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 2017

CHAIRMAN'S STATEMENT

I am pleased to present the annual results of Tong Ren Tang Technologies Co. Ltd. (the "**Company**") and its subsidiaries (hereafter collectively referred to as the "**Group**") for the year ended 31 December 2017 (the "**Reporting Period**") for shareholders' review.

Results of the Year

For the year ended 31 December 2017, the Group's revenue amounted to RMB5,025,183,000, representing an increase of 7.71% from RMB4,665,295,000 for the corresponding period of last year; net profit attributable to the owners of the Company amounted to RMB666,666,000, representing an increase of 11.92% from RMB595,654,000 for the corresponding period of last year; earnings per share of the Company was RMB0.52 (2016: RMB0.47); and dividend per share of the Company was RMB0.17 (2016: RMB0.16).

Review of the Year

In recent years, the Chinese government introduced a series of policies to promote the development of the pharmaceutical industry. In 2017, the accelerating implementation of laws and regulations such as the amendment to the Pharmaceutical Administration Law of the People's Republic of China and the “Two-Invoice System” normalized the regulation on the pharmaceutical industry, and drove continuous changes in both internal and external environments for the pharmaceutical industry. In addition, Endogenous growth and denotable expansion also led the acceleration and upgrade of the industry to scale up and increase efficacy, which had a profound impact on the industry as a whole. In the meanwhile, the implementation of the Traditional Chinese Medicine Law of the People's Republic of China, as well as the continuous upgrade in “Healthy China Initiative”, provided solid policy support and created liberal policy environment for the development of Chinese medicine industry, especially traditional Chinese medicine industry.

During the Reporting Period, we rode the trends and acted opportunely while implementing the principle of “strengthening management, making up shortcomings, giving full play to advantages; grasping assessment, focusing on actual effects and consolidating main business”. We enhanced macro-control and coordination ability, clarified our business principles, and broadened the thought of development, which facilitated the stable growth in our business results.

Looking back on the previous year, we learnt from past lessons, planned for the long term, used our resources reasonably and restructured the Group's internal industrial layout actively in compliance with the overall requirements of national environmental protection policies, the coordinated development plan in traditional Chinese medicine industry of the Beijing-Tianjin-Hebei region and the essential functions of Beijing to its role as the capital, combining with the main projects of the Group, to realize the reasonably and orderly allocation of production resources. During the Reporting Period, the Group continuously promoted the progress of major construction projects with the principle of building “Sunshine Projects” and “Trusted Projects” which laid a solid foundation for the final realization of the “main centre plus sub-centre” production layout.

Outlook and Prospects

The Report of the 19th National Congress of the Communist Party of China specified that we should "support both traditional Chinese medicine and Western medicine, and ensure the preservation and development of traditional Chinese medicine", which provided a clear direction for the development of traditional Chinese medicine industry and will promote the continuous balanced development in traditional Chinese medicine industry. In the future, centering on the strategy of inhering and developing traditional Chinese medicine industry and serving for Healthy China, China will further enhance the traditional Chinese medicine development system and optimize the development layout of traditional Chinese medicine, thereby achieving constant upgrade of traditional Chinese medicine industries. In the meanwhile, the preventive treatment concept under traditional Chinese medicine and its advantages and features in modern disease treatment increasingly manifested themselves. The demand for diversified, multi-aspect, and multi-tier traditional Chinese medicine and healthcare will continue to grow, and the traditional Chinese medicine industry will stay energetic and active, driven by multiple factors. However, as the market will become further concentrated and the competition landscape and strategies will continue to evolve, the traditional, and influenced by factors such as the ever-changing policy environment, increasingly strict medical regulations, and consistently rising operating costs, Chinese medicine industry will still be faced with policy changes and market challenges as a whole .

Those who plan carefully can walk far, and those who diligently work can win. The year 2018 is a key transitional year for the implementation of the Group's Thirteenth Five-Year Plan as well as the deepening of reform and adjustment. In face of the challenges and changes, we will acutely align us with the developments and changes arising from coordinated development of the Beijing-Tianjin-Hebei region as well as relieving Beijing of functions nonessential to its role as the capital, grasp China's overall planning principle for the development of pharmaceutical industry, seize opportunities brought up by adjustment in traditional Chinese medicine policy, continue to act at a steady pace and in a pioneering spirit, further focus on market trends, deepen the reform of marketing system, and revise our plans for channels, product types, and marketing actions in a timely manner centering on the building and enhancement of organizational structure and functional systems so as to meet the needs for business development. In the meanwhile, we will give full play to the synergy between production and sales and optimize our industrial layout to ensure supply of products. In addition, we will also focus on the development of the subsidiaries by centering on the quality, enhancing their unique advantages, building the diversified business layout across the healthcare sector, to meet the diverse healthcare needs of consumers and enable the Group to achieve the goal for sustainable and healthy growth.

I hereby would like to express my sincere gratitude to the members of the Board and all the staff of the Group for their unremitting efforts and excellent performance; and to all the shareholders for their continuous support to and understanding of the Company. As always, we will continue to reward the shareholders with good results.

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 2017, together with the comparative figures of 2016, as follows:

CONSOLIDATED INCOME STATEMENT

	Note	***2017***	*2016*
		RMB'000	*RMB'000*
Revenue	*d*	**5,025,183**	4,665,295
Cost of sales		**(2,499,641)**	(2,299,311)
Gross profit		**2,525,542**	2,365,984
Distribution expenses	*f*	**(994,455)**	(1,022,920)
Administrative expenses	*f*	**(363,224)**	(335,821)
Operating profit		**1,167,863**	1,007,243
Finance income	*e*	**19,830**	30,371
Finance costs	*e*	**(21,685)**	(11,098)
Finance (costs)/ income, net	*e*	**(1,855)**	19,273
Share of income/(loss) of investments accounted for using the equity method		**96**	(1,905)
Impairment loss on an investment accounted for using the equity method		**-**	(1,106)
Other gains		**120**	-
Profit before income tax		**1,166,224**	1,023,505
Income tax expense	*g*	**(196,332)**	(172,516)
Profit for the year		**969,892**	850,989
Profit attributable to:			
Owners of the Company		**666,666**	595,654
Non-controlling interests		**303,226**	255,335
		969,892	850,989
Earnings per share for profit attributable to owners of the Company during the year			
- Basic and diluted	*i*	**RMB0.52**	RMB0.47

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	2017	*2016*
	RMB'000	*RMB'000*
Profit for the year	**969,892**	850,989
Other comprehensive income/(loss)		
Items that may be reclassified to profit or loss		
Change in value of available-for-sale financial assets	**1,734**	(425)
Foreign currency translation differences		
- Group	**(130,778)**	118,836
- Joint ventures and associates	**(325)**	1,040
Other comprehensive (loss)/income for the year, net of tax	**(129,369)**	119,451
Total comprehensive income for the year	**840,523**	970,440
Attributable to:		
Owners of the Company	**618,361**	639,447
Non-controlling interests	**222,162**	330,993
Total comprehensive income for the year	**840,523**	970,440

CONSOLIDATED BALANCE SHEET

		As at 31 December	
	Note	***2017***	*2016*
		RMB'000	*RMB'000*
Assets			
Non-current assets			
Leasehold land and land use rights		**152,193**	143,102
Property, plant and equipment		**1,674,297**	1,374,169
Intangible assets		**75,469**	82,785
Investments accounted for using the equity method		**27,839**	28,068
Available-for-sale financial assets		**12,804**	11,908
Prepayments for purchase of non-current assets		**58,977**	33,805
Deferred income tax assets		**30,702**	38,199
		2,032,281	1,712,036
Current assets			
Inventories		**2,302,890**	2,206,330
Trade and bills receivables	*k*	**1,147,894**	792,498
Amounts due from related parties		**203,329**	158,243
Prepayments and other current assets		**117,274**	127,151
Short-term bank deposits		**1,048,428**	855,798
Cash and cash equivalents		**2,023,561**	2,332,110
		6,843,376	6,472,130
Total assets		**8,875,657**	8,184,166

