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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 2020

CHAIRMAN'S STATEMENT

I am pleased to present the annual results of Tong Ren Tang Technologies Co. Ltd. (the “**Company**”) and its subsidiaries (hereinafter collectively referred to as the “**Group**”) for the year ended 31 December 2020 (the “**Reporting Period**”) for shareholders' review.

Results of the Year

For the year ended 31 December 2020, the Group's revenue amounted to RMB4,607,369,000, representing an increase of 2.92% from RMB4,476,449,000 for the corresponding period of last year; net profit amounted to RMB786,507,000, representing an increase of 6.09% from RMB741,390,000 for the corresponding period of last year; net profit attributable to owners of the Company amounted to RMB467,553,000, representing an increase of 11.95% from RMB417,650,000 for the corresponding period of last year; earnings per share was RMB0.37 (2019: RMB0.33); and dividend per share was RMB0.16 (2019: RMB0.16).

Review of the Year

The year 2020 marks the 20th anniversary of the Company's establishment and listing in Hong Kong, and is also an important year for the Group to consolidate the achievements during the "13th Five Year Plan" period and set sail for the "14th Five Year Plan" period. During the year, the new coronavirus (COVID-19) pneumonia epidemic (the "**Epidemic**") rapidly spread worldwide, which made a significant and constant shock on supply side and the demand side. Besides, the uncertainty of the market environment increased sharply, and the downward pressure of the macro-economy continued to increase, which brought severe challenges to the production and sales of the Group. However, challenges breed opportunities, and difficulties coexisted with hope. During the prevention and control of the Epidemic, traditional Chinese medicines have been widely used, and people have built a deepening awareness of health care and the concept of disease prevention and treatment, which also brought new opportunities for the development of traditional Chinese medicine.

During the year, the Group effectively exerted the political and leading core roles of the Party Committees, continued to focus on the development of the Epidemic, strictly implemented the national and local decision and deployment on Epidemic prevention and control tasks, The Group carried out the Epidemic prevention and control with a strong sense of mission, and seized opportunities in the time of adversity with strong development resilience, so as to promote the progress of various production and operation task for the whole year, and escort the Group for long-term development. During the Reporting Period, the Group constantly paid attention to the change of market, focused on market demand, actively explored the production and operation ideas under the situation of normalization of Epidemic prevention and control, utilized the capacity advantage of newly built production base, closely combined Epidemic prevention and control with stabilizing production and operation, so as to guarantee the product supply, and promote the sales of products which restored the growth of overall performance.

During the Reporting Period, the Group carefully implemented the Epidemic prevention and control policy for China and overseas, insisted on prevention and control measures under the normalization of the Epidemic to protect the health and safety of employees and realised "zero infection" for all employees of the Group. In early 2020, in order to support the prevention and control of the Epidemic, the Company actively performed corporate social responsibility by donating Chinese patent medicine products of approximately RMB5.55 million to Beijing Charity Association and other institutes to help the Party and the country win the Epidemic prevention and control war. Meanwhile, under the deployment of Beijing Municipal State-owned Asset Supervision and Administration Commission, the Company produced a million silicone mask disinfectants in a short time, providing a solid guarantee for the Epidemic prevention and control in Beijing. In 2020, the Company was awarded the title of "Outstanding Enterprises with Social Responsibility in the Battle against Covid-19" and "Saluting the Heroes-2020 National Pharmaceutical Model Enterprise". In addition, the Company continued to make an all-out effort to support poverty alleviation and completed poverty relief tasks through consumption, which demonstrated the responsibility of the Company as a state-owned enterprise.

Looking back at the “13th Five Year Plan” period, despite of the challenges and changes, we took a pragmatic and forward-looking attitude, carefully planning and progressively developing, and we thoroughly implemented industrial layout adjustment, continuously promoted the marketing system reform, and deepen the product variety building, thus laying a solid foundation for steady development in the long run. During the “13th Five Year Plan” period, the Group completed construction of two new production bases, namely Daxing Production Base and Beijing Tong Ren Tang Technologies Development (Tangshan) Co., Limited (“**Tong Ren Tang Technologies Tangshan**”) and realizing a relatively closed-loop operating system integrating production and logistic distribution; the Group set up a marketing branch, further implemented channel planning, refined supply for market demand, realizing the precise marketing through coordinated development various channels including distributor channels, OTC channels, medical channels and E-commerce channels; The Group maintained steady development of its major product series, including Liuwei Dihuang Pills, Jinkui Shenqi Pills, Shengmai Liquor and other products, and realised significant increase in sales revenue of the series of products such as Zhuangyao Jianshen Pills, Fuzi Lizhong Pills, Danggui Kushen Pills over the beginning of the “13th Five Year Plan” period after cultivation in recent years, driving the transitional development from variety group construction towards large-scale production and sales.

Outlook and Prospects

In the future, China will fully promote the construction of a healthy China, keep equal importance to traditional Chinese medicine and western medicine, energetically develop traditional Chinese medicine, and actively cope with aging population, which will bring new development opportunities for the traditional Chinese medicine industry. The Group will stand at the new starting point of the “14th Five Year Plan” period, adapt to the new situation and respond to the changes in a scientific and innovative way. Under the premises of strictly adhering to the integrity and quality, the Group will strengthen the control of all links, strive to emit new vitality, and achieve higher quality overall development with higher level of operation and management.

In the year 2021, the uncertainty risks worldwide caused by the Epidemic still exist, and intense competitive pressure remains in the market environment of the traditional Chinese medicine industry. However, the Group will continue to fully promote the guidance role of Party Committee construction, consolidate the development foundation on the basis of ensuring normalization of the Epidemic prevention and control. The Group will also insist on demand-oriented development strategy, adjust to improve, reform to develop, forge ahead with high quality development, build a refined supply and sales pattern, work hard to achieve the goals, and plan the new development blueprint for “14th Five-Year-Plan” period for the Group.

