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: 3613)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2018

FINANCIAL HIGHLIGHTS

	Year ended 31 December		
	2018	2017	Change
	HK$'000	HK$'000	
Revenue	**1,513,873**	1,265,994	+ 19.6%
Gross profit	**1,078,421**	916,433	+ 17.7%
Profit for the year	**601,323**	505,512	+ 19.0%
Profit attributable to owners of the Company	**580,720**	489,967	+ 18.5%
Basic and diluted earnings per share	**HK$0.69**	HK$0.59	+ 16.9%

	As at 31 December		
	2018	2017	Change
	HK$'000	HK$'000	
Cash and bank balances	**2,265,440**	1,897,781	+ 19.4%
Total assets	**3,171,085**	2,760,655	+ 14.9%
Total equity	**3,024,227**	2,608,177	+ 16.0%

RESULTS

The board of directors (the "**Board**") of Beijing Tong Ren Tang Chinese Medicine Company Limited (the "**Company**") 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 2018 together with the comparative figures for the previous year as follows:

CONSOLIDATED INCOME STATEMENT

		Year ended 31 December	
		2018	2017
	Note	**HK$'000**	HK$'000
Revenue	3	**1,513,873**	1,265,994
Cost of sales	4	**(435,452)**	(349,561)
Gross profit		**1,078,421**	916,433
Distribution and selling expenses	4	**(233,154)**	(193,517)
General and administrative expenses	4	**(148,326)**	(127,293)
Other net gains		**1,073**	2,061
Operating profit		**698,014**	597,684
Finance income		**23,392**	13,356
Finance costs		**(19)**	(32)
Finance income, net		**23,373**	13,324
Share of losses of investments accounted for using the equity method		**(489)**	(42)
Profit before income tax		**720,898**	610,966
Income tax expense	5	**(119,575)**	(105,454)
Profit for the year		**601,323**	505,512
Profit attributable to:			
Owners of the Company		**580,720**	489,967
Non-controlling interests		**20,603**	15,545
		601,323	505,512
Earnings per share attributable to owners of the Company for the year (expressed in HK$ per share)			
Basic and diluted earnings per share	6	**0.69**	0.59

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Year ended 31 December	
	2018	2017
	HK$'000	HK$'000
Profit for the year	**601,323**	505,512
Other comprehensive income/(losses):		
Items that may be reclassified to profit or loss		
Change in fair value of available-for-sale financial asset	**-**	2,005
Currency translation differences	**(14,386)**	16,519
Release of exchange reserve upon liquidation of a joint venture	**1,703**	-
Item that will not be reclassified to profit or loss		
Change in fair value of financial asset at fair value through other comprehensive income	**150**	-
Other comprehensive (losses)/income for the year	**(12,533)**	18,524
Total comprehensive income for the year	**588,790**	524,036
Attributable to:		
Owners of the Company	**571,784**	504,287
Non-controlling interests	**17,006**	19,749
Total comprehensive income for the year	**588,790**	524,036

CONSOLIDATED BALANCE SHEET

		As at 31 December	
		2018	2017
	Note	**HK$'000**	HK$'000
Assets			
Non-current assets			
Leasehold land		**15,465**	16,008
Property, plant and equipment		**286,303**	263,555
Intangible assets		**72,487**	79,001
Investments accounted for using the equity method		**20,181**	20,766
Financial asset at fair value through other comprehensive income		**15,468**	-
Available-for-sale financial asset		**-**	15,318
Deposits paid for purchase of property, plant and equipment		**2,866**	1,988
Deferred income tax assets		**11,851**	9,132
		424,621	405,768
Current assets			
Inventories		**244,535**	235,536
Trade receivables and other current assets	8	**236,489**	221,570
Short-term bank deposits		**1,715,609**	1,147,338
Cash and cash equivalents		**549,831**	750,443
		2,746,464	2,354,887
Total assets		**3,171,085**	2,760,655
Equity and liabilities			
Equity attributable to owners of the Company			
Share capital		**938,789**	938,789
Reserves			
- Other reserves		**(19,983)**	(11,047)
- Retained earnings		**1,986,821**	1,565,150
		2,905,627	2,492,892
Non-controlling interests		**118,600**	115,285
Total equity		**3,024,227**	2,608,177

CONSOLIDATED BALANCE SHEET (CONTINUED)

	Note	As at 31 December	
		2018	2017
		HK$'000	HK$'000
Liabilities			
Non-current liabilities			
Borrowings		**1,053**	605
Deferred income tax liabilities		**4,874**	4,419
		5,927	5,024
Current liabilities			
Borrowings		**166**	-
Trade and other payables	9	**119,011**	114,486
Current income tax liabilities		**21,754**	32,968
		140,931	147,454
Total liabilities		**146,858**	152,478
Total equity and liabilities		**3,171,085**	2,760,655

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 for the purpose of this announcement, excluding Hong Kong, Macao and Taiwan) and is listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The intermediate holding company of the Company is Beijing Tong Ren Tang Company Limited ("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 Group Co., Ltd. ("Tong Ren Tang Holdings") which is a company incorporated in the PRC.

The shares of the Company were listed on GEM of the Stock Exchange starting from 7 May 2013 and were transferred to be listed on the Main Board of the Stock Exchange starting from 29 May 2018.

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 financial asset at fair value through other comprehensive income (2017-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 judgment in the process of applying the Group's accounting policies.

The financial results relating to the years ended 31 December 2018 and 2017 included in this preliminary announcement of annual results 2018 do not constitute the Company's statutory annual consolidated financial statements for those years but is derived from those financial statements. Further information relating to these statutory financial statements required to be disclosed in accordance with section 436 of the Companies Ordinance Cap. 622 is as follows:

The Company has delivered the financial statements for the year ended 31 December 2017 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Companies Ordinance and will deliver the financial statements for the year ended 31 December 2018 in due course.

