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BEIJING TONG REN TANG CHINESE MEDICINE COMPANY LIMITED

北京同仁堂國藥有限公司

(incorporated in Hong Kong with limited liability)

(Stock Code: 8138)

**ANNUAL RESULTS ANNOUNCEMENT
FOR THE YEAR ENDED 31 DECEMBER 2016**

**CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET OF THE
STOCK EXCHANGE OF HONG KONG LIMITED**

Growth Enterprise Market (“GEM”) has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.

This announcement, for which the directors (the “Directors”) of Beijing Tong Ren Tang Chinese Medicine Company Limited (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (the “GEM Listing Rules”) for the purpose of giving information with regard to the Company.

The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in this announcement is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this announcement misleading.

FINANCIAL HIGHLIGHTS

	Year ended 31 December		Change
	2016	2015	
	HK\$'000	HK\$'000	
Revenue	1,084,280	970,477	+ 11.7%
Gross profit	795,087	680,877	+ 16.8%
Profit for the year	439,880	374,578	+ 17.4%
Profit attributable to owners of the Company	420,315	354,249	+ 18.6%
Basic and diluted earnings per share	HK\$0.50	HK\$0.42	+ 19.0%
	As at 31 December		Change
	2016	2015	
	HK\$'000	HK\$'000	
Cash and bank balances	1,583,601	1,280,266	+ 23.7%
Total assets	2,354,822	2,026,985	+ 16.2%
Total equity	2,227,237	1,908,915	+ 16.7%

RESULTS

The board of directors of the Company (the “Board”) is pleased to announce the audited consolidated results of the Company and its subsidiaries (collectively referred to as the “Group”) for the year ended 31 December 2016 together with the comparative figures for the previous year as follows:

CONSOLIDATED INCOME STATEMENT

	Note	Year ended 31 December	
		2016 HK\$'000	2015 HK\$'000
Revenue	3	1,084,280	970,477
Cost of sales	4	(289,193)	(289,600)
Gross profit		795,087	680,877
Distribution and selling expenses	4	(161,901)	(141,930)
General and administrative expenses	4	(109,611)	(90,080)
Other net gains		3,924	3,608
Operating profit		527,499	452,475
Finance income		7,913	8,749
Finance costs		(43)	(215)
Finance income, net		7,870	8,534
Share of losses of investments accounted for using the equity method		(1,809)	(4,395)
Impairment loss on an investment accounted for using the equity method		(1,290)	-
Profit before income tax		532,270	456,614
Income tax expense	5	(92,390)	(82,036)
Profit for the year		439,880	374,578
Profit attributable to:			
Owners of the Company		420,315	354,249
Non-controlling interests		19,565	20,329
		439,880	374,578
Earnings per share attributable to owners of the Company for the year (expressed in HK\$ per share)			
Basic and diluted earnings per share	6	0.50	0.42

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Year ended 31 December	
	2016 HK\$'000	2015 HK\$'000
Profit for the year	439,880	374,578
Other comprehensive losses:		
<i>Item that may be reclassified to profit or loss</i>		
Change in value of available-for-sale financial asset	(475)	-
Currency translation differences	(4,721)	(16,119)
Other comprehensive loss for the year	(5,196)	(16,119)
Total comprehensive income for the year	434,684	358,459
Attributable to:		
Owners of the Company	415,656	342,155
Non-controlling interests	19,028	16,304
Total comprehensive income for the year	434,684	358,459

CONSOLIDATED BALANCE SHEET

		As at 31 December	
		2016	2015
	Note	HK\$'000	HK\$'000
Assets			
Non-current assets			
Leasehold land		16,551	17,094
Property, plant and equipment		256,012	262,430
Intangible assets		81,279	61,336
Investments accounted for using the equity method		19,810	23,081
Available-for-sale financial asset		13,313	-
Deposits paid for purchase of property, plant and equipment		1,221	334
Deferred income tax assets		9,990	8,520
		<u>398,176</u>	<u>372,795</u>
Current assets			
Inventories		178,539	160,259
Trade receivables and other current assets	8	194,506	213,665
Short-term bank deposits		786,044	520,406
Cash and cash equivalents		797,557	759,860
		<u>1,956,646</u>	<u>1,654,190</u>
Total assets		<u><u>2,354,822</u></u>	<u><u>2,026,985</u></u>
Equity and liabilities			
Equity attributable to owners of the Company			
Share capital		938,789	938,789
Reserves			
- Other reserves		(26,301)	(22,807)
- Retained earnings		1,210,053	899,726
		<u>2,122,541</u>	<u>1,815,708</u>
Non-controlling interests		<u>104,696</u>	<u>93,207</u>
Total equity		<u><u>2,227,237</u></u>	<u><u>1,908,915</u></u>
Liabilities			
Non-current liabilities			
Borrowing		556	561
Deferred income tax liabilities		4,138	4,791
		<u>4,694</u>	<u>5,352</u>
Current liabilities			
Trade and other payables	9	88,372	76,984
Current income tax liabilities		34,519	35,734
		<u>122,891</u>	<u>112,718</u>
Total liabilities		<u><u>127,585</u></u>	<u><u>118,070</u></u>
Total equity and liabilities		<u><u>2,354,822</u></u>	<u><u>2,026,985</u></u>

Notes:

1 General information

The Group is engaged in manufacturing, retail and wholesale of Chinese medicine products and healthcare products and provision of Chinese medical consultation and treatments. The immediate holding company of the Company is Tong Ren Tang Technologies Co., Ltd. (“Tong Ren Tang Technologies”) which is a joint stock limited company established in the People’s Republic of China (the “PRC”) and is listed on the Main Board of the Stock Exchange. The intermediate holding company of the Company is Beijing Tong Ren Tang Co., Ltd. (“Tong Ren Tang Ltd.”) which is a joint stock limited company incorporated in the PRC and is listed on the Shanghai Stock Exchange. The ultimate holding company of the Company is China Beijing Tong Ren Tang (Holdings) Corporation (“Tong Ren Tang Holdings”) which is a company incorporated in the PRC.

