天大藥業有限公司
TIANDA PHARMACEUTICALS LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 00455)

ANNUAL RESULTS ANNOUNCEMENT
FOR THE YEAR ENDED 31 MARCH 2020

HIGHLIGHTS

Revenue was approximately HK$491,500,000 (FYE 2019: approximately HK$527,000,000), representing a decrease of 6.7%.

Gross profit margin was at 73.5% (FYE 2019: 80.5%), representing a decrease of 7.0 percentage points.

Profit attributable to owners of the parent was approximately HK$3,100,000 (FYE 2019: approximately HK$2,700,000), representing an increase of 18.3%.

The Group's financial position remains strong with structured deposits, short term bank deposits and cash of approximately HK$315,900,000 (31 March 2019: approximately HK$451,100,000).

The Board of Directors has recommended the payment of a final dividend of HK0.13 cents per share (FYE 2019: HK0.11 cents per share).

The Board of Directors of Tianda Pharmaceuticals Limited (the Company) is pleased to announce the consolidated results of the Company and its subsidiaries (the Group) for the year ended 31 March 2020, together with comparative figures for the previous year, as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 March 2020

	Notes	**2020** *HK$*	2019 *HK$*
REVENUE	3	**491,475,099**	527,002,819
Cost of sales		**(130,461,240)**	(102,923,092)
Gross profit		**361,013,859**	424,079,727
Other income, gains and losses		**6,830,824**	16,934,667
Selling and distribution expenses		**(282,232,399)**	(344,673,402)
Administrative expenses		**(67,806,657)**	(63,258,048)
Research and development expenses		**(1,503,925)**	(6,915,847)
Finance costs		**(373,944)**	–
PROFIT BEFORE TAX		**15,927,758**	26,167,097
Income tax expense	4	**(7,127,552)**	(10,184,154)
PROFIT FOR THE YEAR		**8,800,206**	15,982,943
OTHER COMPREHENSIVE LOSS			
Other comprehensive loss that will not be reclassified to profit or loss in subsequent periods:			
Changes in fair value of equity investments designated at fair value through other comprehensive income		**(7,684,127)**	(8,788,452)
Exchange differences on translation of the Company's financial statements		**(9,347,577)**	(11,051,043)
		(17,031,704)	(19,839,495)
Other comprehensive loss that may be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations		**(40,606,598)**	(48,364,452)
OTHER COMPREHENSIVE LOSS FOR THE YEAR		**(57,638,302)**	(68,203,947)
TOTAL COMPREHENSIVE LOSS FOR THE YEAR		**(48,838,096)**	(52,221,004)

	Note	2020 HK$	2019 HK$
Profit for the year attributable to:			
Owners of the parent		**3,142,995**	2,657,173
Non-controlling interests		**5,657,211**	13,325,770
		8,800,206	15,982,943
Total comprehensive (loss)/income attributable to:			
Owners of the parent		**(52,060,984)**	(62,804,615)
Non-controlling interests		**3,222,888**	10,583,611
		(48,838,096)	(52,221,004)
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	6		
Basic and diluted		**HK0.146 cents**	HK0.124 cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 March 2020

	Notes	**2020**	2019
		HK$	*HK$*
NON-CURRENT ASSETS			
Property, plant and equipment		**169,904,578**	95,560,915
Right-of-use assets		**40,689,342**	–
Prepaid land lease payments		**–**	38,248,463
Goodwill		**95,014,628**	104,827,352
Other intangible assets		**30,506,557**	28,486,293
Deposit for acquisition of items of property, plant and equipment		**1,882,893**	160,260
Equity investments designated at fair value through other comprehensive income		**1,306,520**	8,990,647
Total non-current assets		**339,304,518**	276,273,930
CURRENT ASSETS			
Inventories		**48,374,124**	48,776,986
Trade and bills receivables	7	**91,365,463**	78,289,710
Prepayments, deposits and other receivables		**14,053,622**	8,836,915
Prepaid land lease payments		**–**	863,203
Structured deposits		**3,904,728**	57,954,216
Cash and cash equivalents		**302,018,369**	384,908,930
		459,716,306	579,629,960
Assets of a disposal group classified as held for sale		**134,101,692**	140,864,684
Total current assets		**593,817,998**	720,494,644

