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Tong Ren Tang Technologies Co. Ltd.
北京同仁堂科技發展股份有限公司
(a joint stock company incorporated in the People's Republic of China with limited liability)

(Stock Code: 1666)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2019

CHAIRMAN'S STATEMENT

I am pleased to present the annual results of Tong Ren Tang Technologies Co. Ltd. (the "**Company**") and its subsidiaries (hereafter collectively referred to as the "**Group**") for the year ended 31 December 2019 (the "**Reporting Period**") for shareholders' review.

Results of the Year

For the year ended 31 December 2019, the Group's revenue amounted to RMB4,476,449,000, representing a decrease of 11.53% from RMB5,059,638,000 for the corresponding period of last year; net profit amounted to RMB741,390,000, representing a decrease of 26.29% from RMB1,005,853,000 for the corresponding period of last year; net profit attributable to owners of the Company amounted to RMB417,650,000, representing a decrease of 38.38% from RMB677,815,000 for the corresponding period of last year; earnings per share was RMB0.33 (2018: RMB0.53); and dividend per share was RMB0.16 (2018: RMB0.18).

Review of the Year

2019 was a year full of difficulties and challenges, and a year of struggling and laying a solid foundation. During the year, as the downward pressure on the Chinese economy continued to increase, the reform of national medical system continued to intensify and more stringent policies were adopted, competition in the pharmaceutical industry became even fiercer and profit growth slowed further. At the same time, the Group has entered a transitional period between new and old production capacity, and was faced with prominent problems such as insufficient production capacity of some products and new production capacity not being released, which led to declines in both the production volume and value. With the completion of construction and commencement of trial production and operation in succession of the newly built production bases, industrial operating cost and depreciation of fixed assets have increased. All these have adverse effects on the Group’s performance.

During the year, the Group thoroughly carried out the "Xi Jinping Thought on Socialism with Chinese Characteristics for a New Era” and the spirit of the 19th National Congress of CPC, continued to strengthen the political leadership of the Communist Party, continued to enhance ideological and political construction, organizational construction, cadre team construction and ideology construction, integrated the construction of the Communist Party into all aspects of corporate governance and facilitated in-depth integration of the construction of the Communist Party into production and operation. During the Reporting Period, taking the opportunity of key project modification, the Company motivated the enthusiasm, initiative and creativity of party organization, party members and staff at all levels, facilitated in-depth integration of the construction of the Communist Party into production and operation, further strengthened risk investigation in the daily operation of the Company in production and supply, quality management, marketing, brand management, safety and environmental protection, enhanced analysis and resolution of new problems and conflicts and improved the ability of risk prevention and control. By improving the internal control system, institutional system and quality system, the Company consolidated its basic management, created a long-term management mechanism and improved the quality of management.

Success is often borne out of difficulties and hardship. During the Reporting Period, having long-term development in our mind, we focused on the main idea of “quality management enhancement” during the year, overcame difficulties, forged ahead, continuously improved the level of standardized management and cultivated development advantages. During the year, based on the prospect of industrial development and the characteristics of its own operation, the Group further improved the marketing organizational structure, continued to push forward marketing organization reform and strengthened marketing management and control. Meanwhile, the Group expedited industrial layout adjustment, which began to take shape. The two new production bases located in Daxing District in Beijing City and Yutian County in Tangshan City commenced production during the year, laying a solid foundation for alleviating the pressure on product supply and demand and the Company's next stage of sustainable development.

Outlook and Prospects

2020 marks the end of the “13th Five-Year Plan”, and is the foundation year for the smooth start of the “14th Five-Year Plan”. Opportunities coexist with challenges, and difficulties coexist with hopes.

In early 2020, the outbreak of the new coronavirus (COVID-19) pneumonia epidemic (the "**Epidemic**") and its rapid spread across the country posed additional challenges to the production and operation of the Group. Base on this situation, the Group has closely monitored the development of the Epidemic, followed the decisions and arrangements of the Chinese government and Beijing municipal government on prevention and control of the Epidemic, placed focus on both prevention and control of the Epidemic and economic stability, mapped out overall plan with all factors being considered, continued to pay attention on the impact of the Epidemic on production, sales and other aspects, and actively taken timely and effective response measures.

In the fight against COVID-19, traditional Chinese medicine has been proven to play an active role in prevention, treatment, rehabilitation and other aspects, and its importance has been brought to a higher level. The Chinese government is expected to provide more support for the traditional Chinese medicine industry. In addition, the Epidemic has once again raised public awareness of health and healthcare, presenting new opportunities to the development of traditional Chinese medicine. We believe that the status and role of traditional Chinese medicine will be further strengthened and recognized. Meanwhile, with the continuous promotion and implementation of the Healthy China strategy and the focus changed from provision of medical treatment to promotion of healthcare of citizens, China will continue its unremitting efforts to prevent and control major diseases, actively address the problem of ageing population, boost fertility and provide all-round lifelong health services. A sound policy atmosphere has been created for the development of the pharmaceutical industry and promoted the continuous development of the industry.

On the other hand, the downward pressure on the macro economy and the challenges of the pharmaceutical industry in terms of markets, receivables and costs will likely remain, putting us to a severe test. At the same time, regulatory policies in the pharmaceutical sector are becoming more stringent. With the implementation of the new version of the Pharmaceutical Administration Law of the People's Republic of China, the supervision of the whole chain, whole cycle and whole process of pharmaceutical products will be further strengthened, and the standardization of the pharmaceutical industry will be further enhanced.

We are convinced that the pain caused by challenges and changes will definitely be turned into strength for long-term development. A strong foundation has to be laid to pursue solid and sustainable development. In the future, facing the intensifying pharmaceutical reform and the increasingly severe market conditions, we will, in addition to strengthening our own development foundation, continue to adapt to the development of the industry, grasp major opportunities arising from the encouragement and promotion of inheritance and innovation of traditional Chinese medicine by the Chinese government, closely monitor market development, focus on market demand, highlight strengths in major businesses, capitalize on the trend and move ahead pragmatically, with a view to realizing growth and transformation of the Group in the future.

I hereby would like to express my sincere gratitude to the members of the Board and all the staff of the Group for their excellent performance and unremitting efforts; and to all the shareholders for their continuous support to and understanding of the Company. As always, we will try our best to reward the shareholders.

FINANCIAL INFORMATION

The Board is pleased to announce the audited consolidated income statement, consolidated statement of comprehensive income and consolidated balance sheet of the Group for the year ended 31 December 2019, together with the comparative figures of 2018, as follows:

CONSOLIDATED INCOME STATEMENT

	Note	***2019***	*2018*
		RMB'000	*RMB'000*
Revenue	*d*	**4,476,449**	5,059,638
Cost of sales		**(2,421,954)**	(2,631,659)
Gross profit		**2,054,495**	2,427,979
Distribution expenses	*f*	**(718,684)**	(866,651)
Administrative expenses	*f*	**(397,551)**	(364,248)
Net impairment losses on financial assets		**(20,113)**	(6,055)
Operating profit		**918,147**	1,191,025
Finance income	*e*	**47,839**	32,031
Finance costs	*e*	**(41,025)**	(14,964)
Finance income, net	*e*	**6,814**	17,067
Share of losses of investments accounted for using the equity method		**(1,456)**	(138)
Other income and gains/(losses), net		**-**	(884)
Profit before income tax		**923,505**	1,207,070
Income tax expense	*g*	**(182,115)**	(201,217)
Profit for the year		**741,390**	1,005,853
Profit attributable to:			
Owners of the Company		**417,650**	677,815
Non-controlling interests		**323,740**	328,038
		741,390	1,005,853
Earnings per share for profit attributable to owners of the Company during the year			
- Basic and diluted	*i*	**RMB0.33**	RMB0.53

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	2019	*2018*
	RMB'000	*RMB'000*
Profit for the year	**741,390**	1,005,853
Other comprehensive income		
Items that may be reclassified to profit or loss		
Foreign currency translation differences		
- Group	**59,344**	104,859
- Joint ventures and associates	**(181)**	2,179
Items that will not be reclassified to profit or loss		
Change in fair value of financial assets at fair value through other comprehensive income	**(3,947)**	127
Other comprehensive income for the year, net of tax	**55,216**	107,165
Total comprehensive income for the year	**796,606**	1,113,018
Attributable to:		
Owners of the Company	**441,144**	717,121
Non-controlling interests	**355,462**	395,897
Total comprehensive income for the year	**796,606**	1,113,018

