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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 2023

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 2023 (the “**Reporting Period**”) for shareholders' review.

Results of the Year

For the year ended 31 December 2023, the Group's revenue amounted to RMB6,773,463,000, representing an increase of 13.04% from RMB5,991,841,000 for the corresponding period of last year; net profit amounted to RMB992,313,000, representing a decrease of 0.93% from RMB1,001,620,000 for the corresponding period of last year; profit attributable to owners of the Company amounted to RMB590,188,000, representing an increase of 1.25% from RMB582,888,000 for the corresponding period of last year; earnings per share was RMB0.46 (2022: RMB0.46); and dividend per share was RMB0.18 (2022: RMB0.16).

REVIEW OF THE YEAR

In 2023, China's traditional Chinese medicine industry continued to show stable development against the backdrop of steady growth in the domestic economy. 2023 was a crucial year for the Group's implementation of the "14th Five-Year Plan" to inherit the past and make progress for the future, focus on the core competitive advantages and intensify reform efforts. Throughout the year, China maintained a positive attitude and made strenuous efforts to mitigate potential risks despite the adverse internal and external economic environment. During the year, benefiting from the favorable factors such as industrial policy support and increasing health awareness of the public, the traditional Chinese medicine industry maintained steady growth in terms of market size. The Group also effectively addressed the risks and challenges brought about by the pressure of economic downturn and rising raw material prices and delivered positive results for the year.

Throughout the year, the Group was committed to the new normal of the traditional Chinese medicine industry, focusing on the core competitive advantages, taking forward the strategy for major varieties and building a diversified marketing development model while concentrating on the enhancement of overall collaborative efficiency. During the Reporting Period, in line with the objective established at the beginning of the year, the Group continued to focus on the core competitive advantages of "Branding, Variety, and Quality", leveraged market trends, actively coped with changing market demand for products, adhered to the principle of "intensifying, coordinating, linking and developing", made concerted efforts and move forward with determination, pressed ahead with innovative operation and achieved the objectives of the year, which was a firm step towards the completion of the "14th Five-Year Plan".

OUTLOOK AND PROSPECTS

Traditional Chinese medicine, as a unique medical resource of China, still has enormous untapped potential for future development. In 2024, it is expected that the government will continue to attach great importance to the development of traditional Chinese medicine, encourage domestic traditional Chinese medicine enterprises to go global, and support the balanced and coordinated development of traditional Chinese medicine and Western medicine. Also, against the backdrop of continuous economic development and people's continuous pursuit of healthy living, the traditional Chinese medicine industry is believed to have relatively broad prospects.

In the coming year, the Group will continue to capitalize on the centuries-old brand "Tong Ren Tang", fulfil the responsibility as an inheritor of traditional Chinese medicine culture, promote the spirit of "Responsibility, Shouldering and Creation" in the new era, form synergistic effect of products, markets, production and sales, and enhance the effectiveness of sales and marketing, production and management, so as to realize the high-quality development of the Group, and to ensure satisfactory completion of the "14th Five-Year Plan".

I hereby would like to express my sincere gratitude and respect to the members of the board (the "**Board**") of directors (the "**Directors**") of the Company and all the staff of the Group for their excellent performance and unremitting efforts; and to all the shareholders of the Company (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 2023, together with the audited comparative figures of 2022, as follows:

CONSOLIDATED INCOME STATEMENT

	<i>Note</i>	<u>2023</u> <i>RMB'000</i>	<u>2022</u> <i>RMB'000</i>
Revenue	<i>d</i>	6,773,463	5,991,841
Cost of sales	<i>f</i>	<u>(3,925,906)</u>	<u>(3,400,015)</u>
Gross profit		2,847,557	2,591,826
Distribution expenses	<i>f</i>	(1,080,544)	(907,569)
Administrative expenses	<i>f</i>	(633,875)	(483,287)
(Provision for)/reversal of impairment losses on financial assets		(17,087)	12,807
Other income and gains/(losses), net		<u>162</u>	<u>(658)</u>
Operating profit		1,116,213	1,213,119
Finance income	<i>e</i>	95,351	51,861
Finance costs	<i>e</i>	(49,302)	(53,798)
Finance income/(costs), net	<i>e</i>	<u>46,049</u>	<u>(1,937)</u>
Share of gains of investments accounted for using the equity method		<u>193</u>	<u>811</u>
Profit before income tax		1,162,455	1,211,993
Income tax expense	<i>g</i>	<u>(170,142)</u>	<u>(210,373)</u>
Profit for the year		<u>992,313</u>	<u>1,001,620</u>
Profit attributable to:			
Owners of the Company		590,188	582,888
Non-controlling interests		402,125	418,732
		<u>992,313</u>	<u>1,001,620</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>RMB 0.46</u>

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	<u>2023</u>	<u>2022</u>
	<i>RMB'000</i>	<i>RMB'000</i>
Profit for the year	992,313	1,001,620
Other comprehensive income		
<i>Items that may be reclassified to profit or loss</i>		
Foreign currency translation differences		
- Group	50,945	258,716
- Joint ventures and associates	37	888
<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>(1,608)</u>	<u>3,585</u>
Other comprehensive income for the year, net of tax	<u>49,374</u>	<u>263,189</u>
Total comprehensive income for the year	<u>1,041,687</u>	<u>1,264,809</u>
Attributable to:		
Owners of the Company	608,149	681,083
Non-controlling interests	<u>433,538</u>	<u>583,726</u>
Total comprehensive income for the year	<u>1,041,687</u>	<u>1,264,809</u>