	Notes	**2020** **HK$**	2019 HK$
CURRENT LIABILITIES			
Trade payables	8	**28,797,036**	31,801,584
Other payables and accruals		**90,710,463**	108,856,655
Interest-bearing bank borrowings	9	**607,735**	–
Lease liabilities		**4,331,556**	–
Due to a fellow subsidiary		**589,478**	690,501
Due to a non-controlling shareholder		**–**	14,505,712
Tax payable		**6,369,883**	7,757,339
		131,406,151	163,611,791
Liabilities directly associated with the assets classified as held for sale		**13,592,266**	14,551,017
Total current liabilities		**144,998,417**	178,162,808
NET CURRENT ASSETS		**448,819,581**	542,331,836
TOTAL ASSETS LESS CURRENT LIABILITIES		**788,124,099**	818,605,766
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings	9	**19,609,029**	–
Lease liabilities		**685,188**	–
Deferred income		**388,878**	531,247
Deferred tax liabilities		**7,678,216**	7,108,589
Total non-current liabilities		**28,361,311**	7,639,836
NET ASSETS		**759,762,788**	810,965,930
EQUITY			
Equity attributable to owners of the parent			
Share capital		**215,004,188**	215,004,188
Reserves		**507,772,367**	562,198,397
		722,776,555	777,202,585
Non-controlling interests		**36,986,233**	33,763,345
TOTAL EQUITY		**759,762,788**	810,965,930

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2020

1. BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (HKFRSs) (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (HKASs) and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants (HKICPA), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for equity investments designated at fair value through other comprehensive income, structured deposits and bills receivables which have been measured at fair values. The disposal group held for sale is stated at the lower of its carrying amount and fair value less costs to sell. These financial statements are presented in Hong Kong dollars ("HK$").

2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements.

Amendments to HKFRS 9	*Prepayment Features with Negative Compensation*
HKFRS 16	*Leases*
Amendments to HKAS 19	*Plan Amendment, Curtailment or Settlement*
Amendments to HKAS 28	*Long-term Interests in Associates and Joint Ventures*
HK(IFRIC)-Int 23	*Uncertainty over Income Tax Treatments*
Annual Improvements to 2015-2017 Cycle	Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23

Except for the amendments to HKFRS 9, HKAS 19, HKAS 28 and *Annual Improvements to HKFRSs 2015-2017 Cycle*, which are not relevant to the preparation of the Group's financial statements, the nature and the impact of the new and revised HKFRSs are described below:

(a) HKFRS 16 replaces HKAS 17 *Leases*, HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease*, HK(SIC)-Int 15 *Operating Leases - Incentives* and HK(SIC)-Int 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model to recognise and measure right-of-use assets and lease liabilities, except for certain recognition exemptions. Lessor accounting is not relevant to the Group as there are no lease arrangements where the Group is the lessor.

The Group has adopted HKFRS 16 using the modified retrospective method with the date of initial application of 1 April 2019. Under this method, the standard has been applied retrospectively with the cumulative effect of initial adoption recognised as an adjustment to the opening balance of retained profits at 1 April 2019, and the comparative information for 31 March 2019 was not restated and continued to be reported under HKAS 17 and related interpretations.

New definition of a lease

Under HKFRS 16, a contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to obtain substantially all of the economic benefits from use of the identified asset and the right to direct the use of the identified asset. The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 at the date of initial application. Contracts that were not identified as leases under HKAS 17 and HK(IFRIC)-Int 4 were not reassessed. Therefore, the definition of a lease under HKFRS 16 has been applied only to contracts entered into or changed on or after 1 April 2019.

As a lessee – Leases previously classified as operating leases

Nature of the effect of adoption of HKFRS 16

The Group has lease contracts for various items of property. As a lessee, the Group previously classified leases as either finance leases or operating leases based on the assessment of whether the lease transferred substantially all the rewards and risks of ownership of assets to the Group. Under HKFRS 16, the Group applies a single approach to recognise and measure right-of-use assets and lease liabilities for all leases, except for one elective exemption for leases of leases with a lease term of 12 months or less ("short-term leases") (elected by class of underlying asset). Instead of recognising rental expenses under operating leases on a straight-line basis over the lease term commencing from 1 April 2019, the Group recognises depreciation (and impairment, if any) of the right-of-use assets and interest accrued on the outstanding lease liabilities (as finance costs).

Impact on transition

Lease liabilities at 1 April 2019 were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at 1 April 2019. The right-of-use assets were measured at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the statement of financial position immediately before 1 April 2019.

All these assets were assessed for any impairment based on HKAS 36 on that date. The Group elected to present the right-of-use assets separately in the statement of financial position. This includes the lease assets recognised previously under operating leases of HK$39,111,666 that were reclassified from prepaid land lease payments.

