ANNUAL REPORT 2016

創建於一六六九年
北京同仁堂
Beijing Tong Ren Tang

Tong Ren Tang Technologies Co. Ltd.
北京同仁堂科技發展股份有限公司

(a joint stock limited company incorporated in the People's Republic of China with limited liability)
(Stock Code: 1666)


同修仁德
濟世養生
趙樸初書

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Corporate Structure

As at 31 December 2016, our corporate structure was as follows:

*Note 1: China Beijing Tong Ren Tang Group Co., Ltd. (中國北京同仁堂(集團)有限責任公司)(“**Tong Ren Tang Holdings**”) is the ultimate holding company of Tong Ren Tang Technologies Co. Ltd. (北京同仁堂科技發展股份有限公司)(“**Tong Ren Tang Technologies**” or the “**Company**”).*

*Note 2: Beijing Tong Ren Tang Company Limited (北京同仁堂股份有限公司)(“**Tong Ren Tang Ltd.**”) (stock code: 600085.SH) was incorporated in the People’s Republic of China (“**PRC**”) in 1997 and listed on the Shanghai Stock Exchange in June of the same year. Tong Ren Tang Ltd. is the intermediate holding company of Tong Ren Tang Technologies.*

*Note 3: Beijing Tong Ren Tang Chinese Medicine Company Limited (北京同仁堂國藥有限公司)(“**Tong Ren Tang Chinese Medicine**”) (stock code: 8138.HK) was incorporated in Hong Kong Special Administrative Region (“**Hong Kong**”) in 2004 and was listed on the Growth Enterprise Market (the “**GEM**”) of The Stock Exchange of Hong Kong Limited (the “**Hong Kong Stock Exchange**”) in May 2013. Tong Ren Tang Chinese Medicine is a subsidiary of the Company. For details about Tong Ren Tang Chinese Medicine’s subsidiaries, joint ventures and associates, please refer to Note 1 to the Consolidated Financial Statements and the annual report of Tong Ren Tang Chinese Medicine.*

* *For full names of the subsidiaries, joint ventures and associates, please refer to Note 1 to the Consolidated Financial Statements.*

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Corporate Information

BOARD OF DIRECTORS

During the period of the year and as at the date of this report, the directors of the Company (each the "**Director**") of the board (the "**Board**") are as follows:

Executive Directors

Gao Zhen Kun *(Chairman)*
Gong Qin *(Vice-Chairman)*[1]
Gu Hai Ou
Rao Zu Hai[2]
Li Bin
Wang Yu Wei
Fang Jia Zhi

Independent Non-Executive Directors

Tam Wai Chu, Maria
Ting Leung Huel, Stephen
Jin Shi Yuan

SUPERVISORS

Ma Bao Jian *(Chairman)*
Wu Yi Gang
Ding Guo Ping

SENIOR MANAGEMENT[3]

Bai Jian
Li Da Ming
Liu Cun Ying
Guo Gui Qin
Yang De Chun
Zhang Jing Yan

COMPANY SECRETARY

Zhang Jing Yan

AUDIT COMMITTEE

Ting Leung Huel, Stephen *(Chairman)*
Tam Wai Chu, Maria
Jin Shi Yuan

REMUNERATION COMMITTEE

Jin Shi Yuan *(Chairman)*
Gao Zhen Kun
Ting Leung Huel, Stephen

NOMINATION COMMITTEE

Gao Zhen Kun *(Chairman)*
Tam Wai Chu, Maria
Jin Shi Yuan

AUTHORIZED REPRESENTATIVES

Gao Zhen Kun
Zhang Jing Yan

AUTHORIZED PERSON TO ACCEPT SERVICE OF PROCESS AND NOTICE

Zhang Jing Yan

INDEPENDENT AUDITORS

Overseas Auditor

PricewaterhouseCoopers
22nd Floor, Prince's Building,
Central, Hong Kong

Domestic Auditor

PricewaterhouseCoopers Zhong Tian LLP
11/F PricewaterhouseCoopers Center,
2 Corporate Avenue,
202 Hu Bin Road, Huangpu District, Shanghai

LEGAL ADVISOR AS TO HONG KONG LAWS

DLA Piper Hong Kong
17/F, Edinburgh Tower,
15 Queen's Road,
Central, Hong Kong

PRINCIPAL BANKS

Bank of China, Hongkong Branch
Bank of Beijing, Beijing Branch
Shanghai Pudong Development Bank, Beijing Branch
China Minsheng Bank, Hongkong Branch

H SHARE REGISTRAR

Hong Kong Registrars Limited
Shops 1712-1716,
17th Floor, Hopewell Centre,
183 Queen's Road East,
Wanchai, Hong Kong

REGISTERED ADDRESS

No. 16 Tongji Beilu,
Beijing Economic and Technology Development Zone,
Beijing, the PRC

OFFICE AND MAILING ADDRESS

No 20. Nansanhuan Zhonglu,
Fengtai District,
Beijing, the PRC

STOCK CODE

1666

Note 1: On 16 December 2016, Mr. Gong Qin retired from the positions of executive Director and the Vice-Chairman of the sixth session of the Board.