CONSOLIDATED BALANCE SHEET

	<i>Note</i>	As at 31 December	
		2023	2022
		<i>RMB'000</i>	<i>RMB'000</i>
Assets			
Non-current assets			
Property, plant and equipment		2,569,439	2,591,032
Right-of-use assets		650,739	615,033
Intangible assets		60,235	62,899
Investments accounted for using the equity method		34,941	34,191
Financial assets at fair value through other comprehensive income		7,098	8,591
Prepayments for purchase of non-current assets		44,707	39,858
Deferred income tax assets		81,685	60,983
		<u>3,448,844</u>	<u>3,412,587</u>
Current assets			
Inventories		4,744,433	3,239,209
Trade and bills receivables	<i>k</i>	888,333	1,497,249
Other financial assets at amortised cost		53,056	36,252
Prepayments and other current assets		188,196	153,223
Financial assets at fair value through profit or loss		370	429
Financial assets at fair value through other comprehensive income		64,444	98,148
Term deposits placed with banks		1,373,608	326,003
Cash and cash equivalents		2,746,458	3,721,668
		<u>10,058,898</u>	<u>9,072,181</u>
Total assets		<u>13,507,742</u>	<u>12,484,768</u>

CONSOLIDATED BALANCE SHEET (CONT'D)

		As at 31 December	
	<i>Note</i>	2023	2022
		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>	5,608,633	5,201,967
		6,889,417	6,482,751
Non-controlling interests		2,762,468	2,534,187
Total equity		9,651,885	9,016,938
Liabilities			
Non-current liabilities			
Borrowings		1,379,451	1,221,797
Lease liabilities		96,443	74,644
Deferred income tax liabilities		8,494	7,212
Deferred income – government grants		132,584	112,534
		1,616,972	1,416,187
Current liabilities			
Trade and bills payables	<i>l</i>	1,376,743	823,233
Salary and welfare payables		58,497	58,641
Contract liabilities	<i>d</i>	206,651	219,315
Current income tax liabilities		41,202	154,708
Other payables		404,472	497,278
Borrowings		76,651	250,496
Lease liabilities		74,669	47,972
		2,238,885	2,051,643
Total liabilities		3,855,857	3,467,830
Total equity and liabilities		13,507,742	12,484,768

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 IFRS Accounting Standards and the disclosure requirements of the Hong Kong Companies Ordinance. IFRS Accounting Standards comprise the following authoritative literature:

- IFRS Accounting Standards
- IAS Standards
- Interpretations developed by the IFRS Interpretations Committee (IFRIC Interpretations) or its predecessor body, the Standing Interpretations Committee (SIC Interpretations).

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 Accounting Standards 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.

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

b. BASIS OF PREPARATION (CONT'D)

(i) Changes in accounting policies and disclosures

(a) Adoption of new standards and amendments to standards

The Group has applied the following new standards and amendments to standards which are mandatory for the financial year beginning on 1 January 2023:

IFRS 17	Insurance Contracts
Amendments to IAS 1 and IFRS Practice Statement 2	Disclosure of Accounting Policies
Amendments to IAS 8	Definition of Accounting Estimates
Amendments to IAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction
Amendments to IAS 12	International Tax Reform - Pillar Two Model Rules

The adoption of the above new standards and 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) Amendments to standards which are not yet effective

The following are 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 2024, but have not been early adopted by the Group.

Amendments to IAS 1	Classification of Liabilities as Current or Non-current ⁽¹⁾
Amendments to IAS 1	Non-current liabilities with covenants ⁽¹⁾
Amendments to IFRS 16	Lease liability in a Sale and Leaseback ⁽¹⁾
Amendments to IAS 7 and IFRS 7	Supplier Finance Arrangements ⁽¹⁾
Amendments to IFRS 21	Lack of Exchangeability ⁽²⁾
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ⁽³⁾

(1) Effective for the accounting period beginning on or after 1 January 2024

(2) Effective for the accounting period beginning on or after 1 January 2025

(3) Effective date to be determined

These 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>2023</i>	<i>2022</i>
	<i>RMB'000</i>	<i>RMB'000</i>
Sales of Chinese medicine products		
- Mainland China	5,495,458	4,848,999
- Outside Mainland China	1,213,177	1,080,363
	<u>6,708,635</u>	<u>5,929,362</u>
Advertising services income		
- Mainland China	11,150	14,570
Services income		
- Mainland China	6,494	5,605
- Outside Mainland China	46,788	41,598
	<u>53,282</u>	<u>47,203</u>
Royalty fee income		
- Outside Mainland China	396	706
	<u>396</u>	<u>706</u>
	<u>6,773,463</u>	<u>5,991,841</u>

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

	As at 31 December	
	<i>2023</i>	<i>2022</i>
	<i>RMB'000</i>	<i>RMB'000</i>
Contract liabilities - Sales of goods	204,147	214,186
Contract liabilities - Services income	2,504	5,129
	<u>206,651</u>	<u>219,315</u>

The Group did not recognise any contract assets related to contract with customers as at 31 December 2023 and 2022.