CONSOLIDATED BALANCE SHEET

		As at 31 December	
	Note	***2019***	*2018*
		RMB'000	*RMB'000*
Assets			
Non-current assets			
Leasehold land and land use rights		**-**	164,370
Property, plant and equipment		**2,301,261**	2,029,183
Right-of-use assets		**403,999**	-
Intangible assets		**66,152**	73,990
Investments accounted for using the equity method		**25,678**	26,469
Financial assets at fair value through other comprehensive income		**9,839**	13,553
Prepayments for purchase of non-current assets		**41,973**	33,038
Deferred income tax assets		**40,771**	37,585
		2,889,673	2,378,188
Current assets			
Inventories		**2,321,784**	2,361,161
Trade and bills receivables	*k*	**961,680**	1,048,988
Amounts due from related parties		**254,279**	214,778
Other financial assets at amortised cost		**25,755**	53,273
Prepayments and other current assets		**107,709**	100,490
Financial assets at fair value through profit or loss		**31,680**	29,000
Financial assets at fair value through other comprehensive income		**27,311**	141,827
Short-term bank deposits		**859,454**	1,538,125
Cash and cash equivalents		**2,990,645**	1,904,036
		7,580,297	7,391,678
Total assets		**10,469,970**	9,769,866

CONSOLIDATED BALANCE SHEET (CONT'D)

		As at 31 December	
	Note	***2019***	*2018*
		RMB'000	*RMB'000*
Equity and liabilities			
Equity attributable to owners of the Company			
Share capital		**1,280,784**	1,280,784
Reserves	*m*	**4,246,471**	4,035,868
		5,527,255	5,316,652
Non-controlling interests		**1,887,319**	1,960,197
Total equity		**7,414,574**	7,276,849
Liabilities			
Non-current liabilities			
Borrowings		**1,223,571**	911,331
Lease liabilities		**59,649**	-
Deferred income tax liabilities		**6,022**	5,679
Deferred income – government grants		**76,492**	83,680
		1,365,734	1,000,690
Current liabilities			
Trade and bills payables	*l*	**630,693**	665,038
Salary and welfare payables		**63,283**	92,970
Contract liabilities	*d*	**1,934**	4,324
Amounts due to related parties		**100,549**	154,678
Current income tax liabilities		**132,600**	50,282
Other payables		**580,083**	324,889
Borrowings		**140,198**	200,146
Lease liabilities		**40,322**	-
		1,689,662	1,492,327
Total liabilities		**3,055,396**	2,493,017
Total equity and liabilities		**10,469,970**	9,769,866

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS:

a. GENERAL INFORMATION

The Company was incorporated as a joint stock limited company in Beijing, the People's Republic of China (the "**PRC**") on 22 March 2000 and, upon the placing of its H shares, was listed on the Growth Enterprise Market (the **"GEM"**) of The Stock Exchange of Hong Kong Limited(the **"Hong Kong Stock Exchange"**) on 31 October 2000. On 9 July 2010, the Company transferred the listing from GEM to the Main Board of the Hong Kang Stock Exchange. The ultimate holding company of the Company is China Beijing Tong Ren Tang Group Co., Ltd.("**Tong Ren Tang Holdings**"), which was incorporated in Beijing, the PRC.

b. BASIS OF PREPARATION

The consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("**IFRS**") and the disclosure requirements of the Hong Kong Companies Ordinance. The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets at fair value through other comprehensive income ("**FVOCI**") and financial assets at fair value through profit or loss ("**FVPL**").

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note c.

(i) Changes in accounting policies and disclosures

(a) Adoption of new standards , interpretations and amendments to standards

The Group has adopted the following new standards, interpretations and amendments to standards which are mandatory for the financial year beginning on 1 January 2019:

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

b. BASIS OF PREPARATION (CONT'D)

(i) Changes in accounting policies and disclosures (Cont'd)

(a) Adoption of new standards , interpretations and amendments to standards (Cont'd)

The Group has adopted IFRS 16 Leases retrospectively from 1 January 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transition provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 January 2019.

On adoption of IFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as "operating leases" under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 4% - 6%.

Practical expedients applied

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

- applying a single discount rate to a portfolio of leases with reasonably similar characteristics,
- relying on previous assessments on whether leases are onerous as an alternative to performing an impairment review – there were no onerous contracts as at 1 January 2019,
- accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases,
- excluding initial direct costs for the measurement of the right-of-use asset at the date of initial application, and
- using hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

b. BASIS OF PREPARATION (CONT'D)

(i) Changes in accounting policies and disclosures (Cont'd)

(a) Adoption of new standards , interpretations and amendments to standards (Cont'd)

Measurement of lease liabilities

	2019
	RMB'000
Operating lease commitments disclosed as at 31 December 2018	126,841
Discounted using the lessee's incremental borrowing rate of at the date of initial application	110,328
(Less): short-term leases not recognised as a liability	(18,121)
(Less): contracts reassessed as service agreements	(581)
Add: adjustments as a result of a different treatment of extension options	31,442
Lease liability recognised as at 1 January 2019	**123,068**
Of which are:	
Current lease liabilities	40,260
Non-current lease liabilities	82,808
	123,068

Measurement of right-of-use assets

Upon the initial application of IFRS 16 as of 1 January 2019, prepaid lease payment in respect of the land use right in the PRC, leasehold land and leasehold land under finance lease in Hong Kong is reclassified from leasehold land and land use right, property, plant and equipment to right-of-use assets.

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

b. BASIS OF PREPARATION (CONT'D)

(i) Changes in accounting policies and disclosures (Cont'd)

(a) Adoption of new standards , interpretations and amendments to standards (Cont'd)

Adjustments recognised in the balance sheet on 1 January 2019

The change in accounting policy affected the following items in the balance sheet on 1 January 2019:

- Right-of-use assets – increase by RMB363,035,000
- Leasehold land and land use rights – decrease by RMB164,370,000
- Property, plant and equipment – decrease by RMB74,777,000
- Deferred income tax assets – increase by RMB24,619,000
- Prepayments and other current assets – decrease by RMB1,442,000
- Lease liabilities – increase by RMB 123,068,000
- Deferred income tax liabilities – increase by RMB24,619,000
- Other payables – decrease by RMB622,000

Lessor accounting

The Group did not need to make any adjustments to the accounting for assets held as lessor under operating leases as a result of the adoption of IFRS 16.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D) :

b. BASIS OF PREPARATION (CONT'D)

(i) Changes in accounting policies and disclosures (Cont'd)

(b) Standards, interpretations and amendments which are not yet effective

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

Amendments to IAS 1 and IAS 8	Definition of Material (1)
Conceptual Framework for Financial Reporting	Revised Conceptual Framework for Financial Reporting (1)
Amendments to IAS 1	Classification of Liabilities as Current/Non-current (3)
Amendments to IFRS 3	Definition of a Business (1)
IFRS 10 and IAS 28 (Amendments)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture(4)
IFRS 17	Insurance Contracts (2)

(1) Effective for the accounting period beginning on or after 1 January 2020
(2) Effective for the accounting period beginning on or after 1 January 2021 (likely to be extended to 1 January 2022)
(3) Effective for the accounting period beginning on or after 1 January 2022
(4) Effective date to be determined

These new standards, interpretations or amendments to existing standards are not expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions.

c. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal to the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below:

(i) Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated cost to completion and selling expenses. These estimates are based on the current market condition and the historical experience of manufacturing and selling products of similar nature. It could change significantly as a result of changes in consumer preferences and competitor actions in response to severe industry cycles. Management reassesses these estimations by each balance sheet date.

(ii) Impairment of financial assets

The loss allowances for financial assets are based on assumptions about risk of default and expected loss rates. The Group uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the Group's past history, existing market conditions as well as forward looking estimates at the end of each reporting period.