*Note 2: At the extraordinary general meeting of the Company held on 16 December 2016 (the "**2016 EGM**"), Mr. Rao Zu Hai was elected as an executive Director of the sixth session of the Board.*

Note 3: The senior management who also serve as the Directors are not included.

Corporate Information

The official website of the Company: http://www.tongrentangkj.com

The official e-commerce platforms of the Group:

TRT Food Flagship Store
JD.COM : http://trtsp.jd.com/
TMALL.COM : http://tongrentang.tmall.com/
YHD.COM : http://shop.yhd.com/m-148543.html

TRT Cosmetic Flagship Store
YHD.COM : http://shop.yhd.com/m-156175.html

Official WeChat platform of the Group

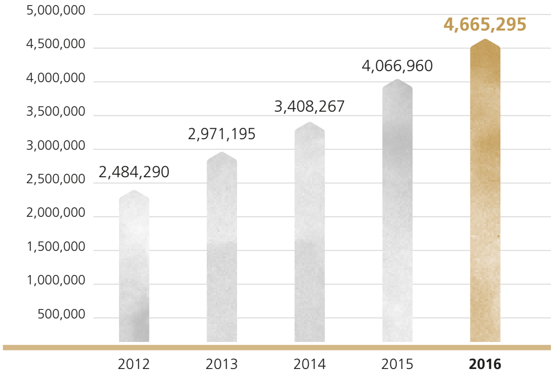
北京同仁堂科技 or tongrentang1669 or scan the following QR code:	同仁堂阿膠 or trtejiao or scan the following QR code:
北京同仁堂麥爾海化妝品 or TRT-MIRAHI or scan the following QR code:	同仁堂嗨寶戰隊或 or trthbzd or scan the following QR code:

Financial Highlights

Revenue *(RMB'000)*

For the year ended 31 December

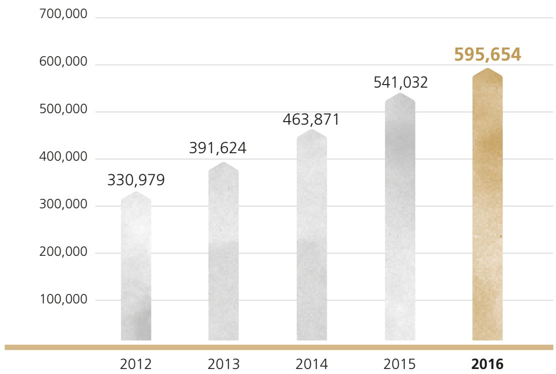
CAGR +17.06%



Profit attributable to owners of the Company *(RMB'000)*

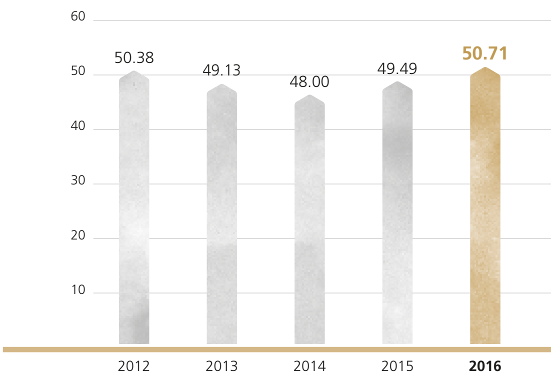
For the year ended 31 December

CAGR +15.82%



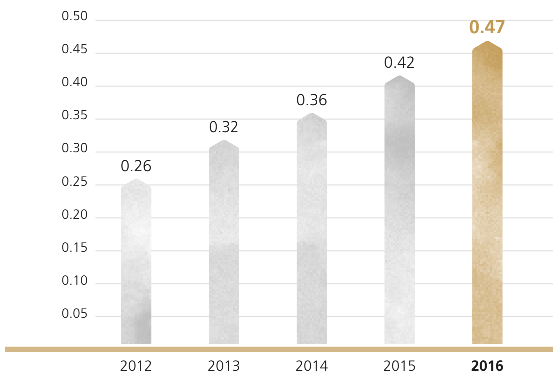
Gross profit ratio *(%)*

For the year ended 31 December



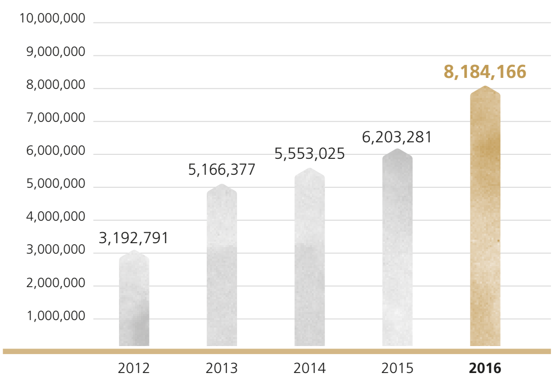
Earnings per share *(RMB: yuan)*

For the year ended 31 December



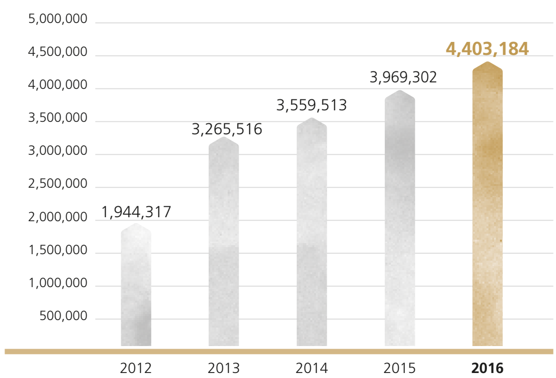
Total assets *(RMB'000)*

As of 31 December



Equity attributable to owners of the Company *(RMB'000)*

As of 31 December



Financial Highlights

A summary of the consolidated results and the consolidated balance sheet of the Company and its subsidiaries (hereafter collectively referred to as the "**Group**") for each of five years ended 31 December 2016, as extracted from the audited financial statements of the Group, is set out below:

	For the year ended 31 December					Compound annual growth rate
	2016 RMB'000	2015 RMB'000 (Restated)	2014 RMB'000 (Restated)	2013 RMB'000 (Restated)	2012 RMB'000 (Restated)	("**CAGR**") (Restated)
Revenue	**4,665,295**	4,066,960	3,408,267	2,971,195	2,484,290	17.06%
Gross profit	**2,365,984**	2,012,580	1,636,010	1,459,743	1,251,668	17.25%
Profit for the year	**850,989**	742,581	618,041	504,694	400,347	20.75%
Profit attributable to owners of the Company	**595,654**	541,032	463,871	391,624	330,979	15.82%

	For the year ended 31 December				
	2016	2015 (Restated)	2014 (Restated)	2013 (Restated)	2012 (Restated)
Gross profit ratio	**50.71%**	49.49%	48.00%	49.13%	50.38%
Net profit ratio	**18.24%**	18.26%	18.13%	16.99%	16.12%
Current ratio	**4.98**	5.13	4.33	4.20	2.77
Equity return ratio	**14.46%**	14.38%	13.90%	12.56%	17.92%
Assets return ratio	**10.40%**	11.97%	11.13%	9.77%	12.54%
Earnings per share (RMB: yuan)	**0.47**	0.42	0.36	0.32	0.26
Dividend per share (RMB: yuan)	**0.16**	0.15	0.14	0.25	0.25

	As of 31 December				
	2016 RMB'000	2015 RMB'000 (Restated)	2014 RMB'000 (Restated)	2013 RMB'000 (Restated)	2012 RMB'000 (Restated)
Total assets	**8,184,166**	6,203,281	5,553,025	5,166,377	3,192,791
Total liabilities	**2,299,058**	1,040,245	1,106,946	1,149,521	958,756
Equity attributable to owners of the Company	**4,403,184**	3,969,302	3,559,513	3,265,516	1,944,317

Chairman's Statement

I am pleased to present the annual report of the Group for the year ended 31 December 2016 for shareholders' review.

RESULTS OF THE YEAR

For the year ended 31 December 2016 (the "**Reporting Period**"), 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 growth. Although there were increasing positive factors for economy growth, 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 and making. The industry still 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, focus on leading products, whole-system quality management and active participation of employee", 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 steady development and innovation. During 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 priority to pursue excellence" and adhered to the production principle of quality first for strict control of product quality. Concurrently, to cope with market demand, the Company made innovation for expansion and conducted practice for development, constantly strengthened product competitive advantage, strengthened the Group's product portfolio to promote the healthy and stable development of the Group.

Chairman's Statement

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 health development in China and the further improvement in health care system will create a broader development environment and new opportunities for the superior enterprises in the industry. 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 "Select authentic materials in season and from right place", and the pharmaceutical concept of "excellence and fine" to provide safe and effective healthcare products for consumers. In addition, we will adhere to 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.

Gao Zhen Kun
Chairman

Beijing, the PRC
24 March 2017

Management Discussion and Analysis

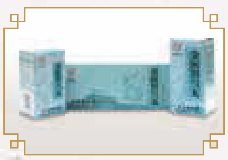
BUSINESS REVIEW

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 environment 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.