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 2023 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 2023 and 2022 related to carried forward contract liabilities at the beginning of the year.

	As at 31 December	
	<u>2023</u>	<u>2022</u>
	<u>RMB'000</u>	<u>RMB'000</u>
Revenue recognised that was included in contract liabilities at the beginning of the year	<u>210,427</u>	<u>222,373</u>

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

e. FINANCE INCOME AND COSTS

	2023	2022
	<u>RMB'000</u>	<u>RMB'000</u>
Finance income		
Interest income	91,128	44,221
Exchange gains, net	-	3,871
Others	4,223	3,769
	<u>95,351</u>	<u>51,861</u>
Finance costs		
Interest on bank borrowings	(41,018)	(47,537)
Interest on lease liabilities	(8,258)	(6,261)
Exchange losses, net	(26)	-
	<u>(49,302)</u>	<u>(53,798)</u>
Finance income/(costs), net	<u>46,049</u>	<u>(1,937)</u>

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

f. EXPENSES BY NATURE

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

	<i>2023</i>	<i>2022</i>
	<u><i>RMB'000</i></u>	<u><i>RMB'000</i></u>
Raw materials, merchandise and consumables used	3,169,287	2,347,266
Changes in inventories of finished goods and work-in-progress	(633,278)	(204,196)
Employee benefit expenses	1,103,686	980,611
Depreciation of property, plant and equipment	177,875	170,584
Depreciation of right-of-use assets	91,032	82,508
Amortisation of intangible assets	7,188	6,408
Amortisation of other long-term assets	1,051	2,222
Provision for impairment of inventories	18,296	24,293
Provision for/(reversal of) impairment of receivables	17,087	(12,807)
Expenses relating to short-term leases	39,226	25,345
Variable lease payments not included in the measurement of lease liabilities (Note (i))	2,067	133
COVID-19-related rent concessions	-	(118)
Auditors' remuneration		
- Audit services		
- PricewaterhouseCoopers and PricewaterhouseCoopers Zhong Tian LLP	6,160	6,159
- Other auditors	1,696	1,918
- Non-audit services		
- PricewaterhouseCoopers and PricewaterhouseCoopers Zhong Tian LLP	563	480
- Other auditors	1,586	357
Advertising and promotion expenses	447,419	377,391
Processing costs	307,804	297,093
Utilities	158,381	139,869
Research and development costs (Note (ii))	117,556	78,433
Repair and maintenance	76,524	66,761
Amortisation of deferred income - government grants	(23,613)	(62,667)
Transportation costs	50,281	43,642
Other taxes	5,597	5,229
Losses on disposal of non-current assets	2,871	1,445

(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 do not include employee benefit expenses, depreciation and amortisation expenses. The research and development costs including employee benefit expenses, depreciation and amortisation expenses were RMB185,469,000 (2022: RMB134,194,000).

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 (“HNTTE”) status are able to enjoy a preferential tax rate of 15%. For the entities without the HNTTE status, the PRC income tax rate is 25% (2022: 25%). As of 31 December 2023 and 2022, the Company and certain of its subsidiaries have obtained the HNTTE certificate. Consequently, their applicable income tax rate in 2023 is 15% (2022: 15%).

Hong Kong profits tax has been provided at the rate of 16.5% (2022: 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>2023</i>	<i>2022</i>
	<i>RMB'000</i>	<i>RMB'000</i>
Current income tax expense		
- Mainland China	83,442	93,819
- Hong Kong	95,256	97,877
- Other countries and regions (excluding Mainland China and Hong Kong)	10,755	12,247
	189,453	203,943
Deferred income tax (credit)/charge	(19,311)	6,430
	170,142	210,373

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 20.0% (2022: 22.0%) to profits of the consolidated entities as follows:

	<i>2023</i>	<i>2022</i>
	<i>RMB'000</i>	<i>RMB'000</i>
Profit before income tax	<u>1,162,455</u>	<u>1,211,993</u>
Tax calculated at domestic tax rates applicable to profits in the respective countries or regions	232,196	267,152
Tax effects of:		
- Effect of preferential income tax treatments	(55,972)	(56,703)
- Income not subject to tax	(10,542)	(4,257)
- Expenses not deductible for tax purposes	4,766	4,894
- Tax losses and temporary differences for which no deferred income tax assets were recognised	661	452
- Previously unrecognised tax losses used to reduce deferred tax expense	(197)	(713)
- Over provision for taxation for the prior years	(884)	(462)
- Others	<u>114</u>	<u>10</u>
Income tax expense	<u><u>170,142</u></u>	<u><u>210,373</u></u>

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

h. DIVIDENDS

The dividends approved for the year 2023 and 2022 were RMB204,925,000 (RMB0.16 (including tax) per share) and RMB204,925,000 (RMB0.16 (including tax) per share) respectively.

On 22 March 2024, the Board of Directors proposed a dividend in respect of the year ended 31 December 2023 of RMB0.18 (including tax) per share, amounting to a total of RMB230,541,000, which is subject to the Shareholders' approval at the 2023 annual general meeting (the "2023 AGM"). These financial statements do not reflect this dividend payable.