(iii) Income taxes

The Group is subject to income taxes in numerous jurisdictions. Significant judgement is required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D):

d. REVENUE

	2019	*2018*
	RMB'000	*RMB'000*
Sales of Chinese medicine products		
- Mainland China	**3,443,104**	4,041,543
- Outside Mainland China	**951,826**	923,834
	4,394,930	4,965,377
Advertising service		
- Mainland China	**32,053**	43,018
Service income		
- Mainland China	**6,790**	7,244
- Outside Mainland China	**42,458**	43,618
	49,248	50,862
Royalty fee income		
- Outside Mainland China	**218**	381
	4,476,449	5,059,638

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

	31 December 2019	*31 December 2018*
	RMB'000	*RMB'000*
Contract liabilities – Service income	**1,934**	4,324

The Group has not recognised any contract assets related to contract with customers as at 31 December 2019 and 2018.

There is no significant changes in contract liabilities during the year ended 31 December 2019.

d. REVENUE (CONT'D)

Revenue recognised in relation to contract liabilities

The following table shows revenue recognised in relation to contract liabilities in the year ended 31 December 2019 and 2018 related to carried forward contract liabilities at the beginning of the year.

	As at 31 December	
	2019	*2018*
	RMB'000	*RMB'000*
Revenue recognised that was included in the contract liability balance at the beginning of the year	**2,475**	3,751

e. FINANCE INCOME AND COSTS

	2019	*2018*
	RMB'000	*RMB'000*
Finance income		
Interest income	**49,759**	31,806
Exchange (losses)/gains, net	**(1,920)**	225
	47,839	32,031
Finance costs		
Interest on bonds	**(45,685)**	(24,035)
Interest on bank borrowings	**(11,656)**	(10,396)
Interest on lease liabilities	**(4,301)**	-
Less: amounts capitalised on qualifying assets	**20,617**	19,467
	(41,025)	(14,964)
Finance income, net	**6,814**	17,067

f. EXPENSE BY NATURE

Operating profit was arrived at after charging/(crediting) the following:

	2019	*2018*
	RMB'000	*RMB'000*
Raw materials, merchandise and consumables used	**1,404,752**	1,545,463
Change in inventories of finished goods and work-in-progress	**112,664**	86,647
Employee benefit expense	**827,041**	851,793
Depreciation of property, plant and equipment	**90,822**	75,837
Amortisation of prepaid operating lease payments	**-**	3,631
Amortisation of right-of-use assets	**54,901**	-
Amortisation of intangible assets	**12,711**	7,515
Amortisation of other long-term assets	**1,628**	1,451
Provision for impairment of inventories	**48,614**	44,250
Provision for impairment of receivables	**20,113**	6,055
Operating lease rental	**-**	97,771
Expenses relating to short-term leases	**45,321**	-
Variable lease payments not included in the measurement of lease liabilities[1]	**956**	-
Auditor's remuneration		
- Audit services	**9,186**	7,156
- Non-audit services	**400**	258
Research and development costs[2]	**28,316**	27,835
Loss on disposal of non-current assets	**3,387**	1,850
Amortisation of deferred income - government grants	**(15,253)**	(22,739)
Processing costs	**259,119**	279,506
Advertising and promotion expenses	**189,541**	301,678
Transportation	**45,175**	58,647
Repair and maintenance	**54,707**	34,479
Utilities	**90,319**	67,741
Other taxes	**43,328**	56,668

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

[2] Excluding employee benefit expense, depreciation and amortisation expense. The research and development costs including employee benefit expense, depreciation and amortisation expense were RMB61,248,000 (2018: RMB55,889,000).

g. INCOME TAX EXPENSE

Pursuant to the Corporate Income Tax Law of the PRC effective from 1 January 2008, enterprises with a High/New Technology Enterprise ("**HNTE**") status are able to enjoy a preferential tax rate of 15%. For the entities without the HNTE status, the PRC income tax rate is 25% (2018: 25%). As of 31 December 2019 and 2018, the Company and certain of its subsidiaries have obtained the HNTE certificate. Consequently, their applicable income tax rate in 2019 is 15% (2018: 15%).

Hong Kong Special Administrative Region ("**Hong Kong**") profits tax has been provided at the rate of 16.5% (2018: 16.5%) on the estimated assessable profit for the year.

Income tax on overseas profits has been calculated on the estimated assessable profit for the year at the income tax rates prevailing in the tax jurisdictions in which the Group operates.

	2019	*2018*
	RMB'000	*RMB'000*
Current income tax expense		
- Mainland China	**89,781**	105,838
- Hong Kong	**89,130**	96,423
- Overseas (excluding Hong Kong)	**5,972**	5,206
	184,883	207,467
Deferred income tax credit	**(2,768)**	(6,250)
	182,115	201,217

g. INCOME TAX EXPENSE (CONT'D)

The tax on the Group's profit before income tax differs from the theoretical amount that would arise using the weighted average income tax rate of 23.7% (2018: 21.0%) to profits of the consolidated entities as follows:

	2019	*2018*
	RMB'000	*RMB'000*
Profit before income tax	**923,505**	1,207,070
Tax calculated at domestic tax rates applicable to profits in the respective countries	**218,852**	253,679
Tax effects of:		
- Income not subject to tax	**(6,451)**	(4,810)
- Expenses not deductible for tax purposes	**6,173**	6,330
- Tax losses and temporary differences for which no deferred income tax assets were recognised	**3,641**	4,279
- Effect of preferential income tax treatments	**(38,177)**	(58,986)
- Final settlements and payments	**290**	479
- Others	**(2,213)**	246
Income tax expense	**182,115**	201,217

h. DIVIDENDS

The cash dividends paid in 2019 and 2018 were RMB230,541,000 (RMB0.18 (including tax) per share) and RMB217,733,000 (RMB0.17 (including tax) per share) respectively.

On 30 March 2020, the Board of Directors proposed a cash dividend in respect of the year ended 31 December 2019 of RMB0.16 (including tax) per share, amounting to a total of RMB204,925,440,which is subject to the shareholders' approval at the 2019 annual general meeting (the "**2019 AGM**") to be held on Thursday, 18 June 2020. These financial statements do not reflect this dividend payable.

	2019	*2018*
	RMB'000	*RMB'000*
Interim dividend paid of RMB nil (2018: RMB nil) per ordinary share	**-**	-
Final dividend proposed of RMB0.16 (including tax) (2018: RMB0.18 (including tax)) per ordinary share	**204,925**	230,541
	204,925	230,541

i. EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the profit attributable to owners of the Company of approximately RMB417,650,000 by the weighted average number of 1,280,784,000 shares in issue during the year.

The Company had no dilutive potential shares in 2019 and 2018.

	2019	*2018*
	RMB'000	*RMB'000*
Profit attributable to owners of the Company	**417,650**	677,815
Weighted average number of ordinary shares in issue (thousands)	**1,280,784**	1,280,784
Earnings per share	**RMB0.33**	RMB0.53

j. SEGMENT INFORMATION

The Directors in the Board of Directors are the Group's chief operating decision-maker. Management has determined the operating segments based on the information reviewed by the Directors in the Board of Directors for the purposes of allocating resources and assessing performance.

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

The reportable operating segments derive their revenue primarily from (i) the manufacture and sale of Chinese medicine of the Company in Mainland China ("the **Company**" Segment), and (ii) Beijing Tong Ren Tang Chinese Medicine Company Limited ("**Tong Ren Tang Chinese Medicine**") engaged in manufacturing, retail and wholesale of Chinese medicine products and healthcare products, and provision of Chinese medical consultation and treatments outside Mainland China and wholesale of healthcare products in Mainland China ("**Tong Ren Tang Chinese Medicine**" Segment).

Other companies are engaged in processing and purchasing of Chinese medicinal raw materials, sales of medicinal products, medical services and advertising, etc. They do not form separate reportable segments as they do not meet the quantitative thresholds required by IFRS 8.