The Company's auditor has reported on the financial statements of the Group for both years. The independent auditor's reports were unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its reports; and did not contain a statement under sections 406(2), 407(2) or (3) of the Companies Ordinance.

2 Basis of preparation (Continued)

(a) Adoption of new standards, interpretation and amendments to standards

The Group has adopted the following new standards, interpretation and amendments to standards which are relevant to the Group's operations and are mandatory for the financial year beginning on 1 January 2018:

HKAS 28 (Amendment)	Investments in Associates and Joint Ventures
HKAS 40 (Amendment)	Transfers of Investment Property
HKFRS 1 (Amendment)	First-time Adoption of Hong Kong Financial Reporting Standards
HKFRS 2 (Amendment)	Classification and Measurement of Share-based Payment Transactions
HKFRS 4 (Amendment)	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts
HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers
HKFRS 15 (Amendment)	Clarifications to HKFRS 15
HK(IFRIC) – Int 22	Foreign Currency Transactions and Advance Consideration

Except for the impact for HKFRS 9 and HKFRS 15 which have been disclosed in Note 2(c), the adoption of the above new standards, interpretation and amendments to standards did not have any significant financial impact on these consolidated financial statements.

(b) New standards, interpretation and amendments to standards which are not yet effective

The following are new standards, interpretation and amendments to standards that have been published and are mandatory for the Group's accounting periods beginning on or after 1 January 2019 or later periods, but have not been early adopted by the Group.

Conceptual Framework for Financial Reporting 2018	Revised Conceptual Framework for Financial Reporting (2)
HKAS 1 and HKAS 8 (Amendment)	Definition of Material (2)
HKAS 12 (Amendment)	Income Taxes (1)
HKAS 19 (Amendment)	Plan Amendment, Curtailment or Settlement (1)
HKAS 23 (Amendment)	Borrowing Costs (1)
HKAS 28 (Amendment)	Long-term Interests in Associates and Joint Ventures (1)
HKFRS 3 (Amendment)	Business Combinations (1)
HKFRS 3 (Amendment)	Definition of Business (2)
HKFRS 9 (Amendment)	Prepayment Features with Negative Compensation (1)

2 Basis of preparation (Continued)

(b) New standards, interpretation and amendments to standards which are not yet effective (Continued)

HKFRS 10 and HKAS 28 (Amendment)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture [4]
HKFRS 11 (Amendment)	Joint Arrangements [1]
HKFRS 16	Leases [1]
HKFRS 17	Insurance Contracts [3]
HK(IFRIC) - Int 23	Uncertainty over Income Tax Treatments [1]

(1) Effective for the accounting period beginning on 1 January 2019
(2) Effective for the accounting period beginning on 1 January 2020
(3) Effective for the accounting period beginning on 1 January 2021
(4) Effective date to be determined

The Group will apply the above new standards, interpretation and amendments to standards when they become effective. The Group has commenced an assessment of the expected impact of the HKFRS 16 as set out below. Except for HKFRS 16, none of the rest of the new standards, interpretation and amendments to standards is expected to have a significant effect on the consolidated financial statements of the Group.

HKFRS 16

HKFRS 16 "Leases" addresses the definition of a lease, recognition and measurement of leases and establishes principles for reporting useful information to users of financial statements about the leasing activities of both lessees and lessors.

The Group is a lessee of various properties which are currently classified as operating leases. The Group's future operating lease commitments are set out in Note 10(b).

HKFRS 16 provides new provisions for the accounting treatment of leases and will no longer allow lessees to recognise certain leases outside the consolidated balance sheet in the future. Instead, when the Group is the lessee, almost all leases must be recognised in the form of an asset (for the right-of-use) and a financial liability (for the payment obligation). The new standard will therefore result in an increase in assets and financial liabilities in the consolidated balance sheet of the Group upon initial adoption. As for the financial impact in the consolidated income statement, rental expenses will be replaced with straight-line depreciation expense on the right-of-use asset and interest expenses on the lease liability. The combination of the straight-line depreciation of the right-of-use asset and the effective interest rate method applied to the lease liability will result in a higher total charge to the consolidated income statement in the initial years of the lease, and a lower total charge during the latter part of the lease term.

This new standard is not expected to be applied until the financial year beginning on or after 1 January 2019.

2 Basis of preparation (Continued)

(c) Changes in accounting policies

HKFRS 9 and HKFRS 15

This note explains the impact of the adoption of HKFRS 9 Financial Instruments and HKFRS 15 Revenue from Contracts with Customers on the Group's consolidated financial statements.

The Group elects to adopt HKFRS 9 and HKFRS 15 without restating comparatives. The reclassification and the adjustments arising from the adoption of HKFRS 9 and HKFRS 15 are therefore not reflected in the consolidated balance sheet as at 31 December 2017, but are recognised in the opening of the consolidated balance sheet on 1 January 2018.

The following tables show, the adjustments recognised for each individual line item. Line items that were not affected by the changes have not been included. As a result, the sub-totals and totals disclosed cannot be recalculated from the numbers provided. The adjustments are explained in more detail by standard below.