The Group has used the following elective practical expedients when applying HKFRS 16 at 1 April 2019:

- Applying the short-term lease exemptions to leases with a lease term that ends within 12 months from the date of initial application

Financial impact at 1 April 2019

The impact arising from the adoption of HKFRS 16 at 1 April 2019 was as follows:

	Increase/ (decrease) *HK$*
Assets	
Increase in right-of-use assets	48,063,196
Decrease in prepaid land lease payments	(39,111,666)
Increase in total assets	8,951,530
Liabilities	
Increase in lease liabilities	8,951,530
Increase in total liabilities	8,951,530

The lease liabilities as at 1 April 2019 reconciled to the operating lease commitments as at 31 March 2019 are as follows:

	HK$
Operating lease commitments as at 31 March 2019	9,634,086
Less: Commitments relating to short-term leases and those leases with a remaining lease term ended on or before 31 March 2020	(302,521)
	9,331,565
Weighted average incremental borrowing rate as at 1 April 2019	4.35%
Discounted operating lease commitments as at 1 April 2019	8,951,530
Lease liabilities as at 1 April 2019	8,951,530

(b) HK(IFRIC)-Int 23 addresses the accounting for income taxes (current and deferred) when tax treatments involve uncertainty that affects the application of HKAS 12 (often referred to as "uncertain tax positions"). The interpretation does not apply to taxes or levies outside the scope of HKAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses (i) whether an entity considers uncertain tax treatments separately; (ii) the assumptions an entity makes about the examination of tax treatments by taxation authorities; (iii) how an entity determines taxable profits or tax losses, tax bases, unused tax losses, unused tax credits and tax rates; and (iv) how an entity considers changes in facts and circumstances. Upon adoption of the interpretation, the Group considered whether it has any uncertain tax positions and determined that the interpretation did not have any impact on the financial position or performance of the Group.

3. REVENUE

An analysis of revenue is as follows:

	2020	2019
	HK$	*HK$*
Revenue from contracts with customers		
Sale of pharmaceutical, biotechnology and healthcare products:		
– Cerebroprotein hydrolysate injection	**139,955,328**	268,520,338
– Tuoping (Valsartan capsules)	**116,116,543**	69,206,399
– Tuoen (Ibuprofen suspension and drops)	**86,171,503**	65,386,623
– Chinese medical products	**47,417,084**	20,054,630
– Other products	**101,360,913**	103,834,829
Provision of Chinese medical services	**453,728**	–
	491,475,099	527,002,819

Revenue from contracts with customers

(i) Disaggregated revenue information

For the year ended 31 March 2020

Segments	**Pharmaceutical and biotechnology business** *HK$*	**Chinese medical business** *HK$*	**Total** *HK$*
Types of goods or services			
Sale of products	**443,604,287**	**47,417,084**	**491,021,371**
Chinese medical services	**–**	**453,728**	**453,728**
Total revenue from contracts with customers	**443,604,287**	**47,870,812**	**491,475,099**
Geographical markets			
Mainland China	**441,664,177**	**47,741,261**	**489,405,438**
Hong Kong	**1,275,329**	**129,551**	**1,404,880**
Australia	**664,781**	**–**	**664,781**
Total revenue from contracts with customers	**443,604,287**	**47,870,812**	**491,475,099**
Timing of revenue recognition			
Goods transferred at a point in time	**443,604,287**	**47,417,084**	**491,021,371**
Services rendered over time	**–**	**453,728**	**453,728**
Total revenue from contracts with customers	**443,604,287**	**47,870,812**	**491,475,099**

For the year ended 31 March 2019

Segments	Pharmaceutical and biotechnology business	Chinese medical business	Total
	HK$	*HK$*	*HK$*
Types of goods or services			
Sale of products	506,948,189	20,054,630	527,002,819
Total revenue from contracts with customers	506,948,189	20,054,630	527,002,819
Geographical markets			
Mainland China	505,034,103	20,054,630	525,088,733
Hong Kong	1,020,944	–	1,020,944
Australia	893,142	–	893,142
Total revenue from contracts with customers	506,948,189	20,054,630	527,002,819
Timing of revenue recognition			
Goods transferred at a point in time	506,948,189	20,054,630	527,002,819
Total revenue from contracts with customers	506,948,189	20,054,630	527,002,819

The following table shows the amounts of revenue recognised in the current reporting period that were included in the contract liabilities at the beginning of the reporting period:

	2020	2019
	HK$	*HK$*
Revenue recognised that was included in contract liabilities at the beginning of the reporting period:		
Sale of products	**12,824,486**	17,815,075

(ii) Performance obligations

Information about the Group's performance obligations is summarised below:

Sale of pharmaceuticals, biotechnology and healthcare products

The performance obligation is satisfied upon delivery of the pharmaceutical, biotechnology and healthcare products and payment is generally due within 60 to 180 days from delivery, except for new customers, where payment in advance is normally required.

Provision of Chinese medical services

The performance obligation is satisfied over time as services are rendered and payment is generally due upon customer acceptance.

