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BEIJING TONG REN TANG CHINESE MEDICINE COMPANY LIMITED

北京同仁堂國藥有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 3613)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2020

FINANCIAL HIGHLIGHTS

	Year ended 31 December		Change
	2020	2019	
	HK\$'000	HK\$'000	
Revenue	1,315,346	1,432,632	- 8.2%
Profit before income tax	685,895	689,222	- 0.5%
Profit for the year	567,881	576,852	- 1.6%
Profit attributable to owners of the Company	542,456	556,118	- 2.5%
Basic and diluted earnings per share	HK\$0.65	HK\$0.66	- HK\$0.01

	As at 31 December		Change
	2020	2019	
	HK\$'000	HK\$'000	
Cash and bank balances	1,847,137	1,968,366	- 6.2%
Total assets	3,416,969	3,138,321	+ 8.9%
Total equity	3,129,510	2,765,636	+ 13.2%

RESULTS

The board of directors (the “**Board**”) of Beijing Tong Ren Tang Chinese Medicine Company Limited (the “**Company**”) is pleased to announce the audited consolidated results of the Company and its subsidiaries (collectively referred to as the “**Group**”) for the year ended 31 December 2020 together with the comparative figures for the previous year as follows:

CONSOLIDATED INCOME STATEMENT

		Year ended 31 December	
	Note	2020 HK\$'000	2019 HK\$'000
Revenue	3	1,315,346	1,432,632
Cost of sales	5	(362,443)	(419,836)
Gross profit		952,903	1,012,796
Distribution and selling expenses	5	(168,917)	(199,097)
General and administrative expenses	5	(138,861)	(164,824)
Other gains, net	4	24,278	3,111
Operating profit		669,403	651,986
Finance income		21,652	43,415
Finance costs		(4,300)	(4,207)
Finance income, net		17,352	39,208
Share of losses of investments accounted for using the equity method		(860)	(1,972)
Profit before income tax		685,895	689,222
Income tax expense	6	(118,014)	(112,370)
Profit for the year		567,881	576,852
Profit attributable to:			
Owners of the Company		542,456	556,118
Non-controlling interests		25,425	20,734
		567,881	576,852
Earnings per share attributable to owners of the Company for the year (expressed in HK\$ per share)			
Basic and diluted earnings per share	7	0.65	0.66

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Year ended 31 December	
	2020	2019
	HK\$'000	HK\$'000
Profit for the year	567,881	576,852
Other comprehensive income/(losses):		
<i>Items that may be reclassified to profit or loss</i>		
Currency translation differences	15,474	(1,469)
Release of exchange reserve upon liquidation of a joint venture	-	(961)
<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	<u>(4,875)</u>	<u>(4,485)</u>
Other comprehensive income/(losses) for the year	<u>10,599</u>	<u>(6,915)</u>
Total comprehensive income for the year	<u><u>578,480</u></u>	<u><u>569,937</u></u>
Attributable to:		
Owners of the Company	550,521	549,119
Non-controlling interests	<u>27,959</u>	<u>20,818</u>
Total comprehensive income for the year	<u><u>578,480</u></u>	<u><u>569,937</u></u>

CONSOLIDATED BALANCE SHEET

		As at 31 December	
		2020	2019
	Note	HK\$'000	HK\$'000
Assets			
Non-current assets			
Property, plant and equipment		187,379	194,869
Right-of-use assets		194,442	195,057
Intangible assets		54,836	60,669
Investments accounted for using the equity method		17,763	18,544
Financial asset at fair value through other comprehensive income		6,108	10,983
Deposits paid for purchase of property, plant and equipment		10,430	5,447
Deferred income tax assets, net		13,064	8,937
		484,022	494,506
Current assets			
Inventories		495,378	318,187
Trade receivables and other current assets	9	590,432	357,262
Short-term bank deposits		421,097	911,655
Cash and cash equivalents		1,426,040	1,056,711
		2,932,947	2,643,815
Total assets		3,416,969	3,138,321
Equity and liabilities			
Equity attributable to owners of the Company			
Share capital		938,789	938,789
Reserves			
- Other reserves		(18,917)	(26,982)
- Retained earnings		2,097,617	1,747,694
		3,017,489	2,659,501
Non-controlling interests		112,021	106,135
Total equity		3,129,510	2,765,636

CONSOLIDATED BALANCE SHEET (CONTINUED)

		As at 31 December	
	Note	2020 HK\$'000	2019 HK\$'000
Liabilities			
Non-current liabilities			
Borrowings		2,052	833
Lease liabilities		63,095	59,395
Deferred income tax liabilities, net		5,696	5,376
		<hr/> 70,843	<hr/> 65,604
Current liabilities			
Borrowings		260	220
Trade and other payables	10	140,138	142,832
Lease liabilities		40,603	39,427
Current income tax liabilities		35,615	124,602
		<hr/> 216,616	<hr/> 307,081
Total liabilities		<hr/> 287,459	<hr/> 372,685
Total equity and liabilities		<hr/> 3,416,969	<hr/> 3,138,321

Notes:

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 company established in the People’s Republic of China (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 established 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 established 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.

2 Basis of preparation

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“**HKFRS**”) and requirements of the Hong Kong Companies Ordinance Cap. 622. The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial asset at fair value through other comprehensive income, which is carried at fair value.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group’s accounting policies.

The financial results relating to the years ended 31 December 2020 and 2019 included in this preliminary announcement of annual results 2020 do not constitute the Company’s statutory annual consolidated financial statements for those years 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 Companies Ordinance Cap. 622 is as follows:

The Company has delivered the financial statements for the year ended 31 December 2019 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Companies Ordinance and will deliver the financial statements for the year ended 31 December 2020 in due course.