Management Discussion and Analysis

Product Name	Functions and Indication	Increase in Sales
Ejiao 	Replenishing blood for nourishing Yin, moistening dryness and hemostasis, manifested as blood deficiency and sallow complexion, vertigo and palpitation, irritability and sleepless, and cough due to lung-dryness.	Sales of this series of products increased by 10.61% over the same period of last year.
Liuwei Dihuang Pills 	Nourishing Yin and invigorating kidney. Patterns of kidney Yin deficiency manifested as dizziness, tinnitus, soreness and weakness of waist and knees, bone-steaming tidal fever, night sweating, seminal emission.	Sales of this series of products increased by 34.84% over the same period of last year.
Niuhuang Jiedu Tablets 	Heat-clearing and detoxifying. Patterns of internally exuberant wind-fire-heat manifested as swollen sore throat, swelling painful gum, mouth and tongue sores, red painful swelling eyes.	Sales of this series of products increased by 16.71% over the same period of last year.
Jinkui Shenqi Pills 	Warmly invigorating kidney Yang, functioning of Qi for promoting diuresis, manifested as edema caused by kidney deficiency, soreness and weakness of waist and knees, dysuria, fear of cold and cold extremities.	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, heat-clearing, manifested as wind-cold and common cold, headache and fever, aversion to wind and generalized pain, clear nasal discharge, cough and dry throat.	Sales of this series of products increased by 11.02% over the same period of last year.
Xihuang Pills 	Heat clearance and detoxification, swelling reduction and resolving mosses, manifested as carbuncle, furunculosis, scrofula, deep multiple abscess and malignant lump caused by heat and toxic accumulation.	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 focused on leading products to conduct accurate product function and market positioning, and match 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 (阿膠餅乾), Ejiao aloe juice (阿膠蘆薈汁) and Ejiao honey dates (阿膠蜜棗), 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, 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 culture of Chinese medicine and advanced the cultural exchange of Chinese medicine to improve its international influence. In May 2016, Tong Ren Tang Chinese Medicine set up a healthcare center in Vancouver, Canada to root the healthcare concept of "Preventive Treatment of Disease" in North American market. In September 2016, Tong Ren Tang formally entered into American market by setting up retail terminals and Chinese medicine medical centers. 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 report, interior decoration construction of the R&D center and the solid dosage production workshop of Da Xing Base are undergoing.

Tong Ren Tang Technologies Tangshan 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.

Major Risks and Uncertainties

The Group have examined all of the risks identified by the Group based on the risk management system and assessed the risks which may arise from the existing and new businesses. The major risks and uncertainties of the Group included policy risk, operational risk and financial risk. For the risks identified, the Group actively reviewed their potential effects on its business operation and finance. For details of the measures taken by the Group for management of the major risks, please refer to the section headed "Risk Management and Internal Control" in the chapter "Corporate Governance Report".

Policy Risk

The production layout of the Group is affected by national policies on the industry, for example, policies such as environmental protection and positioning of the region may lead to a large scale of adjustments on the production layout of the Group, increased pressure on the supply of products that used to support the rapid development of the Group, increase in the amount of investment and financing, increase in depreciation after the projects have been put into operation, all of the which may bring uncertainty risks to the supply of the Group's products, its cost structure and profitability.

At the same time, adjustments on industry policies and changes in the market landscape of the industry, such as medical system reform and policy on medical-related tender indicating a cost reduction trend, may have uncertain effects on the Group's sales pattern. There will be uncertainty risks that sales volume and revenue which may be affected for a short period after the Group adjusted the retail price and selling prices of certain products.

Operational Risk

With the increase in sales volume of the Group, the amount of accounts receivable also increased accordingly. Thus, the Group may be exposed to the risks of shortage of liquidity and loss from bad debt.

The supply of Chinese medicinal raw materials for the Group's products is affected by factors such as cyclicity, climate environment and policy control, which may be lead to the change of the price. Fluctuations of the market price of the raw material will cause a relatively impact on the Group's purchasing costs, especially bulk raw materials for products that account for a larger portion of the sales of the Group, which will in turn cause uncertainties regarding the Group's product costs.

As the "Tong Ren Tang" brand used by the Group enjoys a high reputation, willful infringement, adverse events in the industry and other emergencies have uncertain influence against the Group and the product sales of the Group.

Financial Risk

As affected by the industry characteristics and the expand of scale of the Group, the inventory amount was relatively large, accounting for a high proportion of total assets, thus the Group has the risks such as capital occupation, poor turnover rate, inventory devaluation and damages.

Compliance of Laws and Regulations

In 2016, as far as the Directors are aware, there was no significant impact on the Group resulting from noncompliance with any relevant laws and regulations.

Environmental Policy and Performance

The relevant laws and regulations complied with by the Group include Environmental Protection Law of the PRC and Air Pollution Prevention Law of the PRC. In accordance with the development requirements under the "Beijing-Tianjin-Hebei Coordinated Development Plan" (京津冀協同發展規劃綱要) and the requirements of adjustment on industrial layout in Beijing, Chinese medicine extraction, as an integral part in the production of Chinese patent medicines, has been categorized as industry forbidden to increase in Beijing. In this regard, the Company adjusted its investment plan for Da Xing Base at due time in 2015. In addition, the Company established Tong Ren Tang Technologies Tangshan in Yutian County, Tangshan City, Hebei Province, and built extracting and liquid dosage production workshops.

In daily production and operation, the Group has been constantly committed to the philosophy of placing equal emphasis on development and environmental protection. Through rational utilization of various resources in strict accordance with relevant national laws and regulations in production and operation, the Group sought to minimize the impact of production and operation on ecosystem as far as possible. In the course of daily operation, the Group was dedicated to maintaining and consolidating a healthy business environment in order to ensure the legitimacy of business conducts and thus steady and orderly development of the Group. The Group also strived to improve the working environment of employees by promoting the concept of green office and green production, with a view to provide a safe, healthy and well-protected workplace for all employees. The environmental policy and performance of the Group are set out in the Environmental, Social and Governance Report of the Company for 2016.