Consolidated balance sheet (extract)	31 December 2017 As originally presented HK$'000	HKFRS 9 HK$'000	HKFRS 15 HK$'000	1 January 2018 Restated HK$'000
Non-current assets				
Financial asset at fair value through other comprehensive income	-	15,318	-	15,318
Available-for-sale financial asset	15,318	(15,318)	-	-
Current liabilities				
Trade and other payables				
- Trade payables	52,679	-	-	52,679
- Accruals and other payables	61,807	-	(5,512)	56,295
- Contract liabilities	-	-	5,512	5,512
Equity				
Reserves				
- Other reserves				
- Available-for-sale financial asset reserve	1,530	(1,530)	-	-
- Financial asset at fair value through other comprehensive income reserve	-	1,530	-	1,530
- Other reserves	(12,577)	-	-	(12,577)

2 Basis of preparation (Continued)

(c) Changes in accounting policies (Continued)

(i) HKFRS 9 Financial Instruments

HKFRS 9 replaces the provisions of HKAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

The adoption of HKFRS 9 Financial Instruments from 1 January 2018 resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements.

There is no material impact on the Group's retained earnings as at 1 January 2018 and no restatement is made.

(1) Classification and measurement

The Group elected to present the changes in the fair value of its equity investment previously classified as available-for-sale financial asset in other comprehensive income, because these investments are held as long-term strategic investments that are not expected to be sold in short to medium term. As a result, assets with a fair value of HK$15,318,000 were reclassified from available-for-sale financial asset to financial asset at fair value through other comprehensive income and fair value gain of HK$1,530,000 were reclassified from the available-for-sale financial asset reserve to the financial asset at fair value through other comprehensive income reserve within the other reserves on 1 January 2018.

Other than the change in the classification of available-for-sales financial assets, the classification of other financial assets and liabilities remained unchanged.

(2) Impairment of financial assets

The Group has two types of financial assets that are subject to HKFRS 9's new expected credit loss model:

- trade receivables
- deposits and other receivables

The Group was required to revise its impairment methodology under HKFRS 9 for each of these classes of assets. The impact of the change in impairment methodology on the Group's retained earnings and equity was immaterial.

While cash and cash equivalents are also subject to the impairment requirements of HKFRS 9, the identified impairment loss was also immaterial.

2 Basis of preparation (Continued)

(c) Changes in accounting policies (Continued)

(i) HKFRS 9 Financial Instruments (Continued)

Trade receivables

The Group applies the HKFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables. The resulted increase of loss allowance for trade receivables on 1 January 2018 was immaterial.

Deposits and other receivables

Deposits and other receivables at amortised cost are considered to be low risk, and therefore the impairment provision is determined as 12 months expected credit losses. The resulted increase of loss allowance for deposit and other receivables on 1 January 2018 was immaterial. The loss allowance for deposits and other receivables have not further increased during the current reporting period.

(ii) HKFRS 15 "Revenue from contracts with customers"

The Group has adopted HKFRS 15 Revenue from Contracts with Customers from 1 January 2018, which resulted in changes in accounting policies and adjustments to the amounts recognised in the consolidated financial statements. In accordance with the transition provisions in HKFRS 15, comparative figures have not been restated.

Under HKFRS 15, a contract liability, rather than a payable, is recognised when a customer pays non-refundable consideration before the Group recognises the related revenue. Receipt in advance from customers amounting to HK$5,512,000 which were previously included in accruals and other payable are now recognised as contract liability as at 1 January 2018 to reflect the terminology of HKFRS 15.

3 Segment information

The chief operating decision maker has been identified as the executive directors of the Company (the "Executive Directors"). The Executive Directors 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 consider the Group's business and aggregate the operating segment from a geographic perspective and have determined that the Group has three reportable operating segments.

The geographical location of revenue is analysed based on location where goods are sold and services are provided. The details are set out as follows:

(i) Hong Kong - sale of Chinese medicine products and healthcare products and provision of Chinese medical consultation and treatments through retail outlets as well as wholesale of Chinese medicine products and healthcare products in Hong Kong. In addition, it includes the royalty fee income received from overseas entities for using "Tong Ren Tang" brand name.

(ii) PRC - wholesale of healthcare products in the PRC and the sole distribution of Tong Ren Tang branded products of Tong Ren Tang Technologies and Tong Ren Tang Ltd. to customers outside the PRC.

(iii) Overseas - retail and wholesale of Chinese medicine products and healthcare products and provision of Chinese medical consultation and treatments in other overseas countries, including Macao.

Unallocated items comprise mainly corporate expenses.

Sales between segments are carried in accordance with terms agreed by the parties involved.

