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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 2022

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 2022 (the “**Reporting Period**”) for shareholders' review.

Results of the Year

For the year ended 31 December 2022, the Group's revenue amounted to RMB5,991,841,000, representing an increase of 10.95% from RMB5,400,487,000 for the corresponding period of last year; net profit amounted to RMB1,001,620,000, representing an increase of 15.55% from RMB866,844,000 for the corresponding period of last year; profit attributable to owners of the Company amounted to RMB582,888,000, representing an increase of 14.91% from RMB507,249,000 for the corresponding period of last year; earnings per share was RMB0.46 (2021: RMB0.40); and dividend per share was RMB0.16 (2021: RMB0.16).

REVIEW OF THE YEAR

The year 2022 is a year of creative transformation and high-quality development of China's traditional Chinese medicine industry, and it is also a crucial year for the Group's "14th Five Year Plan" to make progress based on tradition and deepen the transformation. During the year, the state successively promulgated important policies such as the "Strategic Plan for Expanding Domestic Demand (2022-2035)" (《擴大內需戰略規劃綱要(2022—2035年)》) and the "14th Five-Year Plan for the Development of Traditional Chinese Medicine" (《「十四五」中醫藥發展規劃》). In the report of the 20th National Congress of the Communist Party of China, the favorable message of "promoting the inheritance and innovation of traditional Chinese medicine" was clearly stated, which fully reflected the great importance attached by our country to the traditional Chinese medicine industry. Benefiting from the successive implementation of industrial policies, the policy superposition effect is more obvious, and it also clarifies the direction for the comprehensive promotion of the construction of a "Healthy China" and the future development of the traditional Chinese medicine industry. Deepening transformation and improving the manufacturing quality are still the direction towards which traditional Chinese medicine enterprises will devote their efforts. At the same time, affected by various factors, the downward pressure on the global economy has further intensified, and the domestic economy has also weakened to a certain extent in the short term, which has brought some risks and challenges to the production and operation of the Group.

Therefore, the Group continued to fully implement the concept of in-depth development of our core business, centered on the goal of "guaranteeing supply, improving quality, and increasing sales volume", and adhered to the strategy for major varieties to make practical moves in production and supply. The reform on the marketing system has produced results, and opportunities have been seized. We have effectively responded to the challenges, successfully completed the established task indicators, and steadily promoted the high-quality development of the Group.

At the same time, the Group actively supported the reserve of medical relief in Beijing to ensure the production and supply of emergency medicines, providing an effective protection for the anti-pandemic work in the capital. We have quickly adapted to the changes in the philosophy of business management under the new economic situation, laying a solid foundation for the sound development of the Group during the "14th Five Year Plan".

OUTLOOK AND PROSPECTS

At present, the development of traditional Chinese medicine is in a period of important strategic opportunities with great potential for great achievements. As the population aging in China continues to deteriorate, its related problems are becoming more and more serious. Coupled with the people's awareness of health is gradually raising, "creative transformation and innovative development" has become a key problem to be solved for the revitalization of the traditional Chinese medicine industry. The Group will continue to adhere to the inheritance, innovation and development of traditional Chinese medicine, continuously improve the capability of scientific research, uncover the market potential, seize the opportunities, take advantage of the favorable situation, and meet the consumer needs in traditional Chinese medicine by improving the supply of high-quality products.

At the same time, the Group will continue to focus on the strategy for major varieties, focus on the core competitive advantages of "branding, variety, and quality", accurately grasp the development trend of the traditional Chinese medicine industry, target the development goals of the Group's "14th Five Year Plan", and focus on the core business for in-depth development. Under the guidance of the "Implementation Plan for Major Projects for the Revitalization and Development of Traditional Chinese Medicine", we will seek innovation in scientific research and development, look for effective strategies in the development of subsidiaries, attempt breakthroughs in investment, mergers, and acquisitions, strive to radiate our new vitality, and fully promote the high-quality development of traditional Chinese medicine industry.

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 2022, together with the audited comparative figures of 2021, as follows:

CONSOLIDATED INCOME STATEMENT

	<i>Note</i>	<u>2022</u> <i>RMB'000</i>	<u>2021</u> <i>RMB'000</i>
Revenue	<i>d</i>	5,991,841	5,400,487
Cost of sales	<i>f</i>	<u>(3,400,015)</u>	<u>(3,109,192)</u>
Gross profit		2,591,826	2,291,295
Distribution expenses	<i>f</i>	(907,569)	(738,765)
Administrative expenses	<i>f</i>	(483,287)	(477,788)
Reversal of impairment losses on financial assets		12,807	4,620
Other (losses)/income and gains, net		<u>(658)</u>	<u>149</u>
Operating profit		1,213,119	1,079,511
Finance income	<i>e</i>	51,861	29,273
Finance costs	<i>e</i>	<u>(53,798)</u>	<u>(61,796)</u>
Finance costs, net	<i>e</i>	(1,937)	(32,523)
Share of gains/(losses) of investments accounted for using the equity method		<u>811</u>	<u>(1,931)</u>
Profit before income tax		1,211,993	1,045,057
Income tax expense	<i>g</i>	<u>(210,373)</u>	<u>(178,213)</u>
Profit for the year		<u>1,001,620</u>	<u>866,844</u>
Profit attributable to:			
Owners of the Company		582,888	507,249
Non-controlling interests		<u>418,732</u>	<u>359,595</u>
		<u>1,001,620</u>	<u>866,844</u>
Earnings per share for profit attributable to owners of the Company during the year			
- Basic and diluted	<i>i</i>	<u>RMB 0.46</u>	<u>RMB0.40</u>

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	<u>2022</u>	<u>2021</u>
	<i>RMB'000</i>	<i>RMB'000</i>
Profit for the year	1,001,620	866,844
Other comprehensive income/(losses)		
<i>Items that may be reclassified to profit or loss</i>		
Foreign currency translation differences		
- Group	258,716	(80,767)
- Joint ventures and associates	888	(910)
<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	<u>3,585</u>	<u>(535)</u>
Other comprehensive income/(losses) for the year, net of tax	<u>263,189</u>	<u>(82,212)</u>
Total comprehensive income for the year	<u>1,264,809</u>	<u>784,632</u>
Attributable to:		
Owners of the Company	681,083	477,519
Non-controlling interests	<u>583,726</u>	<u>307,113</u>
Total comprehensive income for the year	<u>1,264,809</u>	<u>784,632</u>