The Company’s auditor has reported on the financial statements of the Group for both years. The independent auditor’s reports were unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its reports; and did not contain a statement under sections 406(2), 407(2) or (3) of the Companies Ordinance.

2 Basis of preparation (Continued)

(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 mandatory for the financial year beginning on 1 January 2020:

HKFRS 3 (Amendments)	Definition of a Business
HKAS 1 and HKAS 8 (Amendments)	Definition of Material
HKAS 39, HKFRS 7 and HKFRS 9 (Amendments)	Interest Rate Benchmark Reform
Conceptual Framework for Financial Reporting 2018	Revised Conceptual Framework for Financial Reporting

The Group also elected to adopt the following amendments early.

HKFRS 16 (Amendments)	Covid-19-Related Rent Concessions
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Except for the Amendments to HKFRS 16 set out above, the adoption of the above revised framework and amendments to standards did not have any significant financial impact on these consolidated financial statements.

(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 HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16	Interest Rate Benchmark Reform — Phase 2 ⁽¹⁾
Annual improvement project (Amendments)	Annual Improvements to HKFRSs 2018–2020 ⁽²⁾
HKFRS 3, HKAS 16 and HKAS 37 (Amendments)	Narrow-scope amendments ⁽²⁾
Amendments to Accounting Guideline 5	Merger Accounting for Common Control Combinations ⁽²⁾
Hong Kong Interpretation 5 (2020)	Presentation of Financial Statements — Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause ⁽³⁾
HKAS 1 (Amendments)	Classification of Liabilities as Current or Non-current ⁽³⁾
HKFRS 17 (New Standard)	Insurance Contracts ⁽³⁾
HKFRS 10 and HKAS 28 (Amendments)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ⁽⁴⁾

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

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

⁽³⁾ Effective for the accounting period beginning on or after 1 January 2023

⁽⁴⁾ Effective date to be determined

2 Basis of preparation (Continued)

(b) New standard and amendments to standards which are not yet effective (Continued)

The Group will apply the above new standard and amendments to standards when they become effective. No new standard and amendments to standards is expected to have a significant effect on the consolidated financial statements of the Group.

3 Segment information

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

The Executive Directors consider the Group’s business and aggregate the operating segment from a geographic perspective and have determined that the Group has three reportable operating segments.

The geographical location of revenue is analysed based on location where goods are sold and services are provided. The details are set out 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) Mainland China (PRC but excluding Hong Kong, Macao and Taiwan region for the purpose of this announcement) - wholesale of healthcare products in the Mainland China and the sole distribution of Tong Ren Tang branded products of Tong Ren Tang Technologies and Tong Ren Tang Ltd. to customers outside the Mainland China.
- (iii) Overseas - retail and wholesale of Chinese medicine products and healthcare products and provision of Chinese medical consultation and treatments in other overseas countries/regions, including Macao.

Segment assets include property, plant and equipment, right-of-use assets, intangible assets, investments accounted for using equity method, financial asset at fair value through other comprehensive income, deposits paid for purchase of property, plant and equipment, deferred income tax assets, 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.

Unallocated items comprise mainly corporate expenses.

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

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

3 Segment information (Continued)

(a) Analysis of consolidated income statements

	Hong Kong HK\$'000	Mainland China HK\$'000	Overseas HK\$'000	Total HK\$'000
Year ended 31 December 2020				
Segment revenue	971,433	623,345	337,995	1,932,773
Inter-segment revenue	(424,994)	(192,315)	(118)	(617,427)
Revenue from external customers	<u>546,439</u>	<u>431,030</u>	<u>337,877</u>	<u>1,315,346</u>
Timing of revenue recognition				
At a point in time	545,445	425,819	306,392	1,277,656
Overtime	<u>994</u>	<u>5,211</u>	<u>31,485</u>	<u>37,690</u>
	<u>546,439</u>	<u>431,030</u>	<u>337,877</u>	<u>1,315,346</u>
Contribution to segment results	617,721	69,638	85,872	773,231
Depreciation of property, plant and equipment	(7,974)	(494)	(8,250)	(16,718)
Depreciation of right-of-use assets	(32,425)	(2,053)	(21,076)	(55,554)
Amortisation of intangible assets	(1,300)	-	(4,514)	(5,814)
Losses on disposals of property, plant and equipment	(13)	-	(2,111)	(2,124)
Loss allowance on trade receivables	(43)	(3,044)	(240)	(3,327)
Write-off of inventories	<u>(51)</u>	<u>-</u>	<u>(159)</u>	<u>(210)</u>
Segment results	575,915	64,047	49,522	689,484
Inter-segment elimination				(20,081)
Operating profit				669,403
Finance income	20,959	127	566	21,652
Finance costs	(1,337)	(132)	(2,831)	(4,300)
Share of losses of investments accounted for using the equity method				(860)
Profit before income tax				685,895
Income tax expense	(87,809)	(18,593)	(11,612)	(118,014)
Profit for the year				<u>567,881</u>
Year ended 31 December 2019				
Segment revenue	1,076,111	474,322	338,805	1,889,238
Inter-segment revenue	(285,946)	(170,660)	-	(456,606)
Revenue from external customers	<u>790,165</u>	<u>303,662</u>	<u>338,805</u>	<u>1,432,632</u>
Timing of revenue recognition				
At a point in time	787,772	295,947	292,702	1,376,421
Overtime	<u>2,393</u>	<u>7,715</u>	<u>46,103</u>	<u>56,211</u>
	<u>790,165</u>	<u>303,662</u>	<u>338,805</u>	<u>1,432,632</u>
Contribution to segment results	658,603	6,128	67,793	732,524
Depreciation of property, plant and equipment	(8,227)	(736)	(7,170)	(16,133)
Depreciation of right-of-use assets	(28,729)	(1,575)	(21,009)	(51,313)
Amortisation of intangible assets	(1,300)	-	(10,497)	(11,797)
Losses on disposals of property, plant and equipment	(2)	(2)	(2,063)	(2,067)
Loss allowance on trade receivables	-	(3,390)	(10)	(3,400)
Impairment loss on inventories	-	-	(7,180)	(7,180)
Write-off of inventories	<u>(197)</u>	<u>-</u>	<u>(110)</u>	<u>(307)</u>
Segment results	620,148	425	19,754	640,327
Inter-segment elimination				11,659
Operating profit				651,986
Finance income	42,498	165	752	43,415
Finance costs	(1,081)	(46)	(3,080)	(4,207)
Share of losses of investments accounted for using the equity method				(1,972)
Profit before income tax				689,222
Income tax expense	(101,531)	(4,483)	(6,356)	(112,370)
Profit for the year				<u>576,852</u>