The Executive Directors 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, financial asset at fair value through other comprehensive income (2017-available-for-sale financial asset), deferred tax assets, deposits paid for purchase of 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$'000	PRC HK$'000	Overseas HK$'000	Total HK$'000
Year ended 31 December 2018				
Segment revenue	**1,150,830**	**510,885**	**333,610**	**1,995,325**
Inter-segment revenue	**(343,485)**	**(137,283)**	**(684)**	**(481,452)**
Revenue from external customers	**807,345**	**373,602**	**332,926**	**1,513,873**
Timing of revenue recognition				
At a point in time	**802,680**	**365,045**	**285,619**	**1,453,344**
Overtime	**4,665**	**8,557**	**47,307**	**60,529**
	807,345	**373,602**	**332,926**	**1,513,873**
Contribution to segment results	**707,657**	**7,636**	**28,360**	**743,653**
Depreciation and amortisation	**(14,825)**	**(722)**	**(8,741)**	**(24,288)**
Amortisation of intangible assets	**(1,300)**	**-**	**(5,258)**	**(6,558)**
Impairment loss on inventories	**-**	**-**	**(1,423)**	**(1,423)**
Write-off of inventories	**(354)**	**-**	**(257)**	**(611)**
Segment results	**691,178**	**6,914**	**12,681**	**710,773**
Inter-segment elimination				**(12,759)**
Operating profit				**698,014**
Finance income	**22,668**	**153**	**571**	**23,392**
Finance cost	**-**	**-**	**(19)**	**(19)**
Share of losses of investments accounted for using the equity method				**(489)**
Profit before income tax				**720,898**
Income tax expense	**(114,706)**	**304**	**(5,173)**	**(119,575)**
Profit for the year				**601,323**
Year ended 31 December 2017				
Segment revenue	936,461	425,532	307,607	1,669,600
Inter-segment revenue	(300,204)	(102,654)	(748)	(403,606)
Revenue from external customers	636,257	322,878	306,859	1,265,994
Contribution to segment results	577,880	27,866	24,935	630,681
Depreciation and amortisation	(15,082)	(644)	(8,969)	(24,695)
Amortisation of intangible assets	(1,300)	-	(1,146)	(2,446)
Impairment loss on property, plant and equipment	(5,509)	-	(1,177)	(6,686)
Impairment loss on inventories	-	-	(523)	(523)
Write-off of inventories	(950)	-	(534)	(1,484)
Segment results	555,039	27,222	12,586	594,847
Inter-segment elimination				2,837
Operating profit				597,684
Finance income	13,025	225	106	13,356
Finance cost	-	-	(32)	(32)
Share of losses of investments accounted for using the equity method				(42)
Profit before income tax				610,966
Income tax expense	(94,350)	(7,163)	(3,941)	(105,454)
Profit for the year				505,512

3 Segment information (Continued)

(b) Analysis of consolidated balance sheets

	Hong Kong	PRC	Overseas	Total
	HK$'000	HK$'000	HK$'000	HK$'000
At 31 December 2018				
Segment assets and liabilities				
Total assets	**2,662,367**	**225,606**	**283,112**	**3,171,085**
Investments accounted for using the equity method	**12,708**	**-**	**7,473**	**20,181**
Additions to non-current assets [(1)]	**11,086**	**857**	**41,285**	**53,228**
Total liabilities	**(82,769)**	**(27,289)**	**(36,800)**	**(146,858)**
At 31 December 2017				
Segment assets and liabilities				
Total assets	2,260,150	203,558	296,947	2,760,655
Investments accounted for using the equity method	12,900	-	7,866	20,766
Additions to non-current assets [(1)]	8,083	122	26,068	34,273
Total liabilities	(86,864)	(33,576)	(32,038)	(152,478)

[(1)] In this analysis, additions to non-current assets exclude investments accounted for using the equity method, financial asset at fair value through other comprehensive income (2017-available-for-sale financial asset)and deferred tax assets.

3 Segment information (Continued)

(c) Revenue

The analysis of revenue by category is as follows:

	2018 HK$'000	2017 HK$'000
Sales of products	**1,453,344**	1,217,907
Service income	**60,078**	47,548
Royalty fee income	**451**	539
	1,513,873	1,265,994

(d) Information about major customers

For the year ended 31 December 2018, revenue from three (2017: 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 PRC segment. The revenues from these customers are summarised below:

	2018 HK$'000	2017 HK$'000
Revenue from:		
- Customer A	**258,672**	239,930
- Entities under the control of the ultimate holding company [(1)]	**214,187**	197,304
- Customer B	**160,531**	138,479
	633,390	575,713

[(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 2018 (2017: 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:

		2018 HK$'000	2017 HK$'000
(i)	Revenue [1]		
	Hong Kong	**807,345**	636,257
	PRC	**373,602**	322,878
	Macao	**157,415**	142,300
	Australia	**56,226**	53,173
	Canada	**39,172**	35,943
	Singapore	**24,488**	23,969
	New Zealand	**19,798**	19,627
	United States	**14,767**	9,562
	Other countries	**21,060**	22,285
		1,513,873	1,265,994
(ii)	Non-current assets [2]		
	Hong Kong	**245,136**	250,048
	PRC	**1,656**	1,600
	Macao	**46,437**	8,802
	Australia	**35,038**	40,803
	Canada	**6,676**	8,722
	New Zealand	**3,975**	5,644
	United States	**20,092**	24,201
	Europe	**16,703**	17,294
	Other countries	**1,408**	3,438
		377,121	360,552

[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, financial asset at fair value through other comprehensive income (2017 - available-for-sale financial asset) and deferred tax assets.

4 Expenses by nature

	2018 HK$'000	2017 HK$'000
Cost of inventories sold	**363,372**	278,329
Employee benefit expenses	**201,448**	175,818
Operating leases payments	**86,713**	75,321
Amortisation of prepaid operating lease payments	**543**	543
Amortisation of intangible assets	**6,558**	2,446
Depreciation of property, plant and equipment	**23,745**	24,152
Impairment loss on property, plant and equipment	**-**	6,686
Losses on disposals of property, plant and equipment	**774**	110
Impairment loss on inventories	**1,423**	523
Write-off of inventories	**611**	1,484
Auditors' remuneration		
- Audit services	**4,413**	3,850
- Non-audit services	**295**	155
Research and development	**18,546**	9,581
Net exchange gain	**(1,727)**	(286)
Promotion and advertising expenses	**29,546**	22,540
Legal and professional expenses	**5,352**	6,671

5 Income tax expense

Hong Kong profits tax has been provided for at the rate of 16.5% (2017: 16.5%) on the estimated assessable profit for the year. PRC corporate income tax has been provided at the rate of 25% (2017: 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.

	2018 HK$'000	2017 HK$'000
Current income tax		
- Current year	**122,326**	105,249
- Over provision in prior years	**(485)**	(988)
	121,841	104,261
Deferred income tax	**(2,266)**	1,193
Income tax expense	**119,575**	105,454

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.