CONSOLIDATED BALANCE SHEET

	<i>Note</i>	As at 31 December	
		2022	2021
		<i>RMB'000</i>	<i>RMB'000</i>
Assets			
Non-current assets			
Property, plant and equipment		2,591,032	2,614,731
Right-of-use assets		615,033	643,054
Intangible assets		62,899	62,943
Investments accounted for using the equity method		34,191	33,901
Financial assets at fair value through other comprehensive income		8,591	4,466
Prepayments for purchase of non-current assets		39,858	37,987
Deferred income tax assets		60,983	66,494
		<u>3,412,587</u>	<u>3,463,576</u>
Current assets			
Inventories		3,239,209	2,847,116
Trade and bills receivables	<i>k</i>	1,497,249	1,193,165
Other financial assets at amortised cost		36,252	27,031
Prepayments and other current assets		153,223	202,226
Financial assets at fair value through profit or loss		429	-
Financial assets at fair value through other comprehensive income		98,148	111,553
Term deposits placed with banks		326,003	503,040
Cash and cash equivalents		3,721,668	3,246,159
		<u>9,072,181</u>	<u>8,130,290</u>
Total assets		<u>12,484,768</u>	<u>11,593,866</u>

CONSOLIDATED BALANCE SHEET (CONT'D)

		As at 31 December	
	<i>Note</i>	2022	2021
		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>	5,201,967	4,698,695
		6,482,751	5,979,479
Non-controlling interests		2,534,187	2,178,923
Total equity		9,016,938	8,158,402
Liabilities			
Non-current liabilities			
Borrowings		1,221,797	732,153
Lease liabilities		74,644	87,068
Deferred income tax liabilities		7,212	6,767
Deferred income – government grants		112,534	151,346
		1,416,187	977,334
Current liabilities			
Trade and bills payables	<i>l</i>	823,233	893,714
Salary and welfare payables		58,641	55,433
Contract liabilities	<i>d</i>	219,315	223,128
Current income tax liabilities		154,708	43,889
Other payables		497,278	417,465
Borrowings		250,496	760,692
Lease liabilities		47,972	63,809
		2,051,643	2,458,130
Total liabilities		3,467,830	3,435,464
Total equity and liabilities		12,484,768	11,593,866

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS:

a. GENERAL INFORMATION

The Company was incorporated as a joint stock limited company in Beijing, the People's Republic of China (the “**PRC**” or “**China**”) 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 (“**IFRSs**”) 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 judgment in the process of applying the Group’s accounting policies. The areas involving a higher degree of judgment 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 applied the following amendments to standards which are mandatory for the financial year beginning on 1 January 2022:

Amendments to IAS 16	Property, Plant and Equipment: Proceeds before Intended Use
Amendments to IAS 37	Onerous Contracts – Cost of Fulfilling a Contract
Amendments to IFRS 3	Reference to the Conceptual Framework
Amendments to IFRSs	Annual Improvements to IFRS Standards 2018-2020

The adoption of the above amendments to standards did not have any significant financial impact on these consolidated financial statements.

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 to standards 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 2023, but have not been early adopted by the Group.

IFRS 17	Insurance Contracts ⁽¹⁾
Amendments to IAS 1	Classification of Liabilities as Current/Non-current ⁽¹⁾
Amendments to IAS 1 and IFRS Practice Statement 2	Disclosure of Accounting Policies ⁽¹⁾
Amendments to IAS 8	Definition of Accounting Estimates ⁽¹⁾
Amendments to IAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction ⁽¹⁾
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ⁽²⁾

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

(2) 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 JUDGMENTS

Estimates and judgments 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 costs to completion and those necessary to make the sale. 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 judgment 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 judgment 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>2022</i>	<i>2021</i>
	<i>RMB'000</i>	<i>RMB'000</i>
Sales of Chinese medicine products		
- Mainland China	4,848,999	4,427,309
- Outside Mainland China	1,080,363	906,296
	5,929,362	5,333,605
Advertising services income		
- Mainland China	14,570	28,233
Services income		
- Mainland China	5,605	5,756
- Outside Mainland China	41,598	32,629
	47,203	38,385
Royalty fee income		
- Outside Mainland China	706	264
	5,991,841	5,400,487

The Group has recognised the following assets and liabilities related to contract with customers:

	As at 31 December	
	<i>2022</i>	<i>2021</i>
	<i>RMB'000</i>	<i>RMB'000</i>
Contract liabilities - Sales of goods	214,186	216,682
Contract liabilities - Services income	5,129	6,446
	219,315	223,128

The Group did not recognise any contract assets related to contract with customers as at 31 December 2022 and 2021.

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

d. REVENUE (CONT'D)

Contract liabilities mainly arise from the advance payments made by customers while the goods have not been delivered. Management expects that most of the contract liabilities as of 31 December 2022 will be recognised as revenue during the next reporting period.

Revenue recognised in relation to contract liabilities

The following table shows revenue recognised in relation to contract liabilities in the year ended 31 December 2022 and 2021 related to carried forward contract liabilities at the beginning of the year.

	As at 31 December	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Revenue recognised that was included in contract liabilities at the beginning of the year	222,373	2,078

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

e. FINANCE INCOME AND COSTS

	<i>2022</i>	<i>2021</i>
	<i>RMB'000</i>	<i>RMB'000</i>
Finance income		
Interest income	44,221	28,051
Exchange gains/(losses), net	3,871	(2,420)
Others	3,769	3,642
	<u>51,861</u>	<u>29,273</u>
Finance costs		
Interest on bonds	-	(14,220)
Interest on bank borrowings	(47,537)	(40,753)
Interest on lease liabilities	(6,261)	(6,823)
	<u>(53,798)</u>	<u>(61,796)</u>
Finance costs, net	<u>(1,937)</u>	<u>(32,523)</u>

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

f. EXPENSES BY NATURE

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

	<i>2022</i>	<i>2021</i>
	<u><i>RMB'000</i></u>	<u><i>RMB'000</i></u>
Raw materials, merchandise and consumables used	2,347,266	2,079,658
Changes in inventories of finished goods and work-in-progress	(204,196)	(171,553)
Employee benefit expenses	980,611	903,793
Depreciation of property, plant and equipment	170,584	165,869
Depreciation of right-of-use assets	82,508	73,838
Amortisation of intangible assets	6,408	6,453
Amortisation of other long-term assets	2,222	3,555
Provision for impairment of inventories	24,293	94,137
Provision for impairment of goodwill	-	900
Reversal of impairment of receivables	(12,807)	(4,620)
Expenses relating to short-term leases	25,345	26,434
Variable lease payments not included in the measurement of lease liabilities (Note (i))	133	265
COVID-19-related rent concessions	(118)	(401)
Auditors' remuneration		
- Audit services		
- PricewaterhouseCoopers and PricewaterhouseCoopers Zhong Tian LLP	6,159	6,584
- Other auditors	1,918	1,682
- Non-audit services		
- PricewaterhouseCoopers	480	356
- Other auditors	357	253
Advertising and promotion expenses	377,391	236,340
Processing costs	297,093	298,552
Utilities	139,869	130,629
Research and development costs (Note (ii))	78,433	48,904
Repair and maintenance	66,761	63,805
Amortisation of deferred income - government grants	(62,667)	(12,767)
Transportation costs	43,642	48,325
Other taxes	5,229	4,685
Losses on disposal of non-current assets	1,445	1,132

(i) Variable lease payments represented the amounts which are determined based on the percentages of revenue generated by certain retail outlets that exceeded the corresponding fixed rentals.