	<i>2023</i> <i>RMB'000</i>	<i>2022</i> <i>RMB'000</i>
Proposed final dividend of RMB0.18 (including tax) (2023: RMB0.16 (including tax)) per ordinary share	<u>230,541</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 RMB590,188,000 by the weighted average number of 1,280,784,000 shares in issue during the year.

The Company had no dilutive potential shares in 2023 and 2022.

	2023 RMB'000	2022 RMB'000
Profit attributable to owners of the Company	590,188	582,888
Weighted average number of ordinary shares in issue (thousands)	1,280,784	1,280,784
Earnings per share	RMB0.46	RMB0.46

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 2023 is as follows:

	The Company RMB'000	Tong Ren Tang Chinese Medicine RMB'000	Others RMB'000	Total RMB'000
Segment revenue	4,074,111	1,376,532	2,390,155	7,840,798
Inter-segment revenue	<u>(94,322)</u>	<u>3,072</u>	<u>(976,085)</u>	<u>(1,067,335)</u>
Revenue from external customers	<u>3,979,789</u>	<u>1,379,604</u>	<u>1,414,070</u>	<u>6,773,463</u>
Timing of revenue recognition				
At a point in time	3,979,789	1,373,306	1,402,783	6,755,878
Over time	-	6,298	11,287	17,585
	<u>3,979,789</u>	<u>1,379,604</u>	<u>1,414,070</u>	<u>6,773,463</u>
Profit for the year	<u>361,367</u>	<u>534,618</u>	<u>96,328</u>	<u>992,313</u>
Interest income	19,080	65,461	6,587	91,128
Interest expense	(43,304)	(5,272)	(700)	(49,276)
Depreciation of property, plant and equipment	(98,607)	(13,844)	(65,424)	(177,875)
Depreciation of right-of-use assets	(25,371)	(56,640)	(9,021)	(91,032)
Amortisation of other long-term assets	(4,189)	(3,030)	(1,020)	(8,239)
Provision for impairment of inventories	(17,351)	(327)	(618)	(18,296)
Reversal of/(provision for) impairment of receivables	1,213	(16,688)	(1,612)	(17,087)
Share of profit/(losses) of investments accounted for using the equity method	1,489	(1,296)	-	193
Income tax expense	<u>(65,627)</u>	<u>(87,589)</u>	<u>(16,926)</u>	<u>(170,142)</u>
Segment assets and liabilities				
Total assets	<u>6,850,003</u>	<u>3,973,543</u>	<u>2,684,196</u>	<u>13,507,742</u>
Investments accounted for using the equity method	<u>21,231</u>	<u>13,710</u>	<u>-</u>	<u>34,941</u>
Additions to non-current assets ⁽¹⁾	<u>150,710</u>	<u>100,430</u>	<u>45,965</u>	<u>297,105</u>
Total liabilities	<u>2,712,456</u>	<u>357,593</u>	<u>785,808</u>	<u>3,855,857</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 2022 is as follows:

	The Company <i>RMB'000</i>	Tong Ren Tang Chinese Medicine <i>RMB'000</i>	Others <i>RMB'000</i>	Total <i>RMB'000</i>
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)

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 RMB2,849,699,000 (2022: RMB2,882,589,000), and the total of these non-current assets located outside Mainland China is RMB510,362,000 (2022: RMB460,424,000).

During 2023, revenue from one (2022: one) 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>2023</i>	<i>2022</i>
	<i>RMB'000</i>	<i>RMB'000</i>
Entities under control of the ultimate holding company (excluding the Group)	1,600,741	1,579,847

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

k. TRADE AND BILLS RECEIVABLES

	As at 31 December	
	2023	2022
	RMB'000	RMB'000
Trade receivables		
- third parties	453,049	820,226
- related parties	268,181	270,565
	721,230	1,090,791
 Bills receivables	231,226	454,083
	952,456	1,544,874
 Less: provision for impairment		
- third parties	(51,835)	(43,742)
- related parties	(12,288)	(3,883)
	(64,123)	(47,625)
 Trade and bills receivables, net	888,333	1,497,249

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 and therefore all classified as current. As at 31 December 2023 and 2022, the ageing analysis of trade and bills receivables based on invoice date was as follows:

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

k. TRADE AND BILLS RECEIVABLES (CONT'D)

	As at 31 December	
	2023	2022
	RMB'000	RMB'000
Within 4 months	658,952	1,256,595
Over 4 months but within 1 year	74,853	125,553
Over 1 year but within 2 years	150,854	136,440
Over 2 years but within 3 years	55,475	4,708
Over 3 years	12,322	21,578
	952,456	1,544,874

Movements in the provision for impairment of receivables were as follows:

	2023	2022
	RMB'000	RMB'000
As at 1 January	47,625	63,486
Provision for/(reversal or written off of) impairment	16,410	(16,342)
Exchange differences	88	481
As at 31 December	64,123	47,625

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

k. TRADE AND BILLS RECEIVABLES (CONT'D)

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	
	2023	2022
	<i>RMB'000</i>	<i>RMB'000</i>
RMB	799,503	1,117,472
Hong Kong Dollar	148,107	414,430
United States Dollar	3,048	9,860
Others	1,798	3,112
	<u>952,456</u>	<u>1,544,874</u>

