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 2016

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 2016 (the "**Reporting Period**") for shareholders' review.

Results of the Year

For the year ended 31 December 2016, the Group's revenue amounted to RMB4,665,295,000, representing an increase of 14.71% from RMB4,066,960,000 (Restated) for the corresponding period of last year; the Group's net profit amounted to RMB850,989,000, representing an increase of 14.60% from RMB742,581,000 (Restated) for the corresponding period of last year; net profit attributable to the owners of the Company amounted to RMB595,654,000, representing an increase of 10.10% from RMB541,032,000 (Restated) for the corresponding period of last year.

Review of the Year

In 2016, China's economy growth slowed down while maintaining steady and going forward, and there were increasing positive factors for economy growth, but structural contradictions and risks still existed in the economic development. Meanwhile, China's pharmaceutical manufacturing industry was still in the growth period with income and profit constantly soaring in recent years. Influenced by the medical insurance cost control, drug tender price reduction, strict drug examination system and other factors, the growth rate slowed down to some extent, but fundamental factors supporting the industry's boom remained unchanged. The industry will have greater development potential in the future.

During the Reporting Period, influenced by the economic downward pressure, we well implemented the concept of "comprehensive economic development, whole-process cost control, focusing on total-solution products, quality management over various systems and encouraging the active participation of all staff", took innovation and development as the theme, focused on economic efficiency, quality improvement and efficiency enhancement to further consolidate the management foundation, promote industrial restructuring, and create a new landscape of diversified development.

Looking back in the past year, we continued to adhere to the long-term development, made steady progress and inherited innovation. During the year of 2016, the Company actively and steadily broadened its financing channels and successfully issued RMB800 million of corporate bonds, which supported the capital demand for the Company's development and reduced the financing cost. The subsidiaries continued to implement the quality management philosophy of "Quality is the mission to pursue excellence" and adhered to the production principle of quality first for strict control of product quality. Concurrently, relying on market demand, the Company made innovation for expansion and conducted practice for development, constantly strengthened product competitive advantage, strengthened the Group's product portfolio construction to promote the healthy and stable development of the Group.

Outlook and Prospects

In 2017, with further deepening the national medical and health system reform and continuously improving the standardization of the industry, the pace of reorganization and consolidation of the industry will be further accelerated, and the industry concentration will be further improved. In the meantime, the steady construction of healthy China and the further improvement in health care system will create a broader development environment for the superior enterprises, and bring new opportunities for development. However, due to factors such as cutting over-capacity, de-foaming, and liquidation of debts, economic growth will be still under pressure. With combined effects of, among others, rising production costs and environmental costs, medical insurance costs control, two-invoice system, the uncertainty of overall development of the pharmaceutical industry will also increase.

Looking back, we strived to march on with heavy burden; looking ahead, we will embark on a long journey with solidarity and diligence. In 2017, we will seek opportunities amid challenges, make steady operation, continue to focus on the traditional Chinese medicine products with quality as priority, adhere to the medicinal materials selection standard of "production in the right time and the right location", and the pharmaceutical concept of "excellence and fine" to provide safe, effective and healthy products for consumers. In addition, we will adhere to "double integration" of pioneering and innovation as well as stability and improvement, constantly enrich and improve the industrial chain, continue to further develop food, cosmetics and other products, fully release potential and vitality for the development of traditional Chinese medicine industry in the health field.

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 2016, together with the comparative figures of 2015, as follows:

CONSOLIDATED INCOME STATEMENT

	Note	***2016***	*2015*
		RMB'000	*RMB'000* (Restated)
Revenue	*d*	**4,665,295**	4,066,960
Cost of sales		**(2,299,311)**	(2,054,380)
Gross profit		**2,365,984**	2,012,580
Distribution expenses		**(1,022,920)**	(823,830)
Administrative expenses		**(335,821)**	(306,937)
Operating profit		**1,007,243**	881,813
Finance income	*e*	**30,371**	24,090
Finance costs	*e*	**(11,098)**	(2,627)
Finance income, net	*e*	**19,273**	21,463
Share of loss of investments accounted for using the equity method		**(1,905)**	(3,534)
Impairment loss on an investment accounted for using the equity method		**(1,106)**	-
Profit before income tax		**1,023,505**	899,742
Income tax expense	*g*	**(172,516)**	(157,161)
Profit for the year		**850,989**	742,581
Profit attributable to:			
Owners of the Company		**595,654**	541,032
Non-controlling interests		**255,335**	201,549
		850,989	742,581
Earnings per share for profit attributable to owners of the Company during the year	*i*		
- Basic and diluted		**RMB0.47**	RMB0.42

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	2016	*2015*
	RMB'000	*RMB'000*
		(Restated)
Profit for the year	**850,989**	742,581
Other comprehensive income		
Items that may be reclassified to profit or loss		
Change in value of available-for-sale financial assets	**(425)**	-
Foreign currency translation differences		
- Group	**118,836**	78,534
- Joint ventures and associates	**1,040**	(673)
Other comprehensive income for the year, net of tax	**119,451**	77,861
Total comprehensive income for the year	**970,440**	820,442
Attributable to:		
Owners of the Company	**639,447**	570,823
Non-controlling interests	**330,993**	249,619
Total comprehensive income for the year	**970,440**	820,442