(ii) Research and development costs represented amounts excluding employee benefit expenses, depreciation and amortisation expenses. The costs including employee benefit expenses, depreciation and amortisation expenses were RMB134,194,000 (2021: RMB100,155,000).

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% (2021: 25%). As of 31 December 2022 and 2021, the Company and certain of its subsidiaries have obtained the HNTE certificate. Consequently, their applicable income tax rate in 2022 is 15% (2021: 15%).

China Hong Kong Special Administrative Region (“**Hong Kong**”) profits tax has been provided at the rate of 16.5% (2021: 16.5%) on the estimated assessable profit for the year.

Income tax on other 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>2022</i>	<i>2021</i>
	<i>RMB'000</i>	<i>RMB'000</i>
Current income tax expense		
- Mainland China	93,819	87,687
- Hong Kong	97,877	94,825
- Other countries and regions (excluding Mainland China and Hong Kong)	12,247	9,674
	203,943	192,186
Deferred income tax charge/(credit)	6,430	(13,973)
	210,373	178,213

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 22.0% (2021: 21.0%) to profits of the consolidated entities as follows:

	<i>2022</i>	<i>2021</i>
	<i>RMB'000</i>	<i>RMB'000</i>
Profit before income tax	<u>1,211,993</u>	<u>1,045,057</u>
Tax calculated at domestic tax rates applicable to profits in the respective countries or regions	267,152	219,531
Tax effects of:		
- Effect of preferential income tax treatments	(56,703)	(47,148)
- Income not subject to tax	(4,257)	(940)
- Expenses not deductible for tax purposes	4,894	4,924
- Tax losses and temporary differences for which no deferred income tax assets were recognised	452	774
- Previously unrecognised tax losses used to reduce deferred tax expense	(713)	(1,281)
- (Over)/Under provision for taxation for the prior years	(462)	2,313
- Others	<u>10</u>	<u>40</u>
Income tax expense	<u><u>210,373</u></u>	<u><u>178,213</u></u>

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

h. DIVIDENDS

The cash dividends paid in 2022 and 2021 were RMB204,925,000 (RMB0.16 (including tax) per share) and RMB204,925,000 (RMB0.16 (including tax) per share) respectively.

	<i>2022</i>	<i>2021</i>
	<i>RMB'000</i>	<i>RMB'000</i>
Interim dividend paid of RMB nil (2021: RMB nil) per ordinary share	-	-
Final dividend proposed of RMB0.16 (including tax) (2021: RMB0.16 (including tax)) per ordinary share	<u>204,925</u>	<u>204,925</u>
	<u>204,925</u>	<u>204,925</u>

On 22 March 2023, the Board of Directors proposed a cash dividend in respect of the year ended 31 December 2022 of RMB0.16 (including tax) per share, amounting to a total of RMB204,925,440, which is subject to the shareholders' approval at the 2022 annual general meeting (the "2022 AGM") to be held on Thursday, 15 June 2023. This announcement do not reflect this dividend payable.

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 RMB582,888,000 by the weighted average number of 1,280,784,000 shares in issue during the year.

The Company had no dilutive potential shares in 2022 and 2021.

	2022 RMB'000	2021 RMB'000
Profit attributable to owners of the Company	582,888	507,249
Weighted average number of ordinary shares in issue (thousands)	1,280,784	1,280,784
Earnings per share	RMB0.46	RMB0.40

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 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**") and its subsidiaries 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 2022 is as follows:

	The Company RMB'000	Tong Ren Tang Chinese Medicine RMB'000	All others RMB'000	Total RMB'000
Segment revenue	3,491,666	1,495,315	1,904,434	6,891,415
Inter-segment revenue	<u>(41,987)</u>	<u>(63,988)</u>	<u>(793,599)</u>	<u>(899,574)</u>
Revenue from external customers	<u>3,449,679</u>	<u>1,431,327</u>	<u>1,110,835</u>	<u>5,991,841</u>
Timing of revenue recognition				
At a point in time	3,449,679	1,424,719	1,099,223	5,973,621
Over time	<u>-</u>	<u>6,608</u>	<u>11,612</u>	<u>18,220</u>
	<u>3,449,679</u>	<u>1,431,327</u>	<u>1,110,835</u>	<u>5,991,841</u>
Profit for the year	<u>329,472</u>	<u>595,004</u>	<u>77,144</u>	<u>1,001,620</u>
Interest income	17,949	19,510	6,266	43,725
Interest expense	(48,382)	(4,022)	(1,394)	(53,798)
Depreciation of property, plant and equipment	(94,473)	(11,259)	(64,852)	(170,584)
Depreciation of right-of-use assets	(24,686)	(51,124)	(6,698)	(82,508)
Amortisation of other long-term assets	(4,982)	(2,733)	(915)	(8,630)
Provision for impairment of inventories	(23,929)	(364)	-	(24,293)
Reversal of/(provision for) impairment of receivables	12,049	(5,538)	6,296	12,807
Share of profit/(losses) of investments accounted for using the equity method	871	(60)	-	811
Income tax expense	<u>(70,651)</u>	<u>(116,193)</u>	<u>(23,529)</u>	<u>(210,373)</u>
Segment assets and liabilities				
Total assets	<u>6,207,899</u>	<u>3,704,062</u>	<u>2,572,807</u>	<u>12,484,768</u>
Investments accounted for using the equity method	<u>19,221</u>	<u>14,970</u>	<u>-</u>	<u>34,191</u>
Additions to non-current assets ⁽¹⁾	<u>84,015</u>	<u>57,722</u>	<u>52,598</u>	<u>194,335</u>
Total liabilities	<u>2,316,608</u>	<u>422,491</u>	<u>728,731</u>	<u>3,467,830</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 2021 is as follows:

	The Company RMB'000	Tong Ren Tang Chinese Medicine RMB'000	All others RMB'000	Total RMB'000
Segment revenue	3,285,732	1,291,760	1,385,198	5,962,690
Inter-segment revenue	(28,062)	(583)	(533,558)	(562,203)
Revenue from external customers	<u>3,257,670</u>	<u>1,291,177</u>	<u>851,640</u>	<u>5,400,487</u>
Timing of revenue recognition				
At a point in time	3,257,670	1,254,644	823,376	5,335,690
Over time	-	36,533	28,264	64,797
	<u>3,257,670</u>	<u>1,291,177</u>	<u>851,640</u>	<u>5,400,487</u>
Profit for the year	<u>322,069</u>	<u>540,316</u>	<u>4,459</u>	<u>866,844</u>
Interest income	19,361	3,914	4,776	28,051
Interest expense	(55,886)	(3,904)	(2,006)	(61,796)
Depreciation of property, plant and equipment	(93,109)	(10,838)	(61,922)	(165,869)
Depreciation of right-of-use assets	(24,241)	(45,320)	(4,277)	(73,838)
Amortisation of other long-term assets	(4,960)	(1,870)	(3,178)	(10,008)
Provision for impairment of inventories	(94,089)	(48)	-	(94,137)
Reversal of/(provision for) impairment of receivables	11,379	(6,247)	(512)	4,620
Provision for impairment of goodwill	(900)	-	-	(900)
Share of (losses)/profit of investments accounted for using the equity method	(2,034)	103	-	(1,931)
Income tax expense	<u>(63,408)</u>	<u>(105,195)</u>	<u>(9,610)</u>	<u>(178,213)</u>
Segment assets and liabilities				
Total assets	<u>6,006,755</u>	<u>3,102,052</u>	<u>2,485,059</u>	<u>11,593,866</u>
Investments accounted for using the equity method	<u>19,759</u>	<u>14,142</u>	<u>-</u>	<u>33,901</u>
Additions to non-current assets ⁽¹⁾	<u>64,524</u>	<u>67,698</u>	<u>69,857</u>	<u>202,079</u>
Total liabilities	<u>2,493,218</u>	<u>231,078</u>	<u>711,168</u>	<u>3,435,464</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 RMB2,882,589,000 (2021: RMB2,963,403,000), and the total of these non-current assets located outside Mainland China is RMB460,424,000 (2021: RMB429,213,000).

During 2022, revenue from one (2021: two) customer 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>2022</i> <i>RMB'000</i>	<i>2021</i> <i>RMB'000</i>
Entities under control of the ultimate holding company (excluding the Group)	1,579,847	1,324,906
Customer A ⁽¹⁾	N/A	599,044
	<u>1,579,847</u>	<u>1,923,950</u>

(1) During the year, revenue from Customer A was lower than ten percent of the Group's total revenue.

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

k. TRADE AND BILLS RECEIVABLES

	As at 31 December	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Trade receivables		
- third parties	820,226	692,942
- related parties	270,565	92,915
	1,090,791	785,857
Bills receivables	454,083	470,794
	1,544,874	1,256,651
Less: provision for impairment	(47,625)	(63,486)
Trade and bills receivables, net	1,497,249	1,193,165

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 180 days. As at 31 December 2022 and 2021, the ageing analysis of trade and bills receivables based on invoice date was as follows:

	As at 31 December	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Within 4 months	1,256,595	1,115,121
Over 4 months but within 1 year	125,553	84,461
Over 1 year but within 2 years	136,440	13,112
Over 2 years but within 3 years	4,708	6,073
Over 3 years	21,578	37,884
	1,544,874	1,256,651

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

k. TRADE AND BILLS RECEIVABLES (CONT'D)

As at 31 December 2022, trade receivables of RMB47,625,000 (31 December 2021: RMB63,486,000) were provided for impairment. Movements in the provision for impairment of receivables were as follows:

	<i>2022</i>	<i>2021</i>
	<i>RMB'000</i>	<i>RMB'000</i>
As at 1 January	63,486	68,183
Reversal of impairment	(16,342)	(4,622)
Exchange differences	481	(75)
As at 31 December	47,625	63,486

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

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

	As at 31 December	
	<i>2022</i>	<i>2021</i>
	<i>RMB'000</i>	<i>RMB'000</i>
RMB	1,117,472	1,047,910
Hong Kong Dollar	414,430	202,055
United States Dollar	9,860	6,190
Others	3,112	496
	1,544,874	1,256,651

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

I. TRADE AND BILLS PAYABLES

	As at 31 December	
	2022	2021
	<u>RMB'000</u>	<u>RMB'000</u>
Trade payables		
- third parties	797,845	868,083
- related parties	25,388	25,631
	<u>823,233</u>	<u>893,714</u>
Bills payables	-	-
Trade and bills payables	<u>823,233</u>	<u>893,714</u>

As at 31 December 2022 and 2021, the ageing analysis of trade and bills payables based on invoice date was as follows:

	As at 31 December	
	2022	2021
	<u>RMB'000</u>	<u>RMB'000</u>
Within 4 months	725,107	767,282
Over 4 months but within 1 year	92,490	119,724
Over 1 year but within 2 years	1,824	2,432
Over 2 years but within 3 years	2	429
Over 3 years	3,810	3,847
	<u>823,233</u>	<u>893,714</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

(i) 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.

(ii) 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 RMB53,492,000 (2021: RMB39,457,000), 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 2022.

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.

(iii) 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 production development and not distributable to shareholders.

(iv) 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.

(v) Other reserve

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

FINAL DIVIDEND AND TAX

The Board of Directors proposed a final dividend for the year ended 31 December 2022 (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 2022 totaling RMB204,925,440 (2021: a final dividend for the year ended 31 December 2021 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 2022 AGM of the Company. The Company is expected to complete the dividend distribution on 14 August 2023.

As for non-resident enterprise shareholders (other than shareholders who have invested in the shares of the Company through Shenzhen-Hong Kong Stock Connect) as appeared on the H share register of members of the Company, the Company will withhold corporate income tax at the rate of 10% when distributing the Final Dividend in accordance with the Notice on Issues concerning Withholding the Enterprise Income Tax on the Dividends Paid by Chinese Resident Enterprises to H-Share Holders Which Are Overseas Non-resident Enterprises (Guo Shui Han (2008) No.897) published by the State Administration of Taxation. Any shares registered in the name of the non-individual registered shareholders, including HKSCC Nominees Limited, other nominees, trustees or other groups and organisations, will be treated as being held by non-resident enterprise shareholders, thus their dividends receivables will be subject to the withholding of the corporate income tax.

As for individual shareholders (other than shareholders who have invested in the shares of the Company through Shenzhen- Hong Kong Stock Connect) whose names appear on the H share register of members of the Company, the Company will withhold 10% of the Final Dividend as individual income tax when distributing the Final Dividend in accordance with the Notice on the Issues Concerning the Administration of Individual Income Tax Collection after the Annulment of Document Guo Shui Fa (1993) No.045 (Guo Shui Han (2011) No.348), unless otherwise specified by the relevant tax regulations, tax agreements or the aforesaid notice.