3 Segment information (Continued)

(b) Analysis of consolidated balance sheets

	Hong Kong HK\$'000	Mainland China HK\$'000	Overseas HK\$'000	Total HK\$'000
At 31 December 2020				
Segment assets and liabilities				
Total assets	2,383,239	653,722	380,008	3,416,969
Investments accounted for using the equity method	9,074	-	8,689	17,763
Additions to non-current assets ⁽¹⁾	53,464	7,376	4,614	65,454
Total liabilities	(117,320)	(62,892)	(107,247)	(287,459)
At 31 December 2019				
Segment assets and liabilities				
Total assets	2,458,660	323,307	356,354	3,138,321
Investments accounted for using the equity method	10,376	-	8,168	18,544
Additions to non-current assets ⁽¹⁾	29,940	482	8,289	38,711
Total liabilities	(225,634)	(36,376)	(110,675)	(372,685)

- ⁽¹⁾ In this analysis, additions to non-current assets exclude investments accounted for using the equity method, financial asset at fair value through other comprehensive income and deferred tax assets.

3 Segment information (Continued)

(c) Revenue

The analysis of revenue by category is as follows:

	2020 HK\$'000	2019 HK\$'000
Sales of products	1,277,656	1,376,421
Service income	37,487	55,963
Royalty fee income	203	248
	<u>1,315,346</u>	<u>1,432,632</u>

(d) Information about major customers

For the year ended 31 December 2020, revenue from two (2019: three) customers each accounted for more than ten percent of the Group's total revenue. These revenues are attributable to the Hong Kong segment and the Mainland China segment. The revenues from these customers are summarised below:

	2020 HK\$'000	2019 HK\$'000
Revenue from:		
- Entities under the control of the ultimate holding company ⁽¹⁾	346,692	204,024
- Customer A	265,670	323,589
- Customer B	N/A	140,204
	<u>612,362</u>	<u>667,817</u>

⁽¹⁾ It represents a group of entities under common control considered as a single customer.

There are no customers of other segments individually accounted for ten percent or more of the Group's total revenue for the year ended 31 December 2020 (2019: Nil).

3 Segment information (Continued)

(e) Information about geographical areas

The Company is domiciled in Hong Kong. An analysis of revenue from external customers and non-current assets of the Group by geographical area is set out below:

	2020 HK\$'000	2019 HK\$'000
(i) Revenue ⁽¹⁾		
Hong Kong	546,439	790,165
Mainland China	431,030	303,662
Macao	169,552	168,121
Australia	52,243	52,311
Canada	41,081	37,042
New Zealand	24,293	20,029
Singapore	23,053	23,773
United States	10,957	20,599
Other countries	16,698	16,930
	<u>1,315,346</u>	<u>1,432,632</u>
(ii) Non-current assets ⁽²⁾		
Hong Kong	278,916	267,804
Mainland China	7,217	1,991
Macao	61,427	68,232
Australia	50,285	51,217
New Zealand	15,076	14,455
Canada	11,746	17,558
Europe	12,177	15,617
United States	2,953	10,074
Other countries	7,290	9,094
	<u>447,087</u>	<u>456,042</u>

⁽¹⁾ The geographical location of revenue is analysed based on the location where goods are sold and services are provided.

⁽²⁾ The geographical location of non-current assets is analysed based on where the assets are located or held. In this analysis, the total of non-current assets excludes investments accounted for using the equity method, financial asset at fair value through other comprehensive income and deferred tax assets.

3 Segment information (Continued)

(f) Assets and liabilities related to contracts with customers

The Group has recognised the following liability related to contract with customers:

	As at 31 December	
	2020 HK\$'000	2019 HK\$'000
Contract liabilities - Service income	<u>3,734</u>	<u>2,159</u>

The Group has not recognised any contract assets related to contract with customers as at 31 December 2020 and 31 December 2019.

There is no significant changes in contract assets and liabilities during the year ended 31 December 2020.

(g) Revenue recognised in relation to contract liabilities

The following table shows revenue recognised in relation to contract liabilities in the year related to carried forward contract liabilities.

	As at 31 December	
	2020 HK\$'000	2019 HK\$'000
Revenue recognised in relation to contract liabilities at 1 January	<u>1,327</u>	<u>2,812</u>

4 Other gains, net

	2020 HK\$'000	2019 HK\$'000
Government grants ⁽¹⁾	22,373	768
Others	<u>1,905</u>	<u>2,343</u>
	<u><u>24,278</u></u>	<u><u>3,111</u></u>

⁽¹⁾ There are no unfulfilled conditions or other contingencies attaching to these grants. The Group did not benefit directly from any other forms of government assistance.