2 Basis of preparation

The consolidated financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (“HKFRS”) and requirements of the Hong Kong Companies Ordinance Cap. 622. The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial asset, which is carried at fair value.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group’s accounting policies.

(i) Adoption of improvements, new and amendments to standards

The Group has adopted the following improvements, new and amendments to existing standards which are relevant to the Group’s operations and are mandatory for the financial year beginning on or after 1 January 2016:

Annual Improvements Project (Amendment)	Annual Improvements 2012–2014 Cycle
HKAS 1 (Amendment)	Disclosure Initiative
HKAS 16 and HKAS 38 (Amendment)	Clarification of Acceptable Methods of Depreciation and Amortisation
HKAS 27 (Amendment)	Equity Method in Separate Financial Statements
HKFRS 10, HKFRS 12 and HKAS 28 (Amendment)	Investment Entities: Applying the Consolidation Exception
HKFRS 14	Regulatory Deferral Account
HKFRS 11 (Amendment)	Accounting for Acquisition of Interests in Joint Operations

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

2 Basis of preparation (Continued)

(ii) New standards and amendments to standards which are not yet effective

The following are new standards and amendments to existing standards that have been published and are mandatory for the Group's accounting periods beginning on or after 1 January 2017 or later periods, but have not been early adopted by the Group.

HKAS 7 (Amendment)	Disclosure initiative ⁽¹⁾
HKAS 12 (Amendment)	Recognition of Deferred Tax Assets for Unrealised Losses ⁽¹⁾
HKFRS 2 (Amendment)	Classification and Measurement of Share-based Payment Transactions ⁽²⁾
HKFRS 9	Financial Instruments ⁽²⁾
HKFRS 10 and HKAS 28 (Amendment)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ⁽⁴⁾
HKFRS 15	Revenue from Contracts with Customers ⁽²⁾
HKFRS 15 (Amendment)	Clarifications to HKFRS 15 ⁽²⁾
HKFRS 16	Leases ⁽³⁾

⁽¹⁾ Effective for the accounting period beginning on 1 January 2017

⁽²⁾ Effective for the accounting period beginning on 1 January 2018

⁽³⁾ Effective for the accounting period beginning on 1 January 2019

⁽⁴⁾ Effective date to be determined

The Group will apply the above new standards and amendments to standards when they become effective. The Group is in the process of making an assessment of the impact of the above new standards and amendments to standards.

3 Segment information

The chief operating decision maker has been identified as the executive directors and non-executive director of the Company (the "Executive Directors" and the "Non-executive Director"). The Executive Directors and Non-executive Director review the Group's internal reporting in order to assess performance and allocate resources and have determined the operating segments based on these reports.

The Executive Directors and Non-executive Director consider the Group's business from a geographic perspective and have determined that the Group has three reportable operating segments including (i) Hong Kong, (ii) Mainland China, and (iii) Overseas.

The Executive Directors and Non-executive Director assess the performance of the operating segments based on revenue and segment results of each segment. Management has determined the operating segments based on the location of the entities and the information reviewed by the Group's chief operating decision maker for the purposes of allocating resources and assessing performance.

Segment assets include leasehold land, property, plant and equipment, intangible assets, investments accounted for using equity method, available-for-sale financial asset, deferred tax assets, deposits paid for purchase of leasehold land and property, plant and equipment, inventories, trade receivables and other current assets, short-term bank deposits and cash and cash equivalents. Segment liabilities include borrowing, trade and other payables, current and deferred income tax liabilities.

3 Segment information (Continued)

(a) Analysis of consolidated income statements

	Hong Kong HK\$'000	Mainland China HK\$'000	Overseas HK\$'000	Total HK\$'000
Year ended 31 December 2016				
Segment revenue	826,109	316,892	252,842	1,395,843
Inter-segment revenue	(229,022)	(82,187)	(354)	(311,563)
Revenue from external customers	<u>597,087</u>	<u>234,705</u>	<u>252,488</u>	<u>1,084,280</u>
Contribution to segment results	530,060	15,918	24,646	570,624
Depreciation and amortisation	(15,183)	(605)	(6,670)	(22,458)
Amortisation of intangible assets	(1,300)	-	(417)	(1,717)
Write-off of inventories	(730)	(17)	(115)	(862)
Segment results	<u>512,847</u>	<u>15,296</u>	<u>17,444</u>	<u>545,587</u>
Inter-segment elimination				(18,088)
Operating profit				527,499
Finance income	7,494	180	239	7,913
Finance cost	(12)	-	(31)	(43)
Share of losses of investments accounted for using the equity method				(1,809)
Impairment loss on an investment accounted for using the equity method				(1,290)
Profit before income tax				<u>532,270</u>
Income tax expense	(85,648)	(2,502)	(4,240)	(92,390)
Profit for the year				<u><u>439,880</u></u>
Year ended 31 December 2015				
Segment revenue	740,130	242,701	232,452	1,215,283
Inter-segment revenue	(181,643)	(63,163)	-	(244,806)
Revenue from external customers	<u>558,487</u>	<u>179,538</u>	<u>232,452</u>	<u>970,477</u>
Contribution to segment results	449,381	18,308	30,068	497,757
Depreciation and amortisation	(15,796)	(557)	(5,779)	(22,132)
Amortisation of intangible assets	(1,083)	-	-	(1,083)
Write-off of inventories	(1,136)	(7)	(85)	(1,228)
Segment results	<u>431,366</u>	<u>17,744</u>	<u>24,204</u>	<u>473,314</u>
Inter-segment elimination				(20,839)
Operating profit				452,475
Finance income	8,074	138	537	8,749
Finance cost	(9)	-	(206)	(215)
Share of losses of investments accounted for using the equity method				(4,395)
Profit before income tax				<u>456,614</u>
Income tax expense	(72,541)	(5,228)	(4,267)	(82,036)
Profit for the year				<u><u>374,578</u></u>