CONSOLIDATED BALANCE SHEET

	Note	As at 31 December	
		2016	*2015*
		RMB'000	*RMB'000*
			(Restated)
Assets			
Non-current assets			
Leasehold land and land use rights		**143,102**	152,258
Property, plant and equipment		**1,374,169**	1,055,978
Intangible assets		**82,785**	61,268
Investments accounted for using the equity method		**28,068**	21,339
Available-for-sale financial assets		**11,908**	-
Prepayments for purchase of property, plant and equipment		**33,805**	25,188
Deferred income tax assets		**38,199**	29,165
		1,712,036	1,345,196
Current assets			
Inventories		**2,206,330**	1,961,149
Trade and bills receivables	*k*	**792,498**	378,293
Amounts due from related parties		**158,243**	111,033
Prepayments and other current assets		**127,151**	135,219
Short-term bank deposits		**855,798**	724,261
Cash and cash equivalents		**2,332,110**	1,548,130
		6,472,130	4,858,085
Total assets		**8,184,166**	6,203,281

CONSOLIDATED BALANCE SHEET (CONT'D)

	Note	As at 31 December *2016* *RMB'000*	*2015* *RMB'000* (Restated)
Equity and liabilities			
Equity attributable to owners of the Company			
Share capital		**1,280,784**	1,280,784
Reserves	*m*	**3,122,400**	2,688,518
		4,403,184	3,969,302
Non-controlling interests		**1,481,924**	1,193,734
Total equity		**5,885,108**	5,163,036
Liabilities			
Non-current liabilities			
Borrowings		**917,549**	470
Deferred income tax liabilities		**5,321**	7,267
Deferred income – government grants		**75,932**	86,254
		998,802	93,991
Current liabilities			
Trade and bills payables	*l*	**597,129**	376,176
Salary and welfare payables		**30,214**	22,693
Advances from customers		**69,737**	70,859
Amounts due to related parties		**57,813**	48,864
Current income tax liabilities		**43,118**	49,746
Other payables		**291,245**	196,416
Borrowings		**211,000**	181,500
		1,300,256	946,254
Total liabilities		**2,299,058**	1,040,245
Total equity and liabilities		**8,184,166**	6,203,281

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 Tong Ren Tang Technologies Co. Ltd. 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 2016:

Amendments to IAS 1	Disclosure initiative
Amendments to IAS 16 and IAS 38	Clarification of acceptable methods of depreciation and amortisation
Amendments to IAS 16 and IAS 41	Agriculture: bearer plants
Amendment to IAS 27	Equity method in separate financial statements
Amendments to IFRS 10, IFRS 12 and IAS 28	Investment entities: applying the consolidation exception
Amendment to IFRS 11	Accounting for acquisitions of interests in joint operations
IFRS 14	Regulatory deferral accounts
Annual Improvements Project	Annual Improvements 2012-2014 Cycle

The adoption of above new standards and amendments to standards does not have any significant financial effect on these consolidated financial statements.

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 2017, but have not been early adopted by the Group.

Amendments to IAS 7	Statement of cash flows (1)
Amendments to IAS 12	Income taxes (1)
IFRS 9	Financial instruments (2)
IFRS 15	Revenue from contracts with customers (2)
IFRS 16	Leases (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 2017
(2) Effective for the accounting period beginning on or after 1 January 2018
(3) Effective for the accounting period beginning on or after 1 January 2019
(4) No mandatory effective date yet determined

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

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 effects of applying the new standard on these consolidated financial statements.

- 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 effects of applying the new standard on these consolidated financial statements.

- 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 2016, the Group has non-cancellable operating lease commitments of RMB146,848,000.

  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 these consolidated financial statements.

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.

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

d. REVENUE

	2016	*2015*
	RMB'000	*RMB'000*
		(Restated)
Sales of Chinese medicine products		
- Mainland China	**3,896,250**	3,354,982
- Outside Mainland China	**696,234**	649,409
	4,592,484	4,004,391
Advertising services		
- Mainland China	**39,034**	34,186
Chinese medical consultation services		
- Outside Mainland China	**33,027**	27,752
Royalty fee		
- Outside Mainland China	**750**	631
	4,665,295	4,066,960

e. FINANCE INCOME AND COSTS

	2016	*2015*
	RMB'000	*RMB'000*
		(Restated)
Finance income		
Interest income	**27,534**	22,977
Exchange gains, net	**2,837**	1,113
	30,371	24,090
Finance costs		
Interest on bonds	**(10,007)**	-
Interest on bank borrowings	**(8,841)**	(7,527)
Less: amounts capitalised on qualifying assets	**7,750**	4,900
	(11,098)	(2,627)
Finance income, net	**19,273**	21,463