	2018 **HK$'000**	2017 HK$'000
Profit attributable to owners of the Company	**580,720**	489,967
Weighted average number of ordinary shares in issue (thousands)	**837,100**	837,100
Earnings per share (HK$)	**0.69**	0.59

For the years ended 31 December 2018 and 2017, 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 2018 and 2017 were HK$159,049,000 (HK$0.19 per share) and HK$133,936,000 (HK$0.16 per share) respectively. Dividend in respect of the year ended 31 December 2018 of HK$0.23 per share, amounting to a total dividend of HK$192,533,000, is to be proposed at the annual general meeting on 7 May 2019. These financial statements do not reflect this dividend payable.

	2018 **HK$'000**	2017 HK$'000
Interim dividend paid of HK$Nil (2017: HK$Nil) per ordinary share	**-**	-
Proposed final dividend of HK$0.23 (2017: HK$0.19) per ordinary share	**192,533**	159,049
	192,533	159,049

8 Trade receivables and other current assets

	2018 HK$'000	2017 HK$'000
Trade receivables		
- fellow subsidiaries	**74,576**	50,110
- joint ventures	**9,465**	2,558
- associate	**911**	1,877
- third parties	**91,973**	116,222
Trade receivables	**176,925**	170,767
Prepayments and other receivables	**36,227**	26,080
Deposits	**22,223**	23,609
Amount due from a joint venture (Note b)	**1,114**	1,114
	236,489	221,570

Notes:

(a) The fair values of trade receivables and other currents assets approximate their carrying amounts.

(b) The amount is repayable on demand, unsecured in nature and bears no interest.

Retail sales at the Group's stores are usually made in cash or by debit or credit cards. For wholesales to distributors (including fellow subsidiaries, joint ventures and an associate), the Group normally grants credit periods ranging from 30 to 90 days.

At 31 December 2018 and 2017, the aging analysis of trade receivables based on invoice date (including amounts due from related parties of trading in nature) is as follows:

	2018 HK$'000	2017 HK$'000
Up to 3 months	**138,079**	126,921
3 to 6 months	**29,121**	31,275
6 months to 1 year	**8**	6,905
Over 1 year	**9,717**	5,666
	176,925	170,767

9 Trade and other payables

	2018	2017
	HK$'000	HK$'000
Trade payables		
- intermediate holding company	**13,727**	16,270
- immediate holding company	**6,792**	5,688
- third parties	**31,196**	30,721
Trade payables	**51,715**	52,679
Accruals and other payables	**62,361**	61,807
Contract liabilities	**4,935**	-
	119,011	114,486

At 31 December 2018 and 2017, 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:

	2018	2017
	HK$'000	HK$'000
Up to 3 months	**43,439**	51,086
3 to 6 months	**237**	587
6 months to 1 year	**7,485**	981
Over 1 year	**554**	25
	51,715	52,679

10 Commitments

(a) Capital commitments

	2018	2017
	HK$'000	HK$'000
Contracted but not provided for		
- property, plant and equipment	**2,627**	3,281

(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.

10 Commitments (Continued)

(b) Operating lease commitments (Continued)

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

	2018 HK$'000	2017 HK$'000
No later than 1 year	**58,222**	65,193
Later than 1 year and no later than 5 years	**50,331**	78,212
Later than 5 years	**4,990**	9,623
	113,543	153,028

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

Overview

Founded in 1669, Tong Ren Tang has marked its 349th years. Over 349 years, Tong Ren Tang has gained popularity across the world with a brand image of "Virtue, Honesty and Integrity". Traditional Chinese Medicine ("TCM") has received increasing attention from the health and hygienic system of the world, thereby securing itself a foothold amongst the world's mainstream medical system.

The 40th anniversary of the reform and opening-up together with the 5th anniversary of the "Belt and Road Initiative" present a historic opportunity to the overseas business of Tong Ren Tang, in which has leveraged the development to continue exploring mainstream markets in Europe and the United States ("US"). Tong Ren Tang focused on the exploration of new development model and the implementation of structural reforms. On the continuous expansion of outlet coverage in the Europe and US markets, it was the first attempt of Tong Ren Tang to implement the new business module in Italy. During the Year, the Group's business coverage outside the PRC has covered 21 countries and regions and with a total of 81 retail outlets. With sound development for five years, the Company has successfully transited from a leading enterprise on GEM to a Main Board listed company. Its presence in Hang Seng Family of Indexes and Shenzhen-Hong Kong Connect gained further recognition in the capital market and showing that the Company has grown steadily.

Under the macro-environment where the international market was full of uncertainties and with the prominent trend of globalisation, the general tone of Chinese economy, namely making progress amidst stability, and laid a solid ground for the development of TCM industry. The Group also continued to pursue its approach of seeking progress amidst stability and was committed to developing into a stronger, better and bigger economic entity, so as to maximize the shareholders' interests. For the Year, the Group's revenue increased by 19.6% to HK$1,513.9 million (2017: HK$1,266.0 million), net profit increased by 19.0% to HK$601.3 million (2017: HK$505.5 million), profit attributable to owners of the Company increased by 18.5% to HK$580.7 million (2017: HK$490.0 million) and earnings per share increased to HK$0.69 (2017: HK$0.59). The Board recommends a final dividend of HK$0.23 per share (2017: HK$0.19).