5 Expenses by nature

	2020 HK\$'000	2019 HK\$'000
Cost of inventories sold	284,198	341,585
Employee benefit expenses	183,587	215,323
COVID-19-related rent concessions	(3,360)	-
Expenses relating to short-term leases	13,042	27,259
Variable lease payments not included in the measurement of lease liabilities ⁽¹⁾	193	986
Amortisation of intangible assets	5,814	11,797
Depreciation of right-of-use assets	55,554	51,313
Depreciation of property, plant and equipment	16,718	16,133
Losses on disposals of property, plant and equipment	2,124	2,067
Impairment loss on inventories	-	7,180
Write-off of inventories	210	307
Loss allowance on trade receivables	3,327	3,400
Auditors' remuneration		
- Audit services	4,058	6,596
- Non-audit services	304	455
Research and development expenses	9,462	13,512
Net exchange gain	(53)	(240)
Promotion and advertising expenses	16,821	12,351
Legal and professional expenses	3,999	5,454

⁽¹⁾ Variable lease payments represent the amounts which are calculated based on percentages of revenue generated by certain retail outlets that exceed their fixed rentals.

6 Income tax expense

Hong Kong profits tax has been provided for at the rate of 16.5% (2019: 16.5%) on the estimated assessable profit for the year. PRC corporate income tax has been provided at the rate of 25% (2019: 25%) on the estimated assessable profits for the year of the subsidiaries operating in the Mainland China. Taxation on overseas profits has been calculated on the estimated assessable profits for the year at the rates of taxation prevailing in the countries in which the Group operates.

	2020 HK\$'000	2019 HK\$'000
Current income tax		
- Current year	120,643	109,631
- Under/(over)-provision in prior years	1,041	(668)
	121,684	108,963
Deferred income tax	(3,670)	3,407
Income tax expense	118,014	112,370

7 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 year.

	2020	2019
Profit attributable to owners of the Company (HK\$'000)	<u>542,456</u>	<u>556,118</u>
Weighted average number of ordinary shares in issue (thousands)	<u>837,100</u>	<u>837,100</u>
Earnings per share (HK\$)	<u>0.65</u>	<u>0.66</u>

For the years ended 31 December 2020 and 2019, diluted earnings per share is the same as basic earnings per share as there were no potential dilutive shares.

8 Dividends

The dividends paid in 2020 and 2019 were HK\$192,533,000 (HK\$0.23 per share) and HK\$795,245,000 (HK\$0.95 per share) respectively. Dividend in respect of the year ended 31 December 2020 of HK\$0.24 per share, amounting to a total dividend of HK\$200,904,000, is to be proposed at the annual general meeting on 28 May 2021. These financial statements do not reflect this dividend payable.

	2020 HK\$'000	2019 HK\$'000
Special interim dividend paid of HK\$Nil (2019: HK\$0.72) per ordinary share	-	602,712
Proposed final dividend of HK\$0.24 (2019: HK\$0.23) per ordinary share	<u>200,904</u>	<u>192,533</u>
	<u>200,904</u>	<u>795,245</u>

9 Trade receivables and other current assets

	2020 HK\$'000	2019 HK\$'000
Trade receivables		
- immediate holding company	3,596	-
- fellow subsidiaries	364,721	155,912
- joint ventures	1,931	1,993
- associate	8,477	3,439
- third parties	174,720	155,050
Trade receivables, gross	553,445	316,394
Less: loss allowance	(6,993)	(3,351)
Trade receivables, net	546,452	313,043
Prepayments and other receivables	23,738	24,112
Deposits	19,272	18,993
Amount due from a joint venture (Note b)	970	1,114
	590,432	357,262

Notes:

- (a) The fair values of trade receivables and other current assets approximate their carrying amounts.
- (b) The amount is repayable on demand, unsecured in nature and bears no interest.

Retail sales at the Group's stores are usually made in cash or by debit or credit cards. For wholesales to customers (including the immediate holding company, fellow subsidiaries, joint ventures and an associate), the Group normally grants credit periods ranging from 30 to 90 days.

At 31 December 2020 and 2019, the aging analysis of trade receivables based on invoice date (including amounts due from related parties of trading in nature) is as follows:

	2020 HK\$'000	2019 HK\$'000
Up to 90 days	344,216	220,595
91 – 180 days	67,156	31,397
181 – 365 days	59,542	50,616
Over 365 days	82,531	13,786
	553,445	316,394

10 Trade and other payables

	2020 HK\$'000	2019 HK\$'000
Trade payables		
- intermediate holding company	10,893	26,287
- immediate holding company	16,005	7,554
- fellow subsidiaries	144	-
- third parties	47,089	32,068
Trade payables	74,131	65,909
Accruals and other payables	62,273	74,764
Contract liabilities	3,734	2,159
	140,138	142,832

At 31 December 2020 and 2019, the aging analysis of the trade payables (including amounts due to the related parties of trading in nature) based on invoice date is as follows:

	2020 HK\$'000	2019 HK\$'000
Up to 90 days	61,015	59,702
91 – 180 days	7,503	1,050
181 – 365 days	969	308
Over 365 days	4,644	4,849
	74,131	65,909

11 Commitments

(a) Capital commitments

	2020 HK\$'000	2019 HK\$'000
Contracted but not provided for		
- property, plant and equipment	5,155	3,811

11 Commitments (Continued)

(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:

	2020 HK\$'000	2019 HK\$'000
No later than 1 year	<u>5,074</u>	<u>3,403</u>

As at 31 December 2020, undiscounted future lease payments amounted to HK14,059,000 (2019: HK\$13,021,000) are committed by the Group but the relevant lease periods have not commenced. These lease commitments will be recognised as right-of-use assets upon the lease commencement date in 2021.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

Overview

Since its foundation in 1669, Tong Ren Tang has been passed down for 351 years, yet are committed to uphold its corporate spirit of “Nurturing kindness and virtue, Preserving tranquility and wellness” and considers serving for the benefit of people’s health as its mission. Riding on its steadfast operation in overseas for decades, Tong Ren Tang’s products have become renowned globally. The coronavirus disease 2019 (“**COVID-19**”) pandemic in 2020 has been rampant around the world which poses a serious threat to human life and health worldwide. In this regard, Tong Ren Tang has actively participated globally in the prevention and control of pandemic, with the hope to contribute Chinese wisdom and power and provide the traditional Chinese medicine (the “**TCM**”) based healthcare solutions, rendering both Chinese and foreign society increasingly aware of the distinctive advantages brought forth by TCM.

Given the global outbreak of COVID-19, weakened market consumption as a result of stringent preventive and control measures taken place in various countries, together with the intense trading relationship between China and the United States, world economy turned sluggish. The pandemic hammered the world economy and posed difficult challenges to the globe. In the Mainland China, as production and operation resumed in March 2020 and anti-pandemic prevention and control became recurring, China moved faster in transforming into a new development pattern which suggested development to be supported by two circles of economic activity — domestic and overseas — with greater reliance on the domestic market as the main driver of the economy. In Hong Kong, local economy was hit hard to an unprecedented level by the outbreak of COVID-19 as both local consumption and tourism were under severe impact. Currently, the pandemic is still not fully under control and its impact on the economy is uncertain.

Amid the newly challenging environment for economic development, the Group upheld its mission to promote the interests of its shareholders and the Company as a whole and decisively took a number of contingency measures. For example, the Group launched anti-pandemic products, diversified online sales channels, enriched the portfolio of our products while investing more in marketing and promotion. The Group endeavored to broaden its income source and reduce its costs. Securing a quality growth, the Group was determined to overcome current difficulties in solidarity and tide over challenges to proceed with its projects in a pragmatic way. The Group took various measures to strengthen its branding and product promotion to boost sales and minimize the negative impact of adversity on the Group. For the year ended 31 December 2020 (the “**Year**”), the Group recorded revenue of HK\$1,315.3 million (2019: HK\$1,432.6 million) with a year-on-year decrease of 8.2%. Net profit reached HK\$567.9 million (2019: HK\$576.9 million) with a year-on-year decrease of 1.6%. Profit attributable to owners amounted to HK\$542.5 million (2019: HK\$556.1 million) with a year-on-year decrease of 2.5%. Earnings per share amounted to HK\$0.65 (2019: HK\$0.66), with a year-on-year decrease of HK\$0.01. The Board recommended the payment of a final dividend of HK\$0.24 per share (2019: HK\$0.23).

Hong Kong Market

Since the outbreak of COVID-19 in early 2020, a series of preventive and control measures have been adopted and implemented in Hong Kong. As the pandemic becomes recurring, local economy in Hong Kong was been further worsened, together with weak performance of retail industry as a result of the precipitous drop in the number of tourists travelling to Hong Kong, plummeting local consumption and surging unemployment rate, resulting in difficult livelihood and sluggish economic development. As a result of the above factors, revenue generated from the market in Hong Kong during the Year was HK\$546.4 million (2019: HK\$790.2 million), representing a year-on-year decrease of 30.9% and a decrease of 53.8% in same-store revenue. During the Year, the Group operated 22 retail outlets in Hong Kong, which was down by one than that in previous year.

Non-Hong Kong Markets

The Group is based in Hong Kong and has a global presence. In the face of the complex and volatile international political dynamics and the challenging global pandemic, the Group set up the “Tong Ren Tang global coronavirus prevention and treatment expert team”, formulated strategy called “one country, one region, one strategy” (一國一地一策) to provide a customized TCM-based prevention and control plan, and publicized about 100 sets of “Fuzheng Biwen Decoction” (扶正避瘟飲) with anti-pandemic formulas for 50 countries and regions worldwide, contributing Tong Ren Tang’s TCM-based solutions for the prevention and control of the global pandemic. During the Year, the Group’s business network spanned across major countries and regions in Asia, Oceania, North America and Europe, with 47 retail outlets, representing a net decrease of one outlet as compared to the previous year. As the outbreak of COVID-19 remained severe in Europe and the United States, the operation of two retail outlets, located in Switzerland and the United States respectively, was suspended this Year in order to minimize economic losses. In the second half of the Year, the outbreak in New Zealand became under control and consequently the Group opened one more retail outlet there to further expand its market share in the local market. During the Year, the Group’s revenue from overseas markets was HK\$337.9 million (2019: HK\$338.8 million), representing a year-on-year decrease of 0.3% while the same-store revenue increased by 12.6%.

For the market in the Mainland China, although the market and the shipment of goods were severely disrupted by the outbreak of COVID-19 in the beginning of the Year, thanks to the fast resumption of production and operation in the Mainland China in the second quarter, coupled with the highly-recognized potent effect of TCM in the prevention and control of the pandemic, our revenue from the market in the Mainland China for the Year amounted to HK\$431.0 million (2019: HK\$303.7 million), representing a year-on-year increase of 41.9%.