f. EXPENSE BY NATURE

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

	2016	2015
	RMB'000	*RMB'000* (Restated)
Raw materials, merchandise and consumables used	**1,416,559**	1,240,887
Change in inventories of finished goods and work-in-progress	**(212,107)**	(212,724)
Employee benefit expense	**740,150**	643,198
Depreciation of property, plant and equipment	**72,091**	68,420
Amortisation of prepaid operating lease payments	**3,449**	3,450
Amortisation of intangible assets	**3,037**	1,959
Amortisation of other long-term assets	**833**	1,185
Provision for impairment of inventories	**21,990**	22,426
(Reversal of)/provision for impairment of receivables	**(113)**	3,508
Operating lease rental	**136,342**	102,318
Auditor's remuneration		
- Audit services	**5,307**	5,282
- Non-audit services	**1,146**	323
Research and development costs	**23,163**	25,186
Loss on disposal of property, plant and equipment	**1,167**	952
Amortisation of deferred income - government grants	**(10,317)**	(7,228)
Processing costs	**233,696**	219,142
Advertising and promotion expenses	**391,449**	244,006
Transportation	**82,608**	81,049
Repair and maintenance	**39,040**	49,554
Utilities	**59,014**	58,423
Other taxes	**51,232**	45,360

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% (2015: 25%). As of 31 December 2016 and 2015, the Company and certain of its subsidiaries have obtained the HNTE certificate. Consequently, their applicable income tax rate in 2016 is 15% (2015: 15%).

Hong Kong Special Administrative Region of the PRC ("**Hong Kong**") profits tax has been provided at the rate of 16.5% (2015: 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.

	2016	*2015*
	RMB'000	*RMB'000*
		(Restated)
Current income tax expense		
- Mainland China	**104,738**	106,347
- Hong Kong	**74,577**	59,657
- Overseas	**4,012**	4,474
	183,327	170,478
Deferred income tax credit	**(10,811)**	(13,317)
	172,516	157,161

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 21.7% (2015: 22.7% (Restated)) to profits of the consolidated entities as follows:

	2016	*2015*
	RMB'000	*RMB'000*
		(Restated)
Profit before income tax	**1,023,505**	899,742
Tax calculated at domestic tax rates applicable to profits in the respective countries	**221,961**	203,895
Tax effects of:		
-Income not subject to tax	**(3,513)**	(2,255)
-Expenses not deductible for tax purposes	**3,807**	1,300
-Tax losses and temporary differences for which no deferred income tax asset were recognised	**2,409**	6,190
-Effect of preferential income tax treatments	**(54,167)**	(52,708)
-Final settlements and payments	**2,019**	739
Income tax expense	**172,516**	157,161

h. DIVIDENDS

The cash dividends paid in 2016 and 2015 were RMB192,118,000 (RMB0.15 (including tax) per share) and RMB179,310,000 (RMB0.14 (including tax) per share) respectively.

On 24 March 2017, the Board of Directors proposed a cash dividend in respect of the year ended 31 December 2016 of RMB0.16 (including tax) per share, amounting to a total of RMB204,925,440, which is subject to the shareholders' approval at the 2016 annual general meeting to be held on Monday, 12 June 2017 (the "**2016 AGM**"). These financial statements do not reflect this dividend payable.

	2016	*2015*
	RMB'000	*RMB'000*
Interim dividend paid of RMB nil (2015: RMB nil) per ordinary share	**-**	-
Final dividend proposed of RMB0.16 (including tax) (2015: RMB0.15 (including tax)) per ordinary share	**204,925**	192,118
	204,925	192,118

i. EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the profit attributable to owners of the Company of approximately RMB595,654,000 by the weighted average number of 1,280,784,000 shares in issue during the year.

The Company had no dilutive potential shares in 2016 and 2015.

	2016	*2015*
	RMB'000	*RMB'000* (Restated)
Profit attributable to owners of the Company	**595,654**	541,032
Weighted average number of ordinary shares in issue (thousands)	**1,280,784**	1,280,784
Earnings per share	**RMB0.47**	RMB0.42

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 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 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)
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)

The segment information for the year ended 31 December 2015 is as follows:

(Restated)	The Company	Tong Ren Tang Chinese Medicine	All other segments	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Segment revenue	2,925,362	783,125	872,383	4,580,870
Inter-segment revenue	(16,792)	-	(497,118)	(513,910)
Revenue from external customers	2,908,570	783,125	375,265	4,066,960
Profit for the year	418,085	301,535	22,961	742,581
Interest income	13,816	7,551	1,610	22,977
Interest expense	(916)	(173)	(1,538)	(2,627)
Depreciation of property, plant and equipment	(31,716)	(17,379)	(19,325)	(68,420)
Amortisation of prepaid operating lease payments	(2,101)	(436)	(913)	(3,450)
Provision for impairment of inventories	(22,426)	-	-	(22,426)
Provision for impairment of receivables	(3,508)	-	-	(3,508)
Share of profit/(loss) of investments accounted for using the equity method	5	(3,539)	-	(3,534)
Income tax expense	(66,310)	(66,039)	(24,812)	(157,161)
Segment assets and liabilities				
Total assets	3,730,543	1,698,168	774,570	6,203,281
Investments accounted for using the equity method	2,000	19,339	-	21,339
Additions to non-current assets[1]	113,309	74,008	82,584	269,901
Total liabilities	691,174	98,842	250,229	1,040,245

[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 RMB1,326,604,000 (2015: RMB1,010,849,000 (Restated)), and the total of these non-current assets located in other countries and regions is RMB335,325,000 (2015: RMB305,182,000).