The Directors in the Board of Directors assess the performance of the operating segments based on revenue and profit after income tax of each segment.

j. SEGMENT INFORMATION (CONT'D)

The segment information provided to the Directors in the Board of Directors for the reportable segments for the year ended 31 December 2019 is as follows:

	The Company	Tong Ren Tang Chinese Medicine	All other segments	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Segment revenue	2,798,841	1,262,714	1,064,585	5,126,140
Inter-segment revenue	(93,600)	-	(556,091)	(649,691)
Revenue from external customers	2,705,241	1,262,714	508,494	4,476,449
Timing of revenue recognition				
At a point in time	2,705,158	1,212,240	476,373	4,393,771
Over time	83	50,474	32,121	82,678
	2,705,241	1,262,714	508,494	4,476,449
Profit for the year	231,858	507,630	1,902	741,390
Interest income	10,545	37,905	1,309	49,759
Interest expense	(33,427)	(3,702)	(3,896)	(41,025)
Depreciation of property, plant and equipment	(43,986)	(14,197)	(32,639)	(90,822)
Amortisation of right-of-use assets	(3,940)	(45,155)	(5,806)	(54,901)
Amortisation of other long-term assets	(1,627)	(10,382)	(2,330)	(14,339)
Provision for impairment of inventories	(24,165)	(6,319)	(18,130)	(48,614)
Provision for impairment of receivables	(12,146)	(2,992)	(4,975)	(20,113)
Share of profit/(losses) of investments accounted for using the equity method	279	(1,735)	-	(1,456)
Release of foreign currency translation differences upon liquidation of a joint venture	-	846	-	846
Income tax expense	(77,268)	(98,886)	(5,961)	(182,115)
Segment assets and liabilities				
Total assets	5,545,840	2,812,631	2,111,499	10,469,970
Investments accounted for using the equity method	9,066	16,612	-	25,678
Additions to non-current assets[1]	206,991	34,205	303,747	544,943
Total liabilities	2,264,221	328,404	462,771	3,055,396

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

j. SEGMENT INFORMATION (CONT'D)

The segment information for the year ended 31 December 2018 is as follows:

	The Company	Tong Ren Tang Chinese Medicine	All other segments	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Segment revenue	3,215,806	1,284,474	1,051,793	5,552,073
Inter-segment revenue	(33,987)	-	(458,448)	(492,435)
Revenue from external customers	3,181,819	1,284,474	593,345	5,059,638
Timing of revenue recognition				
At a point in time	3,181,819	1,231,679	550,264	4,963,762
Over time	-	52,795	43,081	95,876
	3,181,819	1,284,474	593,345	5,059,638
Profit for the year	459,353	509,080	37,420	1,005,853
Interest income	10,016	20,505	1,285	31,806
Interest expense	(12,082)	(16)	(2,866)	(14,964)
Depreciation of property, plant and equipment	(33,071)	(20,103)	(22,663)	(75,837)
Amortisation of prepaid operating lease payments	(1,901)	(459)	(1,271)	(3,631)
Amortisation of other long-term assets	(1,171)	(5,552)	(2,243)	(8,966)
Provision for impairment of inventories	(26,525)	(1,204)	(16,521)	(44,250)
Provision for impairment of receivables	(2,213)	-	(3,842)	(6,055)
Share of profit/(losses) of investments accounted for using the equity method	276	(414)	-	(138)
Release of foreign currency translation differences upon liquidation of a joint venture	-	(1,442)	-	(1,442)
Income tax expense	(89,068)	(101,233)	(10,916)	(201,217)
Segment assets and liabilities				
Total assets	5,116,939	2,782,233	1,870,694	9,769,866
Investments accounted for using the equity method	8,787	17,682	-	26,469
Additions to non-current assets[1]	182,720	45,063	223,423	451,206
Total liabilities	1,846,590	126,454	519,973	2,493,017

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

j. SEGMENT INFORMATION (CONT'D)

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

The amounts provided to the Directors in the Board of Directors with respect to total assets and liabilities are measured in a manner consistent with that of the financial statements. These assets are allocated based on the operations of the segment and the physical location of the asset.

Revenues from external customers are derived from the sales of medicine and provision of services. The breakdown of sales of medicine by region is provided in Note d.

The total of the non-current assets other than financial instruments and deferred income tax assets located in Mainland China is RMB2,415,712,000 (2018: RMB1,980,384,000), and the total of these non-current assets located in other countries and regions is RMB423,351,000 (2018: RMB346,666,000).

During the 2019 and 2018 financial year, revenue from two customers each accounted for ten percent or more of the Group's total external revenue. These revenues are mainly attributable to the Company Segment and Tong Ren Tang Chinese Medicine Segment. The revenues from these customers are summarised below:

	2019	*2018*
	RMB'000	*RMB'000*
Entities under control of ultimate holding company	**959,408**	1,119,901
Customer A Group	**540,294**	583,586
	1,499,702	1,703,487

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D):

j. SEGMENT INFORMATION (CONT'D)

Changes in accounting policy

The adoption of the new leasing standard described in Note b(i) had the following impact on the segment disclosures in the current year.

	Profit before income tax	Segment assets	Segement liabilities
	RMB'000	*RMB'000*	*RMB'000*
The Company	**(44)**	**1,555**	**1,599**
Tong Ren Tang Chinese Medicine	**(2,524)**	**86,819**	**88,525**
All other Segments	**(456)**	**9,391**	**9,847**
	(3,024)	**97,765**	**99,971**

Comparative segment information has not been restated. As a consequence, the segment information disclosed for the items noted above is not entirely comparable to the information disclosed for the prior year.

k. TRADE AND BILLS RECEIVABLES

	As at 31 December	
	2019	*2018*
	RMB'000	*RMB'000*
Trade receivables	**608,481**	462,030
Bills receivables	**392,398**	608,514
	1,000,879	1,070,544
Less: provision for impairment	**(39,199)**	(21,556)
Trade and bills receivables, net	**961,680**	1,048,988

The carrying amounts of trade and bills receivables approximate their fair values.

Retail sales at the Group's stores are usually made in cash or by debit or credit cards. For wholesale to distributors, the Group normally grants a credit period ranging from 30 days to 120 days. As at 31 December 2019 and 2018, the ageing analysis of trade and bills receivables based on invoice date was as follows:

	As at 31 December	
	2019	*2018*
	RMB'000	*RMB'000*
Within 4 months	**777,601**	857,710
Over 4 months but within 1 year	**120,628**	152,335
Over 1 year but within 2 years	**66,053**	48,283
Over 2 years but within 3 years	**27,677**	6,002
Over 3 years	**8,920**	6,214
	1,000,879	1,070,544

k. TRADE AND BILLS RECEIVABLES (CONT'D)

As at 31 December 2019, trade receivables of RMB39,199,000 (2018: RMB21,556,000) were provided for impairment. Movements in the provision for impairment of receivables were as follows:

	2019	*2018*
	RMB'000	*RMB'000*
At 1 January	**21,556**	17,881
Provision for impairment	**17,634**	3,675
Exchange differences	**9**	-
At 31 December	**39,199**	21,556

The maximum exposure to credit risk at the reporting date is the carrying value of trade and bills receivables mentioned above. The Group does not hold any collateral as security.

The carrying amounts of the Group's trade and bills receivables are denominated in the following currencies:

	As at 31 December	
	2019	*2018*
	RMB'000	*RMB'000*
RMB	**873,311**	1,002,163
Hong Kong dollars ("**HKD**")	**120,219**	66,430
United States Dollar	**6,229**	1,898
Others	**1,120**	53
	1,000,879	1,070,544

l. TRADE AND BILLS PAYABLES

As at 31 December 2019, the ageing analysis of trade and bills payables based on invoice date and financial position was as follows:

	As at 31 December	
	2019	*2018*
	RMB'000	*RMB'000*
Within 4 months	**490,012**	475,392
Over 4 months but within 1 year	**87,107**	101,996
Over 1 year but within 2 years	**30,415**	86,236
Over 2 years but within 3 years	**22,197**	529
Over 3 years	**962**	885
	630,693	665,038

Trade payables are unsecured and are usually paid within 120 days of recognition.

The carrying amounts of trade and bills payables are considered to be the same as their fair values, due to their short-term nature.

m. RESERVES

(a) Capital reserve

Capital reserve represents the difference between the amount of share capital issued by the Company and the historical net value of the assets, liabilities and interests transferred to the Company upon its establishment and net premium on issue of shares upon listing of the Company and issuance of additional shares.