CONSOLIDATED BALANCE SHEET (CONT'D)

		As at 31 December	
	Note	***2017***	*2016*
		RMB'000	*RMB'000*
Equity and liabilities			
Equity attributable to owners of the Company			
Share capital		**1,280,784**	1,280,784
Reserves	*m*	**3,535,836**	3,122,400
		4,816,620	4,403,184
Non-controlling interests		**1,642,922**	1,481,924
Total equity		**6,459,542**	5,885,108
Liabilities			
Non-current liabilities			
Borrowings		**915,480**	917,549
Deferred income tax liabilities		**5,302**	5,321
Deferred income – government grants		**93,787**	75,932
		1,014,569	998,802
Current liabilities			
Trade and bills payables	*l*	**698,415**	597,129
Salary and welfare payables		**89,900**	30,214
Advances from customers		**57,131**	69,737
Amounts due to related parties		**69,150**	57,813
Current income tax liabilities		**49,509**	43,118
Other payables		**227,641**	291,245
Borrowings		**209,800**	211,000
		1,401,546	1,300,256
Total liabilities		**2,416,115**	2,299,058
Total equity and liabilities		**8,875,657**	8,184,166

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS:

a. GENERAL INFORMATION

The Company was incorporated as a joint stock limited company in Beijing, the People's Republic of China (the "**PRC**") on 22 March 2000 and, upon the placing of its H shares, was listed on the Growth Enterprise Market (the **"GEM"**) of The Stock Exchange of Hong Kong Limited (the **"Stock Exchange"**) on 31 October 2000. On 9 July 2010, the Company transferred the listing from GEM to the Main Board of the Stock Exchange. The ultimate holding company of the Company is China Beijing Tong Ren Tang Group Co., Ltd. ("**Tong Ren Tang Holdings**"), which was incorporated in Beijing, the PRC.

b. BASIS OF PREPARATION

The consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS") and the disclosure requirements of the Hong Kong Companies Ordinance. The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, which are carried at fair value.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note c.

(a) Adoption of new standards and amendments to standards

The Group has adopted the following new standards and amendments to standards which are mandatory for the financial year beginning on or after 1 January 2017:

Amendments to IAS 7	Statement of Cash Flows
Amendments to IAS 12	Recognition of Deferred Tax Assets for Unrealised Losses
Amendments to IFRS 12	Disclosure of Interest in Other Entities

The adoption of these amendments did not have any impact on the amounts recognised in prior periods. Most of the amendments will also not affect the current or future periods.

The amendments to IAS 7 require disclosure of changes in liabilities arising from financing activities.

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

b. BASIS OF PREPARATION (CONT'D)

(b) Standards and amendments which are not yet effective

The following are new/revised standards and amendments to existing standards that have been published and are relevant and mandatory for the Group's accounting periods beginning on or after 1 January 2018, but have not been early adopted by the Group.

Amendment to IAS 28	Investments in Associates and Joint Ventures[1]
Amendments to IAS 40	Transfers of Investment Property[1]
Amendment to IFRS 1	First Time Adoption of IFRS[1]
Amendments to IFRS 2	Classification and Measurement of Share-based Payment Transactions[1]
Amendments to IFRS 4	Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts[1]
IFRS 9	Financial Instruments[1]
Amendments to IFRS 9	Prepayment Features with Negative Compensation [2]
IFRS 15	Revenue from Contracts with Customers[1]
Amendments to IFRS 15	Clarifications to IFRS 15[1]
IFRIC22	Foreign Currency Transactions and Advance Consideration[1]
IFRS 16	Leases[2]
IFRIC 23	Uncertainty over Income Tax Treatments[2]
IFRS 17	Insurance Contracts[3]
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[4]

(1) Effective for the accounting period beginning on or after 1 January 2018
(2) Effective for the accounting period beginning on or after 1 January 2019
(3) Effective for the accounting period beginning on or after 1 January 2021
(4) No mandatory effective date yet determined

b. BASIS OF PREPARATION (CONT'D)

(b) Standards and amendments which are not yet effective (Cont'd)

- IFRS 9 addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets.

  Management is currently assessing the related impact to the Group.

- IFRS 15 is a new standard for the recognition of revenue. This will replace IAS 18 which covers contracts for goods and services and IAS 11 which covers construction contracts. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer. The standard permits either a full retrospective or a modified retrospective approach for the adoption.

  Management is currently assessing the related impact to the Group.

- IFRS 16 will result in almost all leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

  The accounting for lessors will not significantly change.

  The standard will affect primarily the accounting for Group's operating leases. As at 31 December 2017, the Group has non-cancellable operating lease commitments of RMB146,471,000.

There are no other new standards or amendments to existing standards that are not yet effective and would be expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

c. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal to the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below:

(i) Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated cost to completion and selling expenses. These estimates are based on the current market condition and the historical experience of manufacturing and selling products of similar nature. It could change significantly as a result of changes in consumer preferences and competitor actions in response to severe industry cycles. Management reassesses these estimations by each balance sheet date.

(ii) Estimated provision for impairment of receivables

The Group makes provision for impairment of receivables based on an assessment of the collectability of trade and other receivables. Provisions for impairment are applied to trade and other receivables where events or changes in circumstances indicated that the balances may not be collectible. The identification of doubtful debts requires the use of judgement and estimates. Where the expectation is different from the original estimate, such difference will impact carrying value of receivables and doubtful debt expenses in the period in which such estimate is changed.

(iii) Income taxes

The Group is subject to income taxes in numerous jurisdictions. Significant judgement is required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

d. REVENUE

	2017	*2016*
	RMB'000	*RMB'000*
Sales of Chinese medicine products		
- Mainland China	**4,169,434**	3,896,250
- Outside Mainland China	**776,548**	696,234
	4,945,982	4,592,484
Advertising services		
- Mainland China	**37,606**	39,034
Chinese medical consultation services		
- Outside Mainland China	**41,129**	33,027
Royalty fee		
- Outside Mainland China	**466**	750
	5,025,183	4,665,295

e. FINANCE INCOME AND COSTS

	2017	*2016*
	RMB'000	*RMB'000*
Finance income		
Interest income	**23,788**	27,534
Exchange (losses)/gains, net	**(3,958)**	2,837
	19,830	30,371
Finance costs		
Interest on bonds	**(24,021)**	(10,007)
Interest on bank borrowings	**(10,698)**	(8,841)
Less: amounts capitalised on qualifying assets	**13,034**	7,750
	(21,685)	(11,098)
Finance (costs)/income, net	**(1,855)**	19,273

f. EXPENSE BY NATURE

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

	2017	*2016*
	RMB'000	*RMB'000*
Raw materials, merchandise and consumables used	**1,578,677**	1,416,559
Change in inventories of finished goods and work-in-progress	**51,718**	(212,107)
Employee benefit expense	**789,386**	740,150
Depreciation of property, plant and equipment	**77,287**	72,091
Amortisation of prepaid operating lease payments	**3,414**	3,449
Amortisation of intangible assets	**3,782**	3,037
Amortisation of other long-term assets	**1,006**	833
Provision for impairment of inventories	**30,113**	21,990
Reversal of impairment of receivables	**(1,427)**	(113)
Provision for impairment of property, plant and equipment	**5,783**	-
Operating lease rental	**151,338**	136,342
Auditor's remuneration		
- Audit services	**6,830**	5,307
- Non-audit services	**141**	1,146
Research and development costs[1]	**27,585**	23,163
Loss on disposal of property, plant and equipment	**1,003**	1,167
Amortisation of deferred income - government grants	**(9,263)**	(10,317)
Processing costs	**247,303**	233,696
Advertising and promotion expenses	**433,955**	500,319
Transportation	**57,130**	82,608
Repair and maintenance	**38,811**	39,040
Utilities	**69,671**	59,014
Other taxes	**54,420**	51,232

[1] Excluding employee benefit expense, depreciation and amortisation expense.

g. INCOME TAX EXPENSE

Pursuant to the Corporate Income Tax Law of the PRC effective from 1 January 2008, enterprises with a High/New Technology Enterprise ("**HNTE**") status are able to enjoy a preferential tax rate of 15%. For the entities without the HNTE status, the PRC income tax rate is 25% (2016: 25%). As of 31 December 2017 and 2016, the Company and certain of its subsidiaries have obtained the HNTE certificate. Consequently, their applicable income tax rate in 2017 is 15% (2016: 15%).