3 Segment information (Continued)

(b) Analysis of consolidated balance sheets

	Hong Kong HK\$'000	Mainland China HK\$'000	Overseas HK\$'000	Total HK\$'000
At 31 December 2016				
Segment assets and liabilities				
Total assets	1,976,634	122,994	255,194	2,354,822
Investments accounted for using the equity method	11,467	-	8,343	19,810
Additions to non-current assets⁽¹⁾	4,430	263	34,150	38,843
Total liabilities	(73,863)	(28,653)	(25,069)	(127,585)
At 31 December 2015				
Segment assets and liabilities				
Total assets	1,670,019	152,002	204,964	2,026,985
Investments accounted for using the equity method	13,282	-	9,799	23,081
Additions to non-current assets⁽¹⁾	65,465	1,553	22,319	89,337
Total liabilities	(69,362)	(27,922)	(20,786)	(118,070)

⁽¹⁾ In this analysis, additions to non-current assets exclude investments accounted for using the equity method, available-for-sale financial asset and deferred tax assets.

3 Segment information (Continued)

(c) Revenue

The analysis of revenue by category is as follows:

	2016	2015
	HK\$'000	HK\$'000
Sales of products	1,044,886	935,218
Service income	38,519	34,475
Royalty fee income	875	784
	<u>1,084,280</u>	<u>970,477</u>

(d) Information about major customers

For the year ended 31 December 2016, revenue from three (2015: three) customers each accounted for more than ten percent of the Group's total revenue. These revenues are attributable to the Hong Kong segment and the Mainland China segment. The revenues from these customers are summarised below:

	2016	2015
	HK\$'000	HK\$'000
Revenue from:		
- Customer A	227,517	148,991
- Entities under the control of the ultimate holding company ⁽¹⁾	151,780	124,946
- Customer B	142,603	150,035
	<u>521,900</u>	<u>423,972</u>

⁽¹⁾ It represents a group of entities under common control considered as a single customer.

There are no customers of other segments individually accounted for ten percent or more of the Group's total revenue for the year ended 31 December 2016 (2015: nil).

3 Segment information (Continued)

(e) Information about geographical areas

The Company is domiciled in Hong Kong. An analysis of revenue from external customers and non-current assets of the Group by geographical area is set out below:

(i) Revenue ⁽¹⁾

	2016	2015
	HK\$'000	HK\$'000
Hong Kong	597,087	558,487
Mainland China	234,705	179,538
Macao	110,190	98,260
Australia	45,353	40,983
Canada	33,320	32,611
Singapore	23,945	23,540
New Zealand	17,023	14,967
Other countries	22,657	22,091
	1,084,280	970,477

(ii) Non-current assets ⁽²⁾

	2016	2015
	HK\$'000	HK\$'000
Hong Kong	263,883	275,937
Mainland China	2,000	2,485
Macao	9,500	9,724
Australia	36,296	37,179
Canada	4,828	3,431
Singapore	759	864
New Zealand	5,555	4,718
United States	24,868	-
Other countries	7,374	6,856
	355,063	341,194

⁽¹⁾ The geographical location of revenue is analysed based on the location where goods are sold and services are provided.

⁽²⁾ The geographical location of non-current assets is analysed based on where the assets are located or held. In this analysis, the total of non-current assets excludes investments accounted for using the equity method, available-for-sale financial asset and deferred tax assets.

4 Expenses by nature

	2016 HK\$'000	2015 HK\$'000
Cost of inventories sold	226,757	230,025
Employee benefit expenses	155,636	137,597
Operating leases payments	61,890	55,739
Amortisation of prepaid operating lease payments	543	543
Amortisation of intangible assets	1,717	1,083
Depreciation of property, plant and equipment	21,915	21,589
Loss on disposal of property, plant and equipment	35	444
Write-off of inventories	862	1,228
Auditors' remuneration		
- Audit services	2,924	3,084
- Non-audit services	790	402
Utilities	5,904	5,261
Repair and maintenance	4,077	3,356
Research and development	4,273	5,155
Net exchange loss	76	86
Promotion and advertising expenses	15,943	8,141
Legal and professional expenses	6,758	6,423
Transportation expenses	7,809	5,298
Bank charges	3,685	3,615
Store supplies	8,406	8,334
Other taxes and levies	5,252	4,664
Other expenses	25,453	19,543
Total cost of sales, distribution and selling expenses and general and administrative expenses	560,705	521,610

5 Income tax expense

Hong Kong profits tax has been provided for at the rate of 16.5% (2015: 16.5%) on the estimated assessable profit for the year. PRC corporate income tax has been provided at the rate of 25% (2015: 25%) on the estimated assessable profits for the year of the subsidiaries operating in the PRC. Taxation on overseas profits has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the countries in which the Group operates.