(b) Statutory reserves

The Company sets aside 10% of its net profit after income tax, before distribution of dividend to shareholders, as stated in the financial statements prepared under PRC accounting standards to the statutory surplus reserve fund. Approximately RMB55,246,000 (2018: RMB51,208,000), being 10% of the net profit after income tax as stated in the financial statements prepared under PRC accounting standards, was transferred to the statutory surplus reserve fund as at 31 December 2019.

In accordance with the amendment of the Company Law of the PRC on 27 October 2005 effective from 1 January 2006, it is not required to accrue for statutory public welfare fund since the year 2006. The balance together with statutory surplus reserve fund can be used to offset accumulated losses or convert as share capital of the Company.

(c) Tax reserve

According to the preferential enterprise income tax policy for new technology enterprises ("**NTE**") under the old PRC Enterprise Income Tax ("**EIT**") regulation (effective before 1 January 2008), an NTE located in a designated area of Beijing Economic and Technological Development Zone was subject to EIT at a preferential income tax rate of 15%. Moreover, upon approval by the relevant local tax bureau, the Company was entitled to full exemption from EIT from 2000 to 2002 and 50% reduction from 2003 to 2005. An amount for exemption and reduction has to be appropriated to a non-distributable tax reserve. However, the utilisation of the exempted tax is restricted to specified purposes and not distributable to shareholders.

(d) Foreign currency translation differences

Foreign currency translation differences reserve arises from currency translations of all group entities that have a functional currency different from the RMB being translated into the Group's presentation currency of RMB.

(e) Other reserve

Other reserve mainly includes reserves arising from the issuance of additional shares by subsidiaries and disposals to non-controlling interests without change in control.

n. EVENTS OCCURRING AFTER THE REPORTING PERIOD

(a) Impact of COVID-19

Following the outbreak of Coronavirus Disease 2019 ("the **COVID-19** outbreak") in early 2020, a series of precautionary and control measures have been and continued to be implemented across the country, including extension of the Chinese New Year holiday nationwide, postponement of work resumption after the Chinese New Year holiday in some regions, certain level of restrictions and controls over the travelling of people and traffic arrangements, quarantine of certain residents, heightening of hygiene and epidemic prevention requirements in factories and offices, etc. Management has taken relevant actions to minimise the unfavourable impact to the Group. The Group will pay close attention to the development of the COVID-19 outbreak and evaluate its impact on the financial position and operating results of the Group.

(b) Acquisition of Beijing Tong Ren Tang Medicine Processing Base

On 4 November 2019 and 30 December 2019, with the approval of the Board the Company entered into the asset transfer agreement and supplemental asset transfer agreement with the ultimate holding company. The Company has agreed to purchase Beijing Tong Ren Tang Medicine Processing Base (including land use right and building ownership) with the consideration of RMB640,681,910 (tax inclusive), which was approved and confirmed at the extraordinary general meeting of the Company on 17 February 2020.

FINAL DIVIDEND

The Board proposed a final dividend for the year ended 31 December 2019 (the "**Final Dividend**") of RMB0.16 (including tax) per share based on the total number of the Company's issued and fully paid-up shares of 1,280,784,000 as at the end of 2019, totaling RMB204,925,440 (2018: a final dividend for the year ended 31 December 2018 of RMB0.18 (including tax) per share based on the total number of the Company's issued and fully paid-up shares of 1,280,784,000, totaling RMB230,541,120). The profit distribution proposal is subject to the approval by the shareholders at the 2019 AGM of the Company.

As of the date of this announcement, no arrangement was reached pursuant to which the shareholders of the Company waived or agreed to waive any dividend.

ANNUAL GENERAL MEETING

The 2019 AGM will be held on Thursday, 18 June 2020.

Closure of Register of Members of H Shares

As for the convening of the 2019 AGM, the register of members of H shares of the Company will be closed from Tuesday, 19 May 2020 to Thursday, 18 June 2020 (both days inclusive), during which time no transfer of H shares of the Company will be registered. Holders of H shares whose names appear on the register of the Company maintained by Hong Kong Registrars Ltd., the H share registrar and transfer office of the Company in Hong Kong, and holders of domestic shares whose names appear on the register of the Company on Tuesday , 19 May 2020 shall be entitled to attend the 2019 AGM. In order to be qualified for attending and voting at the 2019 AGM, all transfer documents of the holders of H shares of the Company must be lodged with the Company's H share registrar and transfer office, Hong Kong Registrars Limited at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, no later than 4:30 p.m., on Monday, 18 May 2020.

As for the payment of the Final Dividend, if the relevant proposal is approved by the shareholders at the 2019 AGM, the register of members of H shares of the Company will be closed from Wednesday, 24 June 2020 to Monday, 29 June 2020 (both days inclusive), during which time no transfer of H shares of the Company will be registered. Holders of H shares whose names appear on the register of the Company maintained by Hong Kong Registrars Ltd., the H share registrar and transfer office of the Company in Hong Kong, and holders of domestic shares whose names appear on the register of the Company on Monday , 29 June 2020 shall be qualified to the Final Dividend. In order to be qualified for the payment of the Final Dividend, all transfer documents of the holders of H shares of the Company must be lodged with the Company's H share registrar and transfer office, Hong Kong Registrars Limited at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, no later than 4:30 p.m. on Tuesday, 23 June 2020. The Company is expected to complete the dividend distribution on or before 31 August 2020.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

In 2019, affected by intensified market competition, internal industrial layout adjustment and increase in costs, the Group had to cope with sustained pressure in the process of production and operation, which led to declines in revenue and profits. For the year ended 31 December 2019, the Group's sales revenue amounted to RMB4,476,449,000, representing a decrease of 11.53% as compared with RMB5,059,638,000 for the corresponding period last year; net profit amounted to RMB741,390,000, representing a decrease of 26.29% from RMB1,005,853,000 for the corresponding period of last year; net profit attributable to the owners of the Company amounted to RMB417,650,000, representing a decrease of 38.38% as compared with RMB677,815,000 for the corresponding period last year.

2019 was a year of transition from the old to the new production capacity. Since the beginning of the first quarter, the Company has been facing a shortage of production and supply of a number of series of products. The existing production lines of pills, liquid preparations and other products in Yizhuang factory and Liujiayao factory were required to undergo GMP (Good Manufacturing Practice) re-certification. The two new production bases, namely Tong Ren Tang Technologies (Tangshan) Co. Ltd. ("**Tong Ren Tang Technologies Tangshan**") in Yutian County in Tangshan City of the Hebei Province and the Tong Ren Tang Technologies Daxing Production Base ("**Daxing Branch Factory**") located in Da Xing Bio-Pharma Industrial Base of Zhongguancun Technology Park District, Beijing, passed the GMP certification in April and July in 2019, respectively, but due to the time needed for product transfer from the old to the new production base, production connection and commissioning of the new production lines, the two new production bases only commenced operation in the second half of 2019, and the production capacities have not yet been released. As a result, the Company's overall production volume during the Reporting Period was limited, leading to a decline in the total production volume of Chinese patent medicine in 2019 by more than approximately 20% as compared with the corresponding period last year. The production progress of dosage products including pills and liquid preparation was particularly affected, which directly led to a decline in the production volume of major products such as Liuwei Dihuang Pills (六味地黃丸) series and Jinkui Shenqi Pills (金匱腎氣丸) series, and thus decreases in revenue and profits.

Despite all the pressures and difficulties, the Company remained optimistic and actively pushed forward production layout adjustment based on its own strengths and advantages, with a focus on a long-term and healthy development in the future. In the second half of 2019, based on the future development orientation and production planning, the Company transferred the production of certain products such as Liuwei Dihuang Pills(六味地黃丸), Xihuang Pills (西黃丸), and Shengmai Liquor Oral Liquid (生脈飲口服液) to Tong Ren Tang Technologies Tangshan and Daxing Branch Factory. In the above two new production bases, production lines of pills, liquid preparations and other products successively commenced operation. At this point, the Group's production of traditional Chinese medicine products has begun to form a new pattern connecting Beijing and Hebei. Increasingly stable product supply is expected to provide foundation of sufficient materials for the Company's overall development in the future.