4. INCOME TAX

No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits arising in Hong Kong during the year (2019: Nil). Tax on profits assessable in Mainland China has been calculated at the applicable Mainland China corporate income tax ("CIT") rate of 25% (2019: 25%), except for Yunnan Meng Sheng Pharmaceutical Co., Ltd. ("Meng Sheng Pharmaceutical") and Tianda Pharmaceuticals (Zhuhai) Ltd. ("Tianda Pharmaceuticals (Zhuhai)"), which are the subsidiaries of the Group. Meng Sheng Pharmaceutical is established in the Kunming economic development zone. Pursuant to the relevant laws and regulations in the PRC, Meng Sheng Pharmaceutical is engaged in Western China Development and was entitled to a preferential tax rate of 15% (2019: 15%) during the year. Tianda Pharmaceuticals (Zhuhai) is qualified as an advanced technology enterprise and has obtained approvals from the relevant tax authorities for a preferential tax rate of 15% for a period of 3 years up to December 2022. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates.

	2020	2019
	HK$	*HK$*
Current – Mainland China		
Charge for the year	**6,369,450**	10,017,876
Underprovision in prior years	**1,337,517**	217,675
Withholding tax		
Charge for the year	**–**	1,786,240
Overprovision in prior years	**(1,611,205)**	–
Deferred tax	**1,031,790**	(1,837,637)
Total tax charge for the year	**7,127,552**	10,184,154

5. DIVIDENDS

	2020	2019
	HK$	*HK$*
Final – HK0.13 cents per share for 2020 (HK0.11 cents per share for 2019)	**2,795,054**	2,365,046

A final dividend of HK0.13 cents per share amounting to HK$2,795,054 in respect of the year ended 31 March 2020 (2019: HK0.11 cents per share amounting to approximately HK$2,365,046) has been proposed by the directors and is subject to approval by the shareholders at the forthcoming annual general meeting.

6. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of the basic earnings per share amount is based on the profit for the year attributable to owners of the parent, and the weighted average number of ordinary shares of 2,150,041,884 (2019: 2,150,191,944) in issue during the year.

	2020	2019
	HK$	*HK$*
Profit attributable to owners of the parent, used in basic earnings per share calculation	**3,142,995**	2,657,173

	Number of shares	
	2020	2019
Weighted average number of ordinary shares in issue during the year for the purposes of basic earnings per share calculation	**2,150,041,884**	2,150,191,944

The Group had no potentially dilutive ordinary shares in issue during the years ended 31 March 2020 and 2019.

7. TRADE AND BILLS RECEIVABLES

	2020	2019
	HK$	*HK$*
Trade receivables	**53,369,322**	69,778,370
Bills receivables	**38,164,180**	8,516,061
	91,533,502	78,294,431
Impairment	**(168,039)**	(4,721)
	91,365,463	78,289,710

The Group's trading terms with its customers are mainly on credit except for new customers where payment in advance is normally required. The credit periods are ranged from 60 to 180 days. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade and bills receivables relate to a large number of customers, there is no significant concentration of credit risk. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade and bills receivables are non-interest-bearing.

An ageing analysis of the trade and bills receivables as at the end of each reporting period, based on the invoice date and net of loss allowance, is as follows:

	2020	2019
	HK$	*HK$*
Within 1 month	**66,180,288**	58,448,762
1 to 2 months	**7,261,403**	10,278,397
2 to 3 months	**5,835,823**	5,083,244
Over 3 months	**12,087,949**	4,479,307
	91,365,463	78,289,710

8. TRADE PAYABLES

An ageing analysis of the trade payables as at the end of each of the reporting period, based on the invoice date, is as follows:

	2020	2019
	HK$	*HK$*
Within 2 months	**26,226,913**	29,974,310
2 to 3 months	**308,228**	351,249
Over 3 months	**2,261,895**	1,476,025
	28,797,036	31,801,584

Trade payables are non-interest-bearing and are normally settled within terms of 30 to 60 days.

9. INTEREST-BEARING BANK BORROWINGS

	31 March 2020			31 March 2019		
	Effective interest rate (%)	**Maturity**	***HK$***	Effective interest rate (%)	Maturity	*HK$*
Current:						
Bank loans – secured	**5.15**	**2021**	**607,735**	N/A	N/A	–
Non-current:						
Bank loans – secured	**5.15**	**2022 – 2025**	**19,609,029**	N/A	N/A	–
			20,216,764			–

	2020	2019
	HK$	*HK$*
Analysed into:		
Bank loans repayable:		
Within one year or on demand	**607,735**	–
In the second year	**2,723,955**	–
In the third to fifth years, inclusive	**16,885,074**	–
	20,216,764	–

Notes:

(a) The bank loans bear interest at floating rates at Loan Prime Rate+1% and are denominated in Renminbi.