	2016 HK\$'000	2015 HK\$'000
Current income tax		
- Current year	95,400	85,058
- (Over)/under provision in prior years	(745)	507
	94,655	85,565
Deferred income tax	(2,265)	(3,529)
Income tax expense	92,390	82,036

6 Earnings per share

Basic earnings per share is calculated by dividing the profit attributable to owners of the Company by the weighted average number of ordinary share in issue during the year.

	2016 HK\$'000	2015 HK\$'000
Profit attributable to owners of the Company	420,315	354,249
Weighted average number of ordinary shares in issue (thousands)	837,100	835,991
Earnings per share (HK\$)	0.50	0.42

For the years ended 31 December 2016 and 2015, diluted earnings per share is the same as basic earnings per share as there were no potential dilutive shares.

7 Dividends

The dividends paid in 2016 and 2015 were HK\$108,823,000 (HK\$0.13 per share) and HK\$83,710,000 (HK\$0.10 per share) respectively. A dividend in respect of the year ended 31 December 2016 of HK\$0.16 per share, amounting to a total dividend of HK\$133,936,000, is to be proposed at the annual general meeting on 8 May 2017. These financial statements do not reflect this dividend payable.

	2016 HK\$'000	2015 HK\$'000
Interim dividend paid of HK\$nil (2015: HK\$nil) per ordinary share	-	-
Proposed final dividend of HK\$0.16 (2015: HK\$0.13) per ordinary share	133,936	108,823
	133,936	108,823

8 Trade receivables and other current assets

	2016	2015
	HK\$'000	HK\$'000
Trade receivables	144,577	171,115
Prepayments and other receivables	29,863	25,168
Deposits	18,952	16,268
Amount due from a joint venture	1,114	1,114
	<u>194,506</u>	<u>213,665</u>

At 31 December 2016 and 2015, the aging analysis of trade receivables based on invoice date (including amounts due from related parties of trading in nature) is as follows:

	2016	2015
	HK\$'000	HK\$'000
Up to 3 months	129,603	153,842
3 to 6 months	12,193	11,009
6 months to 1 year	382	3,806
Over 1 year	2,399	2,458
	<u>144,577</u>	<u>171,115</u>

9 Trade and other payables

	2016	2015
	HK\$'000	HK\$'000
Trade payables	36,244	35,349
Accruals and other payables	52,128	41,635
	<u>88,372</u>	<u>76,984</u>

At 31 December 2016 and 2015, the aging analysis of the trade payables (including amounts due to the related parties of trading in nature) based on invoice date is as follows:

	2016	2015
	HK\$'000	HK\$'000
Up to 3 months	34,260	34,094
3 to 6 months	1,604	232
6 months to 1 year	217	449
1 to 2 years	163	574
	<u>36,244</u>	<u>35,349</u>

10 Commitments

(a) Capital commitments

	2016 HK\$'000	2015 HK\$'000
Contracted but not provided for - property, plant and equipment	<u>2,761</u>	<u>490</u>

(b) Operating lease commitments

The Group leases various retail outlets, warehouses and staff quarters under non-cancellable operating lease agreements. The lease terms are between 1 and 10 years and certain lease agreements are renewable at the end of the lease period at market rate.

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	2016 HK\$'000	2015 HK\$'000
No later than 1 year	52,591	42,157
Later than 1 year and no later than 5 years	75,730	67,389
Later than 5 years	8,433	3,274
	<u>136,754</u>	<u>112,820</u>

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

Overview

Throughout 2016, against the fall in non-US dollar currencies (such as Euro) and the slump of the crude oil price, the acceleration of the US Federal Reserve's progress on raising interest rates, and the subsequent impact arising from Brexit, the global economic recovery was slow with uncertainties. Despite the various challenges our business faced, under the guidance of the strategy of China's "The Belt and Road", we carried out specific deployment and expanded overseas investment by implementing effective business development strategies. We strived to build an internationally renowned and professional Chinese medical and medicine group specializing in cultivation and procurement, research and development, production, sales and services and culture dissemination through different forms of mergers and acquisitions. During 2016, we launched new retail outlets in Hong Kong, Canada and the United States (the "US"), thus expanding our business coverage to across 19 countries and regions outside the Mainland China and increasing the number of retail outlets from 63 in 2015 to 67 in 2016.

We are committed to achieving sustainable and stable returns to shareholders. Amid a difficult and challenging market environment, the growth of the Group's revenue and profit remained steady. For the year ended 31 December 2016 (the "Year"), the Group's revenue increased by 11.7% to HK\$1,084.3 million (2015: HK\$970.5 million), net profit increased by 17.4% to HK\$439.9 million (2015: HK\$374.6 million), profit attributable to owners of the Company increased by 18.6% to HK\$420.3 million (2015: HK\$354.2 million) and earnings per share increased by 19.0% to 50 HK cents (2015: 42 HK cents). The Directors recommend the payment of a final dividend of 16 HK cents per share (2015: 13 HK cents).

Hong Kong

In the Year, despite the reduction in visitor arrivals and the slowdown in consumption of visitors in Hong Kong exerted continuous pressure on the overall retail sector in Hong Kong, the Group's revenue from Hong Kong market managed to record a steady growth of 6.9%, achieving a revenue of HK\$597.1 million (2015: HK\$558.5 million) with the same-store sales growth of 2.3%, which was driven by the continuous market demand for the products of the Group and the strengthening brand promotion. Meanwhile, we also opened three new retail outlets in Tsuen Wan, Lam Tin and Hang Hau and closed two retail outlets upon expiry of the tenancy, resulting in an increase of number of retail outlets in Hong Kong to 24. Such addition helped us to achieve an optimized distribution of retail outlets in Hong Kong. Products under Tong Ren Tang brand were further promoted in order to increase our market share and consolidate the leading position of Tong Ren Tang brand in the Chinese medicine market in Hong Kong.