Meanwhile, the continuous growth in raw material procurement cost and energy consumption cost, coupled with the ever-increasing industrial operating cost and rising unit manufacturing cost as a result of the commencement of operation of Daxing Branch Factory and Tong Ren Tang Technologies Tangshan, as well as the increased depreciation expenses of fixed assets, have led to a decline in profits of the Group compared with the same period last year.

Production and supply issues and market competition also affected product performance. The number of products that achieved a sales amount of more than RMB5 million of the Group decreased from 53 last year to 51 in 2019. The number of products that achieved a sales amount of more thanRMB100 million was 9, which was the same as last year. Among our major products, the sales amount of Liuwei Dihuang Pills (六味地黃丸) series, Niuhuang Jiedu Tablets (牛黃解毒片) series and Xihuang Pills (西黃丸) series decreased by 40.50%, 6.01% and 17.42%, respectively, as compared with the corresponding period last year. The sales amount of Ganmao Qingre Granules (感冒清熱顆粒) series, Ejiao (阿膠) series and Jiawei Xiaoyao Pills(加味逍遙丸) series increased by 5.02%,1.56%and 18.26%, respectively, as compared with the corresponding period last year. In particular, Ejiao (阿膠) series still lack sales momentum in retail terminals. To this end, the Company actively adjusted marketing strategies, optimized channel structure, and continuously increased sales efforts in order to reduce channel inventory and drive terminal sales.

During the year, the Company closely focused on the main idea of "quality management enhancement", consolidated the foundation of development, forged ahead, continued to intensify the reform of marketing system, took into consideration the prospect of industrial development and the characteristics of its own operation, further improved the marketing organizational structure, established four product divisions and enhanced multi-directional control of products. Meanwhile, the Company established sales promotion management department and strategic cooperation business department, and gradually improved market operation capacity and operation quality. Faced with insufficient production and supply, the Company adopted a model of direct connection of sales information with first-tier and second-tier distributors, effectively strengthened the cooperation with key customers and in terms of products, collaborated with large pharmaceutical chain companies, promoted terminal promotions, and sought breakthroughs in individual products as sales growth drivers.

In terms of scientific research on products, the Company is mainly committed to conducting secondary scientific research on existing products, taking into consideration of the curative effects of existing products and exploring the potential of technological improvement and upgrading. During the year, the Company continued to explore the characteristics of famous and outstanding products and selected Jiawei Xiaoyao Pills (加味逍遙丸) as a representative product to undergo systematic and thorough study on its curative effect on functional dyspepsia and premenstrual syndrome in order to provide reasonable guidance for clinical medication; conducted in-depth research on the anti-tumor function of Xihuang Pills (西黃丸), to provide modern scientific support for its effective inhibition of growth of tumor cells of esophageal cancer and breast cancer through multiple approaches such as inhibiting the proliferation of tumor cells and inducing apoptosis in tumor cells, and to highlight its advantages in clinical application. Also, the production process and therapeutic use of other products such as Anshen Jiannao Liquor (安神健腦液) and Ertong Qingre Liquid (兒童清熱口服液) were granted five national invention patents, which provides patent protection from the perspective of intellectual property rights.

The Company has over 40 domestic and overseas substantial subsidiaries which are engaged in manufacturing and distribution of traditional Chinese medicine products, food and daily chemical products, production of Chinese medical raw materials, medical services, distribution of medicine, etc.. In particular, located in Hong Kong, our principal subsidiary Tong Ren Tang Chinese Medicine, primarily engaged in manufacturing, retail and wholesale of Chinese medicine products outside Mainland China. Tong Ren Tang Chinese Medicine adopts a strategy of driving medicine demand by providing medical services and promoting culture at first with its base in Hong Kong to build a global layout, aiming to continuously accelerate the internationalization of traditional Chinese medicine. During the Reporting Period, due to the social event in Hong Kong, consumption sentiment of tourists visiting Hong Kong and the public was weakened and retail sector in Hong Kong was hit hard. Tong Ren Tang Chinese Medicine was also unfavorably impacted. Faced with a complex situation and economic environment, Tong Ren Tang Chinese Medicine adhered to a prudent but expansive operation strategy, exercised strict control over product quality, optimized business layout, and strived to overcome the adverse effects caused by various factors. As of 31 December 2019, it established 71 retail terminals in 20 countries and regions outside Mainland China, with a view to building a global network by anchoring in Hong Kong, marching to overseas and cultivating the main stream. As of 31 December 2019, the sales revenue of Tong Ren Tang Chinese Medicine and its subsidiaries was RMB1,262,714,000, representing a decrease of 1.69% as compared with the corresponding period last year; net profit attributable to owners of the Company amounted to RMB186,211,000, representing a decrease of 0.46% as compared with the corresponding period of last year.

Founded in 2001, Tong Ren Tang WM has been devoted to the combination of natural herbal plants and modernization of Chinese medicines and the application thereof, whose main products are masks, creams and daily chemical products. During the Reporting Period, the development of Tong Ren Tang WM was obstructed at retail pharmacy channels in various provinces and cities in China, with a decline in sales, resulting in a backlog of products in retail pharmacy channels. To this end, Tong Ren Tang WM actively adjusted its sales strategy, pushed forward channel transformation, and accelerated the expansion of non-retail pharmacy channels such as supermarkets and e-commerce. During the year, sales on e-commerce platforms increased compared to the previous year, but due to limited scale of product sales and higher channel expansion costs, the benefits brought about by the channel expansion have not yet appeared. As of 31 December 2019, the sales revenue of Tong Ren Tang WM was RMB83,742,000, representing a year-on-year decrease of 37.21%; net loss amounted to RMB1,471,000.

Tong Ren Tang Second Traditional Chinese Medicine Hospital and Nansanhuan Zhonglu Drugstore are wholly-owned medical institution and retail pharmacy of the Company. The two companies adhere to Tong Ren Tang's service principle of "Benefiting the Mankind", and serve customers with kindness. During the year, Tong Ren Tang Second Traditional Chinese Medicine Hospital recorded an increase in overall operating cost and a decrease in gross profit margin, which greatly affected profitability. As of 31 December 2019, the two companies jointly achieved sales revenue of RMB237,491,000, representing a year-on-year increase of 2.79% and net profit reached RMB11,818,000, representing a year-on-year decrease 31.01%.

Six subsidiaries that engage in planting continued to capitalize on their geographical advantages, based on the local geographical and climatic characteristics, followed the planting principle of "planting and harvesting specific to places of origin and seasons" and adopted the partnership planting model based on actual needs of the Company, which ensured the stability of quality and quantity of major medicinal materials including Cornel, Tuckahoe, catnip, Corydalis Bungeanae and Cortex Moutan. Meanwhile, the subsidiaries continued to explore the advantages of native medicinal materials. As at 31 December 2019, six subsidiaries engaging in production of Chinese medicinal raw materials recorded an aggregate sales revenue of RMB202,455,000, representing a year-on-year decrease of 2.31%, and net profit of RMB12,762,000, representing a year-on-year decrease of 22.24%.

Financial Review

Liquidity and Financial Resources

The Group has maintained a sound financial position. During the year of 2019, the Group's primary source of funds was cash generated from daily operating activities and borrowings.

The Group mainly uses Renminbi and Hong Kong dollars to make borrowings and loans and to hold cash and cash equivalents.

As at 31 December 2019, the Group's cash and cash equivalents amounted to RMB2,990,645,000 in total (31 December 2018: RMB1,904,036,000).

As at 31 December 2019, the Group's short-term borrowings amounted to RMB35,000,000 (31 December 2018: RMB195,000,000), carrying an interest rate of 4.534% per annum (2018: 4.501%), and current portion of non-current bank borrowing amounted to RMB105,198,000 (31 December 2018: RMB5,146,000), totally accounting for 4.59% of the total liabilities (31 December 2018: 8.03%). Long-term borrowings amounted to RMB1,223,571,000 (31 December 2018: RMB911,331,000), bearing annual interest rate of long-term borrowings at 2.660% (2018: 1.202%), and the actual annual interest rate of bonds was 3.008% (2018: 3.008%), long-term borrowings representing 40.05% of the total liabilities (31 December 2018: 36.56%). Of all the borrowings of the Group as at 31 December 2019, RMB140,198,000 will mature within one year and RMB1,223,571,000 will mature beyond one year.