Production, Research and Development

The Group kept focusing on its core business, while stepping up efforts in production quality management and technological innovation, enhancing its development on product portfolios, and coordinating its planning and strategical layout. Apart from that, the Group also strengthened its talent training and boost up its production efficiency, with the aim to consolidate its foundation for further improvement and upgrade of the Group's industrial production capacity.

The Group’s Production and R&D Base in Tai Po, Hong Kong obtained the GMP (Good Manufacturing Practice) for Proprietary Chinese medicine certification, International Standard ISO22000 certification and the HACCP (Hazard Analysis and Critical Control Points) certification. The Group endeavoured to establish and improve its quality control system which covered the whole cycle from project initiation, research and development, procurement of raw materials to production and supply, so that full guarantee for the production of quality of products could be provided.

During the Year, the Group enhanced the production capacity of products such as Angong Niu Huang Wan, Sporoderm-broken Ganoderma Lucidum Spores Powder Capsules and Cranberry Collagen Prebiotics and successfully satisfied the market demand for the products. Highlighting the Group’s innovation in technology, 3 new products, including Guizhi Fuling Wan (桂枝茯苓丸), were examined and granted registration certificates for proprietary Chinese medicines, which further enriched the product offering of the Group. In addition, the Group initiated a multi-dimensional upgrade on packaging of Sporoderm-broken Ganoderma Lucidum Spores Powder Capsules, one of its key products, and successfully made the product more accepted by consumers with various preference.

We will continue to develop new products in line with the development trend in general health in order to meet the extensive market demand for regulating body functions and preventing diseases. With a focus on core varieties, greater efforts were put into the development of independent intellectual property rights which involved invention patents, utility models, appearance, copyrights, authorship, and etc. While expanding to the overseas market, Tong Ren Tang continuously accumulated independent intellectual property rights, explored global patents layout and applied rules of international intellectual property rights in order to protect and enrich the core values of Tong Ren Tang's products. As at 31 December 2020, a total of 53 patents were granted (including patents in the Mainland China and Hong Kong) and 2 applications for international PCT (Patent Cooperation Treaty) patents were commenced. In addition, the Group proceeded to file applications for 14 copyrights and received registration certificates of registration of works in respect of all applications, which provided sufficient protection for the dominant products of Tong Ren Tang.

Brand Promotion

Tong Ren Tang adheres to its vision and mission as known as “Healthy Life Global Choice”. Upholding the wisdom accumulated for TCM passed down through generations, Tong Ren Tang is not only serving as an economic entity but also a carrier of TCM culture. The Group launched a series of brand promotion activities which further enhanced the reputation and influence of the brand and facilitated the dissemination of the brand of “Tong Ren Tang” and popularization of TCM culture overseas.

The impact of COVID-19 in 2020 aroused consumers' awareness to healthcare, represented by the increasing demand for premium healthcare products. At the same time, we witnessed that the consumption pattern of the public changed. Selling on e-commerce platforms became a more lucrative idea, and gradually became a new trend of retailing. For the market in Hong Kong, the Group realized its new ideas by developing diversified and modern technology-based sales channels and an online shop named Beijing Tong Ren Tang Online Shopping Mall (北京同仁堂網上商城) was launched in its official website accordingly. The Group also opened shops on certain large-scale e-commerce marketplaces and ventured into live-streaming marketing events with sizeable e-commerce marketplace providers, which were well received. Under the pandemic, the Group continued to diversify its access to new media and new retail channels and make online live streaming events into regular activities. The Group accelerated its process of going online and integrated various business scenarios to live streaming so as to create synergy effects. In addition, the Group has entered into a strategic cooperation with iFLYTEK to jointly set a new benchmark of “Smart Chinese Medicine” (智慧中醫). Apart from that, the Group entered into a strategic cooperation with Sino United Publishing (Holdings) Limited to facilitate the promotion and dissemination of Chinese medicine cultural, and also entered into a strategic cooperation with Yonyou Group on the establishment of digitalized platforms for corporate's operation to promote the establishment of an international cross-regional management and collaboration framework for time-honored brands.

The Group redesigned new advertisements under the theme of “Protecting the most beloved with the most precious” (以最珍貴，守護最珍貴), highlighting the dual natural ingredients and efficacy of Tong Ren Tang Angong Niu Huang Wan, its flagship product, and broadcasted them on TV for the first time to draw market attention. Besides, the Group also managed to promote its products such as Tong Ren Tang Angong Niu Huang Wan and those under Cardiovascular and Cerebrovascular Health Series through newspapers, Facebook, WeChat Official Account Platform, official website, booklets in outlets and auto body advertisements to further draw people's awareness to its brand. Thanks to the success of the campaign entitled “Show Love and Care to Stroke Prevention” for the last four consecutive years, the Group re-organized the campaign this year to continue the brand's concern for the community and the underprivileged. The Group held online healthcare seminars and distributed blessing bags for the purpose of enhancing the image of the brand as a caregiver to the society. In addition, the Group launched a year-round program named “TCM Healthy Lifestyle Column” to disseminate healthcare

information to the public and familiarize them with Tong Ren Tang and TCM culture. Against the backdrop of the pandemic, the Group initiated a campaign entitled “Care for Others and Fight the Epidemic” to donate anti-pandemic materials to social groups in need to express the Group’s concern for the society. On the other hand, the Group launched a retail campaign called “One Product, One Strategy” in Hong Kong, its core market, to promote its “Care for Public Health and Discount Sharing” event in which the Group offered a number of discounts of healthcare products to people in Hong Kong such that our sales performance could be improved.