Non-Hong Kong

The Group is making efforts on opening up new overseas markets on the basis of consolidating the existing overseas markets, so as to achieve the global development strategic layout of “Base in Asia and March to Overseas”. During the Year, we opened a total of 4 new retail outlets in Canada and the US, resulting in an increase of number of overseas retail outlets to 43. This Year, the revenue from overseas markets amounted to HK\$252.5 million (2015: HK\$232.5 million), representing an increase of 8.6% with same-store sales growth of 5.2%.

With the increase of awareness of healthcare, the recognition of the high-quality owned products of the Group has been improved and the overseas demand for Tong Ren Tang products remains strong, resulting in an increase in the revenue from the sole distribution of the parent group’s products. This Year, the revenue from Mainland China recorded a significant growth of 30.8% to HK\$234.7 million (2015: HK\$179.5 million).

In the Year, Beijing and Prague became sister cities, and both China and Czech organized a series of exchange activities related to medicine and health. We particularly invited several well-known Chinese medical experts in China to visit the office of Tong Ren Tang in Czech, organized traditional Chinese medicine promotion activities in Prague to provide free Chinese medical consultation service, and conducted seminars on Chinese medicine and health care, which allowed the Czech people to experience the efficacy of Chinese medicine treatments and learn about the traditional Chinese medicine culture.

The effects of acupuncture and Chinese medicine applied on the treatment of incurable diseases and modern diseases drew the attention of the people around the world. With the traditional Chinese medical treatment being increasingly recognized by the medical profession in mainstream society and the general public, Chinese medicine in the US has entered into a new era of rapid development. Leveraging on such trend, we opened retail outlets and Chinese medical centers in the US, offered free consultation services and clinical services as well as organized health seminars to allow the US citizens to experience the miracle effects of Chinese medicines. Meanwhile, we also opened health and wellness centres in Canada. After two-year exploration of new model in Hong Kong, we promoted the philosophy of “prevention of diseases” to the North America.

Production, Research and Development

The Group has been adhering to quality management philosophy of “vital quality, striving for excellence and advocating kindness and virtue”. We are committed to our quality motto to offer products with premium quality. Having effectively consolidated traditional experience and skills as well as modern management and technology and enhanced system management and staff quality, we assure continuous improvement of quality by the use of technology and specification under the whole industrial chain model, which has demonstrated an embodiment of an economic entity and a carrier of culture in terms of quality.

Our production base located at Tai Po Industrial Estate, Hong Kong has a high level of quality management system with GMP (Good Manufacturing Practice) certification and the globally recognised ISO22000:2005 (Food safety management system) and Hazard Analysis Critical Control Point (HACCP) certification, allowing us to provide consumers with reliable and high-quality products on an on-going basis.

During the Year, the Group has submitted the registration of 9 kinds of new Chinese medicine products to the Department of Health, and has successfully promoted the trial production of 5 new products, which further enriched the product diversity of “Tong Ren Tang”. While striving to develop our owned products, the Group also actively carried out fundamental research and development. The Group cooperated with renowned professional research institutions in Hong Kong, China and overseas in research projects on the safety and mechanism of Angong Niu Huang Wan, Sporoderm-broken Ganoderma Lucidum Spores Powder Capsule (“GLSPC”) and Tongren Niu Huang Qingxin Wan. The research project on the safety and mechanism for stroke treatment of Angong Niu Huang Wan has been supported by the project fund from Hong Kong Innovation and Technology Commission.

Brand Promotion

As a renowned brand in China, Tong Ren Tang adheres to the philosophy of “Innovating from the succession and developing from the innovation” and the way of operation of making profits by performing good deeds with honesty and trustworthiness. We will continue to actively promote the Chinese medicine culture and realize the dream of “Healthy life, Global choice”.

In the Year, we focused on strengthening brand promotion for the core market in Hong Kong. We initiated “Tong Ren Tang’s Stroke Awareness Campaign”, which was the first ever large-scale stroke event in Hong Kong, to spread the correct knowledge of Chinese medicines for stroke prevention to the general public in Hong Kong through a series of diversified promotional activities. In September, the first Tong Ren Tang promotion van was officially launched in Hong Kong, penetrating into the community and kicking off the promotion of caring for the risk of stroke. The promotion van travelled to different districts in Hong Kong to promote the knowledge of stroke prevention through interactive games and provide free consultation services offered by professional Chinese medicine practitioners. On 30 October, we organized an event named “Practising Baduanjin and walking for health”, which called up nearly two thousand people to participate and broke the Guinness World Record of the “Largest qigong lesson”. In addition, Tong Ren Tang, The Hong Kong Brain Foundation and School of Chinese Medicine of The University of Hong Kong jointly organized a number of health seminars on the prevention of stroke for the general public in Hong Kong hosted by Chinese and Western medicine experts. Meanwhile, we organized a series of events including promotion of relevant products in retail outlets and placement of advertisements in various major social networking websites.

Regarding culture and brand promotion, we transformed a tram stop, which is located outside our flagship store in Central and is the first ever Beijing Tong Ren Tang 3D tram stop in Hong Kong, into a showcase of Chinese medicine history and culture with the theme “profound cultural heritage of Chinese medicine” to promote Chinese medicine culture. At which, a “Beijing Tong Ren Tang tram” representing the traditional history and local culture travelled back and forth the main roads on Hong Kong Island every day and brought up the effect of the integration between Tong Ren Tang’s culture and local culture.