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

I. TRADE AND BILLS PAYABLES

	As at 31 December	
	2023	2022
	<u>RMB'000</u>	<u>RMB'000</u>
Trade payables		
- third parties	1,299,444	797,845
- related parties	77,299	25,388
	<u>1,376,743</u>	<u>823,233</u>
Bills payables	-	-
Trade and bills payables	<u>1,376,743</u>	<u>823,233</u>

As at 31 December 2023 and 2022, the ageing analysis of trade and bills payables based on invoice date was as follows:

	As at 31 December	
	2023	2022
	<u>RMB'000</u>	<u>RMB'000</u>
Within 4 months	1,215,948	725,107
Over 4 months but within 1 year	148,201	92,490
Over 1 year but within 2 years	8,640	1,824
Over 2 years but within 3 years	383	2
Over 3 years	3,571	3,810
	<u>1,376,743</u>	<u>823,233</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 as stated in the financial statements prepared under China Accounting Standards to the statutory surplus reserve fund every year. Approximately RMB51,796,000 (2022: RMB53,492,000), being 10% of the net profit after income tax as stated in the financial statements prepared under China Accounting Standards, was transferred to the statutory surplus reserve fund as at 31 December 2023.

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 proposed a final dividend for the year ended 31 December 2023 (the “**Final Dividend**”) of RMB0.18 (including tax) per share based on the total number of the Company’s issued and fully paid-up shares of 1,280,784,000 as at the end of 2023 totaling RMB230,541,000 (2022: a final dividend for the year ended 31 December 2022 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 RMB204,925,000). The profit distribution proposal is subject to the approval by the Shareholders at the 2023 AGM of the Company. The Company is expected to complete the dividend distribution on 9 August 2024.

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 waived or agreed to waive any dividend.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

In 2023, the Group pressed on with its development strategy for “Major Varieties”, transformation and upgrade of business models and efforts to ensure sufficient production and supply of industrial systems, and accomplished the goals of Communist Party construction and operation. For the year ended 31 December 2023, the Group’s revenue amounted to RMB6,773,463,000, representing an increase of 13.04% from RMB5,991,841,000 for the corresponding period of last year; net profit amounted to RMB992,313,000, representing a decrease of 0.93% from RMB1,001,620,000 for the corresponding period of last year; profit attributable to owners of the Company amounted to RMB590,188,000, representing an increase of 1.25% from RMB582,888,000 for the corresponding period of last year.

In terms of production, adhering to the market demand oriented approach, and in pursuit of the goal of “ensuring sufficient supply, variety and output value”, the Group improved the efficiency of raw material procurement, semi-finished product processing and production and maintained the continuity and stability of production processes. During the year, the Group rationally allocated production capacity resources in Beijing and Hebei, deployed scientific production plans, prioritized the production and supply of "Major Varieties", seasonal varieties and urgently needed varieties in the market, strengthened the communication and coordination among various work processes, enhanced the sharing of internal production capacity and resources, and bolstered the overall operational capacity of the industrial system to fully satisfy the market demands. During the Reporting Period, overall production volume and output value of proprietary Chinese medicines of the Group increased over the same period last year.

In terms of marketing, under the strategy for “Major Varieties” and the keynote of “Three Hundred Years of Royal Medicine”, the Group developed marketing strategies and promotional campaigns on a variety-by-variety basis, and enhanced the value and expanded the influence of products through six strategies: packaging upgrades, raw material upgrades, channel upgrades, price upgrades, control upgrades, and service upgrades. Meanwhile, the Group continued to take forward the “Glow Campaign (煥彩行動)” and “Flag-planting Campaign (插旗行動)”, and while consolidating the advantages of channel development, expanded into untapped markets in an orderly manner, continuously enhanced product awareness and market penetration, and increased the sales volume of the products through coordination of multi-dimensional channels. During the year, the Group further explored the selling point of its products and launched a variety of featured promotional campaigns, such as “must-haves for common cold”, “care for babies’ growth” and “Tong Ren Tang royal medicine for your health”. Also, with emphasis on core products such as Jiawei Xiaoyao Pills (加味逍遙丸), Shengmai Liquor (生脈飲口服液) and Jingzhi Niuhuang Jiedu Tablets (京製牛黃解毒片), through close cooperation with Youku, Mango TV and other platforms, the Group enriched the models for branding and resource investment, improved customer loyalty and stimulated the potential vitality of products.

In 2023, there were 62 product lines of the Group achieving a single-product sales amount of more than RMB5 million, and 9 of which achieved a single-product sales amount of more than RMB100 million. Among major products of the Group, the sales amount of Shengmai Liquor (生脈飲口服液), Ganmao Qingre Granules (感冒清熱顆粒), series of Niuhuang Jiedu (牛黃解毒), Liuwei Dihuang Pills (六味地黃丸), and series of Ejiao (阿膠) increased by 70.63%, 27.42%, 8.58%, 8.04% and 6.98% respectively, compared to the corresponding period of last year. The sales amount of Jinkui Shenqi Pills (金匱腎氣丸) and Xihuang Pills (西黃丸) decreased by 0.92% and 15.55% respectively, compared to the corresponding period of last year.