(b) As at 31 March 2020, the bank loans are secured by the pledge of certain of the Group's right-of-use assets, certain property, plant and equipment and assets of a disposal group held for sale with an aggregate carrying amount of approximately HK$272,843,495 (2019: Nil). In the opinion of the Company's directors, the pledge on assets of a disposal group held for sale will be released before disposal.

(c) As at 31 March 2020, the Group has unutilised banking facilities of HK$191,405,231 (2019: Nil).

SCOPE OF WORK OF ERNST & YOUNG

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 March 2020 as set out in the preliminary announcement of results have been agreed by the Company's auditor, Ernst & Young, to the amounts set out in the Group's draft consolidated financial statements for the year. The work performed by Ernst & Young in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Ernst & Young on the preliminary announcement of results.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

For the Current Financial Year, the Group recorded a consolidated revenue from its principal activities of approximately HK$491,500,000, representing a decrease of approximately 6.7% as compared to approximately HK$527,000,000 for the FYE 2019. Gross profit decreased by 14.9% from approximately HK$424,100,000 for the FYE 2019 to approximately HK$361,000,000 for the Current Financial Year. The gross profit margin decreased by 7.0 percentage points from 80.5% in the FYE 2019 to 73.5% in the Current Financial Year. For the Current Financial Year, the Group's profit for the year was approximately HK$8,800,000, which was affected by the medical reform and the COVID-19 epidemic in Mainland China, representing a decrease of 48.1% as compared to approximately HK$16,000,000 for the FYE 2019. However, under the Group's stringent cost controls, profit attributable to shareholders amounted to approximately HK$3,100,000, representing an increase of 18.3% as compared to approximately HK$2,700,000 for the FYE 2019. Basic and diluted earnings per share were HK0.146 cent (FYE 2019: HK0.124 cent).

For the Current Financial Year, sales revenue of Tianda Pharmaceuticals (Zhuhai) Ltd. (Tianda Pharmaceuticals (Zhuhai)), a wholly-owned subsidiary of the Company, increased by 38.3% from approximately HK$177,000,000 for the FYE 2019 to approximately HK$245,600,000 for the Current Financial Year. In particular, the sales performance of Tuoping (Valsartan capsules) and Tuoen (Ibuprofen suspension), both are Tianda Pharmaceuticals (Zhuhai)'s main products, increased by 67.8% and 31.8% respectively as compared to that for the FYE 2019. Profit contribution from Tianda Pharmaceuticals (Zhuhai) increased by 55.4% from approximately HK$16,900,000 for the FYE 2019 to approximately 34,200,000 for the Current Financial Year.

The sales revenue of Yunnan Meng Sheng Pharmaceutical Co., Ltd. (Meng Sheng Pharmaceutical) decreased by 40.0% from approximately HK$328,000,000 for the FYE 2019 to approximately HK$196,600,000 for the Current Financial Year. The decrease in sales revenue was mainly due to the fact that under the impact of adjustments in national medical insurance policies, sales volume of Cerebroprotein Hydrolysate were down nearly 35.6% as compared to that of FYE 2019, with the sales amount decreased from approximately HK$268,500,000 for the FYE 2019 to approximately HK$140,000,000 for the Current Financial Year, representing a decrease of nearly 47.9%. Profit decreased by 57.4% from approximately HK$29,600,000 for the FYE 2019 to approximately HK$12,600,000 for the Current Financial Year. Profit contribution from Meng Sheng Pharmaceutical to the Group, after tax, amounted to approximately HK$8,400,000, representing a decrease of 42.5% as compared to approximately HK$14,600,000 for the FYE 2019.

For the Traditional Chinese Medicine (TCM) business, the sales revenue of the Chinese medicinal herbs and TCM decoction pieces business doubled to approximately HK$32,200,000 (FYE 2019: approximately HK$13,500,000). However, as the business is still in the stage of integration and expansion following the merger and acquisition as well as market development in which requires a large amount of market development capital investment, the operating loss of the business widened from approximately HK$8,800,000 for the FYE 2019 to approximately HK$10,000,000 for the Current Financial Year. Meanwhile, the business's revenue growth is expected to be lower than its original estimation due to policies and market influences. As a result of the above, it is required to make a provision for impairment of approximately HK$2,900,000 for goodwill arising from the acquisition of the medicinal herbs and TCM decoction pieces project previously. For the investment in and operation of new style Chinese medicine clinic chain, the Group opened clinics during the Current Financial Year and has opened one flagship TDMall in each of Zhuhai, Guangdong province and Causeway Bay, Hong Kong in May 2019 and February 2020 respectively. However, substantial investment is required in the initial stage of operation which led to an operating loss of approximately HK$9,100,000 in the Current Financial Year for the TDMall business.