I hereby would like to express my sincere gratitude and respect 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 2020, together with the comparative figures of 2019, as follows:

CONSOLIDATED INCOME STATEMENT

	<i>Note</i>	<u>2020</u> <i>RMB'000</i>	<u>2019</u> <i>RMB'000</i>
Revenue	<i>d</i>	4,607,369	4,476,449
Cost of sales		<u>(2,539,659)</u>	<u>(2,421,954)</u>
Gross profit		2,067,710	2,054,495
Distribution expenses	<i>f</i>	(699,931)	(718,684)
Administrative expenses	<i>f</i>	(402,521)	(397,551)
Net impairment losses on financial assets		(22,296)	(20,113)
Other income and gains, net		<u>587</u>	<u>-</u>
Operating profit		943,549	918,147
Finance income	<i>e</i>	48,085	47,839
Finance costs	<i>e</i>	<u>(51,564)</u>	<u>(41,025)</u>
Finance (costs)/income, net	<i>e</i>	(3,479)	6,814
Share of losses of investments accounted for using the equity method		(451)	(1,456)
Profit before income tax		939,619	923,505
Income tax expense	<i>g</i>	<u>(153,112)</u>	<u>(182,115)</u>
Profit for the year		<u>786,507</u>	<u>741,390</u>
Profit attributable to:			
Owners of the Company		467,553	417,650
Non-controlling interests		<u>318,954</u>	<u>323,740</u>
		<u>786,507</u>	<u>741,390</u>
Earnings per share for profit attributable to owners of the Company during the year			
- Basic and diluted	<i>i</i>	<u>RMB0.37</u>	<u>RMB0.33</u>

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	2020 RMB'000	2019 RMB'000
Profit for the year	786,507	741,390
Other comprehensive (losses)/income		
<i>Items that may be reclassified to profit or loss</i>		
Foreign currency translation differences		
- Group	(153,484)	59,344
- Joint ventures and associates	(898)	(181)
<i>Items that will not be reclassified to profit or loss</i>		
Change in fair value of financial assets at fair value through other comprehensive income	(4,332)	(3,947)
Other comprehensive (losses)/income for the year, net of tax	(158,714)	55,216
Total comprehensive income for the year	627,793	796,606
Attributable to:		
Owners of the Company	409,219	441,144
Non-controlling interests	218,574	355,462
Total comprehensive income for the year	627,793	796,606

CONSOLIDATED BALANCE SHEET

	<i>Note</i>	As at 31 December	
		2020	2019
		<i>RMB'000</i>	<i>RMB'000</i>
Assets			
Non-current assets			
Property, plant and equipment		2,649,350	2,301,261
Right-of-use assets		657,316	403,999
Intangible assets		59,448	66,152
Investments accounted for using the equity method		24,242	25,678
Financial assets at fair value through other comprehensive income		5,140	9,839
Prepayments for purchase of non-current assets		39,935	41,973
Deferred income tax assets		51,883	40,771
		<u>3,487,314</u>	<u>2,889,673</u>
Current assets			
Inventories		2,733,332	2,321,784
Trade and bills receivables	<i>k</i>	1,044,856	1,194,589
Other financial assets at amortised cost		31,918	35,773
Prepayments and other current assets		190,201	119,061
Financial assets at fair value through profit or loss		-	31,680
Financial assets at fair value through other comprehensive income		50,824	27,311
Short-term bank deposits		454,395	859,454
Cash and cash equivalents		2,947,958	2,990,645
		<u>7,453,484</u>	<u>7,580,297</u>
Total assets		<u>10,940,798</u>	<u>10,469,970</u>

CONSOLIDATED BALANCE SHEET (CONT'D)

		As at 31 December	
	Note	2020	2019
		RMB'000	RMB'000
Equity and liabilities			
Equity attributable to owners of the Company			
Share capital		1,280,784	1,280,784
Reserves	<i>m</i>	4,450,765	4,246,471
		<u>5,731,549</u>	<u>5,527,255</u>
Non-controlling interests		<u>2,019,956</u>	<u>1,887,319</u>
Total equity		<u>7,751,505</u>	<u>7,414,574</u>
Liabilities			
Non-current liabilities			
Borrowings		483,227	1,223,571
Lease liabilities		94,895	59,649
Deferred income tax liabilities		5,842	6,022
Deferred income – government grants		150,405	76,492
		<u>734,369</u>	<u>1,365,734</u>
Current liabilities			
Trade and bills payables	<i>l</i>	717,825	682,312
Salary and welfare payables		52,619	63,283
Contract liabilities	<i>d</i>	3,142	1,934
Current income tax liabilities		36,225	132,600
Other payables		536,121	629,013
Borrowings		1,056,299	140,198
Lease liabilities		52,693	40,322
		<u>2,454,924</u>	<u>1,689,662</u>
Total liabilities		<u>3,189,293</u>	<u>3,055,396</u>
Total equity and liabilities		<u>10,940,798</u>	<u>10,469,970</u>

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 Kong 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 and amendments to standards

The Group has adopted the following new standards and amendments to standards which are mandatory for the financial year beginning on 1 January 2020:

Amendments to IAS 1 and IAS 8	Definition of Material
Amendments to IFRS 3	Definition of a Business
Amendments to IFRS 7, IAS 39 and IFRS 9	Interest Rate Benchmark Reform
Amendments to IFRS 16	COVID-19-Related Rent Concessions ⁽¹⁾
Conceptual Framework for Financial Reporting	Revised Conceptual Framework for Financial Reporting

⁽¹⁾ Effective for the accounting period beginning on or after 1 June 2020

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

b. BASIS OF PREPARATION (CONT'D)

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

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

The Group has early adopted Amendment to IFRS 16 “Covid-19-Related Rent Concessions” retrospectively from 1 January 2020. The amendment provides an optional practical expedient allowing lessees to elect not to assess whether a rent concession related to COVID-19 is a lease modification. Lessees adopting this election may account for qualifying rent concessions in the same way as they would if they were not lease modifications. The practical expedient only applies to rent concessions occurring as a direct consequence of the COVID-19 pandemic and only if all of the following conditions are met: (a) the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change; (b) any reduction in lease payments affects only payments due on or before 30 June 2021; and (c) there is no substantive change to other terms and conditions of the lease.