Hong Kong Market

During the Year, under US-China trade conflicts and super Typhoon Mangkhut, the Group's revenue from Hong Kong market managed to record a growth of 26.9% achieving a revenue of HK$807.3 (2017: HK$636.3 million) with the same-store sales growth of 50.0%, which were attributable to the stepped-up efforts in brand promotion and the integration and redeployment of internal resources. During the Year, we opened a new retail outlet in Causeway Bay, for the purpose of rationalising the retail network in Hong Kong. We also increased our market share through promoting Tong Ren Tang products and captured various potential consumer groups through a diversified, multi-layer product differentiation promotion strategy which targeted various age and consumer groups, which aims at consolidate the leading position of Tong Ren Tang brand in Hong Kong.

Non-Hong Kong Markets

To facilitate and achieve speedy growth and quality development of overseas market development, the Group has adopted a differentiated development strategy based on the actual situation and the practical market needs of the business segments in five major continents achieving the global strategy of "Anchor in Hong Kong and Asia and march to overseas". During the Year, we set up a retail outlet in the US, and reached 54 overseas retail outlets. The Group's revenue from overseas market increased by 8.5% to HK$332.9 million (2017: HK$306.9 million) with the same-store sales growth of 21.1%.

Due to the rising health awareness, high-quality products of the Group gained increasing recognition and the overseas demand for Tong Ren Tang products keep increasing. The Group's revenue from the PRC market increased by 15.7% to HK$373.6 million (2017: HK$322.9 million) during the Year.

In recent years, TCM was recognised for its integral role of the health and hygiene system in the world. Today, nearly 200 countries and regions have put TCM into practice and acupuncture has been admitted in over 100 member states of WHO. In September 2018, which marks the 20th anniversary of diplomatic relationship between China and South Africa, a bylined article of President Xi Jinping of the PRC emphasised that "TCM was a new option for the Africans", thus assuring the development of TCM in Africa.

With promising prospect, TCM has recorded sound development in the international market. However, given challenges such as the rise of trade protectionism, cultural and value differences, lack of standard system for TCM in the international market, the overseas business of Tong Ren Tang slowed down to some extent. With the implementation of the "go global" strategy, the overseas business of Tong Ren Tang still centered on Hong Kong and directed towards the international market. By which, we have established business presence on five major continents and the Group's business coverage outside the PRC has extended across 21 countries and regions, initially realised the vision of "Healthy Life Global Choice".

Production, Research and Development

The Group is endeavored to our corporate motto "Nurturing kindness and virtue, Preserving tranquility and wellness" since its inception. We adhere to the principle of honest operation and morality as core value and also adhere to the quality management philosophy of "vital quality, striving for excellence and advocating kindness and virtue". Meanwhile, we live by the corporate mottos of "Never cut corners on labour and quality, no matter how complex the process or how costly the materials." and "Dedication comes from the heart in the steps that no one else can see." and stay committed to our strengths in terms of "unique formulas, superior materials, superb technique, and distinguished efficacy" as the only standard of production. By integrating the merits of scientific technology advancement, scientific research capability and corporate development, we were able to "build on the legacy but not bounded by it, and pursue innovation based on traditions". We took a people-oriented humanistic approach and take righteousness as first priority so as to produce products with excellent quality and more people will be benefited.

Our Tai Po Production and Research & Development ("R&D") Base adopted a stringent quality control system with high safety factors. It has obtained the GMP (Good Manufacturing Practice) for Proprietary Chinese medicine certification, and also obtained certification on several international standards, such as the ISO22000:2005 (Food Safety Management Systems) and the HACCP (Hazard Analysis and Critical Control Points), which provide comprehensive protection for the high-quality products production and excellent consumer experience and safety of medicine consumption.

During the Year, capabilities of scientific research were of the top priority in the Group's R&D. Rational, scientific and market-oriented cooperative scientific research was the foundation of accomplishing research achievement. We have reached cooperative intents with international high ranking educational institutes to commence joint scientific research on key products during the Year. The scientific research would provide massive quantitative data to our future products for the internationalisation of TCM. In the meantime, it served as a knowledge base for foreigners to understand, accept and apply TCM, as well as a solid technical assurance and data support for further expansion of Tong Ren Tang's overseas presence and potential market risk mitigation.

Brand Promotion

Toward our goal of "wherever there is a need for health, wherever there is Tong Ren Tang", the overseas business of Tong Ren Tang was committed to connecting the needs of public health through TCM. As a carrier of economic entity and culture, Tong Ren Tang not only demonstrated TCM treatment and service experience to the world through brand promotion activities, but also share the culture of TCM to the world, by establishing the global influence of Tong Ren Tang.

During the Year, the Group took cultural promotion as an important part of its planning and relevant initiatives were launched accordingly. Daily cultural promotion and a well-organized network cover all relevant aspects. Tong Ren Tang managed to strengthen its distinguished corporate image and enhanced customer's knowledge on Tong Ren Tang products, thereby developing a solid brand loyalty amongst customers.

In June 2018, the Group continued "Capital State-owned Enterprises Open Day". Apart from the Open Day in Hong Kong, it was our first time to open a Tong Ren Tang outlet in Johannesburg, South Africa to public, which formulated an unprecedented mode for our Open Day activities, comprising "Hong Kong and Overseas" and "Origin and Destination". We attracted nearly thousands of guests from Hong Kong and South Africa to join the Open Day in only two days, on which we demonstrated our core values of "Virtue, Honesty and Integrity" through free medical consultation, healthcare seminars, cultural exhibitions and medicine making. Many people expressed that "TCM is not exclusive to China but belongs to the world" on the Open Day in South Africa.