Selling and distribution expenses decreased from approximately HK$344,700,000 for the FYE 2019 to approximately HK$282,200,000 for the Current Financial Year, representing a decrease of 18.1%. The Group strengthened the integration and optimization of marketing resources, implemented stringent cost controls, which resulted in a decrease in selling and distribution expenses that far outweighed the decrease in sales revenue. Administrative expenses increased from approximately HK$63,300,000 for the FYE 2019 to approximately HK$67,800,000 for the Current Financial Year, which was mainly due to the increase in administrative expenses incurred for the development of the TCM business.

The Group recorded other income and other net gains (excluding impairment of goodwill) of approximately HK$9,700,000, representing a decrease of approximately HK$7,200,000 as compared to approximately HK$16,900,000 for the FYE 2019, which was mainly due to: 1) the Group's bank balances declined due to the investment in the construction of the new R&D and production base project, coupled with the decrease in bank deposit interest rates, interest income from bank deposits and structured deposits decreased from approximately HK$13,000,000 for the FYE 2019 to approximately HK$8,800,000 for the Current Financial Year; and (2) the Group's income from government subsidies for the Current Financial Year was lower than that of the FYE 2019, which decreased from approximately HK$3,400,000 to approximately HK$300,000.

The Group's financial position remained strong. As at 31 March 2020, the Group's structured deposits, bank deposits, and bank balances and cash amounted to approximately HK$315,900,000. The construction of the Group's new R&D and production base in Jinwan District, Zhuhai, China continued to progress. As at 31 March 2020, the Group's total investment in the construction in progress amounted to approximately HK$115,700,000 while as at 31 March 2020, the Group's capital commitments in respect of the construction of the new R&D and production base amounted to approximately HK$132,100,000. In addition, the Group has successfully secured bank loans dedicated for the new R&D and production base project. Together with the Group's own bank deposits and cash reserves, it is expected that the Group would have sufficient resources available to meet the funds required for the completion of the project.

BUSINESS REVIEW

During the Current Financial Year, although healthcare policies reform in Mainland China and the outbreak of the COVID-19 pandemic has impacted the Group's operations, they also presented opportunities. The Group responded proactively and formulated targeted strategies. By continuing the integration in the areas of R&D resources, marketing resources and management resources, the Group has made remarkable process in strengthening and expanding its generic drugs business and pushed itself forward in the further development of TCM business.

During the Current Financial Year, the marketing team grasped the opportunity of medical organizations increasing their purchase volume of basic medicine and unleashed the advantage of value for money in the Group's products in the national bidding and price linkage mechanism, which have facilitated the steady improvement of revenue of certain major products, including Valsartan capsules and Ibuprofen suspension, and maintained a focus on hospital endpoints, retail pharmacies and tertiary endpoints, and established a foundation for the launch of the Company's strategic reserve products and new products from strategic cooperation. However, revision to the medical insurance policies has brought larger challenges, of which the removal of Cerebroprotein hydrolysate from the medical insurance catalogue in 2020 has caused a larger impact. Our marketing team endeavours to protect and perform well in those individual markets that are still included in the medical insurance catalogue. For the regions that are no longer in the medical insurance catalogue, it seeks to maintain supply of hospital medicine and boost sales volume by expanding its coverage over private hospitals, county-level public hospitals and rural public hospitals. Meanwhile, it actively explores overseas markets such as India, Vietnam and the Philippines. "Herb Valley" series healthcare product business continues to establish Manuka Honey as its flagship product. By broadening its channel penetration through online and offline sales networks and launching new products to expand its consumer base and create brand marketing impact, it has further expanded its footprint in Mainland China, Hong Kong and Australia, and will enter into the US and European markets at the appropriate time.

During the Current Financial Year, the R&D team has been relentless in implementing the Group's strategies and satisfying market demands, with various research and development work continued to forge ahead steadily: 1) conformity assessment of Valsartan capsules has been completed and application for registration has been submitted and duly admitted to proceed by the drug approval center; evidence work for the conformity assessment of Ibuprofen suspension has been completed, the selection process of research partners has commenced and negotiation has begun; 2) upon sufficient due diligence and research, it is proposed to embark on the Bivalirudin for injection and Nicorandil for injection projects and proposed to cooperate on the introduction of decitabine products; 3) TCM anti-epidemic formulae namely "Anti-Epidemic Formula 1" (for prevention), "Anti-Epidemic Formula 2" (for remedy) and "Anti-Epidemic Formula 3" (for rehabilitation) were developed, of which "Anti-Epidemic Formula 1" granules have been included in the registered medicines list of Therapeutic Goods Administration in Australia at the end of April 2020, while all of the formulae were developed in collaboration with a long list of authoritative TCM experts, after carrying out in-depth investigation of the cause and pathogenesis of the COVID-19 outbreak, integrating the theory and practice of TCM with modern pharmacological research, prescribing medicinal substances and combining classical formulae in a scientific and balanced manner, and the launch of medical researches and clinical trials and observations for "Anti-Epidemic Formula 1", TDMall's first pharmaceutical preparation for medical institution; 4) continue to promote the R&D of classical and excellent TCM compound prescriptions; 5) make use of the application of cerebroprotein extraction technology to daily chemical and food products; 6) develop TCM healthcare products such as tea bags, soup packages and TCM paste, healthcare medication food, and mask collections with the combined force of the TDMall business to satisfy market demand.