The Group has applied the practical expedient to all qualifying COVID-19-related rent concessions. Rent concessions have been accounted for as negative variable lease payments and recognised in administrative expenses and distribution expenses (Note f) in the consolidated income statement for the year ended 31 December 2020, with a corresponding adjustment to the lease liability. There is no impact on the opening balance of equity at 1 January 2020.

The other amendments listed 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 and amendments which are not yet effective

The following are new/revised standards 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 2021 but have not been early adopted by the Group.

Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16	Interest Rate Benchmark Reform - Phase 2 ⁽¹⁾
Amendments to IAS 1 Amendments to IAS 16	Classification of Liabilities as Current/Non-current ⁽⁴⁾ Property, Plant and Equipment: Proceeds before Intended Use ⁽²⁾
Amendments to IAS 37 Amendments to IFRS 3 IFRS 17	Onerous Contracts - Cost of Fulfilling a Contract ⁽²⁾ Reference to the Conceptual Framework ⁽²⁾ Insurance Contracts ⁽⁵⁾
Narrow – scope amendments to IAS 1, IFRS Practice Statement 2 and IAS 8 IFRS 10 and IAS 28 (Amendments) Amendments to IFRSs	Disclosure of Accounting Policies and definition of Accounting Estimates ⁽³⁾ Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ⁽⁶⁾ Annual Improvements to IFRS Standards 2018-2020 ⁽²⁾

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

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

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

(4) Originally effective for the accounting period beginning on or after 1 January 2022, but extended to 1 January 2023

(5) Originally effective for the accounting period beginning on or after 1 January 2021, but extended to 1 January 2023

(6) Effective date to be determined

These new standards 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.

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

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

	<i>2020</i>	<i>2019</i>
	<i>RMB'000</i>	<i>RMB'000</i>
Sales of Chinese medicine products		
- Mainland China	3,788,289	3,443,104
- Outside Mainland China	758,659	951,826
	4,546,948	4,394,930
Advertising service income		
- Mainland China	23,616	32,053
Service income		
- Mainland China	6,525	6,790
- Outside Mainland China	30,100	42,458
	36,625	49,248
Royalty fee income		
- Outside Mainland China	180	218
	4,607,369	4,476,449

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

	<i>As at 31 December</i>	
	<i>2020</i>	<i>2019</i>
	<i>RMB'000</i>	<i>RMB'000</i>
Contract liabilities – Service income	3,142	1,934

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

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

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

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 2020 and 2019 related to carried forward contract liabilities at the beginning of the year.

	As at 31 December	
	<i>2020</i>	<i>2019</i>
	<i>RMB'000</i>	<i>RMB'000</i>
Revenue recognised that was included in the contract liability balance at the beginning of the year	1,180	2,475

e. FINANCE INCOME AND COSTS

	<i>2020</i>	<i>2019</i>
	<i>RMB'000</i>	<i>RMB'000</i>
Finance income		
Interest income	49,118	49,759
Exchange losses, net	(1,033)	(1,920)
	48,085	47,839
Finance costs		
Interest on bonds	(24,554)	(45,685)
Interest on bank borrowings	(20,994)	(11,656)
Interest on lease liabilities	(6,016)	(4,301)
Less: amounts capitalised on qualifying assets	-	20,617
	(51,564)	(41,025)
Finance (costs)/income, net	(3,479)	6,814

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

f. EXPENSE BY NATURE

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

	<i>2020</i>	<i>2019</i>
	<i>RMB'000</i>	<i>RMB'000</i>
Raw materials, merchandise and consumables used	1,558,536	1,404,752
Change in inventories of finished goods and work-in-progress	(45,748)	112,664
Employee benefit expense	753,335	827,041
Depreciation of property, plant and equipment	183,652	90,822
Amortisation of right-of-use assets	73,071	54,901
Amortisation of intangible assets	9,191	12,711
Amortisation of other long-term assets	4,339	1,628
Provision for impairment of inventories	22,808	48,614
Provision for impairment of goodwill	1,235	-
Provision for impairment of receivables	22,297	20,113
Expenses relating to short-term leases	21,988	45,321
Variable lease payments not included in the measurement of lease liabilities ⁽¹⁾	2,142	956
COVID-19-related rent concessions	(2,986)	-
Auditor's remuneration		
- Audit services	7,424	9,186
- PricewaterhouseCoopers	6,096	6,153
- Other auditors	1,328	3,033
- Non-audit services	271	194
- PricewaterhouseCoopers	271	194
Research and development costs ⁽²⁾	65,548	28,316
(Gains)/losses on disposal of non-current assets	(10,051)	3,387
Amortisation of deferred income - government grants	(16,777)	(15,253)
Processing costs	244,384	259,119
Advertising and promotion expenses	229,952	189,541
Transportation	48,399	45,175
Repair and maintenance	52,697	54,707
Utilities	120,586	90,319
Other taxes	40,508	43,328

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

(2) Excluding employee benefit expense, depreciation and amortisation expense. The research and development costs including employee benefit expense, depreciation and amortisation expense were RMB103,641,000 (2019: RMB61,248,000).

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

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% (2019: 25%). As of 31 December 2020 and 2019, the Company and certain of its subsidiaries have obtained the HNTE certificate. Consequently, their applicable income tax rate in 2020 is 15% (2019: 15%).

China Hong Kong Special Administrative Region (“**Hong Kong**”) profits tax has been provided at the rate of 16.5% (2019: 16.5%) on the estimated assessable profit for the year.

Income tax on countries and regions (excluding Mainland China and Hong Kong) 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.

	<i>2020</i>	<i>2019</i>
	<i>RMB'000</i>	<i>RMB'000</i>
Current income tax expense		
- Mainland China	71,724	89,781
- Hong Kong	83,478	89,130
- Countries and regions (excluding Mainland China and Hong Kong)	9,452	5,972
	164,654	184,883
Deferred income tax credit	(11,542)	(2,768)
	153,112	182,115

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

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 20.9% (2019: 23.7%) to profits of the consolidated entities as follows:

	<i>2020</i>	<i>2019</i>
	<i>RMB'000</i>	<i>RMB'000</i>
Profit before income tax	<u>939,619</u>	<u>923,505</u>
Tax calculated at domestic tax rates applicable to profits in the respective countries	196,093	218,852
Tax effects of:		
- Income not subject to tax	(5,855)	(6,451)
- Expenses not deductible for tax purposes	6,100	6,173
- Tax losses and temporary differences for which no deferred income tax assets were recognised	1,283	3,641
- Effect of preferential income tax treatments	(41,687)	(38,177)
- Final settlements and payments	(2,269)	290
- Others	(553)	(2,213)
Income tax expense	<u>153,112</u>	<u>182,115</u>

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

h. DIVIDENDS

The cash dividends paid in 2020 and 2019 were RMB204,925,000 (RMB0.16 (including tax) per share) and RMB230,541,000 (RMB0.18 (including tax) per share) respectively.