As for individual shareholders or securities investment funds who have invested in the H shares of the Company through Shenzhen-Hong Kong Stock Connect, when distributing the Final Dividend, the Company shall withhold individual income tax at the rate of 20% in accordance with the register provided by China Securities Depository and Clearing Corporation Limited, according to the Circular on the Tax Policies Related to the Pilot Program of the Shenzhen-Hong Kong Stock Connect (Cai Shui (2016) No.127) issued by the Ministry of Finance, State Administration of Taxation and China’s Securities Regulatory Commission on 5 November 2016.

The Company assumes no responsibility and disclaims all liabilities whatsoever in relation to the tax status or tax treatment of the H share Shareholders and for any claims arising from any delay in or inaccurate determination of the tax status or tax treatment of the H share Shareholders or any disputes relating to the tax withholding and payment mechanism or arrangements.

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

ANNUAL GENERAL MEETING

The 2022 AGM will be held on Thursday, 15 June 2023.

Closure of Register of Members of H Shares

For the purpose of the 2022 AGM, the register of members of H shares will be closed from Tuesday, 16 May 2023 to Thursday, 15 June 2023 (both days inclusive). Holders of H shares whose names appear on the register of the Company maintained by Hong Kong Registrars Ltd., the H share registrar and transfer office of the Company in Hong Kong, and holders of domestic shares whose names appear on the register of the Company on Tuesday, 16 May 2023 shall be entitled to attend the 2022 AGM. In order to be qualified for attending and voting at the 2022 AGM, all transfer documents of the holders of H shares of the Company must be lodged with the Company's H share registrar and transfer office, Hong Kong Registrars Limited at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, no later than 4:30 p.m., on Monday, 15 May 2023.

As for the payment of the Final Dividend, if the relevant proposal is approved by the shareholders at the 2022 AGM, the register of members of H shares will be closed from Wednesday, 21 June 2023 to Monday, 26 June 2023 (both days inclusive). Holders of H shares whose names appear on the register of the Company maintained by Hong Kong Registrars Ltd., the H share registrar and transfer office of the Company in Hong Kong, and holders of domestic shares whose names appear on the register of the Company on Monday, 26 June 2023 shall be qualified to the Final Dividend. In order to be qualified for the payment of the Final Dividend, all transfer documents of the holders of H shares of the Company must be lodged with the Company's H share registrar and transfer office, Hong Kong Registrars Limited at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, no later than 4:30 p.m. on Tuesday, 20 June 2023.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

In 2022, in the face of the public health situation and based on the supply and demand of products in the market, the Group timely adjusted and formulated related operating plan, closely paid attention to the demand of market, coped with flexibility and actively fulfilled enterprise responsibility, provided comprehensive support in terms of raw material protection, production and processing, marketing and promotion, etc., and giving full play to the synergy of superior resources to improve the overall work efficiency and achieve a good results. For the year ended 31 December 2022, the Group's revenue from sales amounted to RMB5,991,841,000, representing an increase of 10.95% from RMB5,400,487,000 for the corresponding period of last year; net profit amounted to RMB1,001,620,000, representing an increase of 15.55% from RMB866,844,000 for the corresponding period of last year; profit attributable to owners of the Company amounted to RMB582,888,000, representing an increase of 14.91% from RMB507,249,000 for the corresponding period of last year.

In terms of production, in order to respond effectively to the impact of the emergency situations on the supply end and the production end, the Group reasonably allocated production capacity in Beijing and Hebei, adjusted production arrangements and production pace as and when appropriate, enriched large-scale production means , and focused on improving product production and supply capabilities to ensure the non-disruption in production and supply in the market. During the year, the Daxing Branch Factory and Beijing Tong Ren Tang Technologies (Tangshan) Co., Ltd, a subsidiary of the Company, thoroughly implemented the strategy for major varieties, gave full play to the advantages of production capacity, acted proactively, reasonably arranged production plans, strengthened the connection between the upper and lower processes, and coordinated the secured allocation of production planning, production materials and production personnel deployment. The Daxing Branch Factory also added to its production Guanxin Suhe Pills (冠心蘇合丸), Jiawei Xiaoyao Pills (加味逍遙丸) during the year, taking multiple measures to ensure supply.

In terms of marketing work, in the face of the downward economic pressure and the complex and ever-changing market environment, the Group continued the in-depth development of the strategy for major varieties, relied on "Glow Campaign (煥彩行動)", formulated marketing implementation plans for each variety, and achieved sales growth of "major varieties" through large-scale industry exhibitions such as "Xidinghui (西鼎會)", "Xipuhui (西普會)", "Xihu Forum (西湖論壇)" and "Shanghai Pharmaceutical Fair (上海藥交會)" and a variety of dynamic marketing activities. In terms of products, the Group continued to create a variety group of "prevention, control, resistance, and convalescence" and implemented classified management of varieties in consideration of the full-cycle medication needs before, in the middle of and after the pandemic. Combining the categories of "treatment of chronic disease, treatment of foreseeable disease, non-medicine, pediatric drugs, Tong Ren Tang special medicine", the Group coordinated the design of channel control, price system, and promotion measures to increase our efforts to stimulate market demand and boost product sales. In terms of channels, the Group continued the in-depth development of the construction of terminal chain store channels, strengthened strategic cooperation, and actively carried out themed marketing activities such as "anti-pandemic and anti-infection", "care for babies' health" and "gel nourishment and health preservation", relied on terminal empowerment service pack to boost market demand and enhance customer stickiness, boosting the sales of terminal products. At the same time, the Group fully integrated and utilized resource advantages, continued to seek in-depth cooperation with leading enterprises in the industry, strengthened the connection with key distributors such as Jointown Pharmaceutical Group, China Resources Commercial Group, Sinopharm Holding Group, Tong Ren Tang Commercial Investment Group, etc., deeply developed channel distribution, formed a favorable situation of in-depth integration, mutual promotion and benefit to promote the steady growth of the product sales of the Group. In addition, apart from the OTC channel, the Group continued to invest in the e-commerce platform, relying on the Company's joint venture, Beijing Tong Ren Tang Shuzi Technology Co., Ltd. (北京同仁堂數字科技有限公司), making full use of e-commerce platforms such as JD Pharmacy (京東大藥房), Alihealth Pharmacy (阿里健康大藥房), and Dingdang Kuaiyao (叮嚀快藥), and using promotional tools such as Ju Hua Suan (聚划算) and Miao Sha (秒殺) to boost the sales of products such as Shengmai Liquor (生脈飲口服液) and Ganmao Qingre Granules (感冒清熱顆粒), and continued to increase brand promotion efforts to increase sales conversion rates.