Hong Kong Special Administrative Region of the PRC ("**Hong Kong**") profits tax has been provided at the rate of 16.5% (2016: 16.5%) on the estimated assessable profit for the year.

Income tax on overseas 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.

	2017	*2016*
	RMB'000	*RMB'000*
Current income tax expense		
- Mainland China	**103,472**	104,738
- Hong Kong	**80,805**	74,577
- Overseas(excluding Hong Kong)	**4,839**	4,012
	189,116	183,327
Deferred income tax expense/(credit)	**7,216**	(10,811)
	196,332	172,516

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 21.3% (2016: 21.7%) to profits of the consolidated entities as follows:

	2017	*2016*
	RMB'000	*RMB'000*
Profit before income tax	**1,166,224**	1,023,505
Tax calculated at domestic tax rates applicable to profits in the respective countries	**248,430**	221,961
Tax effects of:		
- Income not subject to tax	**(3,336)**	(3,513)
- Expenses not deductible for tax purposes	**3,839**	3,807
- Tax losses and temporary differences for which no deferred income tax asset were recognized	**4,566**	2,409
- Effect of preferential income tax treatments	**(56,930)**	(54,167)
- Final settlements and payments	**(326)**	2,019
- Others	**89**	-
Income tax expense	**196,332**	172,516

h. DIVIDENDS

The cash dividends paid in 2017 and 2016 were RMB204,925,000 (RMB0.16 (including tax) per share) and RMB192,118,000 (RMB0.15 (including tax) per share) respectively.

On 29 March 2018, the Board of Directors proposed a cash dividend in respect of the year ended 31 December 2017 of RMB0.17 (including tax) per share, amounting to a total of RMB217,733,280, which is subject to the shareholders' approval at the 2017 annual general meeting to be held on Tuesday, 12 June 2018 (the "**2017 AGM**"). These financial statements do not reflect this dividend payable.

	2017	*2016*
	RMB'000	*RMB'000*
Interim dividend paid of RMB nil (2016: RMB nil) per ordinary share	**-**	**-**
Final dividend proposed of RMB0.17 (including tax) (2016: RMB0.16 (including tax)) per ordinary share	**217,733**	204,925
	217,733	204,925

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 RMB666,666,000 by the weighted average number of 1,280,784,000 shares in issue during the year.

The Company had no dilutive potential shares in 2017 and 2016.

	2017	*2016*
	RMB'000	*RMB'000*
Profit attributable to owners of the Company	**666,666**	595,654
Weighted average number of ordinary shares in issue (thousands)	**1,280,784**	1,280,784
Earnings per share	**RMB0.52**	RMB0.47

j. SEGMENT INFORMATION

The Directors in the Board of Directors is the Group's chief operating decision-maker. Management has determined the operating segments based on the information reviewed by the Directors in the Board of Directors for the purposes of allocating resources and assessing performance.

The Directors in the Board of Directors consider the business from an operational entity perspective. Generally, the Directors in the Board of Directors consider the performance of business of each entity within the Group separately. Thus, each entity within the Group is an operating segment.

The reportable operating segments derive their revenue primarily from (i) the manufacture and sale of Chinese medicine of the Company in Mainland China ("The Company" Segment), and (ii) Beijing Tong Ren Tang Chinese Medicine Company Limited ("**Tong Ren Tang Chinese Medicine**") engaged in manufacturing, retail and wholesale of Chinese medicine products and healthcare products, and provision of Chinese medical consultation and treatments outside Mainland China and wholesale of healthcare products in Mainland China ("Tong Ren Tang Chinese Medicine" Segment).

Other companies are engaged in processing and purchasing of Chinese medicinal raw materials, sales of medicinal products, medical services and advertising, etc. They do not form separate reportable segments as they do not meet the quantitative thresholds required by IFRS 8.

The Directors in 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 Directors in the Board of Directors for the reportable segments for the year ended 31 December 2017 is as follows:

	The Company	Tong Ren Tang Chinese Medicine	All other segments	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Segment revenue	**3,502,167**	**1,097,432**	**978,922**	**5,578,521**
Inter-segment revenue	**(46,838)**	**(416)**	**(506,084)**	**(553,338)**
Revenue from external customers	**3,455,329**	**1,097,016**	**472,838**	**5,025,183**
Profit for the year	**434,872**	**437,267**	**97,753**	**969,892**
Interest income	**11,706**	**10,946**	**1,136**	**23,788**
Interest expense	**(15,571)**	**(28)**	**(6,086)**	**(21,685)**
Depreciation of property, plant and equipment	**(34,059)**	**(20,892)**	**(22,336)**	**(77,287)**
Amortisation of prepaid operating lease payments	**(1,908)**	**(469)**	**(1,037)**	**(3,414)**
Amortisation of other long-term assets	**(880)**	**(2,116)**	**(1,792)**	**(4,788)**
Provision for impairment of inventories	**(29,661)**	**(452)**	**-**	**(30,113)**
Reversal of/(provision for) impairment of receivables	**4,601**	**-**	**(3,174)**	**1,427**
Impairment loss on property, plant and equipment	**-**	**(5,783)**	**-**	**(5,783)**
Share of income/(loss)of investments accounted for using the equity method	**132**	**(36)**	**-**	**96**
Income tax expense	**(92,035)**	**(91,218)**	**(13,079)**	**(196,332)**
Segment assets and liabilities				
Total assets	**4,913,102**	**2,307,988**	**1,654,567**	**8,875,657**
Investments accounted for using the equity method	**10,480**	**17,359**	**-**	**27,839**
Additions to non-current assets[1]	**165,788**	**29,647**	**241,348**	**436,783**
Total liabilities	**1,731,427**	**123,269**	**561,419**	**2,416,115**

[1] Excluding investments accounted for using the equity method, financial instruments and deferred tax assets.

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

j. SEGMENT INFORMATION (CONT'D)

The segment information for the year ended 31 December 2016 is as follows:

	The Company	Tong Ren Tang Chinese Medicine	All other segments	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Segment revenue	3,303,290	930,524	1,109,777	5,343,591
Inter-segment revenue	(25,106)	-	(653,190)	(678,296)
Revenue from external customers	3,278,184	930,524	456,587	4,665,295
Profit for the year	429,376	377,153	44,460	850,989
Interest income	19,508	6,920	1,106	27,534
Interest expense	(7,579)	(37)	(3,482)	(11,098)
Depreciation of property, plant and equipment	(33,621)	(18,790)	(19,680)	(72,091)
Amortisation of prepaid operating lease payments	(1,988)	(465)	(996)	(3,449)
Amortisation of other long-term assets	(784)	(1,487)	(1,599)	(3,870)
Provision for impairment of inventories	(21,990)	-	-	(21,990)
Reversal of/(provision for) impairment of receivables	715	-	(602)	113
Share of loss of investments accounted for using the equity method	(354)	(1,551)	-	(1,905)
Impairment loss on an investment accounted for using the equity method	-	(1,106)	-	(1,106)
Income tax expense	(69,505)	(79,216)	(23,795)	(172,516)
Segment assets and liabilities				
Total assets	4,895,324	2,106,391	1,182,451	8,184,166
Investments accounted for using the equity method	10,348	17,720	-	28,068
Additions to non-current assets[1]	358,949	34,161	200,821	593,931
Total liabilities	1,564,212	111,474	623,372	2,299,058

[1] Excluding investments accounted for using the equity method, financial instruments and deferred tax assets.

j. SEGMENT INFORMATION (CONT'D)

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

The amounts provided to the Directors in 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 RMB1,671,368,000 (2016: RMB1,326,604,000), and the total of these non-current assets located in other countries and regions is RMB317,407,000 (2016: RMB335,325,000).