For Traditional Chinese Medicine (TCM) business, 1) Tianda Chinese Medicine (China) Ltd has been devoted to the development of a one-stop traceability system covering the harvesting, supply and sales of medicial herbs and to the establishment of quality standards for local varieties, so as to implement a diversified business model and expand the logistics business of TCM speciality-decoction pieces to supply for all medical institutions in the Pearl River Region, Guangdong Province and nationwide with the aim to establish its in-house brand of "Tianda Chinese Medicine"; 2) Since Zhuhai Tianda Processed Chinese Herbal Medicine Ltd. resumed production in April 2019, the Group has organized over a hundred batches of production in total for 74 varieties of TCM decoction pieces in accordance with the GMP requirements. All products passed inspection in one trial, and are of high quality. Our products have a price advantage over competitive products with similar quality within the industry. Currently a total of 423 types of TCM decoction pieces have been filed for record, covering all ginseng and fine and precious products; 3) Tianda Chinese Medicine Institute and Zhuhai Tianda Chinese Medicine Research and Development Ltd.*(珠海天大中醫藥研究開發有限公司) strictly establishes and oversees the "Tianda Standard" for regulating Chinese medicine quality and plans closely according to the objectives of "Thirteenth Five-year Plan on National Drug Safety". The Institute also sets guidelines of "establishing the strictest standard" and is clinical needs oriented in order to be in line with international advanced standards, and has completed the development of over 200 types of Chinese medicines and decoction pieces with Tianda Standard. The Group has initiated the TDMall benchmarking service to comprehensively build "Tianda Chinese Medicine" as a brand with high quality.

For the new style TCM clinic chain, Zhuhai TDMall opened on 2 May 2019 and Hong Kong TDMall opened on 24 February 2020. The third TDMall will be opened at an appropriate time. TDMall chain is offering "Chinese Medicine Services of ten specialties", namely TCM Gynecology, TCM Paediatrics, TCM Genriatrics, TCM Orthopaedics, TCM Bone Traumatology, TCM Pain Management, TCM Aesthetic Medical, provides traditional medical services, namely acupuncture and massage, and also traditional healthcare products including TCM paste, soup packages and tea bags. In addition, it will launch a series of speciality-services package. Meanwhile, with physical TDMalls as a foundation, the Group creates "Cloud TDMall" with utmost effort to realize online and offline integration of Chinese medicine services and provision of remote diagnosis and treatment and consultation services. From February 2020 to April 2020, the Group offered free TCM consultations and complimentary "Anti-Epidemic Formula 1" to over one thousand individuals in Zhuhai TDMall, Hong Kong TDMall and jointly with Macau Federation of Neighbourhood Associations (União Geral das Associações dos Moradores de Macau). After being included in the Australian Register of Therapeutic Goods in April 2020, "Anti-Epidemic Formula 1" is expected to be introduced into the Australian market in July 2020 while the launch of Sydney TDMall is under preparation.

During the Current Financial Year, the new R&D and production base project of Tianda Pharmaceuticals (Zhuhai) commenced in full swing, with some delay caused by the COVID-19 outbreak. As the outbreak is being brought under control, the construction team has been expediting its work to make up for the delay. At present, the pile foundation and the acceptance of the pile foundation as well as the main structure and the acceptance of the main structure have been completed. The project is expected to be completed in 2020.

The conditional sale agreement entered between the Group and its controlling shareholder, Tianda Group Limited, was approved at the extraordinary general meeting held on 7 May 2019. The Group will be able to exercise the disposal right to sell the existing R&D and production base in Xiangzhou District, Zhuhai to Tianda Group Limited upon the completion of the first phase of the new R&D and production base project and the satisfaction of prerequisite conditions for completion of the transaction as stated in the agreement.