In overseas markets, as the pandemic spread, the Group mobilized its stores worldwide to provide timely and effective TCM based anti-pandemic services for local people, and donated various anti-pandemic products to a couple of countries and regions, so that our kindness from us as a Chinese brand can be expressed. For the purpose of further speeding up its development of overseas markets, the Group proactively prepared for the cooperation with large-scale online marketplaces in Southeast Asia and worked on the debut of the Group’s key products at the 2020 China Health Ecology Organization (中國健康產業(國際)生態大會) and participated in the first China-UAE Economic and Trade Digital Expo in which the Group was dedicated to promote TCM culture and products under the brand name of “Tong Ren Tang”.

During the Year, Tong Ren Tang Angong Niuhuang Wan (同仁堂安宮牛黃丸) won the Gold Award for Cerebrovascular Medicine (腦血管用藥金獎) in the “2020 Healthy Chinese — Brand List” (2020健康中國• 品牌榜), which further consolidated the competitiveness of the Group’s core products. We were also awarded the prize as “Most Influential Brand in Asia: Traditional Chinese Medicine — Most Trustworthy Brand” for the sixth consecutive years. In the prevention and control of the pandemic, Beijing Tong Ren Tang (Macau) Company Limited was honored as “Advanced Collectives” for its outstanding contribution in the fight against the COVID-19 pandemic. Beijing Tong Ren Tang (Auckland) Company Limited, on the other hand, received a letter of appreciation from the Embassy of the People’s Republic of China in New Zealand for Tong Ren Tang’s contribution to the local prevention and control of the pandemic, accordingly the image of the brand as a protector of public health was further strengthened among the public overseas.

Business Prospects

Looking forwards to 2021, despite a variety of uncertainties in our development, the pandemic also brings in more possibilities for business transformation and upgrade. The trend that the world becomes more open and cooperative remains unaltered. In the era that China bases its development on domestic market and relies on two circles of economic activity — domestic and overseas, and the era of mutual open among countries that continues to promote win-win cooperation as well as responsibility and governance sharing, Tong Ren Tang’s TCM will play a more important role in building a community with shared hygiene and healthcare, shared development and shared humanism.

Human Resources Management

As at 31 December 2020, we had a total of 754 employees (2019: 798 employees).

The staff costs of the Group for the Year were HK\$183.6 million (2019: HK\$215.3 million), representing a decrease of 14.7% from last year. To ensure that the Group is able to attract and retain talents, remuneration policies are reviewed on a regular basis. In addition, the discretionary bonus is offered to employees with outstanding performance with reference to the Group’s results and individual performance.

Financial Review

Revenue

The Group's revenue for the Year was HK\$1,315.3 million (2019: HK\$1,432.6 million), representing a decrease of 8.2% from last year. With the sustained outbreak of the COVID-19 pandemic this Year, a series of precautionary and control measures has been implemented in the Mainland China, Hong Kong and Macao and many countries globally, the business of the Group has been greatly affected, and the revenue was reduced accordingly. This Year, the revenue from Hong Kong market and overseas market decreased by 30.9% and 0.3% respectively, while the revenue from the Mainland China market increased by 41.9%.

Gross Profit

The Group's gross profit decreased by 5.9% to HK\$952.9 million (2019: HK\$1,012.8 million). The gross profit margin increased from 70.7% last year to 72.4% this Year, which was mainly due to the slight change in the product mix from last year.

Other Gains, net

The Group's other gains, net, increased by HK\$21.2 million to HK\$24.3 million (2019: HK\$3.1 million). The increase was due to certain entities in the Group received government grants from their local governments this Year under the COVID-19 pandemic.

Distribution and Selling Expenses

The Group's distribution and selling expenses decreased by 15.2% to HK\$168.9 million (2019: HK\$199.1 million). The decrease was mainly due to the decrease in rental expenses along with the decrease in the number of retail outlets and rent concessions in respect of certain leased properties, as well as the decrease in staff costs. Distribution and selling expenses as a percentage to revenue decreased from 13.9% last year to 12.8% this Year.

General and Administrative Expenses

The Group's general and administrative expenses decreased by 15.7% to HK\$138.9 million (2019: HK\$164.8 million). The decrease was mainly due to the decrease in staff costs and no impairment loss on inventories this Year. General and administrative expenses as a percentage to revenue decreased from 11.5% from last year to 10.6% this Year.

Finance Income, net

The Group's net finance income decreased by HK\$21.8 million to HK\$17.4 million (2019: HK\$39.2 million), which was mainly due to the decrease in finance income brought about by a decrease in the average short-term bank deposit interest rate and the average bank deposit balance from last year.

Income Tax Expense

The Group's income tax expense increased by 5.0% to HK\$118.0 million (2019: HK\$112.4 million). The increase was mainly due to the increase in taxable income with higher tax rates for the Year. The effective tax rate for the Year increased from 16.3% last year to 17.2% this Year, which was caused by the change in the proportion of the contribution from entities in different jurisdictions to taxable profit.

Profit for the Year, Profit Attributable to Owners of the Company, Basic Earnings Per Share and Dividend

The Group's profit for the Year decreased by 1.6% to HK\$567.9 million (2019: HK\$576.9 million) with a net profit margin of 43.2% (2019: 40.3%). Profit attributable to owners of the Company amounted to HK\$542.5 million (2019: HK\$556.1 million), representing a decrease of 2.5% from last year. For the Year, the basic earnings per share were HK\$0.65 (2019: HK\$0.66). The Directors recommend the payment of a final dividend of HK\$0.24 per share for the Year (2019: HK\$0.23).

Financial Resources and Liquidity

During the Year, the Group funded its liquidity by internal resources. 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.