In the Year, we continued to step up our efforts in brand promotion overseas, including our cooperation with CCTV on the production of “Dream Weavers China • Beijing Tong Ren Tang Overseas Legends”. The program covered regions such as Dubai, Canada Vancouver and Toronto, and interpreted the process of Tong Ren Tang’s overseas development in great depth. In September, we participated in the Macao International Trade and Investment Fair and demonstrated the technique on producing traditional Chinese medicine to the general public in Macao. We also sponsored various events such as a Beijing opera performance in Melbourne, Australia and a programme on an online channel named “Discussing Materia Medica with Zhongzhen”. Meanwhile, we continued to attend the Chinese Medicine Forum entitled “Ancient Therapy: Rediscovering the value of Traditional Medicines” in Boao Forum. Through sharing our overseas development experience of more than 20 years, we interpreted how the internationalization of Chinese medicine adhered to the five concepts for development “innovation, coordination, green, global progress and benefit to all” to promote the idea of “building a community with a shared health future through exchange and mutual learning and benefit to all”.

In the Year, our efforts in overseas business were highly recognized by once again winning the “World Branding Awards” in the United Kingdom and “Asia’s Top Influential Brands” in Singapore. Meanwhile, we were awarded the “Asia Pacific Entrepreneurship Awards” for the first time. In November of the Year, we were granted the award of “The Best Listed Company” out of several hundreds of domestic and international renowned enterprises at the 6th “China Securities Golden Bauhinia Awards” organized by “Hong Kong Ta Kung Wen Wei Media Group Limited”. Mei Qun, the chairman of the Company, was granted the award of “Most Influential Leader of Listed Companies”. These awards indicated the affirmation and recognition from the society and the domestic and overseas professional institutions in respect of the sustainable healthy and rapid development of our business, and represented their confidence in the growth of this renowned band with a long history.

Business Prospect

Facing the current complicated global economic landscape, the Group will continue to make efforts in developing new products, accelerating the pace of product registration and entry in mainstream markets such as the European and American markets, facilitating the execution of major projects overseas and establishment of retail outlets in a steady and progressive manner, upholding innovative-driven strategies, widening customer base and reinforcing the promotion of Chinese medicine culture, thereby uplifting the image and competitiveness of “Beijing Tong Ren Tang” brand and products.

Hong Kong is the starting point and the bridgehead of the overseas business development of Tong Ren Tang. Having been striving together for over 20 years, employees of Tong Ren Tang experienced tough time along the path of entrepreneurship and overrode numerous hurdles. We take “Healthy life, Global choice” as our mission and explore a path of overseas development combining the four elements of “product, medical care, culture and scientific research” with the guiding principles of “progressive advancement, solid foundation, introduction of medicine through treatment, integration of treatment and medicine, cultural marketing, brand establishment, stringent management and efficiency assurance”.

In the coming future, Tong Ren Tang will continue to inherit and promote the overseas spirit of “advance in unity amidst adversities”, proactively deploy additional resources and dig deep for development potentials. With localization of scientific research as the starting point, we will reproduce the whole industrial chain involving Chinese herbs planting and proprietary Chinese medicines processing to overseas market in a progressive manner and produce “premium and pure” Tong Ren Tang royal medicine with premium natural resources overseas. In addition, we will ensure the enhancement in quality and efficiency to realize the transformations from traditional operation to Internet, as well as from “introduction of medicine through treatment” to “comprehensive healthcare”. We will keep efforts in facilitating the diversity in investment portfolio and enhancing the corporate scale and efficiency.

Human Resources Management

At 31 December 2016, we have a total of 705 employees (2015: 657 employees).

The staff costs for the Year were HK\$155.6 million (2015: HK\$137.6 million), representing an increase of 13.1% from last year, which was primarily due to the increase in number of salesmen, Chinese medicine practitioners, therapists and administrative staff to cater for our expansion needs in business. To ensure that the Group is able to attract and retain talents, remuneration policies were reviewed on a regular basis. In addition, discretionary bonus was offered to employees with outstanding performance with reference to the Group’s results and individual performance.

Financial Review

Revenue

The Group's revenue for the Year reached HK\$1,084.3 million (2015: HK\$970.5 million), representing an increase of 11.7% from last year. The increase was mainly driven by the continuous strong demand for our owned products, the growth in the existing sales network and the expansion of the sales network.

Gross Profit

The Group's gross profit increased by 16.8% to HK\$795.1 million (2015: HK\$680.9 million). The gross profit margin increased from 70.2% to 73.3%, which was due to slight decrease of the cost of raw materials resulting from temporary depreciation of Renminbi, economic of scale arising from expansion of production and upward adjustment of product selling prices.

Distribution and Selling Expenses

The Group's distribution and selling expenses increased by 14.1% to HK\$161.9 million (2015: HK\$141.9 million). The increase was mainly attributable to (i) the increase of rental expenses and sales staff costs as the number of retail outlets increased during the Year, and (ii) the Group's advertising and promotion activities increased this Year, which resulted in an increase in advertising and promotion expenses. Distribution and selling expenses as a percentage to revenue increased slightly from 14.6% last year to 14.9% this Year.

General and Administrative Expenses

The Group's general and administrative expenses increased by 21.6% to HK\$109.6 million (2015: HK\$90.1 million). The increase was mainly due to the continuous expansion of the Group's business and increase in the number of subsidiaries and increase in administrative and management personnel, which resulted in an increase in staff costs, rental expenses, depreciation of fixed assets, as well as other related administrative expenses. General and administrative expenses as a percentage to revenue increased slightly from 9.3% last year to 10.1% this Year.