In terms of product research and development, the Group devoted itself to the secondary research of existing products. During the Reporting Period, the Group focused on the cultivation of “Major Varieties” and cooperated with experts and renowned hospitals to conduct clinical research of major varieties such as Zhuangyao Jianshen Pills (壯腰健腎丸), Xihuang Pills (西黃丸), Jiawei Xiaoyao Pills (加味逍遙丸) and Shengmai Liquor (生脈飲口服液). Meanwhile, for marketed products such as Pediatric Rhinitis Tablets (小兒鼻炎片) and Ruhe Neixiao Liquor (乳核內消液), the Group conducted research on new dosage and functions with a view to further broadening the scope of application of the products. In addition, the Group continued to take forward the research and development of classic prescriptions such as Qishen Granules (芪參顆粒), Shaoyao Gancao Decoction (芍藥甘草湯) and Fugui Shugan Decoction (茯桂術甘湯).

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, the macroeconomic environment worldwide remains complex, all economics have been subject to varying degrees of impact. Against this backdrop, Tong Ren Tang Chinese Medicine has steadily promoted its strategy for “Major Varieties” and actively explored new ways to modernize Chinese medicine services, and achieved stable development in both Hong Kong market and overseas markets. In terms of the Mainland China market, as the actual market situation and demand were different from expectation to a certain extent, some distributors in Mainland China were still digesting their inventories of the Sporoderm-broken Ganoderma Lucidum Spores Powder (破壁靈芝孢子粉) of Tong Ren Tang Chinese Medicine, which had affected the its sales revenue in Mainland China. In 2023, the sales revenue of Tong Ren Tang Chinese Medicine and its subsidiaries amounted to RMB1,376,532,000, representing a year-on-year decrease of 7.94%. Profit attributable to the owners of Tong Ren Tang Chinese Medicine amounted to RMB486,948,000, representing a year-on-year decrease of 12.62% (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 disclosed herein, and the figures disclosed in the annual results announcement of Tong Ren Tang Chinese Medicine dated 14 March 2024 are due to foreign currency translation differences between Renminbi 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 application of natural herbal plants in the field of daily skin care, whose main products are masks, creams and daily chemical products. During the Reporting Period, Tong Ren Tang WM set up a product center, which enables full life cycle management from planning, development, production and sales, and continuously improved the production technology and further explored core varieties through strengthening market research and product development. Meanwhile, Tong Ren Tang WM completed the product planning under the brands “Tong Ren Tang” (同仁堂), “Bencaozhiyue (本草之約)”, “Jibendao (肌本道)” and “Hair Nature (髮之自然)”, and leveraged both online and offline means through in-depth development of nationwide pharmacy chains carried out in conjunction with the strategy for “major varieties” as well as operation of e-commerce stores. Tong Ren Tang WM introduced Jianzhijia Pharmaceutical Chain Group Co., Ltd. (“**Jianzhijia**”). In the future, Tong Ren Tang WM will make full use of Jianzhijia’s channel resources to continuously enhance the market penetration and competitiveness of its cosmeceutical products. During the Reporting Period, Tong Ren Tang WM achieved a sales revenue of RMB90,681,000, representing a year-on-year increase of 62.66%, and net profit of RMB823,000, representing a year-on-year increase of 34.04%.

As at the end of the Reporting Period, 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**”) were subsidiaries of the Group, respectively. During the Reporting Period, Tong Ren Tang Second Traditional Chinese Medicine Hospital continuously optimized its hospital service and opened an official WeChat account to introduce medical service and promote activities, with a view to keeping patients abreast of the hospital's developments in a timely manner and providing patients with easier access to medical consultation. In 2023, the number of outpatient visits of Tong Ren Tang Second Traditional Chinese Medicine Hospital was nearly 300,000, representing an increase compared to the corresponding period of last year. Nansanhuan Zhonglu Drugstore introduced different new varieties according to the diverse demands and seasonal demands of consumers, which encompassed a wider customer base and brought better consumer experience. In 2023, the two subsidiaries in aggregate achieved sales revenue of RMB252,055,000, representing a year-on-year increase of 16.75%, and net profit of RMB12,780,000, representing a year-on-year increase of 14.51%.

Based in cultivation regions with high quality of medicinal materials, six subsidiaries which engaged in production of Chinese medicinal materials gave full play to the advantages of local cultivated medicinal materials and primarily provided certain Chinese medicinal materials for the production of the Company. During the year, under the principle of “real cultivation and real management”, the six subsidiaries improved the traceability system for Chinese medicinal materials and strengthened the cultivation of high quality and local Chinese medicinal materials. Meanwhile, the six subsidiaries enriched the varieties of cultivation by including cuscuta chinensis (菟絲子) and reed rhizome (蘆根) etc., and strengthened its ability to analyze the market trend of raw materials and maintain a strategic reserve of raw materials to meet the demand for raw materials of local Chinese medicinal materials for the production of the Group. In 2023, the six subsidiaries in aggregate achieved sales revenue of RMB424,488,000, representing a year-on-year increase of 58.80%.

Financial Review

Liquidity and Financial Resources

The Group has maintained a sound financial position. During the year of 2023, 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 hold cash and cash equivalents and term deposits placed with banks and to make borrowings and loans.