The Group continued to maintain a strong financial position with cash and bank balances of HK\$1,847.1 million (2019: HK\$1,968.4 million). Most of the Group's cash and bank balances were denominated in Hong Kong dollar and Renminbi, and were deposited in reputable financial institutions with maturity dates falling within one year. The table below sets out the information regarding cash and bank balances, working capital, total equity, current ratio and gearing ratio as at 31 December 2019 and 2020 and net cash generated from operating activities, investing activities and financing activities for the years ended 31 December 2019 and 2020:

	As at 31 December	
	2020	2019
	HK\$'000	HK\$'000
Cash and bank balances	1,847,137	1,968,366
Working Capital ⁽¹⁾	2,716,331	2,336,734
Total Equity	3,129,510	2,765,636
Current Ratio ⁽²⁾	13.5	8.6
Gearing Ratio ⁽³⁾	3.39%	3.61%

	For the year ended 31 December	
	2020	2019
	HK\$'000	HK\$'000
Net cash generated from operating activities	116,054	551,010
Net cash generated from investing activities	506,728	835,541
Net cash used in financing activities	(264,298)	(878,669)

⁽¹⁾ Being net current assets

⁽²⁾ Being current assets divided by current liabilities

⁽³⁾ Being borrowings and lease liabilities divided by total equity

Capital Expenditure

During the Year, the Group's capital expenditure amounted to HK\$12.9 million (2019: HK\$17.0 million), which was primarily used for the purchase of production equipment and the establishment of new retail outlets.

Major Investment, Acquisitions and Disposals

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

Charges over Assets of the Group

As at 31 December 2020, the Group's net property value of HK\$11.3 million (2019: HK\$10.5 million) has been pledged as securities for bank borrowings. Such bank borrowings in Australian dollars bears interest at 1.5% plus the bank bill rate in Australia per annum and is wholly repayable in 2023.

Contingent Liabilities

As at 31 December 2020, the Group did not have any significant contingent liabilities.

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 US dollar. During the Year, the fluctuation in the exchange rates of these currencies did not have material impact on the Group.

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

EVENTS AFTER THE REPORTING PERIOD

The Directors are not aware of any significant event requiring disclosure that had taken place subsequent to 31 December 2020 and up to the date of this announcement.

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 a deed of non-competition (the “**Deed of Non-competition**”) in favour of the Company on 18 April 2013, 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 Mainland China (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 favourable than the terms it wishes to sell to other parties.

DIVIDENDS

The Directors recommend the payment of a final dividend of HK\$0.24 per ordinary share for the year ended 31 December 2020 (2019: HK\$0.23). Such final dividend will be proposed for approval by shareholders at the annual general meeting (**“AGM”**) to be held on Friday, 28 May 2021 and if approved, are payable to shareholders whose names appear on the Register of Members of the Company on Monday, 7 June 2021.

Subject to approval by the Company’s shareholders at the AGM, the final dividend will be paid on or before Wednesday, 30 June 2021.

CLOSURE OF REGISTER OF MEMBERS

AGM

In order to determine the entitlements of the Shareholders to attend and vote at the AGM, the Register of Members of the Company will be closed from Monday, 24 May 2021 to Friday, 28 May 2021, both days inclusive, during which period no transfer of shares will be registered.

All transfers documents accompanied by the relevant share certificates must be lodged with the Company’s share registrar and transfer office, Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17/F., Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong for registration no later than 4:30 p.m. on Friday, 21 May 2021.

Final Dividend

In order to determine the list of shareholders of the Company who are entitled to receive the final dividend for the year ended 31 December 2020, the Register of Members of the Company will be closed from Thursday, 3 June 2021 to Monday, 7 June 2021, both days inclusive, during which period no transfer of shares will be registered.

To qualify for the above-mentioned dividends (if approved), all transfers documents accompanied by the relevant share certificates must be lodged with the Company's share registrar and transfer office, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17/F., Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration no later than 4:30 p.m. on Wednesday, 2 June 2021.

REVIEW OF ANNUAL RESULTS

The audit committee of the Company (the “**Audit Committee**”) has three members comprising three independent non-executive Directors, Mr. Chan Ngai Chi (Chairman of the Audit Committee), Mr. Tsang Yok Sing, Jasper and Mr. Zhao Zhong Zhen, with written terms of reference in compliance with the Rules Governing the Listing of Securities on The Stock Exchange (the “**Listing Rules**”). The primary duties of the Audit Committee are mainly to communicate with external auditor; to review the remuneration, terms of engagement, independence and objectivity of the external auditor; to review the accounting policy, financial position and financial reporting procedures of the Company; and to assess the financial reporting system, internal control procedures and risk management function of the Company and making recommendations thereof. The Audit Committee has reviewed the accounting principles and practices adopted by the Group and the annual results for the year ended 31 December 2020.

PURCHASE, SALE OR REDEMPTION OF SHARES

During the year ended 31 December 2020, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

CORPORATE GOVERNANCE CODE

During the year ended 31 December 2020, the Company had complied with the code provisions set out in Appendix 14 of the Corporate Governance Code of the Listing Rules.

COMPLIANCE WITH THE MODEL CODE FOR 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. Having made specific enquiries 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 year ended 31 December 2020.

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

Hong Kong, 11 March 2021

As at the date of this announcement, the composition of the Board is as follows:

Executive Director:

Ms. Ding Yong Ling

Mr. Zhang Huan Ping (*retired on 11 March 2021*)

Mr. Chen Fei (*redesignated on 11 March 2021*)

Ms. Lin Man

Independent non-executive Director:

Mr. Tsang Yok Sing, Jasper

Mr. Zhao Zhong Zhen

Mr. Chan Ngai Chi