During the 2017 and 2016 financial year, revenue from two customers each accounted for ten percent or more of the Group's total external revenue. These revenues are mainly attributable to The Company Segment and Tong Ren Tang Chinese Medicine Segment. The revenues from these customers are summarised below:

	2017	*2016*
	RMB'000	*RMB'000*
Entities under control of ultimate holding company	**962,443**	795,915
Customer A Group	**873,554**	741,133
	1,835,997	1,537,048

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

k. TRADE AND BILLS RECEIVABLES

	As at 31 December	
	2017	*2016*
	RMB'000	*RMB'000*
Trade receivables	**462,824**	307,597
Bills receivables	**702,951**	506,120
	1,165,775	813,717
Less: provision for impairment	**(17,881)**	(21,219)
Trade and bills receivables, net	**1,147,894**	792,498

The carrying amounts of trade and bills receivables approximate their fair values.

Retail sales at the Group's stores are usually made in cash or by debit or credit cards. For wholesale to distributors, the Group normally grants a credit period ranging from 30 days to 120 days. As at 31 December 2017 and 2016, the ageing analysis of trade and bills receivables based on invoice date was as follows:

	As at 31 December	
	2017	*2016*
	RMB'000	*RMB'000*
Within 4 months	**1,025,804**	445,021
Over 4 months but within 1 year	**114,950**	355,465
Over 1 year but within 2 years	**14,457**	5,289
Over 2 years but within 3 years	**3,310**	2,473
Over 3 years	**7,254**	5,469
	1,165,775	813,717

k. TRADE AND BILLS RECEIVABLES (CONT'D)

As at 31 December 2017, trade receivables of RMB63,851,000 (2016: RMB43,351,000) were past due but not impaired. These relate to a number of independent customers for whom there is no significant financial difficulty and based on past experience, the overdue amounts can be recovered. The ageing analysis of these past due trade receivables is as follows:

	As at 31 December	
	2017	*2016*
	RMB'000	*RMB'000*
Over 4 months but within 1 year	**57,009**	38,430
Over 1 year but within 2 years	**4,630**	2,388
Over 2 years but within 3 years	**2,212**	2,425
Over 3 years	**-**	108
	63,851	43,351

As at 31 December 2017, trade receivables of RMB17,881,000 (2016: RMB21,219,000) were fully provided for impairment. The individually impaired receivables mainly relate to medium and smaller customers, which are in unexpectedly difficult economic situations. The ageing analysis of these receivables was as follows:

	As at 31 December	
	2017	*2016*
	RMB'000	*RMB'000*
Within 4 months	**133**	**-**
Over 4 months	**17,748**	21,219
	17,881	21,219

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

k. TRADE AND BILLS RECEIVABLES (CONT'D)

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

	2017	*2016*
	RMB'000	*RMB'000*
At 1 January	**21,219**	21,332
Reversal of impairment	**(3,338)**	(113)
At 31 December	**17,881**	21,219

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	
	2017	*2016*
	RMB'000	*RMB'000*
RMB	**1,093,334**	729,927
Hong Kong dollars ("**HKD**")	**66,808**	72,730
United States Dollar	**75**	5,480
Korean Won	**4,781**	5,091
Australian Dollar	**216**	240
Macanese Pataca	**138**	70
New Zealand Dollar	**141**	63
Canadian Dollar	**47**	45
UAE Dirham	**47**	38
Polish Zloty	**71**	17
Singapore Dollar	**107**	13
South African Rand	**10**	-
Czech Koruna	**-**	2
Brunei Ringgit	**-**	1
	1,165,775	813,717

l. TRADE AND BILLS PAYABLES

As at 31 December 2017, the ageing analysis of trade and bills payables based on invoice date was as follows:

	As at 31 December	
	2017	*2016*
	RMB'000	*RMB'000*
Within 4 months	**442,072**	479,001
Over 4 months but within 1 year	**244,678**	116,245
Over 1 year but within 2 years	**10,572**	1,145
Over 2 years but within 3 years	**402**	738
Over 3 years	**691**	-
	698,415	597,129

m. RESERVES

(a) Capital reserve

Capital reserve represents the difference between the amount of share capital issued by the Company and the historical net value of the assets, liabilities and interests transferred to the Company upon its establishment and net premium on issue of shares upon listing of the Company and issuance of additional shares.

(b) Statutory reserves

The Company sets aside 10% of its net profit after income tax, before distribution of dividend to shareholders, as stated in the financial statements prepared under PRC accounting standards to the statutory surplus reserve fund. Approximately RMB53,201,000 (2016: RMB48,090,000), being 10% of the net profit after income tax as stated in the financial statements prepared under PRC accounting standards, was transferred to the statutory surplus reserve fund as at 31 December 2017.

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.

m. RESERVES (CONT'D)

(c) Tax reserve

According to the preferential enterprise income tax policy for new technology enterprises ("**NTE**") under the old PRC Enterprise Income Tax ("**EIT**") regulation (effective before 1 January 2008), an NTE located in a designated area of Beijing Economic and Technological Development Zone was subject to EIT at a preferential income tax rate of 15%. Moreover, upon approval by the relevant local tax bureau, the Company was entitled to full exemption from EIT from 2000 to 2002 and 50% reduction from 2003 to 2005. An amount for exemption and reduction has to be appropriated to a non-distributable tax reserve. However, the utilisation of the exempted tax is restricted to specified purposes and not distributable to shareholders.

(d) Foreign currency translation differences

Foreign currency translation differences reserve arises from currency translations of all Group entities that have a functional currency different from the RMB being translated into the Group's presentation currency of RMB.

(e) Other reserve

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

FINAL DIVIDEND

The Board proposed a final dividend for the year ended 31 December 2017 (the "**Final Dividend**") of RMB0.17 (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 2017, totaling RMB217,733,280 (2016: a final dividend for the year ended 31 December 2016 of RMB0.16 (including tax) per share based on the total number of the Company's issued and fully paid-up shares of 1,280,784,000, totaling RMB204,925,440). The profit distribution proposal is subject to the approval by the shareholders at the 2017 AGM of the Company.

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

ANNUAL GENERAL MEETING

The 2017 AGM will be held on Tuesday, 12 June 2018.

Closure of Register of Members of H Shares

As for the convening of the 2017 AGM, the register of members of H shares of the Company will be closed from Sunday, 13 May 2018 to Tuesday, 12 June 2018 (both days inclusive), during which time no transfer of H shares of the Company will be registered. Holders of H shares whose names appear on the register of the Company maintained by Hong Kong Registrars Ltd., the H share registrar and transfer office of the Company in Hong Kong, and holders of domestic shares whose names appear on the register of the Company on Sunday, 13 May 2018 shall be entitled to attend the 2017 AGM. In order to be qualified for attending and voting at the 2017 AGM, all transfer documents of the holders of H shares of the Company must be lodged with the Company's H share registrar and transfer office, Hong Kong Registrars Limited at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, no later than 4:30 p.m. on Friday, 11 May 2018.