In June 2018, we participated again in the "Health Expo" held at the Hong Kong Convention and Exhibition Centre in Wanchai with the themes of "Preventive Treatment" and "Healthcare Should Be Early" which were aimed at promoting a healthy life. The number of exhibition visitor for this Year was doubled that of last year, which reached over hundred thousand of people, fostering a livelier atmosphere. Apart from deploying video advertising and online media advertising, we also adopted outdoor billboard advertisement, print advertisement and KOL ("Key Opinion Leader") marketing. The promotion theme of "Perseverance To Good Health" demonstrated the wisdom, ingenuity and history of Tong Ren Tang in TCM of 349 years.

This year, we organised the "2nd International Chinese Medicine Cultural Festival" again. It was built on the theory and culture of TCM and presented in the form of videos and music concerts, which received promising response in Beijing and Hong Kong. Thereafter, the festival was extended to several major western countries, such as the US and Canada, presenting them the treasure which accumulated in the 3,700 years of Chinese history, the Chinese spirit of "Unity" and "Harmony", and also sharing Chinese characteristics and style.

In October 2018, we held again the "3rd Show Love and Care to Stroke Prevention" activities with Hong Kong Sheng Kung Hui Welfare Council Limited. We shared knowledge of stroke prevention and raised awareness of stroke prevention in different ways, such as walkathon, workshop, visiting elderly homes and providing free medical consultation services. The stroke prevention activities during the Year featured innovative ideas to encourage engagement. We especially invited stroke patients to join our campaign. There were a number of elderly aged over 90 and 27 families of stroke rehabilitation patients joined the walkathon. We specially set up a “Wall Mural”, a wall painted by famous Hong Kong educators, diseased painters and children. We also arranged a “Tong Ren Caring Workshop” at Tseung Kwan O. Many parents brought along their kids to learn the difficulties encountered by stroke patients in daily life so as to care more about the stroke patients.

During the period of “Forum on China-Africa Cooperation” held in September, the Group also launched brand promotion activities by providing free medical consultation services under the theme of “establishing brand presence in the community, promoting TCM for the locals and providing alternative healthcare choice for South Africans”, and also arranging various health seminars and providing free Chinese medical consultation services. In October, the Group took part in the “Chinese Cultural Festival & 1st China Intangible Cultural Heritage Exhibition” held in Cyprus, at which the preparation technique of Angong Niuhuang Wan, Chinese medical diagnosis and Taichi healthcare exercise were demonstrated, and receiving warm response from politicians and local citizens in Cyprus. In the same month, Tong Ren Tang was invited to join the “2018 Silk Road Business Summit” held in Zhangjiajie. We shared our achievement in overseas development of Tong Ren Tang at the forum. In November, we attended the “15th World Congress of Chinese Medicine & The Belt and Road TCM Culture Week” held in Italy, and also participated the “Belt & Road Interlinks People-to-People TCM Global Promotion Initiative” in Italy, Greece and Cyprus, enhancing the international influence of Beijing Tong Ren Tang brand and the culture of TCM.

Business Prospects

In 2019, Tong Ren Tang will face both opportunities and challenges. Given the continuous implementation of various national laws, regulations and policies in relation to the TCM industry, we will be able to capitalise on more opportunities by making use of the comprehensive quality control system, its outstanding products and services quality, market image and reputation. Moreover, the World Health Association of the World Health Organization (“WHO”) will include TCM in the International Classification of Diseases to boost the globalisation of TCM and get into a fresh turning point in the industry.

We will continue to strengthen our overseas influence and international appeal through a series of cultural promotion and charity activities. Along with the Group’s innovation, we will continue to implement the strategy of “Grow with Stability” fully underpin the development basis, stringently control development quality, focus on high quality and innovative development. Thus, the TCM can enter the lives of many in the world with more efficiency and better quality.

“Healthy Life Global Choice” has always been our mission and vision, TCM is becoming a new healthy option of the world. In the coming year, Tong Ren Tang will continue to gain greater recognition, and TCM will continue to gain acceptance and popularity, becoming a new option for those who aspired to be healthier.

Human Resources Management

As at 31 December 2018, we had a total of 817 employees (2017: 809 employees).

The staff costs of the Group for the Year were HK$201.4 million (2017: HK$175.8 million), representing an increase of 14.6% from last year, which was primarily due to the increase in number of salespersons, Chinese medicine practitioners, therapists and administrative staff to cater for the needs of our continuous business expansion. To ensure that the Group is able to attract and retain talents, remuneration policies are reviewed on a regular basis. In addition, discretionary bonus is 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$1,513.9 million (2017: HK$1,266.0 million), representing an increase of 19.6% from last year. The increase was mainly driven by the continuous demand for our Owned Products and the sales growth in the existing sales network and expansion of sales network.

Gross Profit

The Group's gross profit increased by 17.7% to HK$1,078.4 million (2017: HK$916.4 million). The gross profit margin decreased from 72.4% from last year to 71.2% this Year, which was mainly due to increase in the cost of raw materials.

Distribution and Selling Expenses

The Group's distribution and selling expenses increased by 20.5% to HK$233.2 million (2017: HK$193.5 million). The increase was mainly attributable to the increase in rental expenses and sales staff costs as the number of retail outlets increased, and the increase in advertising and promotion expenses as advertising and promotion activities increased. Distribution and selling expenses as a percentage to revenue increased slightly from 15.3% last year to 15.4% this Year.

General and Administrative Expenses

The Group's general and administrative expenses increased by 16.5% to HK$148.3 million (2017: HK$127.3 million). The increase was mainly attributable to the increase in staff costs as the number of administrative and management personnel increased to cope with the Group's continuous business expansion, and increase in research and development expenses as we put the emphasis on conducting R&D on mechanism of our key products. General and administrative expenses as a percentage to revenue decreased slightly from 10.1% from last year to 9.8% this Year.