In 2022, there were 60 product lines of the Group achieving a single-product sales amount of more than RMB5 million, and 10 of which achieved a single-product sales amount of more than RMB100 million. Among major products of the Group, the sales amount of series of Jinkui Shenqi Pills (金匱腎氣丸), Xihuang Pills (西黃丸), Ejiao (阿膠), Ganmao Qingre Granules (感冒清熱顆粒) and Shengmai Liquor (生脈飲口服液) increased by 1.71%, 4.07%, 10.38%, 11.00% and 17.17%, respectively, compared to the corresponding period of last year. The sales amount of Liuwei Dihuang Pills (六味地黃丸) series and Niu Huang Jiedu (牛黃解毒) series decreased by 6.55% and 0.63%, respectively, compared to the corresponding period of last year.

In terms of product research and development, while devoting itself to the secondary research of existing products, the Group continued to focus on the research and development of innovative traditional Chinese medicine. On the one hand, the Group actively promoted the pharmacodynamic evaluation and clinical research of Jingzhi Niu Huang Jiedu Tablets (京製牛黃解毒片) for oral ulcers, Anshen Jiannao Liquor (安神健腦液) for Alzheimer's disease, Xihuang Pills (西黃丸) for lung cancer metastasis, etc., to reveal the efficacy and mechanism of the products in depth, continuously improved the scientific value of products, and provided evidence for the clinical application of products. On the other hand, the Group continued to focus on new drug research, completed the project approval and program demonstration of new compound drugs of Qishen Granules (芪參顆粒), and accelerated the promotion of safety evaluation research and production verification for several classic traditional Chinese medicine compound liquid preparation such as Linggui Zhugan Decoction (苓桂術甘湯), Shaoyao Gancao Decoction (芍藥甘草湯), Baoyuan Decoction (保元湯), and Wenjing Decoction (溫經湯). At the same time, we actively met the market demand, carried out research and development of improved new drugs for Pediatric Rhinitis Tablets (小兒鼻炎片) for product marketing.

The subsidiaries of the Group 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 which is located in Hong Kong, China, Tong Ren Tang Chinese Medicine, 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, China, aiming to continuously accelerate the internationalization of traditional Chinese medicine. During the Reporting Period, Tong Ren Tang Chinese Medicine continued to steadily improve the layout of the core market in Hong Kong, looking for areas with high consumption potential to add offline retail terminals. At the same time, it accelerated the integration of online retail channels such as self-owned e-commerce platforms and cross-border e-commerce platforms to effectively meet consumer needs in diverse scenarios during the pandemic. As at the end of 2022, the business network of Tong Ren Tang Chinese Medicine covered major countries and regions in Asia, Oceania, North America and Europe, with 48 retail terminals. Due to the impact of the pandemic, the overall number of new confirmed cases abroad was still at a high level, and the number of overseas students, tourists and visitors who was travelling to visit their relatives did not recover to the pre-pandemic level, and the overseas traditional Chinese medical service market was yet to be activated. In view of this, Tong Ren Tang Chinese Medicine sought reform in this difficult situation, actively explored new ways of modernizing traditional Chinese medicine services, and carried out overall planning based on its own ability to deal with the pandemic and other risks, achieving contrarian growth in overseas markets such as Singapore, New Zealand, Canada, and Dubai. In addition, Tong Ren Tang Chinese Medicine opened Tong Ren Tang brand stores in the World's Largest Duty Free City of China Duty Free Group—Haikou New Seaport Project on 28 October 2022, to expand the layout of duty-free channels. In 2022, the sales revenue of Tong Ren Tang Chinese Medicine and its subsidiaries amounted to RMB1,495,315,000, representing a year-on-year increase of 15.76%. Profit attributable to the owners of Tong Ren Tang Chinese Medicine amounted to RMB557,261,000, representing a year-on-year increase of 10.55% (The differences between the figures of sales revenue of Tong Ren Tang Chinese Medicine and its subsidiaries and the net profit attributable to the owners of Tong Ren Tang Chinese Medicine, and the figures disclosed in the results announcement of Tong Ren Tang Chinese Medicine dated 13 March 2023 are due to foreign currency translation differences between RMB and Hong Kong Dollar).

Since its establishment in 2001, Beijing Tong Ren Tang WM Dianorm Biotech Co., Limited ("**Tong Ren Tang WM**"), a subsidiary of the Company, has been devoted to the combination of natural herbal plants and modernization of Chinese medicines and the application thereof, whose main products are masks, creams and daily chemical products. During the Reporting Period, Tong Ren Tang WM continued to strengthen the adaptability of the operating system, and carried out the main and sub-brand planning of "Tong Ren Tang" (同仁堂), "Bencaozhiyue (本草之約)", "Jibendao (肌本道)" and "Hair Nature (髮之自然)" around brand positioning, and accurately matched the audience groups. It gradually moved from single-brand operation to multi-brand development to realize the accumulation of brand value. At the same time, Tong Ren Tang WM continued to strengthen its comprehensive marketing capabilities. According to the work requirements of the Group's strategy for major varieties, it mainly promoted functional products such as creams, masks, hair care products and special makeup products, and actively deployed supermarkets, e-commerce and overseas sales channels to continue the search for new incremental breakthroughs. On 16 February 2023, the Company entered into a capital increase agreement with Tong Ren Tang Chinese Medicine, Tong Ren Tang WM and Jianzhijia Pharmaceutical Chain Group Co., Ltd. ("**Jianzhijia**"). In the future, Tong Ren Tang WM will make full use of Jianzhijia's professional management concepts and sales channel resources in the cosmeceutical field for in-depth development and cooperation, and continue to enhance the competitive advantage of the products of Tong Ren Tang WM. In 2022, the revenue of Tong Ren Tang WM amounted to RMB55,748,000, the net profit of Tong Ren Tang WM amounted to RMB614,000.

Beijing Tong Ren Tang Second Traditional Chinese Medicine Hospital Co., Ltd (“**Tong Ren Tang Second Traditional Chinese Medicine Hospital**”) and Beijing Tong Ren Tang Nansanhuan Zhonglu Drugstore Co., Limited (“**Nansanhuan Zhonglu Drugstore**”) are medical institution and retail pharmacy of the Company, respectively. During the Reporting Period, the Company entered into an asset transfer agreement with Beijing Tong Ren Tang Medical Caring Industry Investment. Group, Co., Ltd. (北京同仁堂醫養產業投資集團有限公司) (“**Tong Ren Tang Medical Caring**”), pursuant to which Tong Ren Tang Medical Caring purchased 49% of the equity interest in Nansanhuan Zhonglu Drugstore and 49% of the equity interest in Tong Ren Tang Second Traditional Chinese Medicine Hospital at a consideration of RMB19,376,000 and RMB42,011,000 respectively, with a view to introducing Tong Ren Tang Medical Caring’s market-oriented operation and management experience and assisting the high-quality development of the Group’s medical care business. During the year, Tong Ren Tang Second Traditional Chinese Medicine Hospital continued to provide patients with all-round and multi-level healthcare services, created an efficient, convenient, safe and comfortable environment for medical treatment, and continued to explore the potential of traditional Chinese medicine treatment projects such as traditional Chinese medicine ointment and auricular point pressing pills, and made full use of the external treatment method of traditional Chinese medicine for the relief of patient's persistent physical illness to meet the diagnosis and treatment needs of patients. While continuing to ensure the sales volume of OTC products, Nansanhuan Zhonglu Drugstore vigorously promoted general health and medical device products, and carried out themed product promotion activities in conjunction with holidays and solar terms to meet the diversified needs of consumers. In 2022, the two subsidiaries, in aggregate, achieved sales revenue of RMB215,887,000, representing a year-on-year increase of 0.43%, and net profit of RMB11,161,000, representing a year-on-year increase of 54.43%.