As at 31 December 2023, the Group's cash and cash equivalents amounted to RMB2,746,458,000 in total (31 December 2022: RMB3,721,668,000), and term deposits placed with banks amounted to RMB1,373,608,000 in total (31 December 2022: RMB326,003,000).

As at 31 December 2023, the Group's short-term borrowings amounted to RMB3,000,000 (31 December 2022: RMB235,300,000), bearing an interest rate of 3.205% per annum (2022: 3.393%), and current portion of non-current bank borrowing amounted to RMB73,651,000 (31 December 2022: RMB15,196,000), totally accounting for 1.99% of the total liabilities (31 December 2022: 7.22%). Long-term borrowings amounted to RMB1,379,451,000 (31 December 2022: RMB1,221,797,000), bearing annual interest rate of 2.744% (2022: 2.947%), long-term borrowings representing 35.78% of the total liabilities (31 December 2022: 35.23%). Of all the borrowings of the Group as at 31 December 2023, RMB76,651,000 will mature within one year and RMB1,379,451,000 will mature beyond one year.

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 2023, the total assets of the Group amounted to RMB13,507,742,000 (31 December 2022: RMB12,484,768,000). Non-current liabilities of RMB1,616,972,000 (31 December 2022: RMB1,416,187,000), current liabilities of RMB2,238,885,000 (31 December 2022: RMB2,051,643,000), equity attributable to owners of the Company of RMB6,889,417,000 (31 December 2022: RMB6,482,751,000) and non-controlling interests of RMB2,762,468,000 (31 December 2022: RMB2,534,187,000).

In 2023, 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 2023, the Group's liquidity ratio (the ratio of current assets to current liabilities) was 4.49 (31 December 2022: 4.42), reflecting that the Group had sufficient financial resources. The Group's quick ratio (the ratio of liquid assets to current liabilities) was 2.29 (31 December 2022: 2.77), 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 7.97 (31 December 2022: 6.79), 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 3.57 (31 December 2022: 3.96), 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 1.70 (31 December 2022: 1.97), 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 2023, the Group's gearing ratio (the ratio of total borrowings to total equity) was 0.15 (31 December 2022: 0.16).

Expenses and Expense Ratio

For the year ended 31 December 2023, the Group's distribution expenses amounted to RMB1,080,544,000 (2022: RMB907,569,000) and the distribution expense ratio, i.e., the ratio of distribution expenses to revenue, was 0.16 (2022: 0.15). 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 2023, the Group's administrative expenses amounted to RMB633,875,000 (2022: RMB483,287,000) and the administrative expense ratio, i.e., the ratio of administrative expenses to revenue, was 0.09 (2022: 0.08). The increase in administrative expenses was mainly due to increase in the cost of labour and increase in research and development activities.

For the year ended 31 December 2023, the Group's financial income, net amounted to RMB46,049,000 (2022: financial costs, net RMB1,937,000) and the financial income ratio, i.e., the ratio of financial income to revenue, was 0.0068 (2022: the ratio of financial costs ratio was 0.0003). The decrease in net finance costs was mainly due to the increase in interest income.

Gross Margin and Net Profit Margin

For the year ended 31 December 2023, the gross margin of the Group was 42.04% (2022: 43.26%), while the net profit margin was 14.65% (2022: 16.72%), the decrease in net profit margin was mainly due to the increase in the prices of raw material and expenses.

Research and Development Expenses

For the year ended 31 December 2023, the research and development expenses (excluding employee benefit expenses, depreciation and amortisation expense) of the Group were RMB117,556,000 (2022: RMB78,433,000), accounting for 1.22% of net assets (2022: 0.87%) and 1.74% of revenue (2022: 1.31%), respectively. The research and development expenses including employee benefit expenses, depreciation and amortisation expense were RMB185,469,000 (2022: RMB134,194,000), accounting for 1.92% of net assets (2022: 1.49%) and 2.74% of revenue (2022: 2.24%), respectively.

Capital Expenditure

For the year ended 31 December 2023, the Group's capital expenditure incurred amounted to RMB108 million (2022: RMB173 million), primarily used for the construction of production bases and purchase of production equipment.

Pledges over Assets of the Group

As at 31 December 2023, no assets of the Group are secured (31 December 2022: the long-term borrowings of RMB47,000 was secured by the freehold land and building of the Group with a carrying value of RMB8,448,000).

Contingent Liabilities

The Group had no contingent liabilities as at 31 December 2023 (31 December 2022: 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 2023, 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 RMB42,618,000 (31 December 2022: RMB65,787,000).

Significant Investment

During the year of 2023, 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 2023, the Group did not have any material acquisition and disposal in relation to subsidiaries, joint ventures and associates.

Subsequent Event

Changes of Directors

On 13 December 2023, Mr. Gu Hai Ou, tendered his resignation from the positions of executive Director, chairman of the Board, chairman of the nomination committee of the Board (the “**Nomination Committee**”), chairman of the strategy and planning committee of the Board (the “**Strategy and Planning Committee**”) and the authorized representative of the Company (the “**Authorized Representative**”) under the Rule 3.05 of the Listing Rules due to work adjustments. The resignation of Mr. Gu Hai Ou as an executive Director, chairman of the Nomination Committee, chairman of the Strategy and Planning Committee and the Authorized Representative has taken effect on 22 January 2024. Mr. Di Shu Bing was proposed as an executive Director by the Board on 13 December 2023 and then was appointed as the executive Director of the Eighth Session of the Board at the extraordinary general meeting held on 22 January 2024, and he was also appointed as the chairman of the Board, chairman of the Nomination Committee, chairman of the Strategy and Planning Committee and Authorized Representative of the Company on 22 January 2024, with a term commencing from 22 January 2024 up to the date of the 2023 AGM.