During the 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:

	2016	*2015*
	RMB'000	*RMB'000*
Entities under control of ultimate holding company	**795,915**	700,879
Customer A	**741,133**	561,892
	1,537,048	1,262,771

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

k. TRADE AND BILLS RECEIVABLES

	As at 31 December	
	2016	*2015*
	RMB'000	*RMB'000*
Trade receivables	**307,597**	283,296
Bills receivables	**506,120**	116,329
	813,717	399,625
Less: provision for impairment	**(21,219)**	(21,332)
Trade and bills receivables, net	**792,498**	378,293

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 2016 and 2015, the ageing analysis of trade and bills receivables based on invoice date was as follows:

	As at 31 December	
	2016	*2015*
	RMB'000	*RMB'000*
Within 4 months	**445,021**	356,298
Over 4 months but within 1 year	**355,465**	32,063
Over 1 year but within 2 years	**5,289**	5,742
Over 2 years but within 3 years	**2,473**	211
Over 3 years	**5,469**	5,311
	813,717	399,625

k. TRADE AND BILLS RECEIVABLES (CONT'D)

As at 31 December 2016, trade receivables of RMB43,351,000 (2015: RMB71,357,000) 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	
	2016	*2015*
	RMB'000	*RMB'000*
Over 4 months but within 1 year	**38,430**	65,308
Over 1 year but within 2 years	**2,388**	5,594
Over 2 years but within 3 years	**2,425**	203
Over 3 years	**108**	252
	43,351	71,357

As at 31 December 2016, trade receivables of RMB21,219,000 (2015: RMB21,332,000) 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	
	2016	*2015*
	RMB'000	*RMB'000*
Within 4 months	**-**	9,611
Over 4 months	**21,219**	11,721
	21,219	21,332

k. TRADE AND BILLS RECEIVABLES (CONT'D)

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

	2016	2015
	RMB'000	*RMB'000*
At 1 January	**21,332**	17,790
(Reversal of)/provision for impairment	**(113)**	3,508
Acquisition of subsidiaries	**-**	34
At 31 December	**21,219**	21,332

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	
	2016	*2015*
	RMB'000	*RMB'000*
RMB	**729,927**	308,213
Hong Kong dollars ("**HKD**")	**72,730**	89,041
United States Dollar	**5,480**	1,185
Korean Won	**5,091**	898
Australian Dollar	**240**	188
Macanese Pataca	**70**	43
New Zealand Dollar	**63**	25
Canadian Dollar	**45**	-
UAE Dirham	**38**	4
Polish Zloty	**17**	21
Singapore Dollar	**13**	-
Czech Koruna	**2**	-
Brunei Ringgit	**1**	7
	813,717	399,625

l. TRADE AND BILLS PAYABLES

As at 31 December 2016, the ageing analysis of trade and bills payables based on invoice date was as follows:

	As at 31 December	
	2016	*2015*
	RMB'000	*RMB'000* (Restated)
Within 4 months	**479,001**	349,216
Over 4 months but within 1 year	**116,245**	24,425
Over 1 year but within 2 years	**1,145**	2,532
Over 2 years but within 3 years	**738**	-
Over 3 years	**-**	3
	597,129	376,176

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 RMB48,090,000 (2015: RMB44,904,000), 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 2016.

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 2016 (the "**Final Dividend**") of RMB0.16 (including tax) per share based on the total number of the Company's issued and fully paid-up shares of 1,280,784,000 as at the end of 2016, totaling RMB204,925,440 (2015: a final dividend for the year ended 31 December 2015 of RMB0.15 (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 RMB192,117,600). The profit distribution proposal is subject to the approval by the shareholders at the 2016 annual general meeting 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 2016 AGM will be held on Monday, 12 June 2017.

Closure of Register of Members of H Shares

As for the convening of the 2016 AGM, the register of members of H shares of the Company will be closed from Saturday, 13 May 2017 to Monday, 12 June 2017 (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 Saturday, 13 May 2017 shall be entitled to attend the AGM. In order to be qualified for attending and voting at the 2016 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, 12 May 2017.

As for the payment of the Final Dividend, if the relevant proposal is approved by the shareholders at the 2016 AGM, the register of members of H shares of the Company will be closed from Monday, 19 June 2017 to Saturday, 24 June 2017 (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 Saturday, 24 June 2017 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, 16 June 2017. The Company is expected to complete the dividend distribution on or before end of August.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

During the year of 2016, “the Outline for Traditional Chinese Medicine Development Strategy (2016-2030)”, White Paper of “Chinese Medicine of China”, “Guidelines for the Development of Pharmaceutical Industry”, “Chinese Medicine Law of the People's Republic of China” and other policy documents had been introduced. The pharmaceutical industry continued to attach importance to and support for the development of the industry to create a relaxed policy environment, and gave the cause of Chinese medicine new vitality and opportunities. However, influenced by the macroeconomic downward pressure, rising raw material and labor costs, and other factors, the overall growth rate of Chinese medicine industry was still slowing down, which lead to a more severe test for Chinese medicine enterprises.