Based on authentic medicinal material production areas, the six planting subsidiaries of the Company 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 (牡丹皮), catnip (荊芥), bunge corydalis herb (苦地丁), radix isatidis (板藍根), etc. for the Group. During the year, relying on the resource advantages of the production area, various planting subsidiaries further promoted the establishment of a quality traceability management and control system in accordance with the work requirements of the strategy for major varieties and "genuine planting with genuine management", strictly controlled the quality of upstream raw materials, and ensured the supply of large quantities of high-quality local medicinal materials to meet the production demand of the Group's proprietary Chinese medicines. In 2022, the six subsidiaries achieved sales revenue of RMB267,318,000, representing a year-on-year increase of 13.07%.

Financial Review

Liquidity and Financial Resources

The Group has maintained a sound financial position. During the year of 2022, the Group's primary source of funds was cash generated from daily operating activities and borrowings.

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

As at 31 December 2022, the Group's cash and cash equivalents amounted to RMB3,721,668,000 in total (31 December 2021: RMB3,246,159,000).

As at 31 December 2022, the Group's short-term borrowings amounted to RMB235,300,000 (31 December 2021: RMB735,300,000), carrying an interest rate of 3.393% per annum (2021: 3.450%), and current portion of non-current bank borrowing amounted to RMB15,196,000 (31 December 2021: RMB25,392,000), totally accounting for 7.22% of the total liabilities (31 December 2021: 22.14%). Long-term borrowings amounted to RMB1,221,797,000 (31 December 2021: RMB732,153,000), bearing annual interest rate of long-term borrowings at 2.947% (2021: 3.672%), long-term borrowings representing 35.23% of the total liabilities (31 December 2021: 21.31%). Of all the borrowings of the Group as at 31 December 2022, RMB250,496,000 will mature within one year and RMB1,221,797,000 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. The net proceeds from the issuance of bonds (net of all related costs and expenses) amounted to approximately RMB798,560,000, of which RMB100,000,000 were used for repayment of working capital loan from bank, RMB698,560,000 were used to replenish the general working capital. All the proceeds from bonds were fully utilised in 2017. 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 corporate bonds of the Company matured on 30 July 2021, and the principle and final instalment of annual interest of the bonds, which was approximately RMB834,800,000 was paid on 2 August 2021.

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 2022, the total assets of the Group amounted to RMB12,484,768,000 (31 December 2021: RMB11,593,866,000). Non-current liabilities of RMB1,416,187,000 (31 December 2021: RMB977,334,000), current liabilities of RMB2,051,643,000 (31 December 2021: RMB2,458,130,000), equity attributable to owners of the Company of RMB6,482,751,000 (31 December 2021: RMB5,979,479,000) and non-controlling interests of RMB2,534,187,000 (31 December 2021: RMB2,178,923,000).

In 2022, the Group's funds were mainly used for production and operation activities, purchase of property, plant and equipment, repayment of borrowings and payment of cash dividends, etc.

Liquidity

As at 31 December 2022, the Group's liquidity ratio (the ratio of current assets to current liabilities) was 4.42 (31 December 2021: 3.31), reflecting that the Group had sufficient financial resources. The Group's quick ratio (the ratio of liquid assets to current liabilities) was 2.77 (31 December 2021: 2.07), 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 6.79 (31 December 2021: 6.88), reflecting that the Group's trade receivables were liquid. The Group's trade payables turnover ratio (the ratio of cost of sales to the average of trade payables balance) was 3.96 (31 December 2021: 4.11), 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 1.97 (31 December 2021: 1.94), 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 2022, the Group's gearing ratio (the ratio of total borrowings to equity attributable to owners of the Company) was 0.23 (31 December 2021: 0.25).

Expenses and Expense Ratio

For the year ended 31 December 2022, the Group's distribution expenses amounted to RMB907,569,000 (2021: RMB738,765,000) and the distribution expense ratio, i.e., the ratio of distribution expenses to revenue, was 0.15 (2021: 0.14). The increase in distribution expenses was mainly due to increase in the cost of labour and more terminal promotions.

For the year ended 31 December 2022, the Group's administrative expenses amounted to RMB483,287,000 (2021: RMB477,788,000) and the administrative expense ratio, i.e., the ratio of administrative expenses to revenue, was 0.08 (2021: 0.09). The increase in administrative expenses was mainly due to increase in the cost of labour.

For the year ended 31 December 2022, the Group's net financial costs amounted to RMB1,937,000 (2021: RMB32,523,000) and the financial costs ratio, i.e., the ratio of net financial costs to revenue, was 0.0003 (2021: 0.0060). The decrease in net finance costs was mainly due to the decrease in interest expenses and increase in interest income.

Gross Margin and Net Profit Margin

For the year ended 31 December 2022, the gross margin of the Group was 43.26% (2021: 42.43%), while the net profit margin was 16.72% (2021: 16.05%).

Research and Development Expenses

For the year ended 31 December 2022, the research and development expenses (excluding employee benefit expenses, depreciation and amortisation expense) of the Group were RMB78,433,000 (2021: RMB48,904,000), accounting for 0.87% of net assets (2021: 0.60%) and 1.31% of revenue (2021: 0.91%), respectively. The research and development expenses including employee benefit expenses, depreciation and amortisation expense were RMB134,194,000 (2021: RMB100,155,000), accounting for 1.49% of net assets (2021: 1.23%) and 2.24% of revenue (2021: 1.85%), respectively.

Capital Expenditure

For the year ended 31 December 2022, the Group's capital expenditure incurred amounted to RMB173 million (2021: RMB171 million), primarily used for the construction of production bases and purchase of production equipment.

Pledges over Assets of the Group

As at 31 December 2022, RMB8,448,000 (31 December 2021: RMB8,508,000) of the Group's assets was pledged as security for current portion of non-current liabilities of RMB47,000 (31 December 2021: long-term borrowings of RMB46,000).

