

Notes:

- (i) These transactions were conducted in the normal course of business at prices and terms mutually agreed between the parties involved.
- (ii) In accordance with the royalty agreements, the royalty fee is charged annually by the Company at either 1% on revenue or 1.5% on profit before income tax of the joint ventures, whichever is higher. Pursuant to these agreements, these joint ventures are permitted to operate under "Tong Ren Tang" brand name.

OTHER INFORMATION

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES

As at 30 June 2020, the interest and short positions in the shares and underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO") (Chapter 571 of the laws of Hong Kong)) of the Directors and chief executives of the Company which would have to be notified to the Company pursuant to Part XV of the SFO (including interests which they are taken or deemed to have under such provisions of the SFO) and required to be entered in the register maintained by the Company pursuant to Section 352 of the SFO or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in Appendix 10 of the Listing Rules of the Stock Exchange, to be notified to the Company and the Stock Exchange, were as follows:

Long position in shares

	Types of interests	Capacity	Number of shares	Approximate percentage of issued share capital
The Company				
Ding Yong Ling	Personal	Beneficial owner	368,000	0.044%
Lin Man	Personal	Beneficial owner	270,000	0.032%

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 2020, the interest of the persons, other than Directors or chief executive of the Company, in the shares and underlying shares of the Company which were notified to the Company and the Stock Exchange pursuant to Part XV of the SFO and entered in the register maintained by the Company pursuant to Section 336 of the SFO, or otherwise notified to the Company were as follows:

Long position in shares

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

Notes:

- (1) Tong Ren Tang Ltd. directly holds 46.85% of the issued share capital of Tong Ren Tang Technologies. Accordingly, Tong Ren Tang Ltd. is deemed to be interested in 318,540,000 shares of the Company held by Tong Ren Tang Technologies.
- (2) Tong Ren Tang Holdings directly holds 52.45% of the issued share capital of Tong Ren Tang Ltd. which in turn directly holds 46.85% of the issued share capital of Tong Ren Tang Technologies. Tong Ren Tang Holdings also directly holds 0.74% domestic shares and 0.79% H shares of Tong Ren Tang Technologies. Accordingly, Tong Ren Tang Holdings is deemed to be interested in 318,540,000 shares of the Company and 281,460,000 shares of the Company held by Tong Ren Tang Technologies and Tong Ren Tang Ltd., respectively.

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

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 2020 was the Company, any of its subsidiaries, or any of its fellow subsidiaries, a party to any arrangement to enable the Directors or chief executives of the Company or their respective associates (as defined in the Listing Rules of the Stock Exchange) to have any right to subscribe for securities of the Company or any of its associated corporations as defined in the SFO or to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate.

INTERESTS IN COMPETING BUSINESSES

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

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

OTHER INFORMATION

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

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

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

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

OTHER INFORMATION

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

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

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

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

OTHER INFORMATION

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

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

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

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

CORPORATE GOVERNANCE CODE

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

CHANGE IN INFORMATION OF DIRECTORS

The change in the information of the Directors of the Company since the publication of the 2019 annual report of the Company which is required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules is set out below:

Name of Director	Detail of change
<i>Executive Director</i> Ms. Lin Man	Resigned as chief financial officer and company secretary of the Company and appointed as chief operating officer of the Company on 21 May 2020.

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



RISK MANAGEMENT AND INTERNAL CONTROL

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

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

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

During the Period, the relevant functional departments and operating units performed their respective duties. Apart from daily monitoring of 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.

OTHER INFORMATION

AUDIT COMMITTEE

The audit committee of the Company has reviewed the 2020 interim report.

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

Hong Kong, 13 August 2020



cm.tongrentang.com