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 report, 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.

Use of Proceeds

Use of Proceeds from placement

The Company completed the placing of 52,392,000 H shares at the placing price of HKD23.00 per H share on 6 September 2013. The net proceeds (net of all related costs and expenses (including commissions, legal fees and levies)) amounted to approximately RMB931,740,000. As disclosed in the Company's placing announcement dated 30 August 2013, the proceeds from the placing were expected to be used to replenish the Company's general working capital.

As at 31 December 2016, the use of proceeds from the aforesaid placing of approximately RMB909,860,000 (31 December 2015: RMB909,740,000) was as follows:

1. approximately RMB82,660,000 (31 December 2015: RMB82,660,000) were used for the acquisition of 68% equity interest in Tong Ren Tang Tangshan Healthcare.

2. RMB15,000,000 (31 December 2015: RMB15,000,000) were used for liquidity repayment of bank loans.

3. approximately RMB522,300,000 (31 December 2015: RMB522,300,000) were used for purchase of Chinese medicinal raw materials, auxiliary ingredients and packaging materials.

4. approximately RMB52,560,000 (31 December 2015: RMB52,560,000) were used for construction projects at Daxing and Bozhou.

5. approximately RMB13,650,000 (31 December 2015: RMB13,650,000) were used for replacement of production equipment and infrastructure maintenance.

6. approximately RMB123,770,000 (31 December 2015: RMB123,650,000) were used for daily operating expenses.

7. approximately RMB99,920,000 (31 December 2015: RMB99,920,000) were used for distribution of H share dividends.

As at 31 December 2016, approximately RMB21,880,000 of the proceeds was not yet used.

Use of Proceeds from Issuance of Corporate Bonds

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 net proceeds (net of all related costs and expenses) amounted to approximately RMB798,560,000. The maturity of the bonds is five years and the coupon rate is 2.95% per annum. The proceeds from issuance will be used to adjust the Company's debt structure and replenish the Company's general working capital. RMB50,000,000 were used for liquidity repayment of bank loans and RMB398,970,000 were used to replenish the general working capital, which was in line with the purposes under the prospectus. As of 31 December 2016, approximately RMB349,590,000 of the proceeds were not yet used.

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”.

MAJOR EVENTS

Issuance of the Corporate Bonds

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. For details of the issuance, please refer to the announcements of the Company dated 28 July 2016, 2 August 2016 and 29 August 2016 published on the websites of the Shanghai Stock Exchange (www.sse.com.cn), the Stock Exchange (www.hkex.com.hk) and the Company (www.tongrentangkj.com).

Report of the Board of Directors

The Board is pleased to present the 2016 annual report together with the audited financial statements of the Group for the year ended 31 December 2016.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The Group is principally engaged in the manufacturing and sale of Chinese medicine products. Further discussion and analysis of these activities as required by Schedule 5 to the Companies Ordinance, including a discussion of the principal risks and uncertainties facing the group and an indication of likely future developments in the group's business, can be found in the Management Discussion and Analysis set out on pages 11 to 22 of this report. This discussion forms part of this Report of the Board of Directors.

The income of the Group is set out below:

	2016 RMB'000	2016 The total income ratio	2015 RMB'000 (Restated)	2015 The total income ratio (Restated)
Sales of Chinese medicine products				
– Mainland China	**3,896,250**	**83.51%**	3,354,982	82.49%
– Outside Mainland China	**696,234**	**14.92%**	649,409	15.97%
	4,592,484	**98.43%**	4,004,391	98.46%
Advertising services				
– Mainland China	**39,034**	**0.84%**	34,186	0.84%
Chinese medical consultation services				
– Outside Mainland China	**33,027**	**0.71%**	27,752	0.68%
Royalty fee				
– Outside Mainland China	**750**	**0.02%**	631	0.02%
	4,665,295	**100.00%**	4,066,960	100.00%

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2016, revenue from the five largest customers and the largest customer of the Group accounted for 45.26% and 17.06% (2015: 41.16% and 17.58%) of the Group's total revenue, respectively.

Tong Ren Tang Holdings and its subsidiaries, joint ventures and associates (excluding the Group) (the "**Tong Ren Tang Group**") was the largest customer of the Group. As at 31 December 2016, the revenue from this customer was RMB795,915,000 accounting for 17.06% of the Group's total revenue of this year.

For the year ended 31 December 2016, purchases from the five largest suppliers and the largest supplier of the Group accounted for 49.97% and 27.68% (2015: both less than 30%) of the total purchases of the Group, respectively.

Tong Ren Tang Group was the second largest supplier of the Group. As at 31 December 2016, the amount of purchase by the Group from this supplier was RMB163,710,000, accounting for 12.95% of the Group's total amount of purchase in this year.

Save as disclosed in this report, none of Directors, their close associates, or any shareholder (which to the knowledge of the Directors owns more than 5% of the issuers' share capital) has any interest in the five largest suppliers or customers.