Contingent Liabilities

The Group had no contingent liabilities as at 31 December 2022 (31 December 2021: Nil).

Foreign Exchange Risk

The Group operates on an international basis and foreign exchange risk arises from commercial transactions, recognised assets and liabilities and net investments in foreign operations, primarily with respect to the Hong Kong Dollar. The Group currently does not have a foreign currency hedging policy. The Group manages its foreign exchange risk by closely monitoring the movement of the foreign currency rates.

Capital Commitments

As at 31 December 2022, 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 RMB65,787,000 (31 December 2021: RMB69,210,000).

Significant Investment

During the year of 2022, the Group did not have any significant investment. As at 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 2022, the Group did not have any material acquisition and disposal in relation to subsidiaries, joint ventures and associates.

Subsequent Event

During the Reporting Period and up to the date of this announcement, no material events have occurred that would have a material impact on business operations of the Group.

PROSPECTS

Tong Ren Tang began to produce imperial medicines in 1723. Since then, it has built its own excellent production technology and drug quality and fostered a unique corporate culture of Tong Ren Tang. Taking this as a historical point, it will be the 300th year in 2023. The journey has not been easy. 2023 is the first year of the full implementation of the spirit of the 20th National Congress of the Communist Party of China. It is also a crucial moment for the implementation of the "14th Five Year Plan" of Tong Ren Tang to inherit the past and make progress for the future. In this special moment, the Group will give fuller play to the core competitive advantage of "branding, variety, and quality", accurately grasp the development trend of the traditional Chinese medicine industry, make full use of policy opportunities, solidly promote the deployment of the strategy for major varieties, benchmark the "14th Five Year Plan", carry out in-depth implementation of agile and efficient product supply and transformation of marketing models upgrade, and fully promote the high-quality development for all work of the Group.

In terms of our production, the Group will focus on "safeguarding variety, demand and quality" to carry out in-depth industrial and commercial connection, and enhance the rapid response capability of the industrial system to the diversified demand in the market. On the one hand, the Group will flexibly control the production scheduling of products such as "strategy for major varieties", varieties of the "Glow Campaign (煥彩行動)", seasonal varieties, and varieties urgently needed by the market based on factors such as the overall industrial layout and annual order plan, and rationally arrange production plans to ensure sufficient and orderly supply of all products. At the same time, with the changes in infectious diseases and the adjustment of the sales management policies of the four categories of drugs for "antipyretic, cough remedy, antiviral and antibiotics", the demand in the market for related medicines has also undergone rapid changes. The Group will make every effort to make accurate forward-looking judgment, moderately increase the raw material and finished product reserves of cold, antipyretic, cough remedy and other products, to minimize the impact of emergency situations on the Group.

In the future, the Group will give more consideration to satisfying the normalized demand from the market, continue to focus on the advantages of variety resources, take "large-variety-strategy" as the major focus, continue to carry out the themed activities of "Glow Campaign (煥彩行動)", clarify the variety position of "terminals empowerment", continue to focus on product development, clarify differentiated marketing strategies in the main sales market, cultivation market and competitive market by varieties, coordinate variety cultivation, channel control, price system and promotion strategy, accurately locate market demand, stimulate variety development potential and vitality, increase product market coverage, increase product sales, and achieve the goal of "large-variety-strategy". In addition, the Group will fully explore the brand culture of Tong Ren Tang and the historical and cultural heritage of imperial medicine, tell the story of the brand and varieties, deepen the all-round cooperation with the top 100 chains and key distributors in the country, carry out a series of themed marketing activities such as the "Three Hundred Years of Royal Medicine in Tong Ren Tang", endow the variety with cultural connotation, enhance the influence of the variety, and expand the market share of products.

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 Niuhuang Pills (安宮牛黃丸), Tongren Niuhuang Qingxin Pills (同仁牛黃清心丸), Tongren Dahuoluo Pills (同仁大活絡丸), Tongren Wuji Baifeng Pills (同仁烏雞白鳳丸) and Guogong Wine (國公酒) . It also has some minor production lines for the production of granules and water honeyed pills. These products do not compete with the Group in terms of their curative effects. The Company focuses on manufacturing products in new dosage forms which are more competitive as compared with western medicine. The Company’s main products include Liuwei Dihuang Pills (六味地黃丸), Niuhuang Jiedu Tablet (牛黃解毒片), Ganmao Qingre Granule (感冒清熱顆粒), and Jinkui Shenqi Pills (金匱腎氣丸), etc.. Tong Ren Tang Holdings is an investment holding company.

To ensure that the business classification between the Company, Tong Ren Tang Holdings and Tong Ren Tang Ltd. is properly documented and established, Tong Ren Tang Holdings and Tong Ren Tang Ltd. undertook, pursuant to an undertaking dated 19 October 2000 committed by Tong Ren Tang Holdings and Tong Ren Tang Ltd. in favor of the Company (“**October Undertaking**”), that other than Angong Niuhuang Pills (安宮牛黃丸), Tong Ren Tang Holdings, Tong Ren Tang Ltd. and their respective subsidiaries will not produce 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 2022, 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 2022 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 2022, 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” compiled 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 non-executive 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 2022, the Audit Committee convened two meetings. The first meeting was held on 15 March 2022 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 2021 as well as matters in relation to risk management, legal compliance and internal audit, and to listen to the result of audit reported by the auditors. The Audit Committee concluded the meeting with agreement to the contents of the 2021 annual report. The second meeting was held on 17 August 2022 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 2022 as well as matters in relation to risk management, legal compliance and internal audit. The Audit Committee concluded the meeting with agreement to the contents of the 2022 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 16 March 2023, 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 2022, as well as matters in relation to risk management, legal compliance and internal audit, and reviewed the effectiveness of risk management and internal control systems as well as internal audit, and to listened to the results of audit reported by the auditors. The Audit Committee reviewed and concurred in the contents of the 2022 annual result and annual report.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

For the year ended 31 December 2022, 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 auditor of the Company for the year ended 31 December 2022. The figures in respect of the results announcement of the Group for the year ended 31 December 2022 have been agreed by PwC, to the amounts set out in the Group's draft consolidated financial statements for the year ended 31 December 2022. 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 despatch the 2022 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
22 March 2023

As at the date of this announcement, the Board comprises Mr. Gu Hai Ou, Mr. Wang Yu Wei and Ms. Feng Zhi Mei as executive Directors, Mr. Jin Tao, Ms. Wang Chun Rui and Ms. Feng Li as non-executive Directors, Mr. Ting Leung Huel, Stephen, Ms. Chan Ching Har, Eliza and Mr. Zhan Yuan Jing as independent non-executive Directors.