For details of the aforesaid changes, please refer to the announcements of the Company dated 13 December 2023 and 22 January 2024 and the circular of the Company dated 21 December 2023.

Continuing connected transactions - the e-commerce service cooperation framework agreement

On 11 March 2024, the Company entered into the e-commerce service cooperation framework agreement (the “**E-commerce Service Cooperation Framework Agreement**”) with Beijing Tong Ren Tang Shuzi Technology Co., Ltd. (the “**Tong Ren Tang Shuzi Technology**”, and its subsidiaries, collectively refer to as the “**Tong Ren Tang Shuzi Technology Group**”), with a term commencing from 11 March 2024 to 31 December 2024. According to the E-commerce Service Cooperation Framework Agreement, the Company agreed to engage Tong Ren Tang Shuzi Technology Group to provide the Group with e-commerce services for the “Tong Ren Tang” brand products (including but not limited to Chinese medicine products and healthcare food) on e-commerce channels such as JD Platform (京東平臺) and Tmall Platform (天貓平臺). The annual cap of the transactions contemplated under the E-commerce Service Cooperation Framework Agreement for the year ending 31 December 2024 is RMB 20.0 million. For details, please refer to the announcement of the Company dated 11 March 2024.

Save as disclosed above, 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 operation of the Group.

PROSPECTS

In 2024, despite limited potential for growth of the global economy and numerous challenges in the domestic economic environment, it is expected that there will be considerable room for the development of the domestic traditional Chinese medicine industry as the Chinese government continues to invest in the industry and people increase consumption of health-related products.

In view of this, the Group will uphold the concept of “Tong Ren Tang service year”, the mission of “serving the overall interest, serving the customers, serving the community and serving the workers” and the vision of “strengthening the Communist Party construction, pooling strengths, making bold innovations, improving quality and efficiency, expanding markets, pursuing development, optimizing service and creating a new horizon”, deeply explore the potential for development, actively nurture new driving forces for growth, holistically regulate service processes and effectively enhance service standards to ensure the satisfactory completion of the "14th Five-Year Plan" and continue to promote the high-quality development of the Group.

In 2024, the Group will focus on improving its variety management ability, channel expansion ability and marketing ability, and steadily take forward key initiatives such as the strategy for "Major Varieties", the "Glow Campaign" and "Empowering the Terminal (賦能終端)", in order to accelerate the pace of high-quality development of marketing. On the one hand, the Group will pay more attention to the cultivation method and development model of "Major Varieties", and provide resource support in the procurement of raw materials, production arrangement, marketing and promotion, so as to optimize and strengthen the core varieties. On the other hand, the Group will leverage sales channels to work on differentiated product promotion strategies, continue to carry out the "Flag-planting Campaign", intensify the "Glow Campaign", and carry out diverse theme-based marketing activities to empower the terminals in an all-round way and increase the market coverage and share of products in the terminal market across the country.

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 sales 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 Dahu 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.. 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 of 2023, 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 2023 annual report to be published by the Company soon.

CORPORATE GOVERNANCE

The Board believes that a good and steady framework of corporate governance is extremely important for the development of the Company. The Company has adopted the principles and standards contained in the Corporate Governance Code (the “Code”) as set out in Appendix C1 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 2023, the Company had always strictly complied with all code provisions as set out in part 2 of the Code.

AUDIT COMMITTEE

The Company has set up an audit committee of the Board (the “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 2023, the Audit Committee convened three meetings. The first meeting was held on 16 February 2023, to review and discuss the Non-Assurance Services Concurrence Policy of the Company. The second meeting was held on 16 March 2023 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 2022 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 auditor. The Audit Committee concluded the meeting with agreement to the contents of the 2022 annual report. The third meeting was held on 16 August 2023 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 2023 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 2023 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 auditor; and held separate meetings with the auditor to discuss matters relating to its audit fees and other issues arising from the audit.

At the meeting held on 14 March 2024, the Audit Committee reviewed and discussed the operating results, financial position and major accounting policies contained in the draft financial statements of the Group for the year ended 31 December 2023, 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 preliminary audit results reported by the auditor. The Audit Committee reviewed and concurred in the contents of the 2023 preliminary annual result and annual report.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

For the year ended 31 December 2023, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

AUDITOR

PricewaterhouseCoopers (“PwC”) was appointed as the auditor of the Company for the year ended 31 December 2023. The figures in respect of the results announcement of the Group for the year ended 31 December 2023 have been agreed by PwC, to the amounts set out in the Group's draft consolidated financial statements for the year ended 31 December 2023. 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 2023 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.

Di Shu Bing

Chairman

Beijing, the PRC

22 March 2024

As at the date of this announcement, the Board comprises Mr. Di Shu Bing, Mr. Chen Jia Fu 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.