RELATIONSHIP WITH EMPLOYEES, SUPPLIERS AND CUSTOMERS

The Group understands that employees are valuable resources and the realisation and promotion of employees' value will help to achieve the Group's overall goals. Remunerations of the Group's employees are determined with reference to the prevailing market level as well as the competency, qualifications and experience of individual employee. Discretionary bonuses based on individual performance during the year will also be paid to the employees as recognition of and a reward for their contributions to the Group. The Group attaches great importance to development and growth of talents and provides employees with skill training, career planning and development opportunities, seeking to create a platform for mutual growth and sharing of success between the Group and employees.

The Group is attentive to the access management of suppliers. As part of our efforts to manage the potential risks arising from suppliers, for any new supplier as identified in the process of supplier selection, the Group conducts review and on-site audit on the compliance and legality of information for the new suppliers before including the qualified candidates in the List of Suppliers. In addition, except to review and update of qualification documents held by the suppliers, the site audit for all suppliers will also be conducted at regular intervals. The Group exercises a high level of scrutiny over the selection of suppliers and encourages fair and open competition. The Group has maintained long-term cooperation with premium suppliers based on the principle of mutual benefits.

The Group understands that maintaining good relationships with customers is essential for the Group's overall development. For the purpose of maintaining the competitiveness of the brand and product of the Group, the Group adheres to the principle of honesty and integrity to build a reliable service environment for the customers, and has always been dedicated to provide our customers with quality products and services, the sales policy and credit period of the Group for main customers was in line with other customers.

The Group is also aware that the changes in the procurement and supply strategy of relevant customers and suppliers, or the failure of the Group's products and services to continuously meet the needs of its customers, or the failure of the product quality supplied by the suppliers meet the needs of the Group may result in the changes in the partnership between the Group and its major customers, which may in turn adversely affect the Group's production and operation. The Group continues to source new customers and new suppliers, expand new channels and tap into new markets, with a view to reducing the risk of relying on them. During the year ended 31 December 2016, there was no material and significant dispute between the Group and its suppliers and customers.

RESULTS

The results and financial position of the Group for the year ended 31 December 2016 are set out on pages 86 to 172 of this report.

FINAL DIVIDEND AND TAX

The Board proposed a final dividend for the year ended 31 December 2016 (the "**Final Dividend**") of RMB0.16 (tax inclusive) 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 (tax inclusive) 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 annual general meeting (the "**AGM**") for the year 2016.

As for non-resident enterprise shareholders (other than shareholders who have invested in the shares of the Company through the Shenzhen-Hong Kong Stock Connect) as appeared on the H share register of members of the Company, the Company will withhold corporate income tax at the rate of 10% when distributing the Final Dividend in accordance with the Notice on Issues concerning Withholding the Enterprise Income Tax on the Dividends Paid by Chinese Resident Enterprises to H-Share Holders Which Are Overseas Non-resident Enterprises (Guo Shui Han [2008] No.897) published by the State Administration of Taxation. Any shares registered in the name of the non-individual registered shareholders, including HKSCC Nominees Limited, other nominees, trustees or other groups and organisations, will be treated as being held by non-resident enterprise shareholders, thus their dividends receivables will be subject to the withholding of the corporate income tax.

As for the individual shareholders (other than shareholders who have invested in the shares of the Company through the Shenzhen-Hong Kong Stock Connect) whose names appear on the H share register of members of the Company, the Company will withhold 10% of the Final Dividend as individual income tax when distributing the Final Dividend in accordance with the Notice on the Issues concerning the Administration of Individual Income Tax Collection after the Annulment of Document Guo Shui Fa [1993] No.045. (Guo Shui Han [2011] No.348), unless otherwise specified by the relevant tax regulations, tax agreements or the aforesaid notice.

As for the individual shareholders or securities investment funds who have invested in the H shares of the Company through Shenzhen-Hong Kong Stock Connect, when distributing the Final Dividend, the Company shall withhold individual income tax at the rate of 20% in accordance with the register provided by China Securities Depository and Clearing Corporation Limited, according to the Circular on the Tax Policies Related to the Pilot Program of the Shenzhen-Hong Kong Stock Connect (Cai Shui [2016] No. 127) issued by the Ministry of Finance, State Administration of Taxation and China's Securities Regulatory Commission on 5 November 2016.

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

SHARE CAPITAL

There was no movement in the share capital of the Company during the year of 2016. The details are set out in Note 16 to the Consolidated Financial Statements.

PUBLIC FLOAT

During the year of 2016 and as at the date of this report, based on the public information available to the Company and as far as the Directors are aware, the Company has satisfied the public float requirement under Rule 8.08 of the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange (the "**Listing Rules**").

DISTRIBUTABLE RESERVES

As at 31 December 2016, the reserves of the Company available for distribution amounted to approximately RMB1,528,053,000 (31 December 2015: approximately RMB1,287,003,000).

PROPERTY, PLANT AND EQUIPMENT

Details of movement in property, plant and equipment of the Group for the year of 2016 are set out in Note 7 to the Consolidated Financial Statements.