As for the payment of the Final Dividend, if the relevant proposal is approved by the shareholders at the 2017 AGM, the register of members of H shares of the Company will be closed from Saturday, 16 June 2018 to Thursday, 21 June 2018 (both days inclusive), during which time no transfer of H shares of the Company will be registered. Holders of H shares whose names appear on the register of the Company maintained by Hong Kong Registrars Ltd., the H share registrar and transfer office of the Company in Hong Kong, and holders of domestic shares whose names appear on the register of the Company on Thursday, 21 June 2018 shall be qualified to the Final Dividend. In order to be qualified for the payment of the Final Dividend, all transfer documents of the holders of H shares of the Company must be lodged with the Company's H share registrar and transfer office, Hong Kong Registrars Limited at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, no later than 4:30 p.m. on Friday, 15 June 2018. The Company is expected to complete the dividend distribution on or before end of August 2018.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

For the year ended 31 December 2017, the Group's revenue amounted to RMB5,025,183,000, representing an increase of 7.71% from RMB4,665,295,000 for the corresponding period of last year; net profit attributable to the owners of the Company amounted to RMB666,666,000, representing an increase of 11.92% from RMB595,654,000 for the corresponding period of last year.

During the Reporting Period, challenged by the market conditions with rising product pressure and increasingly intense competition, increasing variety in consumer demands and constantly growing costs, the Group continued to adhere to the integration of pioneering actions and steady progress, and still maintained a stable and healthy growth overall.

During the year, the Company continued to give play to its advantages in brand culture and product portfolio. Regarding the leading products and products for cultivation, the Company analysed based on details and conducted product planning and strategy, as well as proactively carried out theme events with distinct features. Themed promotion events such as “A Journey to Tong Ren Tang for Pharmacies across China – A Tour of Traditional Chinese Medicine” and “Traditional Chinese Medicine Culture in Campus” allowed participants to discover in-depth the time-honour history of Tong Ren Tang and its unique medicine preparation processes as well as the modernized product flows of Tong Ren Tang’s Chinese medicines, which improved their trust in the product quality of Tong Ren Tang. Capitalizing on the influence of the Second Session of National Talent Competition for “Seven Stars of Liuwei”, we further burnished our brand image and increased product recognition, which in turn boosted the sales of certain products. For example, the sales volume and revenue of Liuwei Dihuang Pills, Xihuan Pills, Zhibai Dihuang Pills, and Shengmai Liquor all recorded year-on-year growth over the same period of last year. Meanwhile, the Company timely and appropriately raised prices of some products under series including Liuwei Dihuang Pills, Xihuang Pills and others based on market demands and dynamics in competitors’ similar products to strengthen profitability of these products. However, sales of the Company’s leading product Ejiao slowed down notably due to the influence of factors such as significantly increased costs, intensified competition and lagged consumption. As a response, the Company took active measures to boost the promotion of Ejiao products, including utilizing the Official WeChat account of “Tong Ren Tang Ejiao”, TV advertisement, exclusively title-sponsoring the Seventh Session of “Comedy Competition” broadcast on TV and online media. Moreover, in the Autumn and Winter seasons considered as a good timing for nourishing through food and medicines, we launched “Ejiao Cream Formula Festival” and other promotional activities where we provided consumers with a wide range of services such as free boiling of Ejiao, so as to boost the brand recognition of the Company’s Ejiao products.

The Group's products cover traditional Chinese medicine, food, and cosmetics, with dosage forms involving pills, tablets, granules, oral liquid and gums. In 2017, 9 kinds of the Group's products achieved a sales amount of more than RMB100 million; 33 kinds of products achieved a sales amount in the range from RMB10 million to RMB100 million; 9 kinds of products achieved a sales amount in the range from RMB5 million to RMB10million. Among the major products of the Company, as compared with the corresponding period of last year, the sales amount of Liuwei Dihuang Pills (六味地黄丸) series increased by 16.78%, the sales amount of Ejiao (阿膠) series decreased by 34.32%, the sales amount of Jinkui Shenqi Pills (金匱腎氣丸) series increased by 19.61%, the sales amount of Niuhuang Jiedu Tablets (牛黄解毒片) series increased by 9.25%, the sales amount of Xihuang Pills (西黄丸) series increased by 7.73%, the sales amount of Ganmao Qingre Granules (感冒清熱顆粒) series decreased by 2.98% and the sales amount of Jiawei Xiaoyao Pills (加味逍遙丸) series increased by 8.15%.

During the year, the Company continued to streamline its sales channels, reduce the number of tier-one distributors, scrutinize our distributors and deepen the cooperation with high-quality distributors. By virtue of its capabilities on sales coverage and products marketing, the Company continued to enhance the strategic planning for its products. For example, the Company established provincial-level franchise model, utilizing products with specification in product series such as Liuwei Dihuang Pills and Jiawei Xiaoyao Pills as a carrier, to allow big distributors to play propelling roles continuously. On the other hand, the Company took full advantage of the local resources of distributors to ensure clear product distribution flow and wide channel coverage, thereby to solidify its profitability in mature sales regions such as northern China and enhance development and integration in nearby growth regions such as Shanxi Province and Henan Province. Also, the Company continuously deployed new marketing concepts in the terminal to strengthen our terminal sales system by leveraging their local marketing resources, and properly coordinated the new product cultivation and promotion at terminal market, aiming to enhance the terminal sales capabilities of the Company continuously.

During the Reporting Period, the Company continued to put more efforts in e-commerce operation and management, and strived to promote paralleled development between traditional sales channels and e-commerce channels. On one hand, the Group proactively carried out theme promotion activities with e-commerce platforms merchants such as “LIANGXINYAO.COM” and “JD Pharmacy”, to further drive our development in the e-commerce channels. Liuwei Dihuang Pills(Condensed pills) have been among the bestselling medicines among products with the same name on TMALL.COM platform since its launch onto the platform. On the other hand, the Company continued to develop self-owned flagship stores on e-commerce platforms. After setting up cosmetic flagship stores on TAOBAO.COM, YHD.COM and AMAZON.COM and food flagship stores on TMALL.COM, JD.COM, YHD.COM and AMAZON.COM, the Company built a new cosmetic flagship store onJD.COM within the year and built new cosmetic flagship stores on two WeChat business platforms namely “Youzan” and “Weimeng”. Meanwhile, we capitalized on the “618 Mid-year Shopping Festival”, “Double11”and other major e-commerce events to vigorously promote the Group’s daily chemical products and food products, thereby boosting the awareness and recognition of the Group’s products and its brand. The Group continued to increase the number of products marketed on the self-owned flagship stores. During the year, over 70 daily chemical products and over 40 food products have been added to the self-owned flagship stores.

During the year, influenced by the implementation of regional environmental protection policies as well as the policy of the relieving Beijing of functions nonessential to its role as the capital, the pre-processing production processes underwent multiple adjustment, which affected the production of some raw materials and extracts, further affecting the supply of some marketable products. In face of such challenges, the Company actively responded and reasonably arranged production plans based on the comprehensive understanding of the status of each production line. We reviewed and adjusted the existing production-marketing linkage and management procedures, and enhanced efficiency in the linkage. Within the year, the Company’s production volume of pills and granules all achieved year-on-year growth, through which the Company achieved the organic integration of utilizing its advantages in production capacity and ensuring the supply of products to the market.

In the meanwhile, the Company continued to promote the constructions in progress in a steady and orderly manner. The Daxing Production Base (“**Daxing Base**”) of the Company located in Da Xing Bio-Pharma Industrial Base of Zhongguancun Technology Park District, Beijing primarily consists of three standalone buildings, namely the research and development centre, solid dosage production workshop, and pills production workshop. Upon its completion, the Daxing Base will become comprehensive production base which focuses on the manufacture and research of water-honeyed pills, condensed pills, big honeyed pills, and other pills. As at the end of 2017, the total investment in the Daxing Base has reached RMB495 million, the interior decoration of the research and development centre, solid dosage production workshop, and honey pills production workshop were under construction, and the equipment instalment and commissioning will be started at the next stage.