Finance Income, net

The Group's net finance income decreased by 0.6 million to HK\$7.9 million (2015: HK\$8.5 million). Such decrease was mainly attributable to the decrease in finance income as the average short-term bank deposit interest rate was lower than from last year.

Income Tax Expense

The Group's income tax expense increased by 12.6% to HK\$92.4 million (2015: HK\$82.0 million). The increase was mainly due to an increase in taxable income for the Year. The weighted average applicable tax rate for the Year has slightly decreased from 17.1% last year to 16.9%, which was caused by the change in proportion of contribution of taxable profit.

Profit for the Year, Profit Attributable to Owners of the Company, Basic Earnings Per Share and Dividend

The Group's profit for the Year increased by 17.4% to HK\$439.9 million (2015: HK\$374.6 million) with a net profit margin of 40.6% for the Year (2015: 38.6%). Profit attributable to owners of the Company amounted to HK\$420.3 million (2015: HK\$354.2 million), representing an increase of 18.6% from last year. For the Year, the basic earnings per share were 50 HK cents (2015: 42 HK cents). The Directors recommend the payment of a final dividend of 16 HK cents per share for the Year (2015: 13 HK cents).

Financial Resources and Liquidity

During the Year, the Group funded its liquidity by the net proceeds from the listing and resources generated internally. Based on the Group's steady cash inflow from operations, coupled with sufficient cash and bank balances, the Group has adequate liquidity and financial resources to meet the daily operations and working capital requirements as well as to fund its expansion plans.

The Group continued to maintain a strong financial position with cash and bank balances of HK\$1,583.6 million (2015: HK\$1,280.3 million). The majority of the Group's cash and bank balances were denominated in Hong Kong dollar, Renminbi, Macao pataca, Singapore dollar, Canadian dollar, United States dollar and Australian dollar and were deposited in reputable financial institutions with maturity dates falling within one year. The table below sets out the information regarding cash and bank balances, working capital, total equity, current ratio and net gearing ratio as at 31 December 2015 and 2016 and net cash generated from operating activities for the year ended 31 December 2015 and 2016:

	As at 31 December	
	2016	2015
	HK\$'000	HK\$'000
Cash and bank balances	1,583,601	1,280,266
Working Capital ⁽¹⁾	1,833,755	1,541,472
Total Equity	2,227,237	1,908,915
Current Ratio ⁽²⁾	15.9	14.7
Gearing Ratio ⁽³⁾	0.02%	0.03%
	For the year ended 31 December	
	2016	2015
	HK\$'000	HK\$'000
Net cash generated from operating activities	467,721	353,576

⁽¹⁾ Being net current assets

⁽²⁾ Being current assets divided by current liabilities

⁽³⁾ Being borrowings divided by total equity

Capital Expenditure

During the Year, the Group's capital expenditure incurred amounted to HK\$38.8 million (2015: HK\$89.3 million), which was primarily used for the establishment of new retail outlets.

Major Investment, Acquisitions and Disposals

During the Year, the Group did not have any major investment, acquisitions and disposals.

Charges over Assets of the Group

At 31 December 2016, the Group's net property value of HK\$11.6 million (2015: 12.3 million) has been pledged as securities for long-term bank borrowing. Such bank borrowing is denominated in Australian dollars and bears interest at 1.5% plus the bank bill rate of the day in Australia per annum and is wholly repayable in 2020.

Contingent Liabilities

At 31 December 2016, the Group did not have any significant contingent liabilities.

Foreign Currency Risk

The Group's main business operations are conducted in Hong Kong and other overseas counties/regions. The transactions, monetary assets and liabilities of the Group are mainly denominated in Hong Kong dollar, Renminbi, Macao pataca, Singapore dollar, Canadian dollar, United States dollar and Australian dollar. During the Year, there was no material impact to the Group arising from the fluctuation in the exchange rates of these currencies.

The Group did not engage in any derivatives activities and did not commit to any financial instruments to hedge its foreign exchange exposure during the Year.

INTERESTS IN COMPETING BUSINESSES

To ensure that the business classification between the Company, Tong Ren Tang Ltd., Tong Ren Tang Technologies and Tong Ren Tang Holdings (collectively the "Controlling Shareholders") are properly documented and established, each of the Controlling Shareholders entered into a deed of non-competition in favour of the Company on 18 April 2013 ("Deed of Non-competition"), details of which are set out in the prospectus of the Company dated 25 April 2013 (the "Prospectus"), mainly to the effect that at any time until their collective beneficial interest in the equity interest in the Company is less than 30%, each of them shall not, and shall procure their respective subsidiaries (except through its interests in the Group) not to, without prior written consent of the Company, directly or indirectly:

- (i) engage in the research, development, manufacture and sales of any products containing ganoderma lucidum or ganoderma lucidum spores as raw materials in Hong Kong, Macao and markets outside of the PRC (the "Non-PRC Markets");
- (ii) engage in the research, development, manufacture and sale of any products with Tong Ren Tang brands in Non-PRC Markets, except for the manufacture of the Chinese medicine products for the two independent third parties in Japan; for the avoidance of doubt and without prejudice to the generality of the Deed of Non-competition, except for the current excluded business in Japan, engage in arrangement with any other parties in the Non-PRC Markets similar to the excluded business in Japan;
- (iii) carry out any sales or registration (new or renewal) for Angong Niu Huang Wan in Non-PRC markets;
- (iv) engage in the distribution of any Chinese medicine products in Non-PRC Markets, except for certain existing arrangements as disclosed in the Prospectus; and

- (v) carry out any new overseas registration of Tong Ren Tang branded products ((i) to (v) are collectively known as “Restricted Business”).