On 26 March 2021, the Board of Directors proposed a cash dividend in respect of the year ended 31 December 2020 of RMB0.16 (including tax) per share, amounting to a total of RMB204,925,440, which is subject to the shareholders' approval at the 2020 annual general meeting. These financial statements do not reflect this dividend payable.

	<i>2020</i> <i>RMB'000</i>	<i>2019</i> <i>RMB'000</i>
Interim dividend paid of RMB nil (2019: RMB nil) per ordinary share	-	-
Final dividend proposed of RMB0.16 (including tax) (2019: RMB0.16 (including tax)) per ordinary share	<u>204,925</u>	<u>204,925</u>
	<u>204,925</u>	<u>204,925</u>

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

i. EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the profit attributable to owners of the Company of approximately RMB467,553,000 by the weighted average number of 1,280,784,000 shares in issue during the year.

The Company had no dilutive potential shares in 2020 and 2019.

	<i>2020</i> <i>RMB'000</i>	<i>2019</i> <i>RMB'000</i>
Profit attributable to owners of the Company	467,553	417,650
Weighted average number of ordinary shares in issue (thousands)	1,280,784	1,280,784
Earnings per share	RMB0.37	RMB0.33

j. SEGMENT INFORMATION

The Board of Directors is the Group's chief operating decision-maker. The Board of Directors has determined the operating segments for the purposes of allocating resources and assessing performance.

The Board of Directors considers the business from an operational entity perspective. Generally, the Board of Directors considers 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 Board of Directors assesses the performance of the operating segments based on revenue and profit after income tax of each segment.

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

j. SEGMENT INFORMATION (CONT'D)

The segment information provided to the Board of Directors for the reportable segments for the year ended 31 December 2020 is as follows:

	The Company <i>RMB'000</i>	Tong Ren Tang Chinese Medicine <i>RMB'000</i>	All other Segments <i>RMB'000</i>	Total <i>RMB'000</i>
Segment revenue	3,058,737	1,170,364	1,001,970	5,231,071
Inter-segment revenue	(140,549)	(7,704)	(475,449)	(623,702)
Revenue from external customers	<u>2,918,188</u>	<u>1,162,660</u>	<u>526,521</u>	<u>4,607,369</u>
Timing of revenue recognition				
At a point in time	2,918,161	1,128,213	502,832	4,549,206
Over time	<u>27</u>	<u>34,447</u>	<u>23,689</u>	<u>58,163</u>
	<u>2,918,188</u>	<u>1,162,660</u>	<u>526,521</u>	<u>4,607,369</u>
Profit for the year	<u>276,512</u>	<u>504,685</u>	<u>5,310</u>	<u>786,507</u>
Interest income	24,356	18,509	6,253	49,118
Interest expense	(46,302)	(3,821)	(1,441)	(51,564)
Depreciation of property, plant and equipment	(91,773)	(14,857)	(77,022)	(183,652)
Amortisation of right-of-use assets	(18,055)	(49,371)	(5,645)	(73,071)
Amortisation of other long-term assets	(3,946)	(5,167)	(4,417)	(13,530)
Provision for impairment of inventories	(14,506)	-	(8,302)	(22,808)
Provision for impairment of receivables	(14,122)	(2,948)	(5,227)	(22,297)
Provision for impairment of goodwill	(1,235)	-	-	(1,235)
Share of profit/(losses) of investments accounted for using the equity method	314	(765)	-	(451)
Income tax expense	<u>(52,613)</u>	<u>(104,879)</u>	<u>4,380</u>	<u>(153,112)</u>
Segment assets and liabilities				
Total assets	<u>5,780,240</u>	<u>2,872,702</u>	<u>2,287,856</u>	<u>10,940,798</u>
Investments accounted for using the equity method	<u>9,293</u>	<u>14,949</u>	<u>-</u>	<u>24,242</u>
Additions to non-current assets ⁽¹⁾	<u>687,732</u>	<u>58,170</u>	<u>149,238</u>	<u>895,140</u>
Total liabilities	<u>2,423,474</u>	<u>228,452</u>	<u>537,367</u>	<u>3,189,293</u>

(1) Excluding investments accounted for using the equity method, financial instruments and deferred income tax assets.

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

j. SEGMENT INFORMATION (CONT'D)

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

	The Company <i>RMB'000</i>	Tong Ren Tang Chinese Medicine <i>RMB'000</i>	All other Segments <i>RMB'000</i>	Total <i>RMB'000</i>
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	<u>2,705,241</u>	<u>1,262,714</u>	<u>508,494</u>	<u>4,476,449</u>
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
	<u>2,705,241</u>	<u>1,262,714</u>	<u>508,494</u>	<u>4,476,449</u>
Profit for the year	<u>231,858</u>	<u>507,630</u>	<u>1,902</u>	<u>741,390</u>
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	<u>(77,268)</u>	<u>(98,886)</u>	<u>(5,961)</u>	<u>(182,115)</u>
Segment assets and liabilities				
Total assets	<u>5,545,840</u>	<u>2,812,631</u>	<u>2,111,499</u>	<u>10,469,970</u>
Investments accounted for using the equity method	<u>9,066</u>	<u>16,612</u>	<u>-</u>	<u>25,678</u>
Additions to non-current assets ⁽¹⁾	<u>206,991</u>	<u>34,205</u>	<u>303,747</u>	<u>544,943</u>
Total liabilities	<u>2,264,221</u>	<u>328,404</u>	<u>462,771</u>	<u>3,055,396</u>

(1) Excluding investments accounted for using the equity method, financial instruments and deferred income tax assets.