OUTLOOK

A sudden outbreak of COVID-19 has made us deeply aware of the cooperation and solidarity among peoples from all over the world. The Group puts its responsibility and commitment into practice, and helps people to fight against the pandemic through anti-epidemic TCM products and TCM services. We will also seize the market opportunities in the post-pandemic era to provide quality TCM products and services with the support of "Cloud TDMall", aiming to forge ahead with TCM to better serve human health. To this end, the Group has adjusted and enriched its development strategy to "three developments" strategy with "the development of the Chinese medicine industry as the foundation, the development of innovative medicines and medical technologies and the development of quality medical and healthcare services" as its core, and has implemented a "two-pronged" development model of "promoting endogenous growth with increased efforts in external expanding", striving to become an outstanding operator and service provider in the field of pharmaceutical and healthcare.

LIQUIDITY AND FINANCIAL RESOURCES

The Group's liquidity continued to stay in a healthy position. As at 31 March 2020, the Group had structured deposits, short term bank deposits and cash of approximately HK$315,900,000 (31 March 2019: HK$451,100,000), of which approximately 8.6% and 91.0% were denominated in Hong Kong dollar and Renminbi (RMB) respectively with the remaining in Australian dollar, Euro, Macau pataca, New Taiwan dollar and United States dollar. With this strong financial position, the Group has sufficient financial resources to meet its obligations and daily operational needs.

EXCHANGE RATE EXPOSURE

The Group's assets, liabilities and transactions are substantially denominated in Hong Kong dollar, RMB, United States dollar and Australian dollar.

The Group has sales which use currencies other than its functional currency RMB. As such, the Group has some exposures to foreign currency risks. The management from time to time determines suitable measures, such as entering into forward currency contracts, to lessen exposure to exchange rate fluctuations in material transactions denominated in currencies other than RMB. The Group did not enter into any forward currency contracts to hedge its foreign currency risks as at 31 March 2020.

CHARGES ON ASSETS

As at 31 March 2020, the Group has pledged certain right-of-use assets, property, plant and equipment and assets of a disposal group held for sale with carrying value approximately HK$272,800,000 (2019: nil) in aggregate to secure a bank loan facility grant to the Group.

EMPLOYMENT AND REMUNERATION POLICY

As at 31 March 2020, the Group employed approximately 573 employees in Hong Kong, the PRC and Australia. The Group remunerates its employees based on market terms the qualifications and experience of the employees concerned.

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

During the FYE 2020, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

CORPORATE GOVERNANCE

The Company has complied with the code provisions of the Corporate Governance Code (the CG Code) as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the Listing Rules) during the year ended 31 March 2020 except as mentioned below.

Mr. Fang Wen Quan is the Chairman of the Board and the Managing Director of the Company. Pursuant to code provision of A.2.1 of the CG Code, the roles of the chairman and chief executive officer of an issuer should be separated and should not be performed by the same individual. The division of responsibilities between the chairman and chief executive officer should be clearly established and set out in writing. Having considered the current business operation and the size of the Group, the Board is of the view that Mr. Fang Wen Quan acting as both the Chairman of the Board and the Managing Director of the Company is acceptable and in the best interest of the Group. The Board will review this situation periodically.

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the Model Code) as set out in Appendix 10 of the Listing Rules as the code of conduct regarding directors' securities transactions. Having made specific enquiry of all the Directors, they all confirmed that they had complied with the Model Code throughout the year ended 31 March 2020.

AUDIT COMMITTEE

The audit committee comprises three independent non-executive Directors and a non-executive Director of the Company. The audit committee has reviewed together with the management and auditors of the Company the accounting principles and practices adopted by the Group and discussed internal control and financial reporting matters including review of the financial results of the Group for the year ended 31 March 2020.

FINAL DIVIDEND AND CLOSURE OF REGISTER OF MEMBERS

The Board of Directors has recommended the payment of a final dividend of HK0.13 cents per share for FYE 2020 (FYE 2019: HK0.11 cents per share). Subject to shareholders' approval at the forthcoming 2020 annual general meeting (AGM), the said final dividend is expected to be paid in September 2020. The dates of closure of register of members of the Company for the purpose of determining the identity of shareholders entitled to attend the 2020 AGM and to receive the proposed final dividend and the payment date of the said final dividend will be announced later.

APPRECIATION

On behalf of the Board, I would like to express my sincere appreciation to the shareholders of the Company for their continued support and sincerely thank the Directors and staffs for their dedication and diligence. I also wish to take this opportunity to express my gratitude to the Group's customers, suppliers and bankers for their ongoing support.

By order of the Board
Tianda Pharmaceuticals Limited
FANG Wen Quan
Chairman and Managing Director

Hong Kong, 24 June 2020

As at the date of this announcement, the executive Directors are Mr. FANG Wen Quan (Chairman and Managing Director) and Mr. LUI Man Sang; the non-executive Directors are Mr. SHEN Bo, Mr. FENG Quanming and Dr. LAM Lee G.; and the independent non-executive Directors are Mr. LAM Yat Fai, Mr. CHIU Sung Hong and Mr. CHIU Fan Wa.