Beijing Tong Ren Tang Technologies (Tangshan) Co., Ltd ("**Tong Ren Tang Technologies Tangshan**") located in Yutian County, Tangshan City, Hebei Province primarily engages in the core businesses of storage of basic materials and net materials, processing and extraction of certain raw materials, and manufacturing of liquid dosage. It is constructing Chinese medicine extraction workshop and liquid dosage workshop in local area and will be another production base of the Company for Chinese medicine products upon completion. Construction of the production base is a result of the proactive implementation of Beijing municipal government's requirements concerning relieving functions nonessential to its role as the capital. In addition, it will further enhance production efficiency by building high-standard workshops and adopting advanced automatic and mechanical equipment. As of 31 December 2017, RMB413 million had been invested in the aforesaid base. Currently, the main body construction of the liquid dosage workshop and extraction workshop has been completed.

The Company has a relatively sufficient product pipeline, and is mainly committed to conducting scientific research on existing products as well as exploring deeply into improvement and enhancement of existing product techniques. Within the year, we explored the curative effects and clinical effects of the leading product Xihuang Pills as well as their function and mechanism, and preliminarily completed the research in function and mechanism of Xihuang Pills in anti-breast-cancer effect, thus providing data support for the accurate marketing of relevant products. Regarding Jiawei Xiaoyao Pills and other products with good potentials, we carried out comprehensive post-launch clinical reassessment research on the basis of their clinical positioning and market feedbacks. By doing this, we kept exploring the existing products' new clinical value regarding common diseases and frequently-occurring diseases, thereby laying solid scientific and technological foundation for market positioning and giving full play to our products' advantages. In addition, when inheriting the traditional Ejiao production processes, we also optimized the processes structure and improved the equipment adopted in such processes. We managed to develop "Fully Automatic Ejiao Cutting Machine" and "Bottom Stamping and Printing Technologies and Equipment for Ejiao Dose Products" for which we received two Utility Model Patents from the State Intellectual Property Office of The People's Republic of China. In addition, the Company passed the high-tech enterprise certification once again within this year, with a validity period of three years.

The Company has over 40 domestic and overseas substantial subsidiaries who are engaged inmanufacturing and distribution of traditional Chinese medicine products, food, daily chemical products, production of Chinese medical raw materials, medical services, distribution of medicine, etc.

Based in Hong Kong, our principal subsidiary Tong Ren Tang Chinese Medicine, as our overseas development plat form, primarily engaged in manufacturing, retail and wholesale of Chinese medicine products outside Mainland China. The Company adopts a strategy of driving medicine demand by providing medical services and promoting culture at first. It based itself in Hong Kong to build a global layout, with the aim of continuously accelerating the internationalization of traditional Chinese medicine. The mission of Tong Ren Tang Chinese Medicine is to offer “Healthy Life Global Choice” by manufacturing excellent medicine for the public. Within the year, it conducted the trial production and marketing of a new product, the deer antler collagen capsules in Hong Kong. During the Reporting Period, Tong Ren Tang Chinese Medicine continued to explore the overseas market and set up new retail terminals in South Africa and Switzerland, establishing a layout spanning all the five continents. Its business has expanded into 21 countries and regions outside of Mainland China. The number of retail terminals has increased from 67 in 2016 to 80 in 2017. The Company has realized its global development layout of “Basing in Hong Kong, standing firm in Asia, entering into the mainstream”. As of 31 December 2017, the sales revenue of Tong Ren Tang Chinese Medicine and its subsidiaries was RMB1,097,432,000, representing an increase of 17.94% as compared with the corresponding period of last year; net profit attributable to the owners of the Company amounted to RMB161,264,000, representing an increase of 17.60% as compared with the corresponding period of last year.

Founded in 2001, Beijing Tong Ren Tang WM Dianorm Biotech Co., Limited (“**Tong Ren Tang WM**”) has been devoted to the combination of natural herbal plants and modernization of Chinese medicines and the application thereof, whose main products are masks, creams and daily chemical products. During the Reporting Period, Tong Ren Tang WM focused on nationwide marketing of masks, tone-up moisturized products, fundamental hair washing and caring products and other highly functional products through various terminal activities in different festivals and based on products’ seasonality. In addition, it upgraded the formulas for the existing Chinese herbal medicine-based masks, eye-care products and skin-tightening and vitalizing products, improved their production processes and enhanced their inherent quality. However, impacted by the high inventory, slow velocity in the market and other negative factors. As of 31 December 2017, the sales revenue of Tong Ren Tang WM was RMB120,795,000, representing a decrease of 18.12% as compared with the corresponding period of last year; net profit amounted to RMB12,864,000, representing a decrease of 22.90% as compared with the corresponding period of last year.

Beijing Tong Ren Tang Second Traditional Chinese Medicine Hospital Co., Ltd ("**Tong Ren Tang Second Traditional Chinese Medicine Hospital**") is located in Zhaogongkou Bridge, NansanhuanZhonglu, Fengtai District, Beijing. It was founded in 1994 and became a wholly-owned subsidiary of the Company in 2016. Tong Ren Tang Second Traditional Chinese Medicine Hospital is a designated medical institution under China's medical insurance system, and includes ordinary clinic, expert clinic and inpatient department, consisting of internal medicine department, acupuncture department, massage department, department of physiotherapy and other departments providing medical consultation and treatment of traditional Chinese medicine characteristics, as well as other supporting departments such as the radiology department and laboratory department. As the sole operation in the Group's medical segment, Tong Ren Tang Second Traditional Chinese Medicine Hospital has persisted with the principle of using traditional Chinese medicine as the primary cure while combing it with western medicine as well as operated with innovative concepts, centred on improving medical treatment quality, and provided convenient and comfortable medical environment for patients. Within the year, Tong Ren Tang Second Traditional Chinese Medicine Hospital well understood relevant policies, upgraded its systems, selected medicines and adjusted prices with timely and effective manners, thereby fully meeting the requirements that emerged under the medical reform. In addition, the hospital continuously attracted professional talents, and improved its medical personnel quality. It created certain conditions and successfully started the inpatient department, which combined Chinese and Western patent medicines and Chinese herbal medicine, and used physical therapy and acupuncture as the complementary methods to provide treatment based on specific disease case and demonstrate the characteristics of traditional Chinese medicine. Due to these efforts, the hospital received warm response from the public. As of 31 December 2017, the sales revenue of Tong Ren Tang Second Traditional Chinese Medicine Hospital amounted to RMB166,919,000, representing a decrease of 0.65% as compared with the corresponding period of the last year, and the net profit amounted to RMB1,162,000, representing an increase of 52.29% as compared with the corresponding period of the last year.

Six subsidiaries producing Chinese medicinal raw materials strictly follow the principle of "planting and harvesting approach specific to places of origin and seasons", to provide the Company with various Chinese medicinal raw materials including Cornel, Tuckahoe, Cortex Moutan. During the Reporting Period, when maintaining high quality Chinese medicinal raw materials supply, the subsidiaries continued to dig into the advantages of local medicinal materials, and added many new species to the planting operation, including rehmannia glutinosa Libosch, atractylodes macrocephala, bulbus fritillaria thunbergii and Herba leonuri. In addition, along with the public's increasing focus on healthy diet, customers' consumption concepts regarding the cooking oil products were changing significantly. Relied on the advantages in supply of medicinal materials from native producing area (such as Moutan), the Group continuously explored the area of Chinese medicinal materials derivative products such as minority type oil products. In 2017, six subsidiaries recorded an aggregate sales revenue of RMB181,384,000, representing an increase of 17.57% year on year, and net profit of RMB14,160,000, representing an increase of 17.79% year on year.