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

j. SEGMENT INFORMATION (CONT'D)

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

The amounts provided to 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 RMB3,045,147,000 (2019: RMB2,415,712,000), and the total of these non-current assets located outside Mainland China is RMB385,144,000 (2019: RMB423,351,000).

During the 2020 and 2019 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:

	<i>2020</i>	<i>2019</i>
	<i>RMB'000</i>	<i>RMB'000</i>
Entities under control of ultimate holding company	1,284,781	959,408
Customer A Group	683,078	540,294
	<u>1,967,859</u>	<u>1,499,702</u>

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

k. TRADE AND BILLS RECEIVABLES

	As at 31 December	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
Trade receivables		
- third parties	561,719	660,253
- related parties	353,888	187,898
	915,607	848,151
Bills receivables	197,432	392,398
	1,113,039	1,240,549
Less: provision for impairment	(68,183)	(45,960)
Trade and bills receivables, net	1,044,856	1,194,589

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 2020 and 2019, the ageing analysis of trade and bills receivables based on invoice date was as follows:

	As at 31 December	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
Within 4 months	831,424	939,715
Over 4 months but within 1 year	128,243	175,443
Over 1 year but within 2 years	81,665	81,914
Over 2 years but within 3 years	42,238	32,251
Over 3 years	29,469	11,226
	1,113,039	1,240,549

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

k. TRADE AND BILLS RECEIVABLES (CONT'D)

As at 31 December 2020, trade receivables of RMB68,183,000 (2019: RMB45,960,000) were provided for impairment. Movements in the provision for impairment of receivables were as follows:

	<i>2020</i>	<i>2019</i>
	<i>RMB'000</i>	<i>RMB'000</i>
As at 1 January	45,960	25,837
Provision for impairment	22,297	20,113
Exchange differences	(74)	10
As at 31 December	68,183	45,960

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:

	<i>As at 31 December</i>	
	<i>2020</i>	<i>2019</i>
	<i>RMB'000</i>	<i>RMB'000</i>
RMB	980,224	1,112,981
Hong Kong dollars	125,046	120,219
United States Dollar	7,053	6,229
Others	716	1,120
	1,113,039	1,240,549

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

I. TRADE AND BILLS PAYABLES

	As at 31 December	
	2020	2019
	<u>RMB'000</u>	<u>RMB'000</u>
Trade payables		
- third parties	588,177	588,774
- related parties	29,648	43,538
	<u>617,825</u>	<u>632,312</u>
Bills payables	<u>100,000</u>	<u>50,000</u>
Trade and bills payables	<u>717,825</u>	<u>682,312</u>

As at 31 December 2020, the ageing analysis of trade and bills payables based on invoice date and financial position was as follows:

	As at 31 December	
	2020	2019
	<u>RMB'000</u>	<u>RMB'000</u>
Within 4 months	627,718	541,484
Over 4 months but within 1 year	78,971	87,254
Over 1 year but within 2 years	4,956	30,415
Over 2 years but within 3 years	4,831	22,197
Over 3 years	1,349	962
	<u>717,825</u>	<u>682,312</u>

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.

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

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 RMB38,172,000 (2019: RMB55,246,000), 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 2020.

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.

FINAL DIVIDEND

The Board of Directors proposed a final dividend for the year ended 31 December 2020 (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 2020 totaling RMB204,925,440 (2019: a final dividend for the year ended 31 December 2019 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, totaling RMB204,925,440). The profit distribution proposal is subject to the approval by the shareholders at the 2020 AGM of the Company. The Company is expected to complete the dividend distribution on or before 31 August 2021.

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.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The year 2020 is an important year for the Group to consolidate the achievements of the “Quality Management Improvement Year”, and to conclude the “13th Five Year Plan” period and set sail for the “14th Five Year Plan” period. During the year, the Group always insisted on the main line of “adjustment, improvement, reform and development”, built the three cornerstones of “party building, quality and integrity”, united together and made steady progress, withstood the adverse impact of the Epidemic on the Group’s development, achieved smooth and stable overall economic operation. For the year ended 31 December 2020, the Group’s revenue amounted to RMB4,607,369,000, representing an increase of 2.92% from RMB4,476,449,000 for the corresponding period of last year; net profit amounted to RMB786,507,000, representing an increase of 6.09% from RMB741,390,000 for the corresponding period of last year; net profit attributable to owners of the Company amounted to RMB467,553,000, representing an increase of 11.95% from RMB417,650,000 for the corresponding period of last year.

During the year, the Group constantly enhanced the coordinated development with production bases in Beijing and Hebei, strove to overcome the adverse impact caused by the Epidemic, combined with the change of market demand and the Epidemic prevention and control situation, planned ahead, preserved inventories in advance and scientifically scheduled production, constantly enhanced the orderly connection between each production process and timely adjusted product supply strategy and structure, accelerated the improvement of overall productivity, effectively ensured products supply. In 2020, the Company achieved an increase of over 20% in the overall production volume and production value of Chinese patent medicine as compared to the same period last year. During the Reporting Period, the Company acquired Beijing Tong Ren Tang Chinese Medicine Processing Base (“**Processing Base**”) located in Daxing Bio-Pharma Industrial Base in Zhongguancun Technology Park District in Beijing at the consideration of RMB 641 million in cash. Daxing Branch Factory integrated with Processing Base in addition to the original production shop of Chinese medicine pills, which forms a closed-loop of production chain from pre-treatment of Chinese medicine, production of pills to logistic distribution. Through exploring the production technique of each product, closely analyzing production procedures and standards, Daxing Branch Factory steadily improved the production capability and realised production for major products such as Liuwei Dihuang Pills (六味地黃丸), Jinkui Shenqi Pills (金匱腎氣丸), Xihuang Pills (西黃丸), and becomes the main production base of the Group. Tong Ren Tang Technologies Tangshan in Yutian County in Tangshan City of the Hebei Province, is engaged in extraction of Chinese medicine, liquid preparations and production as core business, and mainly produces Shengmai Liquor (生脈飲口服液), Children Cough Fluid (兒童咳液) and other liquid preparation varieties. During the Reporting Period, Tong Ren Tang Technologies Tangshan rapidly improved extraction and production volume of liquid preparation and effectively promoted sales Shengmai Liquor (生脈飲口服液) and other major varieties. Besides, Tong Ren Tang Technologies Tangshan also actively gave a full play of its advantages, created market demand, expanded products varieties and finished disinfectant production such as silicone mask disinfectant, wash free antibacterial hand sanitizer and others.