STAFF RETIREMENT SCHEME

Details of staff retirement scheme of the Group are set out in Note 30 to the Consolidated Financial Statements.

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.

STAFF QUARTERS

For the year ended 31 December 2016:

1. the Company did not provide quarters to any of its staff (2015: nil);

2. the Company made annual contributions to the housing fund based on certain percentages of the salaries for employees; and

3. the Company provided housing allowance to its staff at an average of RMB80 per person per month (2015: RMB80 per person per month).

DIRECTORS' AND SUPERVISORS' SERVICE CONTRACTS

Each of the Directors and the supervisors of the Company (each the "**Supervisor**") has entered into a service contract with the Company for a term commencing on their respective appointment dates to the date of the AGM to be convened by the Company in 2018.

None of the Directors or Supervisors has entered into any service contract with the Company that cannot be terminated by the Company within one year without payment of compensation other than statutory compensation.

DIRECTORS' AND SUPERVISORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

Saved as disclosed in the non-exempt continuing connected transactions and the non-exempt connected transactions as set out in this report, none of the Directors and Supervisors or their connected entities (within the meaning under section 486 of the Company Ordinance) still had or has had a material interest, either directly or indirectly, in any significant transactions, arrangements or contracts relating to the business of the Group, to which the Company or any of its subsidiaries was a party, and which was subsisting on the balance sheet date of the year or at any time during the year.

MANAGEMENT CONTRACT

During the year of 2016, the Company had not entered into nor was there any contract relating to the management and administration of the whole or any substantial part of the business of the Company.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Profiles of the Directors, Supervisors and members of the senior management are set out on pages 57 to 60 of this report.

CHANGE OF DIRECTORS AND SUPERVISORS

On 16 December 2016, Mr. Gong Qin retired from the positions of executive Director and the Vice-Chairman of the Board. At the same date, Mr. Rao Zu Hai was elected as an executive Director of the sixth session of the Board for a term commencing from the date of election to the date of AGM to be held in 2018. For details of the aforesaid changes, please refer to the announcements of the Company dated 15 December 2016 and 16 December 2016, and the circular of the Company dated 31 October 2016.

EMOLUMENTS OF DIRECTORS AND SUPERVISORS

Directors and Supervisors are subject to the election at the general meeting or the employee representatives' general meetings. The Board is authorized by the general meeting to fix the remuneration of every Director or Supervisor. The remuneration of Directors or Supervisors includes four parts, namely director's or supervisor's fees, basic salaries and allowance, employer's contribution to pension scheme and bonuses. Except for the independent non-executive Directors and the external Supervisors, the Directors or Supervisors who do not hold any management position in the Group will not receive any remuneration from the Group. The Directors or Supervisors who also hold management positions in the Group will receive salaries corresponding to such management functions. In accordance with the Listing Rules, the independent non-executive directors shall not be financially dependent on the listed company. Therefore, the independent non-executive Directors and external Supervisors are paid in line with the prevailing local market rate by the Company.

In 2016, Mr. Gao Zhen Kun, Mr. Gong Qin, Mr. Gu Hai Ou, Mr. Rao Zu Hai, Mr. Li Bin, Mr. Wang Yu Wei and Ms. Fang Jia Zhi, each as an executive Director, did not receive any remuneration as Directors, and Ms. Ma Bao Jian and Ms. Ding Guo Ping, each as a Supervisor, did not receive any remuneration as Supervisors. Mr. Wang Yu Wei (executive Director), Ms. Fang Jia Zhi (executive Director) and Ms. Ding Guo Ping (employee representative Supervisor) received salaries corresponding to their respective management positions in the Group.

In 2016, Miss Tam Wai Chu, Maria, Mr. Ting Leung Huel, Stephen and Mr. Jin Shi Yuan, each as an independent non-executive Director, and Mr. Wu Yi Gang as a Supervisor received a director or supervisor remuneration at the amount of HKD240,000 (tax inclusive), HKD240,000 (tax inclusive), RMB100,000 (tax inclusive) and RMB100,000 (tax inclusive), respectively.

Details of the Directors' and Supervisors' salaries or salaries received corresponding to their management positions in the Group for the years of 2016 and 2015 are set out in Note 29 to the Consolidated Financial Statements.