Financial Review

Liquidity and Financial Resources

The Group has maintained a sound financial position. During the year of 2017, the Group's primary source of funds was cash generated from daily operating activities and borrowings.

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

As at 31 December 2017, the Group's cash and cash equivalents amounted to RMB2,023,561,000 in total(31 December 2016: RMB2,332,110,000).

As at 31 December 2017, the Group's short-term borrowings amounted to RMB207,300,000 (31 December 2016: RMB211,000,000), carrying an interest rate of 4.354% per annum (2016: 3.966%), and current portion of non-current unsecured bank borrowing amounted to RMB2,500,000 (31December 2016: Nil), total accounting for 8.68% of the total liabilities (2016: 9.18%). Long-term borrowings amounted to RMB915,480,000 (31 December 2016: RMB917,549,000), bearing annual interest rate of long-term borrowings at 1.216% (2016: 1.247%), and the actual annual interest rate of bonds was3.008% (2016: 3.008%), total accounting for 37.89% of the total liabilities (2016: 39.91%). Of all the borrowings of the Group as at 31 December 2017, RMB209,800,000 will mature within one year and RMB915,480,000 will mature beyond one year.

Capital Structure

The Group's capital management policy is to ensure the continuous operation of the Group with 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 2017, the total assets of the Group amounted to RMB8,875,657,000 (31 December 2016: RMB8,184,166,000). The funds comprised non-current liabilities of the Group amounted to RMB1,014,569,000 (31 December 2016: RMB998,802,000), current liabilities amounted to RMB1,401,546,000 (31 December 2016: RMB1,300,256,000), equity attributable to owners of the Company amounted to RMB4,816,620,000(31 December 2016: RMB4,403,184,000) and non-controlling interests amounted to RMB1,642,922,000 (31December 2016: RMB1,481,924,000).

On 1 August 2016, the Company completed the issuance of corporate bonds on the Shanghai Stock Exchange. The final issuance size is RMB800 million, and the net proceeds (net of all related costs and expenses) amounted to approximately RMB798,560,000. The maturity of the bonds is five years and the coupon rate is 2.95% per annum. The proceeds from issuance will be used to adjust the Company's debt structure and replenish the Company's general working capital. RMB100,000,000 were used for liquidity repayment of bank loans and RMB698,560,000 were used to replenish the general working capital, which was in line with the purposes under the prospectus. As at 31 December 2017, all the proceeds have been used.

In 2017, the Group's funds were mainly used for production and operation activities, construction of engineering projects, purchase of property, plant and equipment, repayment of borrowings and payment of cash dividends, etc.

Liquidity

As at 31 December 2017, the Group's liquidity ratio (the ratio of current assets to current liabilities) was 4.88 (31 December 2016: 4.98), reflecting that the Group had sufficient financial resources. The Group's quick ratio (the ratio of liquid assets to current liabilities) was 3.17 (31 December 2016: 3.21), 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 13.74 (31 December 2016: 17.02), reflecting that the Group's trade receivables were liquid. The Group's trade payables turnover ratio (the ratio of cost of sales to the average of trade payables balance) was 4.08 (31 December 2016: 5.00), reflecting that the Group had a relatively strong ability to use funding from suppliers at nil consideration. The Group's inventory turnover ratio (the ratio of revenue to the average of inventory balance) was 2.23 (31 December 2016: 2.24), 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 2017, the Group's gearing ratio (the ratio of total borrowings to equity attributable to owners of the Company) was 0.23 (31December 2016: 0.26).

Expenses and Expense Ratio

As of 31 December 2017, the Group's distribution expenses amounted to RMB994,455,000 (31 December 2016: RMB1,022,920,000) and the distribution expense ratio, i.e. the ratio of distribution expenses to revenue, was 0.20 (31 December 2016: 0.22). The decrease in distribution expenses was mainly due to the decrease in business promotion and marketing expenses incurred by advertising, exhibition promotion, etc.

As of 31 December 2017, the Group's administrative expenses amounted to RMB363,224,000 (31 December 2016: RMB335,821,000) and the administrative expense ratio, i.e. the ratio of administrative expenses to revenue, was 0.07 (31 December 2016: 0.07). The increase in administrative expenses was mainly due to the increase in staff costs, rental expenses and other related expenses arising from the business expansion.

As of 31 December 2017, the Group's finance costs amounted to RMB1,855,000 (31 December 2016: finance income RMB19,273,000) and the financial costs ratio, i.e. the ratio of financial costs to revenue, was 0.0004 (31 December 2016: the ratio of financial income to revenue, 0.0041). The increase in financial costs was mainly due to the increase in interest expense.

Gross Margin and Net Profit Margin

As of 31 December 2017, the gross margin of the Group was 50.26% (31 December 2016: 50.71%), while the net profit margin was 19.30% (31 December 2016: 18.24%).

Research and Development Expenses

As of 31 December 2017, the research and development expenses of the Group were RMB27,585,000 (31 December 2016: RMB23,163,000), accounting for 0.43% of net assets (31 December 2016: 0.39%) and 0.55% of revenue (31 December 2016: 0.50%), respectively.

Capital Expenditure

For the year ended 31 December 2017, the Group's capital expenditure incurred amounted to RMB430 million (31 December 2016: RMB466 million), primarily used for the construction of production base.

Pledges over Assets of the Group

As at 31 December 2017, RMB10,318,000 (31 December 2016: RMB10,363,000) of the Group's assets was pledged as security for long-term borrowing of RMB506,000 (31 December 2016: RMB497,000).

Contingent Liabilities

The Group had no contingent liabilities as at 31 December 2017 (31 December 2016: Nil).

Foreign Currency Risk

The Group operates internationally and foreign exchange risk arising from commercial business, recognised assets and liabilities, and net investments in foreign operations, primarily related to the HKD. The Group currently does not have a foreign currency hedging policy. The Group mainly manages its foreign currency risk by closely monitoring the fluctuation of the exchange rates.

Capital Commitments

As at 31 December 2017, 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 RMB395,855,000 (31 December 2016: RMB267,456,000).

Significant Investment

During the year of 2017, the Group did not have any significant investment. As of the date of this announcement, the Group does not have any plan for material investments or purchase of capital assets.

Material Acquisition and Disposal of Subsidiaries, Joint Ventures and Associates

During the year of 2017, the Group did not have any material acquisition and disposal in relation to subsidiaries, joint ventures and associates.

Employees and Remuneration Policies

As at 31 December 2017, the Group had a total of 3,873 employees (31 December 2016: 3,865 employees), of which 2,005 are employees of the Company (31 December 2016: 2,090 employees). Remunerations of the employees of the Company are determined with reference to the prevailing market level as well as the performance, qualification and experience of individual employee. Discretionary bonuses based on individual performance will be paid to the employees as a recognition of and a reward for their contributions to the Company. Other employee welfares include contributions by the Company to the endowment insurance, medical insurance, unemployment insurance, work injury insurance, maternity insurance and housing fund. In 2017, as approved by the Board, the Company paid a total of RMB4,235,000 bonuses to the members of the senior management.

Future Prospects

The year 2018 is a key year for the implementation of the "Thirteenth Five-Year Plan". The Company will operate with three main themes namely "Reform, Deepening and Adjustment", continue to focus on the sale and production of Chinese patent medicines and actively promote the pipeline construction and varieties development. Meanwhile, we will steadily expedite optimization of industrial layout, and ensure smooth and orderly transition between the progress of project and the production, thus laying a solid foundation for the healthy development of the Group.