During the Reporting Period, facing the complex, ever-changing and competitive market environment, the Company still closely monitored the changes in market environment brought by the Epidemic, focused on the treatment concepts of traditional Chinese medicine of “prevention, control, resistance, maintenance”, paid close attention to the market demand brought by Epidemic prevention and control as well as seasonal changes, kept variety as the core, and planned the product variety operation by combining the product function and characteristics with the market demand. Meanwhile, the Company cooperated with famous E-commerce platforms such as top 100 chain drugstores, Ali Health, JD Health, gave the full play to the advantage of retail terminal and E-commerce respectively, actively carried out both online and offline activities under the theme of “Caring for Family, Caring for Health”, “Dream Tong Ren, Energize Terminal”, etc., developed multi-dimensional distribution network channels through marketing activities such as terminal promotion, live broadcast promotion, TV column cooperation and WeChat article publish, promoted offline marketing activities, and expanded the exposure of the products, which effectively boosted the product sales volume and the growth in sales revenue. During the year, the Company took online sales opportunities during the Epidemic period and acquired good results in promoting each kind of products by catering for the demand and online shopping habit of various customer groups, and through the E-commerce activities such as “New Year Festival Sales”, “618”, “Double Eleven”, which is in accordance with the development trend of E-commerce and help to improve the market share and coverage of our products in E-commerce channel.

During the year, the number of products that achieved a sales amount of more than RMB 5 million of the Group was 50. The number of products that achieved a sales amount of more than RMB 100 million of the Group was 9, which was the same as last year. Among major products of the Group, with the restoration of the production capacity, the sales amount of series of Liuwei Dihuang Pills (六味地黃丸) series, Jinkui Shenqi Pills (金匱腎氣丸) series, Niu Huang Jiedu (牛黃解毒) series, Xihuang Pills (西黃丸) series, and Shengmai Liquor (生脈飲口服液) series, increased by 43.51%, 5.20%, 18.57%, 19.38%, 64.67%, respectively as compared with the corresponding period of last year. The sales of series amount of Ejiao (阿膠) increased by 3.10% and due to the impact of the Epidemic prevention and control policies, the sales amount of series of Ganmao Qingre Granules(感冒清熱顆粒) series decreased by 29.62% as compared with the corresponding period of last year.

In terms of scientific research on products, the Group is mainly committed to conducting secondary scientific research on existing products, taking into consideration of curative effects of existing products and exploring the potential of technological improvement and upgrading. In 2020, the Group carried out pharmacological research on Xihuang Pills (西黃丸), Taizi Baoxin Liquor (太子保心口服液), Yangxue Rongjin Pills(養血榮筋丸)and other products, fully explored the potential clinical value of related products, and provided scientific research support for their clinical application and academic promotion. Meanwhile, in order to enhance consumers' experience, the Group adopted the "electronic-tongue" analysis technology to solve taste issues of some products, establish the taste evaluation system of liquor of Chinese patent medicine for the products and preliminarily worked out a solution to improve the taste, all of which provided scientific research support for solving key technical issues such as improving the taste of medicine. In addition, in order to facilitate consumers' daily use and carrying, the Group researched on increasing the single-dose packaging of some products to meet the using habits of different consumers.

The subsidiaries of the Company are engaged in manufacturing and distribution of traditional Chinese medicine products, food and daily chemical products, production of Chinese medical raw material, medical services, distribution of medicine, etc. In particular, our principal subsidiary Tong Ren Tang Chinese Medicine which is located in Hong Kong, China, adopts a strategy of driving medicine demand by providing medical services and promoting culture at first to build a global layout with its base in Hong Kong, aiming to continuously accelerate the internationalization of traditional Chinese medicine. During the Reporting Period, given the global outbreak of COVID-19 and the weakened market consumption as a result of stringent prevention and control measures in various countries, local consumption and tourism have been hit hard in Hong Kong. Amid the newly challenging environment for economy, Tong Ren Tang Chinese Medicine decisively took a number of contingency measures. For example, it launched anti-epidemic products, diversified online sales channels, enriched the portfolio of its products while investing more in marketing and promotion. It endeavored to widen its income source and reduce its costs, enriched its ideas, strengthened its branding and product promotion and minimized the negative impact of adversity as much as possible. During the year of 2020, the sales revenue of Tong Ren Tang Chinese Medicine and its subsidiaries amounted to RMB1,170,364,000, representing a year-on-year decrease of 7.31%. Profit attributable to the owners of Tong Ren Tang Chinese Medicine amounted to RMB482,080,000, representing a year-on-year decrease of 1.49%.

Founded in 2001, the Company's subsidiary Beijing Tong Ren Tang WM Dianorm Biotech Co., Limited ("**Tong Ren Tang WM**") has been devoted to the natural plants applicable to the skin care for daily use, whose main products are masks, creams, skin care products and daily chemical products. During the Reporting Period, due to the impact of the Epidemic, the offline channel customers flow reduced significantly along with the change of consumption demand, which affected the performance of Tong Ren Tang WM to a comparatively great degree. Facing the Epidemic impact on real economy, Tong Ren Tang WM timely adjusted focus of sales, strived to take advantages of E-commerce channels, through integrating JD, Tmall, Taobao and other online platforms, supplementing special business staffs and enhanced the width of product promotion to drive the online sales of products. Meanwhile, Tong Ren Tang WM pushed offline dealers to upgrade their business model through new policy which favourable to them, and supported them with new type of media to improve sales. During the Reporting Period, the sales revenue of Tong Ren Tang WM amounted to RMB58,790,000, representing a year-on-year decrease of 29.80% and Tong Ren Tang WM recorded a net profit loss. However, the online business development of Tong Ren Tang WM appeared virtuous upward trend, as the exposure rate and recognition of its products were improved, and the portion of online sales revenue increased and operation quality was gradually improved.