On 31 July 2016, the Company issued corporate bonds on Shanghai Stock Exchange with aggregate principal amount of RMB800 million, a maturity of five years and a nominal interest rate of 2.95% per annum, also with the issuer's option to adjust the coupon rate and the investor's resale option at the end of the third year. On 14 June 2019 and 26 June 2019, the Company published announcements of the implementation of resale and resale results on the websites of the Shanghai Stock Exchange respectively, which showed that no investor had resold the Bonds to the Company. On 19 June 2019, the Company published an announcement on the website of the Shanghai Stock Exchange, in which the Company decided to raise the coupon rate of the fourth year and the fifth year (from 31 July 2019 to 30 July 2021) to 4.35% with the method of interest calculation and interest payment method remaining unchanged. The fair value of the bonds as at 31 December 2019 amounted to RMB811,600,000 (2018: RMB796,143,000) which is determined by reference to published price.

Capital Structure

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

As at 31 December 2019, the total assets of the Group amounted to RMB10,469,970,000 (31 December 2018: RMB9,769,866,000). The funds of the Group comprised non-current liabilities of RMB1,365,734,000 (31 December 2018: RMB1,000,690,000), current liabilities of RMB1,689,662,000 (31 December 2018: RMB 1,492,327,000), equity attributable to owners of the Company of RMB5,527,255,000 (31 December 2018: RMB5,316,652,000) and non-controlling interests of RMB1,887,319,000 (31December 2018: RMB1,960,197,000).

In 2019, the Group's funds were mainly used for production and operation activities, construction projects, purchase of property, plant and equipment, repayment of borrowings and payment of cash dividends, etc..

Liquidity

As at 31 December 2019, the Group's liquidity ratio (the ratio of current assets to current liabilities) was 4.49 (31 December 2018: 4.95), reflecting that the Group had sufficient financial resources. The Group's quick ratio (the ratio of liquid assets to current liabilities) was 3.04 (31 December 2018: 3.30), reflecting that the Group remained liquid. The Group's trade receivables turnover ratio (the ratio of revenue to the average of trade receivables balance) was 8.87 (31 December 2018: 11.43), reflecting that the Group's trade receivables were liquid. The Group's trade payables turnover ratio (the ratio of cost of sales to the average of trade payables balance) was 3.92 (31 December 2018: 3.98), reflecting that the Group had a relatively strong ability to use funding from suppliers for nil consideration. The Group's inventory turnover ratio (the ratio of revenue to the average of inventory balance) was 1.91 (31 December 2018: 2.17), reflecting that the inventory had a high turnover rate.

Gearing Ratios

The Group monitors its capital on the basis of the gearing ratio. As at 31 December 2019, the Group's gearing ratio (the ratio of total borrowings to equity attributable to owners of the Company) was 0.25 (31 December 2018: 0.21).

Expenses and Expense Ratio

As of 31 December 2019, the Group's distribution expenses amounted to RMB718,684,000 (2018: RMB866,651,000) and the distribution expense ratio, i.e. the ratio of distribution expenses to revenue, was 0.16 (2018: 0.17). The decrease in distribution expenses was mainly due to the decrease in business promotion and marketing expenses arising from advertising, exhibition promotion, etc..

As of 31 December 2019, the Group's administrative expenses amounted to RMB397,551,000 (2018: RMB364,248,000) and the administrative expense ratio, i.e. the ratio of administrative expenses to revenue, was 0.09 (2018: 0.07). The increase in administrative expenses was mainly due to the increase in depreciation and amortisation of long-term assets.

As of 31 December 2019, the Group's financial income amounted to RMB6,814,000 (2018: RMB17,067,000) and the financial income ratio, i.e. the ratio of financial income to revenue, was 0.0015 (2018: 0.0034). The decrease in financial income was mainly due to the increase in finance costs.

Gross Margin and Net Profit Margin

As of 31 December 2019, the gross margin of the Group was 45.90% (2018: 47.99%), while the net profit margin was 16.56% (2018: 19.88%).

Research and Development Expenses

As of 31 December 2019, the research and development expenses (excluding employee benefit expense, depreciation and amortisation expense) of the Group were RMB28,316,000 (2018: RMB27,835,000), accounting for 0.38% of net assets (2018: 0.38%) and 0.63% of revenue (2018: 0.55%), respectively. The research and development expenses including employee benefit expense, depreciation and amortisation expense were RMB61,248,000 (2018: RMB55,889,000), accounting for 0.83% of net assets (2018: 0.77%) and 1.37% of revenue (2018: 1.10%), respectively.

Capital Expenditure

For the year ended 31 December 2019, the Group's capital expenditure incurred amounted to RMB276 million (2018: RMB379 million), primarily used for the construction of production base.

Pledges over Assets of the Group

As at 31 December 2019, RMB9,438,000 (31 December 2018: RMB9,562,000) of the Group's assets was pledged as security for long-term borrowing of RMB49,000 (31 December 2018: RMB48,000).

Contingent Liabilities

The Group had no contingent liabilities as at 31 December 2019 (31 December 2018: Nil).

Foreign Currency Risk

The Group operates internationally and foreign exchange risk arising from trading business, recognised assets and liabilities, and net investments in foreign operations, primarily related to the HKD. The Group currently does not have a foreign currency hedging policy. The Group mainly manages its foreign currency risk by closely monitoring the fluctuation of the exchange rates.

Capital Commitments

As at 31 December 2019, the capital commitments of the Group relating to the constructions of production facilities, which had been contracted for but had not been reflected in the consolidated financial statements of the Group, amounted to approximately RMB215,523,000 (31 December 2018: RMB245,914,000).

Significant Investment

During the year of 2019, the Group did not have any significant investment. As of the date of this announcement, the Group does not have any plan for material investments or purchase of capital assets.

Material Acquisition and Disposal of Subsidiaries, Joint Ventures and Associates

During the year of 2019, the Group did not have any material acquisition and disposal in relation to subsidiaries, joint ventures and associates.

Prospects

In the future, the Group will unswervingly follow the path of high quality development, enhance performance of the "quality management enhancement year", and thoroughly implemented the philosophies of "strengthening Party construction and promoting business, strengthening management and promoting development", exercise more effective control on production, supply and marketing, promote enhancement through adjustment and promote development through reform, to ensure a successful conclusion of the “13th Five-Year Plan” and lay a solid foundation for a good start for the “14th Five-Year Plan”.

In the beginning of 2020, the epidemic broke out in a number of provinces and cities across the country. In order to control the spread of the epidemic, the Chinese government adopted various emergency public health measures in a timely manner, including measures to suspend production, restriction on work resumption, and home isolation during the epidemic. Since the outbreak of the epidemic, the Group has paid close attention to its development and changes, acted in concert with the national epidemic prevention and control work, resumed production, marketing, logistics and distribution systems in an orderly manner, and initiated and implemented a series of prevention and control measures as soon as resumption of work to safeguard the health and safety of employees. While carrying out its own epidemic prevention and control work, the Group has also guaranteed the supply of medicines during the epidemic. At the same time, in order to render positive support for the prevention and control of the epidemic and fulfil the responsibilities of a state-owned enterprise, the Group has actively donated products such as Chinese patent medicines to Beijing Charity Association and other organizations to help the Communist Party and China win the fight against the epidemic.

Meanwhile, the Chinese government has attached great importance to the characteristics and advantages of traditional Chinese medicine in the prevention and control of outbreaks. Huoxiang Zhengqi Liquid (藿香正氣水) and other products manufactured by the Group have also been included in the national “Diagnosis and Treatment Plan for the Novel Coronavirus Pneumonia” (新型冠狀病毒感染的肺炎診療方案).To this end, the Group will make more rapid response to market demand, actively carry out activities under the theme of "Caring for Family and Caring for Health", keep track of market development trends and adopt a product-centric strategy. In respect of the four stages of "prevention, control, resistance, and maintenance" of traditional Chinese medicine for the treatment of new coronavirus pneumonia, the Group has systematically selected more than 30 kinds of products for treatment for cold, heat alleviating and health boosting , including Fangfeng Tongsheng Pills (防風通聖丸), Ganmao Qingre Granules (感冒清熱顆粒), Banlangen Granules(板藍根顆粒), Qiguanyan Pills (氣管炎丸), Xiaoer Qingrening Granules (小兒清熱寧顆粒), Linyang Jiedu Pills(羚羊解毒丸), Buzhong Yiqi Pills (補中益氣丸), formulated operation plans for each products based on the characteristics of efficacy, continue to enhance cooperation with distributors and retailers at all tiers, and will strive to drive product sales.