The Company will proactively continue to reform the marketing system with a focus on establishing and improving organizational functions for our marketing practices, accelerate the transformation, comprehensively streamline marketing function structure and business procedures, and establish a systematic, standardized, highly efficient, controllable and uniformed marketing management platform by establishing a marketing branch office, based on the characteristics of marketing practices and actual needs in the pharmaceutical industry. In accordance with the various characteristics and degrees of maturity of different markets, the Company will optimize and concentrate the existing high-quality marketing resources to strengthen our self-owned distribution and terminal marketing capabilities, and explore and establish new sales network that consists of commercial, OTC (Over the counter), medical and e-commerce channels. In addition, the Company will adopt a product-centric strategy and rely on marketing planning at the same time to further focus on provision of all-round products and build a portfolio that consists of both core products and products for cultivation. Moreover, the Company will formulate brand-new product development plans based on channel characteristics, gradually carry out specialized operation and lean management, and further enhance the Group's expertise and efficiency in marketing.

As the Company made steady progress in the industrial layout adjustment, the production support system will enter a changing and transitional period. The Company will actively respond to changes, design with a comprehensive perspective and make plans in a scientific manner. The Company will strengthen dispatch and coordinate across all segments, in a bid to continuously optimize production procedures, improve the manoeuvrability and scientific level in production system, and ensure product supply. The Company will concentrate on and continuously improve product quality across the entire business processes including raw materials supply, techniques quality study, production process management and after-sale services. In addition, the Company will ensure solid execution in construction and management of key projects and keep watchful eyes on project quality and progress using a scientific and forward-looking perspective. In the meanwhile, the Company will make detailed organizing and transitioning plans for projects' commissioning and official commencement of operation, reasonably allocate resources concerning manpower, money and materials, and strive to achieve the optimal allocation, so as to ensure smooth transition and handover. The Company will also improve modernized management concepts, fully upgrade existing equipment performance information system and enhance the level of automation and mechanization in production, logistics and management.

For the development of subsidiaries, the Company will continue to focus on the plan of targets, and explore development room for all subsidiaries. Subsidiaries providing products will continue to place top priority on product quality, continuously strengthen management concerning processes improvement, standards enhancement and quality control, and push ahead with a specialized operation and management. Subsidiary providing services will deeply analyse market demands, highlight the advantages and characteristics of Tong Ren Tang brand and traditional Chinese medicine culture, emphasize on quality in medical services, improve service system and further explore the potential in promoting the diversified development of traditional Chinese medical services. Subsidiaries that engage in planting will continue to make use of their geographical advantages, enrich variety of species in planting, give prominence to advantages and characteristics of local Chinese medicinal materials, and promote development of by-products of Chinese medicinal materials to enhance their operational capabilities at the same time.

OTHER INFORMATION

Competing Interests

Competition with Tong Ren Tang Ltd. and Tong Ren Tang Holdings

Both the Company and Beijing Tong Ren Tang Company Limited ("**Tong Ren Tang Ltd.**") engage in the production and sale of Chinese patent medicines, but the principal products of them are different. Tong Ren Tang Ltd. mainly produces Chinese patent medicines in traditional dosage forms such as honeyed pills, powder, ointment and medicinal wines. Tong Ren Tang Ltd.'s main products include Kunbao Pills (坤寶丸), Tongren Wuji Baifeng Pills (同仁烏雞白鳳丸), Tongren Dahuoluo Pills (同仁堂大活絡丸), Guogong Wine (國公酒) and Angong Niuhuang Pills (安宮牛黃丸). It also has some minor production lines for the production of granules and water honeyed pills. These products do not compete with the Group in terms of their curative effects. The Company focuses on manufacturing products in new dosage forms which are more competitive as compared with western medicine. The Company's main products include Liuwei Dihuang Pills (六味地黃丸), Niuhuang Jiedu Tablet (牛黃解毒片), Ganmao Qingre Granule (感冒清熱顆粒), and Jinkui Shenqi Pills (金匱腎氣丸), etc.. Tong Ren Tang Holdings is an investment holding company and is not involved in the production of Chinese patent medicines.

To ensure that the business classification between the Company, Tong Ren Tang Holdings and Tong Ren Tang Ltd. is properly documented and established, Tong Ren Tang Holdings and Tong Ren Tang Ltd. undertook, pursuant to an undertaking dated 19 October 2000 committed by Tong Ren Tang Holdings and Tong Ren Tang Ltd. in favor of the Company ("**October Undertaking**"), that other than Angong Niuhuang Pills (安宮牛黃丸), Tong Ren Tang Holdings, Tong Ren Tang Ltd. and their respective subsidiaries will not produce in future any products that bear the same names or bear the same names with different dosage forms as those pharmaceutical products produced by the Company, 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.

To procure that the Company conducts an independent review of the research and development of new products and the development capability thereof, the Company confirms that among the independent non-executive Directors, a reputable person in the traditional Chinese medicinal sector will determine whether to exercise the right of first refusal granted by Tong Ren Tang Holdings or Tong Ren Tang Ltd.. 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 2017, 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 2017 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 14 to the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange (the "**Listing Rules**") as the Company's standards, and combined them with its own experience, aiming to establish a good corporate governance structure. For the year ended 31 December 2017, the Company had always strictly complied with the code provisions in the Code.

AUDIT COMMITTEE

The Company has set up an Audit Committee with specific written terms of reference and duties pursuant to the relevant requirements of the Listing Rules and "A Guide For The Formation of An Audit Committee" complied by the Hong Kong Institute of Certified Public Accountants. Its primary duties are to review and monitor the completeness and effectiveness of the Company's financial information, risk management and internal control system, and review the Company's annual and interim results and other related documents.

The Audit Committee comprises the independent non-executive Directors, being Mr. Ting Leung Huel, Stephen, Miss Tam Wai Chu, Maria, and Mr. Jin Shi Yuan, of which Mr. Ting Leung Huel, Stephen, the Chairman of the Audit 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 2017, the Audit Committee convened two meetings. The first meeting was held on 15March 2017 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 2016 as well as matters in relation to risk management, legal compliance and internal audit, and to listen to the result of audit reported by the auditors. The Audit Committee concluded the meeting with agreement to the contents of the2016 annual report. The second meeting was held on 14 August 2017 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 2017 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 2017 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 on matters relating to the reappointment of the auditors; and held separate meetings with the auditors to discuss matters relating to its audit fees and other issues arising from the audit.

At the meeting held on 19 March 2018, the Audit Committee reviewed and discussed the operating results, financial position and major accounting policies contained in the audited financial statements of the Group for the year ended 31 December 2017, as well as matters in relation to risk management, legal compliance and internal audit, and reviewed the effectiveness of risk management and internal control systems as well as internal audit, and to listened to the results of audit reported by the auditors. The Audit Committee concurred in the contents of the 2017 annual results and annual report.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

For the year ended 31 December 2017, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

AUDITORS

PricewaterhouseCoopers ("**PwC**") was appointed as the overseas auditor of the Company for the year ended 31 December 2017. The figures in respect of the results announcement of the Group for the year ended 31 December 2017 have been agreed by PwC, to the amounts set out in the Group's consolidated financial statements for the year ended 31 December 2017.

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 Stock Exchange (www.hkex.com.hk). The Company will dispatch the 2017 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 Stock Exchange.

By Order of the Board
Tong Ren Tang Technologies Co. Ltd.
Gao Zhen Kun
Chairman

Beijing, the PRC
29 March 2018

As at the date of this announcement, the Board comprises Mr. Gao Zhen Kun, Mr. Gu Hai Ou, Mr. Rao Zu Hai, Mr. Li Bin, Mr. Wang Yu Wei and Ms. Fang Jia Zhi as executive Directors; Miss Tam Wai Chu, Maria, Mr. Ting Leung Huel, Stephen and Mr. Jin Shi Yuan as independent non-executive Directors.