Beijing Tong Ren Tang Second Traditional Chinese Medicine Hospital Co., Ltd. ("**Tong Ren Tang Second Traditional Chinese Medicine Hospital**") and Beijing Nansanhuan Zhonglu Drugstore Co., Limited ("**Nansanhuan Zhonglu Drugstore**") are wholly owned medical institution and retail pharmacy of the Company, respectively. During the Reporting Period, Tong Ren Tang Second Traditional Chinese Medicine Hospital orderly resumed the medical treatment in according to the relevant regulations of the superior health authorities and on the basis of the Epidemic prevention and control with off-peak treatment and making appointment. Tong Ren Tang Second Traditional Chinese Medicine Hospital actively discovered new non-drug therapy projects, by newly developing massage, bone setting and other special treatments as well as pediatric acupuncture service for children, to meet the diversified needs for patients. Even so, the outpatient visits still decreased by 24% as compared to the same period last year, which led to decrease of revenue and profit. During the year, Nansanhuan Zhonglu Drugstore adjusted structure of merchandise variety and increased product varieties to fulfill different needs of consumers. However, affected by reducing business hours during the Epidemic period, customer flow reduced which made an adverse impact on performance of Nansanhuan Zhonglu Drugstore to a large degree. During the year of 2020, sales revenue of the two companies amounted to RMB197,399,000, representing a year-on-year decrease of 16.88%, net profit of the two companies amounted to RMB4,331,000, representing a year-on-year decrease of 63.35%.

Based on authentic medicinal material production areas, the six planting subsidiaries take into consideration the regional and climate characteristics, and in according to the planting and harvesting principles of the planting place and planting time, adapt the cooperative planting method, take full advantages of local herbs, and provide around 20 authentic medicinal materials such as moutan bark, catnip, bunge corydalis herb, radix isatidis, etc. for the Company. During the year, they continued to seek new planting varieties based on the quality and quantity, added mint and other varieties for experimental planting, and expanded the cooperation planting scale of moutan bark and other varieties, to meet the production needs of Chinese patent medicine of the Group. During the year of 2020, the six subsidiaries achieved sales revenue of RMB216,548,000, representing a year-on-year increase of 6.96%. Net profit of the six subsidiaries amounted to RMB13,148,000, representing a year-on-year increase of 3.02%.

Financial Review

Liquidity and Financial Resources

The Group has maintained a sound financial position. During the year of 2020, 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 2020, the Group's cash and cash equivalents amounted to RMB2,947,958,000 in total (31 December 2019: RMB2,990,645,000).

As at 31 December 2020, the Group's short-term borrowings amounted to RMB235,000,000 (31 December 2019: RMB35,000,000), carrying an interest rate of 1.354% per annum (2019: 4.534%), and current portion of non-current bank borrowing and corporate bonds amounted to RMB821,299,000 (31 December 2019: RMB105,198,000), totally accounting for 33.12% of the total liabilities (31 December 2019: 4.59%). Long-term borrowings amounted to RMB483,227,000 (31 December 2019: RMB1,223,571,000), bearing annual interest rate of long-term borrowings at 3.412% (2019: 2.660%), long-term borrowings representing 15.15% of the total liabilities (31 December 2019: 40.05%). Of all the borrowings of the Group as at 31 December 2020, RMB1,056,299,000 will mature within one year and RMB483,227,000 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, with 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 2020 amounted to RMB804,088,000 (31 December 2019: RMB811,600,000) 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 an 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 2020, the total assets of the Group amounted to RMB10,940,798,000 (31 December 2019: RMB10,469,970,000). The funds of the Group comprised non-current liabilities of RMB734,369,000 (31 December 2019: RMB1,365,734,000), current liabilities of RMB2,454,924,000 (31 December 2019: RMB1,689,662,000), equity attributable to owners of the Company of RMB5,731,549,000 (31 December 2019: RMB5,527,255,000) and non-controlling interests of RMB2,019,956,000 (31 December 2019: RMB1,887,319,000).

In 2020, the Group's funds were mainly used for production and operation activities, purchase of property, plant and equipment and right-of-use assets, repayment of borrowings and payment of cash dividends, etc.

Liquidity

As at 31 December 2020, the Group's liquidity ratio (the ratio of current assets to current liabilities) was 3.04 (31 December 2019: 4.49), reflecting that the Group had sufficient financial resources. The Group's quick ratio (the ratio of liquid assets to current liabilities) was 1.85 (31 December 2019: 3.04), 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 5.59 (31 December 2019: 8.87), 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 4.06 (31 December 2019: 3.92), reflecting that the Group had a relatively strong ability to use funding from suppliers for no consideration. The Group's inventory turnover ratio (the ratio of revenue to the average of inventory balance) was 1.82 (31 December 2019: 1.91), 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 2020, the Group's gearing ratio (the ratio of total borrowings to equity attributable to owners of the Company) was 0.27 (31 December 2019: 0.25).

Expenses and Expense Ratio

For the year ended 31 December 2020, the Group's distribution expenses amounted to RMB699,931,000 (2019: RMB718,684,000) and the distribution expense ratio, i.e. the ratio of distribution expenses to revenue, was 0.15 (2019: 0.16). The decrease in distribution expenses was mainly due to the decrease in the cost of labour.

For the year ended 31 December 2020, the Group's administrative expenses amounted to RMB402,521,000 (2019: RMB397,551,000) and the administrative expense ratio, i.e. the ratio of administrative expenses to revenue, was 0.09 (2019: 0.09). The increase in administrative expenses was mainly due to the increase in the research and development expenses and depreciation expenses.

For the year ended 31 December 2020, the Group's net financial costs amounted to RMB3,479,000 (2019: net financial income amounted to RMB6,814,000) and the financial costs ratio, i.e. the ratio of net financial costs to revenue, was 0.0008 (the 2019 ratio of finance income to revenue: 0.0015). The increase in net finance costs was mainly due to no capitalisation of interests during this year.

Gross Margin and Net Profit Margin

For the year ended 31 December 2020, the gross margin of the Group was 44.88% (2019: 45.90%), while the net profit margin was 17.07% (2019: 16.56%).