In 2016, the Company continued to grow in a stable, sustainable and healthy manner resulting from its continuous efforts and focus on “specialisation, scale operation and integration” in response to the increasingly intensified market competition in the industry. For the year ended 31 December 2016, the Group’s revenue amounted to RMB4,665,295,000, representing an increase of 14.71% from RMB4,066,960,000 (Restated) for the corresponding period of last year; the Group’s net profit amounted to RMB850,989,000, representing an increase of 14.60% from RMB742,581,000 (Restated) for the corresponding period of last year; net profit attributable to the owners of the Company amounted to RMB595,654,000, representing an increase of 10.10% from RMB541,032,000 (Restated) for the corresponding period of last year.

The Group's products cover traditional Chinese medicine, food, and cosmetics, with dosage forms involving pills, gums, tablets, granules and oral liquid. In 2016, eight kinds of products achieved a sales amount of more than RMB100 million; thirty-one kinds of products achieved a sales amount in the range from RMB10 million to RMB100 million; eighteen kinds of products achieved a sales amount in the range from RMB5 million to RMB10 million. Sales of major products achieved steady growth and the scale of the Group’s product portfolio was further enlarged.

Product Name	**Main Functions**	**Increase in Sales**
Ejiao	Blood enriching, yin nourishing, dryness moistening, bleeding stopping, used for blood deficiency chlorosis, dizziness palpitations, sleeplessness, phlegm-heat and cough.	Sales of this series of products increased by 10.61% over the same period of last year
Liuwei Dihuang Pills	Nourishing, kidney nourishing, used for kidney yin loss, dizziness, tinnitus, soreness and weakness of waist and knees, fever, intermittent fever, night sweat, spermatorrhea.	Sales of this series of products increased by 34.84% over the same period of last year
Niuhuang Jiedu Tablets	Heat-clearing and detoxifying, used for hot inside, swollen and sore throat, swelling and aching of gum, mouth and tongue sore, swelling and pain of eye	Sales of this series of products increased by 16.71% over the same period of last year
Jinkui Shenqi Pills	Warming and invigorating kidney yang, vital energy and ascites circulation, used for deficiency kidney dropsy, soreness and weakness of waist and knees, difficult urination, extreme chilliness.	Sales of this series of products increased by 5.86% over the same period of last year
Ganmao Qingre Granules	Expelling wind and cold pathogens, relief of exterior syndrome, clearing of the heat, used for cold, headache, fever, aversion to cold, bodily pain, clear nasal discharge flow, cough and throat dryness.	Sales of this series of products increased by 11.02% over the same period of last year
Xihuang Pills	Clearing heat and detoxicating, reducing swelling and resolving mass, used for ulcer furunculosis, scrofula, disemboguement, cancer by heat toxin block.	Sales of this series of products increased by 20.77% over the same period of last year

In 2016, based on deep product analysis and characteristics of products, the Company "focusing on total-solution products", conducted accurate function and market positioning, and matched with corresponding positioning in material supplies, manufacturing techniques, and sales promotion, which formed a systematic product positioning scheme and further strengthened the leading products. Taking Ejiao series products as an example, the Company selected superior and pure materials, adopted traditional techniques and produced high quality products with the attitude of pursuing excellence and strict inner quality standards. At the same time, with the launch of more product varieties according to market demands, including medicinal Ejiao (藥用阿膠), Yongshenghe Ejiao (永盛合阿膠), Ejiao powder (阿膠原粉), and Ejiao cake (阿膠糕), the Company also successively produced healthy foods such as Ejiao biscuits, Ejiao aloe juice and Ejiao honey dates, which were sold in terminal markets through retail pharmacies and Ejiao Fang prevalent in large and medium-sized cities. By various promotion means such as free boiling of Ejiao and free sample tasting, overall growth of Ejiao series products were achieved.

In 2016, facing the new policies and new changes in drug circulation area, the Company strengthened channel building, made full use and took advantage of various sales platforms and optimized network layout. The Company continued to intensify cooperation with large medical logistics platforms and took pillar areas as the center to advance the business model of "One Policy for One Product, One Policy for One Region" and boosted mutual development of potential areas. In addition, the Company kept improving terminal channels, strengthened cooperation with regional allied pharmacies with focused products and regional key products, which constitutes the promotion activities all the year around with the theme of "Spreading Essence of Chinese Medicine and Building A Healthy China". Oriented by the concept of "Seasonal Healthcare", seasonal products such as Ejiao and Ganmao Qingre Granules series were selected, along with sales promotion and order placing meetings etc. to further enhance the effectiveness of terminal promotion and sales volume of terminal sales.