With the successive commencement of operation of the two new production bases in Daxing Branch Factory and Tong Ren Tang Technologies Tangshan, the Group's industrial layout adjustment has begun to take shape. In order to satisfy market demand, the Group will continuously strengthen the capability of overall production scheduling, put advance arrangements in place from the aspects of equipment, technology and materials based on the characteristics of various products, dosage forms, processes and industrial units, and exercise flexible control on the pace of production and the order of production scheduling so as to create synergy among products and seek new breakthroughs in production capacity and volume.

In the future, with a pragmatic and honest attitude, the Group will continue to strengthen the political leadership of the Communist Party and enhance marketing capabilities, production and supply capabilities and basic management capabilities, laying a solid foundation for a healthy, sustainable, and stable high-quality development of the Group.

OTHER INFORMATION

Competing Interests

Competition with Tong Ren Tang Ltd. and Tong Ren Tang Holdings

Both the Company and Beijing Tong Ren Tang Company Limited ("**Tong Ren Tang Ltd.**") engage in the production and sale of Chinese patent medicines, but the principal products of them are different. Tong Ren Tang Ltd. mainly produces Chinese patent medicines in traditional dosage forms such as honeyed pills, powder, ointment and medicinal wines. Tong Ren Tang Ltd.'s main products include Angong Niuhuang Pills (安宮牛黃丸), Tongren Dahuoluo Pills (同仁大活絡丸), Tongren Wuji Baifeng Pills (同仁烏雞白鳳丸) and Guogong Wine (國公酒) . It also has some minor production lines for the production of granules and water honeyed pills. These products do not compete with the Group in terms of their curative effects. The Company focuses on manufacturing products in new dosage forms which are more competitive as compared with western medicine. The Company's main products include Liuwei Dihuang Pills (六味地黃丸), Niuhuang Jiedu Tablet (牛黃解毒片), Ganmao Qingre Granule (感冒清熱顆粒), and Jinkui Shenqi Pills (金匱腎氣丸), etc.. China Beijing Tong Ren Tang Group Co., Ltd. ("**Tong Ren Tang Holdings**") is an investment holding company.

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

Save as disclosed above, the Directors confirm that none of the other products of the Company is in direct competition with Tong Ren Tang Ltd. or Tong Ren Tang Holdings.

Right of First Refusal

To procure that the Company focuses on the development of the four major forms of products (namely granules, water honeyed pills, tablets and soft capsules), Tong Ren Tang Holdings and Tong Ren Tang Ltd. have granted the Company, pursuant to the October Undertaking, a right of first refusal to manufacture and sell any of the new products which is developed by Tong Ren Tang Holdings, Tong Ren Tang Ltd. or any of their respective subsidiaries and which is one of the four main forms of the Company. Upon exercise of the right of first refusal, both Tong Ren Tang Ltd. and Tong Ren Tang Holdings or their respective subsidiaries are not allowed to manufacture any of such new products. In the event the Company develops any new product based on the existing products of Tong Ren Tang Holdings, Tong Ren Tang Ltd. or their respective subsidiaries, and such new product is one of the major forms of products forms of the Company, the Company will be entitled to manufacture such new product and none of Tong Ren Tang Holdings, Tong Ren Tang Ltd. or their respective subsidiaries will be allowed to manufacture such new product. The Directors believe that the above undertaking would clarify that both Tong Ren Tang Ltd. and Tong Ren Tang Holdings would support the Company in its development of the four major forms of products in the future.

In the event that the Company refuses the right of first refusal offered by Tong Ren Tang Ltd. or Tong Ren Tang Holdings, the terms of the option to be offered to an independent third party should not be more favourable than those originally offered to the Company, failing which the Company should be given an opportunity to re-consider the option under the new terms. The above undertaking would no longer be valid in the event that the direct or indirect aggregate shareholdings of Tong Ren Tang Holdings or Tong Ren Tang Ltd. in the Company fall below 30%.

The Company and the independent non-executive Directors have confirmed upon the review: during the year 2019, Tong Ren Tang Ltd. and Tong Ren Tang Holdings have provided all information necessary to the independent non-executive Directors for their annual review and report on their fulfillment on the October Undertaking. Tong Ren Tang Ltd. and Tong Ren Tang Holdings have fulfilled their undertakings on the relevant right of first refusal granted to the Company on their existing or future competing businesses. Tong Ren Tang Ltd. and Tong Ren Tang Holdings have made annual declarations on compliance with the October Undertaking. For details, please refer to the 2019 annual report to be published by the Company soon.

CORPORATE GOVERNANCE

The Board believes that a good and steady framework of corporate governance is extremely important for the development of the Company. The Company has adopted the principles and standards contained in the Corporate Governance Code (the "**Code**") as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange (the "**Listing Rules**") as the Company's standards, and combined them with its own experience, aiming to establish a good corporate governance structure. For the year ended 31 December 2019, the Company had always strictly complied with the code provisions in the Code.

AUDIT COMMITTEE

The Company has set up an Audit Committee with specific written terms of reference and duties pursuant to the relevant requirements of the Listing Rules and "A Guide For The Formation of An Audit Committee" complied by the Hong Kong Institute of Certified Public Accountants. Its primary duties are to review and monitor the completeness and effectiveness of the Company's financial information, risk management and internal control system, and review the Company's annual and interim results and other related documents.

The Audit Committee comprises the independent non-executive Directors, being Mr. Ting Leung Huel, Stephen, Ms. Chan Ching Har, Eliza and Mr. Zhan Yuan Jing, of which Mr. Ting Leung Huel, Stephen, the Chairman of the committee, possesses appropriate professional qualification and financial experience, which is fully complied with the requirements under Rule 3.21 of the Listing Rules.

During the year of 2019, the Audit Committee convened two meetings. The first meeting was held on 18 March 2019 to review and discuss the operating results, financial position and major accounting policies contained in the audited financial statements of the Group for the year ended 31 December 2018 as well as matters in relation to risk management, legal compliance and internal audit, and to listen to the result of audit reported by the auditors. The Audit Committee concluded the meeting with agreement to the contents of the 2018 annual report. The second meeting was held on 20 August 2019 to review and discuss the operating results, financial position and major accounting policies contained in the unaudited financial statements of the Group for the six months ended 30 June 2019 as well as matters in relation to risk management, legal compliance and internal audit. The Audit Committee concluded the meeting with agreement to the contents of the 2019 interim report.

In addition, the Audit Committee reviewed the effectiveness of the Company's financial control, internal control and risk management; made recommendation to the Board on matters relating to the reappointment of the auditors; and held separate meetings with the auditors to discuss matters relating to its audit fees and other issues arising from the audit.

At the meeting held on 20 March 2020, the Audit Committee reviewed and discussed the operating results, financial position and major accounting policies contained in the audited financial statements of the Group for the year ended 31 December 2019, as well as matters in relation to risk management, legal compliance and internal audit, and reviewed the effectiveness of risk management and internal control systems as well as internal audit, and to listened to the results of audit reported by the auditors. The Audit Committee concurred in the contents of the 2019 annual result and annual report.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

For the year ended 31 December 2019, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

AUDITORS

PricewaterhouseCoopers ("**PwC**") was appointed as the overseas auditor of the Company for the year ended 31 December 2019. The figures in respect of the results announcement of the Group for the year ended 31 December 2019 have been agreed by PwC, to the amounts set out in the Group's consolidated financial statements for the year ended 31 December 2019.

PUBLICATION OF THE ANNUAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This results announcement will be published on the Company's website (www.tongrentangkj.com) and the website of the Hong Kong Stock Exchange (www.hkexnews.com.hk). The Company will dispatch the 2019 annual report containing all information as required by the Listing Rules to the shareholders in due course, and will publish the same on the websites of the Company and the Hong Kong Stock Exchange.

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

Beijing, the PRC
30 March 2020

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