Research and Development Expenses

For the year ended 31 December 2020, the research and development expenses (excluding employee benefit expense, depreciation and amortisation expense) of the Group were RMB65,548,000 (2019: RMB28,316,000), accounting for 0.85% of net assets (2019: 0.38%) and 1.42% of revenue (2019: 0.63%), respectively. The research and development expenses including employee benefit expense, depreciation and amortisation expense were RMB103,641,000 (2019: RMB61,248,000), accounting for 1.34% of net assets (2019: 0.83%) and 2.25% of revenue (2019: 1.37%), respectively.

Capital Expenditure

For the year ended 31 December 2020, the Group's capital expenditure incurred amounted to RMB781 million (2019: RMB276 million), primarily used for the acquisition of medicine processing base.

Pledges over Assets of the Group

As at 31 December 2020, RMB9,472,000 (31 December 2019: RMB9,438,000) of the Group's assets was pledged as security for long-term borrowing of RMB49,000 (31 December 2019: RMB49,000).

Contingent Liabilities

The Group had no contingent liabilities as at 31 December 2020 (31 December 2019: 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 2020, 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 RMB43,208,000 (31 December 2019: RMB215,523,000).

Significant Investment

During the year of 2020, 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 2020, the Group did not have any material acquisition and disposal in relation to subsidiaries, joint ventures and associates.

Prospects

In the year 2021, the uncertainty of market and the downward pressure of the economy still exist as the Epidemic are still affecting the world. Despite of this, the Group will continue to insist on the concept of high-quality development, further improve the political stance and strengthen the responsibility performance, and lay the political foundation for high quality development of enterprise under the promise of normalization of the Epidemic prevention and control. The Group will keep the good tradition while stay innovative and be the expert of the business while comprehensively promoting development of Party building, marketing, production and supply, basic management and subsidiaries operation, and building a new pattern for “14th Five Year Plan” development.

In the year 2021, the Group will keep focusing on market demand, fully display advantages of the brand and group of variety, take large-variety-strategy as the major focus of the business, make customized marketing plan in combination with market demand and orientation for different kinds of varieties, , and realise the precise marketing for major products. Meanwhile, the Group will keep improving the width of large variety, adapt variety cultivation and introduction, emphasize advantages of serialized products, focus on serialized products such as kidney diseases, heart and brain diseases, tonic, nourishing lungs, anti-cancers, infant medicines and others, aim at the characteristics of different kinds of products, integrate online and offline resources to implement coordinated marketing strategies, customize marketing plan from market, price, terminal, advertisement and other methods, fully release the potential of variety sales, concentrate on building serialized products with high recognition and good reputation in the market to drive up the sales volume. In addition, the Group will combine needs for medicine and market demand under the normalization of Epidemic prevention and control, scientifically adapt to and actively seek for the change as well as explore the brand new development path such as Chinese medicine granules and Chinese medicine disinfectant, and motivate the continuous development of the Group.

In the year 2021, the Group will strengthen standardized corporate governance by applying a problem-orientated strategy, fully review and evaluate the problems and shortcomings presented during the “13th Five Year Plan” period, conduct a detailed analysis of the causes and propose development goals and specific supporting measures of “14th Five Year Plan” period. On the one hand, the Group will continue to promote the governance system and governance capacity, unswervingly follow the path of high quality development, promote institutionalized management, strengthen talent build and improve the supporting assessment system to provide resource support. On the other hand, the Group will put market demand at the core of production supply, strengthen the connection between work process, implement strict assessment, to ensure the stability of production and supply. In addition, the Group will keep goal-oriented and set up a new market-oriented development idea. Subsidiaries of the Group will continuously learn from the advanced models of leading enterprises in the industry, timely follow up the market changes, grasp the hotspot in the market, broaden the development ideas, take the initiative to explore and innovate, clarify the development objectives and supporting measures, continue to expand the product recognition in the market and improve the ability of self-management.

In the future, the Group will stand on the new start point of the “14th Five Year Plan” period, adapt to the new situation, implement the new concept and build a new pattern, strive to resolve the adverse impact of the Epidemic on the production and operation, ensure smooth and orderly operation of the economy, and seek new development.

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. whose main products include Angong Niu Huang Pills (安宮牛黃丸), Tongren Niu Huang Qingxin Pills (同仁牛黃清心丸), Tongren Dahuo Luo 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), Niu Huang 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 Niu Huang Pills (安宮牛黃丸), Tong Ren Tang Holdings, Tong Ren Tang Ltd. and their respective subsidiaries will not produce any products that bear the same names or bear the same names with different dosage forms as those pharmaceutical products produced by the Company in the future, 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 2020, 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 2020 annual report to be published by the Company soon.

CORPORATE GOVERNANCE

The Board of Directors 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 2020, 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 to review the Company’s annual and interim results and other related documents.

The Audit Committee comprises the independent Directors 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 2020, the Audit Committee convened two meetings. The first meeting was held on 20 March 2020 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 2019 as well as matters in relation to risk management, legal compliance and internal audit, and to listen to the audit result reported by the auditors. The Audit Committee concurred the meeting with agreement to the contents of the 2019 annual report. The second meeting was held on 24 August 2020 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 2020 as well as matters in relation to risk management, legal compliance and internal audit. The Audit Committee concurred the meeting with agreement to the contents of the 2020 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 of Directors 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 23 March 2021, 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 2020, as well as matters in relation to risk management, legal compliance and internal audit, reviewed the effectiveness of risk management and internal control systems as well as internal audit, and listened to the audit results reported by the auditors. The Audit Committee concurred in the contents of the 2020 annual results and annual report.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

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

AUDITORS

PricewaterhouseCoopers (“PwC”) was appointed as the overseas auditor of the Company for the year ended 31 December 2020. The figures in respect of the results announcement of the Group for the year ended 31 December 2020 have been agreed by PwC, to the amounts set out in the Group's draft consolidated financial statements for the year ended 31 December 2020. The work performed by PwC 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 PwC on the preliminary announcement.

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 2020 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

26 March 2021

As at the date of this announcement, the Board comprises Mr. Gu Hai Ou, Mr. Jin Tao, Mr. Ma Guan Yu, 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.