With traditional Chinese medicine culture becoming increasingly popular and requirements of customers for product quality improving, daily medical chemical products, as an important development field in the Group's business, revealed bright prospect. In 2016, to satisfy various kinds of choices of customers, Beijing Tong Ren Tang WM Dianorm Biotech Co., Limited ("**Tong Ren Tang WM**") selected some products such as whitening and skin moistening, Ejiao youth revitalizing and sun repairing masks, and moisturizing sunscreen lotion from over one hundred kinds of products including masks, creams and daily chemical products. Through segmenting consumer groups, Tong Ren Tang WM formulated and implemented market strategies to foster the potential of products. By leveraging on the features of daily chemical products, Tong Ren Tang WM further broadened terminal sales channels by expanding from Tong Ren Tang drug stores to malls and supermarkets in the Beijing area. In 2016, the sales revenue of Tong Ren Tang WM amounted to RMB147,524,000, representing an increase of 14.95% as compared with the corresponding period of last year and net profit amounted to RMB16,684,000, representing an increase of 10.89% as compared with the corresponding period of last year.

Six subsidiaries producing Chinese medicinal raw materials strictly follow the 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, to effectively guarantee the quality of the medicinal materials, all the subsidiaries strictly controlled the source of the medicinal materials. Meanwhile, based on the local product advantage and geographical advantage, all the subsidiaries carried out deep processing and by-product development about local medicinal materials. For instance, relied on the resource advantage of being a native producing area for Moutan, Tong Ren Tang Anhui took edible peony seed oil as a breakthrough point to further research and develop the peony series products. In 2016, six subsidiaries recorded an aggregate sales revenue of RMB154,278,000, representing an increase of 19.80% year on year, and net profit of RMB12,022,000, representing an increase of 19.50% year on year.

Tong Ren Tang Chinese Medicine, being the overseas development platform of Tong Ren Tang, regarded spreading the culture of Chinese medicine as its mission, adhered to the spirit of craftsman, dug into the connotations of the culture of Chinese medicine and advanced the cultural exchange of Chinese medicine to improve the international influence of Chinese medicine. In May 2016, Tong Ren Tang Chinese Medicine set up healthcare centers in Vancouver, Canada to root the healthcare concept of "Preventive Treatment of Disease" in North American market. In September 2016, such concept had been formally introduced into American market and retail terminals and Chinese medicine medical centers were set up by Tong Ren Tang Chinese Medicine. Furthermore, Tong Ren Tang Chinese Medicine built an online platform for Chinese medicine to "go global" by taking advantage of informatization, which provided for foreigners channels to purchase high quality Chinese medicines, infused new vitality for overseas development of Tong Ren Tang Chinese Medicine and gave new meaning of breakthroughs and innovations in carrying forward the culture of Chinese medicine in the new era.

As of 31 December 2016, the business of Tong Ren Tang Chinese Medicine has expanded to 19 countries and regions outside of Mainland China. The number of retail terminals has increased from 63 in 2015 to 67 in 2016. As of 31 December 2016, the sales revenue of Tong Ren Tang Chinese Medicine and its subsidiaries was RMB930,524,000, representing an increase of 18.82% as compared with the corresponding period of last year; net profit attributable to the owners of the Company amounted to RMB143,507,000, representing an increase of 25.08% as compared with the corresponding period of last year.

In 2016, to satisfy the supply of products, the Group further optimized its industrial layout and enhanced the Company's production capacity on an on-going basis in accordance with the development requirements under the "Beijing-Tianjin-Hebei Coordinated Development" (京津冀協同發展).

The construction of Da Xing Production Base of the Company located in Da Xing Bio-Pharm Industrial Base at Zhongguancun Technology Park District, Beijing progressed steadily with the investment of RMB353.80 million as at the end of the year. As at the date of this announcement, interior decoration construction of the R&D center and the solid dosage production workshop of Da Xing Base are undergoing.

Beijing Tong Ren Tang Technologies (Tangshan) Co., Ltd. in Yutian County, Tangshan City, Hebei Province is constructing Chinese medicine extraction workshop and liquid dosage workshop in local area. It will be another production base of the Company for Chinese medicine products. As at the end of 2016, RMB205.60 million had been invested in the aforesaid base. Currently, the Chinese medicine extraction workshops has entered into equipment installation stage while the main structure of liquid dosage workshop has been capped and will start interior decoration stage.

In respect of research and development, with continuous focus on Chinese patent medicines, the Company selected existing products in accordance with market positioning of products and clinical diseases, explored their clinical value by adopting modern technologies, dug deeply into increase of new indications and released potential of products based on clinical precise positioning to create new growth point for the Company. During the Reporting Period, in-depth pharmacodynamics studies and function and mechanism studies were conducted by the Company about some potential products, which made some achievement and laid good scientific and technological foundations for subsequent cultivation and expansion of products.

Financial Review

Liquidity and Financial Resources

The Group has maintained a sound financial position. During the year of 2016, 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 2016, the Group's cash and cash equivalents amounted to RMB2,332,110,000 (31 December 2015: RMB1,548,130,000 (Restated)) in total.