Finance Income, net

The Group's net finance income increased by HK$10.1 million to HK$23.4 million (2017: HK$13.3 million), which was mainly attributable to the increase in finance income as the average short-term bank deposit increased from last year.

Income Tax Expense

The Group's income tax expense increased by 13.4% to HK$119.6 million (2017: HK$105.5 million). The increase was mainly due to an increase in taxable income for the Year. The effective tax rate for the Year decreased from 17.3% last year to 16.6% this Year, 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 19.0% to HK$601.3 million (2017: HK$505.5 million) with a net profit margin of 39.7% (2017: 39.9%). Profit attributable to owners of the Company amounted to HK$580.7 million (2017: HK$490.0 million), representing an increase of 18.5% from last year. For the Year, the basic earnings per share were HK$0.69 (2017: HK$0.59). The Directors recommend the payment of a final dividend of HK$0.23 per share for the Year (2017: HK$0.19).

Financial Resources and Liquidity

During the Year, the Group funded its liquidity by the 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$2,265.4 million (2017: HK$1,897.8 million). Most of the Group's cash and bank balances were denominated in Hong Kong dollar and Renminbi 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 2017 and 2018 and net cash generated from/(used in) operating activities, investing activities and financing activities for the year ended 31 December 2017 and 2018:

	As at 31 December	
	2018	2017
	HK$'000	HK$'000
Cash and bank balances	**2,265,440**	1,897,781
Working Capital [(1)]	**2,605,533**	2,207,433
Total Equity	**3,024,227**	2,608,177
Current Ratio [(2)]	**19.5**	16.0
Gearing Ratio [(3)]	**0.04%**	0.02%

	For the year ended 31 December	
	2018	2017
	HK$'000	HK$'000
Net cash generated from operating activities	**577,684**	469,144
Net cash used in investing activities	**(597,932)**	(381,825)
Net cash used in financing activities	**(173,007)**	(141,875)

[(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$53.2 million (2017: HK$34.3 million), which was primarily used for purchase of production equipment, the establishment of new retail outlets and purchase of a property for operating purpose.

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 2018, the Group's net property value of HK$10.9 million (2017: HK$12.3 million) has been pledged as securities for long-term bank borrowing. Such bank borrowing in Australian dollars bears interest at 1.5% plus the bank bill rate in Australia per annum and is wholly repayable in 2020.

Contingent Liabilities

At 31 December 2018, 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 countries/regions. The transactions, monetary assets and liabilities of the Group are mainly denominated in Hong Kong dollar, Renminbi and United States 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 a deed of non-competition (the "Deed of Non-competition") in favour of the Company on 18 April 2013, 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 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 Niuhuang Wan in the 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 (the "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 (7) 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 HK$0.23 per ordinary share for the year ended 31 December 2018 (2017: HK$0.19). Such final dividend will be proposed for approval by shareholders at the annual general meeting ("AGM") to be held on Tuesday, 7 May 2019 and if approved, are payable to shareholders whose names appear on the Register of Members of the Company on Thursday, 16 May 2019.

Subject to approval by the Company's shareholders at the AGM, the final dividend will be paid on or before Friday, 31 May 2019.

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, 30 April 2019 to Tuesday, 7 May 2019, both days inclusive, during which period no transfer of shares will be registered.

All transfers documents 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, 17/F., Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration no later than 4:30 p.m. on Monday, 29 April 2019.

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 2018, the Register of Members of the Company will be closed from Tuesday, 14 May 2019 to Thursday, 16 May 2019, both days inclusive, during which period no transfer of shares will be registered.

To qualify for the above-mentioned dividends (if approved), all transfers documents 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, 17/F., Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration no later than 4:30 p.m. on Friday, 10 May 2019.

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), Mr. Tsang Yok Sing, Jasper and Mr. Zhao Zhong Zhen, with written terms of reference in compliance with the Rules Governing the Listing of Securities on The Stock Exchange (the "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 2018.

PURCHASE, SALE OR REDEMPTION OF SHARES

During the year ended 31 December 2018, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

CORPORATE GOVERNANCE CODE

During the year ended 31 December 2018, the Company had complied with the code provisions set out in Appendix 14 of the Corporate Governance Code of the Listing Rules (the "Code"). Since 11 March 2019, there has been a deviation from the code provision A.2.1 of the Code which provides that the roles of chairman and chief executive officer should be performed by separate individuals, but due to the following reasons, Ms. Ding Yong Ling was considered the most suitable person to take both roles in the current circumstances:

Ms. Ding Yong Ling makes great efforts on oversea business of Tong Ren Tang, and is responsible for business strategic planning and day-to-day management and operation of the Group. She has a rich experience in oversea business operation and is a veteran of the Chinese medicine Industry. The Board considers that vesting the roles of chairman and chief executive officer in the same person is beneficial to the business prospects and management of the Group. In addition, out of 6 Directors of the Board, there are 3 independent non-executive Directors on the Board offering their experience, expertise, independent advice and views from different perspectives. The Board is therefore of the view that there are adequate balance of power and safeguards in place.

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

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 of the Listing Rules. Having made specific enquiries to 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 2018.

By order of the Board
Beijing Tong Ren Tang
Chinese Medicine Company Limited
Ding Yong Ling
Chairman

Hong Kong, 11 March 2019

As at the date of this announcement, the Board comprises the executive directors, namely Ms. Ding Yong Ling (Chairman), Mr. Zhang Huan Ping and Ms. Lin Man; and the independent non-executive directors, namely Mr. Tsang Yok Sing, Jasper, Mr. Zhao Zhong Zhen and Mr. Chan Ngai Chi.