In addition, under the Deed of Non-competition, each of the Controlling Shareholders has also undertaken that if each of them and/or any of its associates is offered or becomes aware of any project or new business opportunity (“New Business Opportunity”) that relates to the Restricted Business, whether directly or indirectly, it shall (i) promptly and in any event not later than seven days notify the Company in writing of such opportunity and provide such information as is reasonably required by the Company in order to enable the Company to come to an informed assessment of such opportunity; and (ii) use its best endeavours to procure that such opportunity is offered to the Company on terms no less favourable than the terms on which such opportunity is offered to it and/ or its associates.

The Directors (including the independent non-executive Directors) will review the New Business Opportunity and decide whether to invest in the New Business Opportunity within thirty (30) business days of receipt of notice from Controlling Shareholders.

Tong Ren Tang Holdings has also granted the Company rights of first refusal to acquire its interest in Beijing Tong Ren Tang Hong Kong Medicine Management Limited, Beijing Tong Ren Tang (UK) Limited and Beijing Tong Ren Tang Tai Fong Co., Ltd. on terms which are not less favorable than the terms it wishes to sell to other parties.

DIVIDENDS

The Directors recommend the payment of a final dividend of 16 HK cents per ordinary share for the year ended 31 December 2016 (2015: 13 HK cents). Such final dividend will be proposed for approval by shareholders at the annual general meeting (“AGM”) to be held on Monday, 8 May 2017 and if approved, are payable to shareholders whose names appear on the Register of Members of the Company on Tuesday, 16 May 2017.

Subject to approval by the Company’s shareholders at the AGM, the final dividend will be paid on or around Wednesday, 31 May 2017.

CLOSURE OF REGISTER OF MEMBERS

AGM

In order to determine the entitlements of the Shareholders to attend and vote at the AGM, the Register of Members of the Company will be closed from Tuesday, 2 May 2017 to Monday, 8 May 2017, both days inclusive, during which period no transfer of shares will be registered.

All transfers accompanied by the relevant share certificates must be lodged with the Company’s share registrar and transfer office, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong not later than 4:30 p.m. on Friday, 28 April 2017.

Final Dividend

In order to determine the list of shareholders of the Company who are entitled to receive the final dividend for the year ended 31 December 2016, the Register of Members of the Company will be closed from Friday, 12 May 2017 to Tuesday, 16 May 2017, both days inclusive, during which period no transfer of shares will be registered.

To qualify for the above-mentioned dividends (if approved), all transfers accompanied by the relevant share certificates must be lodged with the Company's share registrar and transfer office, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on Thursday, 11 May 2017.

REVIEW OF ANNUAL RESULTS

The audit committee of the Company (the "Audit Committee") has three members comprising three independent non-executive Directors, Mr. Chan Ngai Chi (Chairman of the Audit Committee), Ms. Leung, Oi Sie Elsie and Mr. Zhao Zhong Zhen, with written terms of reference in compliance with the GEM Listing Rules. The primary duties of the Audit Committee are mainly to communicate with external auditor; to review the remuneration, terms of engagement, independence and objectivity of the external auditor; to review the accounting policy, financial position and financial reporting procedures of the Company; and to assess the financial reporting system, internal control procedures and risk management function of the Company and making recommendations thereof. The Audit Committee has reviewed the accounting principles and practices adopted by the Group and the annual results for the year ended 31 December 2016.

PURCHASE, SALE OR REDEMPTION OF SHARES

During the year ended 31 December 2016, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

CORPORATE GOVERNANCE

During the year ended 31 December 2016, the Company had complied with the code provisions of the Corporate Governance Code as set out in Appendix 15 of the GEM Listing Rules.

COMPLIANCE WITH THE REQUIRED STANDARD OF DEALINGS IN SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

The Company has adopted a code of conduct regarding securities transactions by Directors on terms no less exacting than the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiries of all the Directors, all the Directors confirmed that they had complied with the required standard of dealings and the code of conduct regarding securities transactions by Directors adopted by the Company during the year ended 31 December 2016.

INTERESTS OF THE COMPLIANCE ADVISER

The Company's compliance advisor, Kim Eng Securities (Hong Kong) Limited (the "Compliance Advisor") entered into the Compliance Advisor agreement (the "Compliance Advisor Agreement") with the Company dated 6 May 2013 effective on 7 May 2013, the date of the listing (the "Listing Date") of the Company's shares on the Stock Exchange. As at 31 December 2015, the engagement of the Compliance Advisor has covered the second full financial year commencing after the Listing Date, which has been satisfied with the Rule 6A.19 of the GEM Listing Rules. As at 30 March 2016, the engagement of the Compliance Advisor has expired.

As at 30 March 2016, as notified by the Compliance Advisor, except for the Compliance Advisor Agreement, neither the Compliance Advisor nor its directors, employees or close associates had any interests in relation to the Company which is required to be notified to the Company pursuant to Rule 6A.32 of the GEM Listing Rules.

By Order of the Board
**Beijing Tong Ren Tang Chinese
Medicine Company Limited**
Mei Qun
Chairman

Hong Kong, 14 March 2017

As at the date of this announcement, the Board comprises the non-executive director, namely Mei Qun; the executive directors, namely Ding Yong Ling, Zhang Huan Ping and Lin Man; and the independent non-executive directors, namely Leung, Oi Sie Elsie, Chan Ngai Chi and Zhao Zhong Zhen.

This announcement will remain on the "Latest Company Announcement" page of the GEM website at www.hkgem.com for at least seven days from the date of its posting and on the Company's website at www.tongrentangcm.com.