As at 31 December 2016, the Group's short-term bank borrowings amounted to RMB211,000,000 (31 December 2015: RMB181,500,000), carrying an interest rate of 3.966% (2015: 4.869%) per annum and accounting for 9.18% liabilities (2015: 17.45% (Restated)) of the total. Long-term borrowings amounted to RMB917,549,000 (31 December 2015: RMB470,000), bearing annual interest rate of long-term borrowings at 1.247%, and the actual annual interest rate of bonds was 3.008% (2015: interests of long-term borrowings were accrued at the bank bill rate of the day in Australia per annum plus 1.5%), representing 39.91% of the total liabilities (2015: 0.05%). Of all the borrowings of the Group as at 31 December 2016, RMB211,000,000 will mature within one year and RMB917,549,000 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 2016, the total assets of the Group amounted to RMB8,184,166,000 (31 December 2015: RMB6,203,281,000 (Restated)). The funds comprised non-current liabilities of the Group amounted to RMB998,802,000 (31 December 2015: RMB93,991,000), current liabilities amounted to RMB1,300,256,000 (31 December 2015: RMB946,254,000 (Restated)), equity attributable to owners of the Company amounted to RMB4,403,184,000 (31 December 2015: RMB3,969,302,000 (Restated)) and non-controlling interests amounted to RMB1,481,924,000 (31 December 2015: RMB1,193,734,000).

During the Reporting Period, in order to reduce financial risk and finance cost, the Group made certain optimisations and adjustments to the capital structure. On 1 August 2016, the Company completed the issuance of bonds on the Shanghai Stock Exchange. The final issue size is RMB800 million and the issue of the corporate bonds is free of guaranty. The coupon rate is 2.95% per annum and the maturity of the bonds is five years, with the options to adjust coupon rate of the bonds by the issuer and to sell back bonds by investors at the end of the third year. The proceeds from issuance will be used to adjust the Company's debt structure and replenish the Company's general working capital.

In the year of 2016, the Group's funds were mainly used for production and operation activities, construction of engineering projects, purchase of non-current assets, repayment of borrowings and payment of cash dividends, etc.

Liquidity

As at 31 December 2016, the Group's liquidity ratio (the ratio of current assets to current liabilities) was 4.98 (31 December 2015: 5.13 (Restated)), reflecting that the Group had sufficient financial resources. The Group's quick ratio (the ratio of liquid assets to current liabilities) was 3.21 (31 December 2015: 2.97 (Restated)), 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 17.02 (31 December 2015: 18.26 (Restated)), 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 5.00 (31 December 2015: 5.17 (Restated)), 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 2.24 (31 December 2015: 2.19 (Restated)), 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 2016, the Group's gearing ratio (the ratio of total borrowings to equity attributable to owners of the Company) was 0.26 (31 December 2015: 0.05 (Restated)).

Expenses and Expense Ratio

As of 31 December 2016, the Group's distribution expenses amounted to RMB1,022,920,000 (31 December 2015: RMB823,830,000 (Restated)) and the distribution expense ratio, i.e. the ratio of distribution expenses to revenue, was 0.22 (31 December 2015: 0.20). The increase in distribution expenses was mainly due to the increase in business promotion and marketing expenses incurred by sample tasting, exhibition promotion, etc.

As of 31 December 2016, the Group's administrative expenses amounted to RMB335,821,000 (31 December 2015: RMB306,937,000 (Restated)) and the administrative expense ratio, i.e. the ratio of administrative expenses to revenue, was 0.07 (31 December 2015: 0.08). The increase in distribution expenses was mainly due to the increase in staff costs, rental expenses, depreciation expenses and other related administrative costs arising from the business expansion.

As of 31 December 2016, the Group's financial income amounted to RMB19,273,000 (31 December 2015: RMB21,463,000 (Restated)) and the financial income ratio, i.e. the ratio of financial income to revenue, was 0.004 (31 December 2015: 0.01). The decrease in financial income was mainly due to the increase in interest expense.

Gross Margin and Net Profit Margin

As of 31 December 2016, the gross margin of the Group was 50.71% (31 December 2015: 49.49% (Restated)), while the net profit margin was 18.24% (31 December 2015: 18.26% (Restated)).

Research and Development Expenses

As of 31 December 2016, the research and development expenses of the Group were RMB23,163,000 (31 December 2015: RMB25,186,000), accounting for 0.39% of net assets (31 December 2015: 0.49%) and 0.50% of revenue (31 December 2015: 0.62% (Restated)), respectively.

Capital Expenditure

For the year ended 31 December 2016, the Group's capital expenditure incurred amounted to RMB466 million (31 December 2015: RMB234 million), primarily used for the construction of production base.

Pledges over Assets of the Group

As at 31 December 2016, the Group had no assets (31 December 2015: RMB2,228,000) pledged as security for short-term borrowings (31 December 2015: RMB1,500,000), and RMB10,363,000 (31 December 2015: RMB10,270,000) of the Group's assets was pledged as security for long-term borrowing of RMB497,000 (31 December 2015: RMB470,000).

Contingent Liabilities

The Group had no contingent liabilities as at 31 December 2016 (31 December 2015: 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 movement of the exchange rates.

Capital Commitments

As at 31 December 2016, 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 RMB267,456,000 (31 December 2015: RMB156,650,000).

Significant Investment

During the year of 2016, the Group did not have any significant investment. As at the date of this announcement, the Group does not have any plan for material investments or purchase of capital assets.

Material Acquisition and Disposal of Subsidiaries, Joint Ventures and Associates

During 2016, 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 2016, the Group had a total of 3,865 employees (31 December 2015: 3,766 employees), of which 2,090 are employees of the Company (31 December 2015: 2,117 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 benefits include contributions by the Company to the endowment insurance, medical insurance, unemployment insurance, industrial accident insurance, maternity insurance and housing fund. In 2016, as approved by the Board, the Company paid a total of RMB4,053,500 bonuses to the members of the senior management.

Future Prospects

In 2017, a year for laying a foundation for the Thirteenth Five-Year Plan, the Company will strengthen management, eliminate its shortcomings and give full play to its advantages. With the focus placed on assessment, actual effects and consolidation of foundation, much attention will also be paid to varieties based on market demands, and the focused varieties will be treated as the starting point and the ending point. The Company will take channel planning, variety planning, etc. into full consideration.

Regarding channel planning, combined with the operating characteristics and operation mode of the platforms such as marketing strategy alliance, in-system terminals and retail terminals, the Company associated product advantages with channel characteristics to fully promote channel planning and construction. On the one hand, the Company will strengthen cooperation with the marketing strategic alliance platform, optimize dealers with high degree of cooperation, strong financial strength and extensive sales scope, and continue to promote cooperation with the members of the alliance to achieve the accurate marketing. On the other hand, the Company will continue to refine the terminal cooperation in the system, give full play to the characteristic business model to further consolidate and enrich the existing cooperative varieties through product customization, and formulate terminal promotion and service program having "Tong Ren Tang" features. At the same time, it will deepen the retail terminal cooperation platform and strengthen cooperation with domestic top 100 chain units through the KA (Key Account) Division to strengthen the efforts to promote terminal activities. In addition, the Company will continue to expand medical channels, and actively use external advantageous resources to jointly develop the medical market, and improve its product recognition.

Regarding variety planning, the Company will continuously set goals for optimizing product mix and improving profitability, making full use of its variety advantage, completing the development planning in variety cultivation, and making more efforts to create the single Chinese patent medicine with core competitiveness. At the same time, the Company will conduct a deep screening of the present varieties from the perspective of health care and illness prevention, cultivate marketable varieties with regional development prospect and distinct seasonal characteristics, establish echeloned variety group structure and further optimize the product mix of Chinese patent medicine. Besides, while solidifying the present main sales varieties in cosmetics and food fields, the Company will deeply excavate the existing advantages in resources and varieties, incorporate different varieties, keep valuable ones and eliminate valueless ones, enrich and improve variety group structure, continuously extend to the field of health consumer goods and make it become a new growth point of the Group.

Besides, the Company will expedite the adjustments and optimisation of industrial distribution, take measures according to actual conditions, and conduct overall planning and all-round consideration, in order to connect the progress of project and the production smoothly and orderly, and to promote the stable, sound and sustainable development of the Company and ultimately to achieve the goal of “long-term development and becoming stronger, better and larger”.

OTHER INFORMATION

Competing Interests

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

Both the Company and Tong Ren Tang Ltd. engage in the production and sale of Chinese patent medicines, but the principal products of each 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), Jinkui Shenqi Pills (金匱腎氣丸) and Shengmai Liquor (生脈飲), 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. undertake, 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.

The Directors consider that as Angong Niuhuang Pills (安宮牛黃丸) only represents a small percentage of the Company's turnover and is not one of the major forms of medicine for development by the Company, the Company will continue to manufacture and sell Angong Niuhuang Pills (安宮牛黃丸). Save as mentioned 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 2016, 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 2016 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 2016, the Company had always strictly complied with the code provisions in the Code.

AUDIT COMMITTEE

The Company has set up an Audit Committee with specific written terms of reference and duties pursuant to the relevant requirements of the Listing Rules and "A Guide For The Formation of An Audit Committee" compiled by the Hong Kong Institute of Certified Public Accountants. Its primary duties are to review and monitor the completeness and feasibility of the Company's financial reporting process, 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 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 2016, the Audit Committee convened three meetings. The first meeting was held on 12 March 2016 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 2015 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 committee concluded the meeting with agreement to the contents of the 2015 annual report. The second meeting was held on 11 August 2016 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 2016 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 2016 interim report. The key audit matters of the Group for 2016 were reviewed and discussed at the third meeting of the Audit Committee held on 16 December 2016.

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 15 March 2017, 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 2016, 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 2016 annual report.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

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

AUDITORS

PricewaterhouseCoopers ("**PwC**") was appointed as the overseas auditor of the Company for the year ended 31 December 2016. The figures in respect of the results announcement of the Group for the year ended 31 December 2016 have been agreed by PwC, to the amounts set out in the Group's consolidated financial statements for the year ended 31 December 2016.

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 despatch the 2016 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
24 March 2017

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.