EMOLUMENTS OF SENIOR MANAGEMENT

The emoluments before tax paid to the senior management of the Company whose names are listed in this report are set out by band as follows:

Emoluments Grade	2016 number of senior management	2015 number of senior management
RMB0-500,000	–	–
RMB500,001-1,000,000	5	6
RMB1,000,001-1,500,000	2	2
RMB1,500,001-2,000,000	–	–
RMB2,000,001-2,500,000	1	1

DIRECTORS', SUPERVISORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2016, the interests and short positions of the Directors, Supervisors and chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong, the "**SFO**")) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the requirements in the Model Code for Securities Transactions by Directors of Listed Companies (the "**Model Code**") as set out in Appendix 10 to the Listing Rules.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2016, the following persons (other than the Directors, Supervisors and the chief executive of the Company) had interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO:

Name of shareholder	Capacity	Number of shares	Percentage of domestic shares	Percentage of H shares	Percentage of total issued voting shares
Tong Ren Tang Ltd. (Note 2)	Beneficial Owner	600,000,000	92.013%	–	46.846%
Tong Ren Tang Holdings (Note 2)	Interest of controlled corporation by the substantial shareholder	600,000,000	92.013%	–	46.846%
	Beneficial Owner	9,480,000	1.454%	–	0.740%
Total:		609,480,000	93.467%	–	47.586%
Yuan Sai Nan	Beneficial Owner	35,732,000 (L) (Note 1)	–	5.683%	2.790%
Commonwealth Bank of Australia (Note 3)	Interest of controlled corporation by the substantial shareholder	82,083,000 (L) (Note 1)	–	13.056%	6.409%
Hillhouse Capital Management, Ltd. (Note 4)	Investment manager	47,736,000 (L) (Note 1)	–	7.593%	3.727%
Gaoling Fund, L.P. (Note 5)	Investment manager	46,182,000 (L) (Note 1)	–	7.346%	3.606%
Aberdeen Asset Management Plc and its Associates on Behalf of Accounts Managed by them (Note 6)	Investment manager	44,158,000 (L) (Note 1)	–	7.024%	3.448%

Name of shareholder	Capacity	Number of shares	Percentage of domestic shares	Percentage of H shares	Percentage of total issued voting shares
Citigroup Inc.(Note 7)	Interest of corporation controlled by the substantial shareholder, Person having a security interest in shares, Custodian corporation/approved lending agent	34,043,933 (L) (Note 1) 16,556,933 (P) (Note 1)	– –	5.415% 2.633%	2.658% 1.293%

Information disclosed above is based on the data published on the website of the Hong Kong Stock Exchange (www.hkexnews.hk) unless otherwise stated in the notes below.

Notes:

(1) (L) – Long position, (S) – Short position, (P) – Lending pool

(2) 600,000,000 shares held by Tong Ren Tang Holdings were held through Tong Ren Tang Ltd.. As at 31 December 2015, Tong Ren Tang Ltd. was owned as to 52.45% by Tong Ren Tang Holdings. Upon completion of the capitalisation issue of shares of the Company on 3 July 2014 and as at 31 December 2015, Tong Ren Tang Holdings was deemed to be interested in the 600,000,000 shares held by Tong Ren Tang Ltd.. Besides, upon completion of the capitalisation issue of shares of the Company on 3 July 2014 and as at 31 December 2016, Tong Ren Tang Holdings also directly held 9,480,000 shares.

(3) As at 31 December 2016, Commonwealth Bank of Australia indirectly held 82,083,000 H shares of the Company in long position through a series of corporations under its control.

(4) As was known to the Directors, on 23 June 2014, Hillhouse Capital Management, Ltd., as investment manager, was indirectly interested in 23,091,000 H shares of the Company in long position held by Gaoling Fund, L.P. and 777,000 H shares of the Company in long position held by YHG Investment, L.P.. Upon completion of the capitalisation issue of the Company on 3 July 2014 and as at 31 December 2016, this shareholder was indirectly interested in 46,182,000 H shares of the Company in long position held by Gaoling Fund, L.P. and 1,554,000 H shares of the Company in long position held by YHG Investment, L.P..

(5) As was known to the Directors, on 23 June 2014, Gaoling Fund, L.P., as investment manager, held 23,091,000 H shares of the Company in long position. Upon completion of the capitalisation issue of the Company on 3 July 2014 and as at 31 December 2016, this shareholder held 46,182,000 H shares of the Company in long position.

(6) As at 31 December 2016, Aberdeen Asset Management Plc and its associates on behalf of accounts managed by them, held 44,158,000 H shares of the Company in long position as investment manager.

(7) As at 31 December 2016, Citigroup Inc. indirectly held 103,000 H shares of the Company in long position through a series of entities under its control, held 17,384,000 H shares of the Company in long position as a person holding security interest in shares, and held 16,556,933 H shares in long position of the Company as custodian corporation/approved lending agent (available for lending).

Save as disclosed above, as at 31 December 2016, the Directors were not aware of any other person (other than the Directors, Supervisors and the chief executive of the Company) who had any interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO.

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 Tablets (牛黃解毒片), Ganmao Qingre Granules (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 (the "**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 products 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 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 of 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. The details of the annual declarations which have been made by Tong Ren Tang Ltd. and Tong Ren Tang Holdings are set out below.

DECLARATION

To: TONG REN TANG TECHNOLOGIES CO. LTD.
No 20. Nansanhuan Zhonglu
Fengtai District, Beijing, the PRC

Dear Sir or Madam,

In order to ensure the interests of Tong Ren Tang Technologies Co. Ltd. (the "**Company**") and its shareholders as a whole, we, China Beijing Tong Ren Tang Group Co., Ltd. and our subsidiaries (excluding the Company and its subsidiaries) make the following confirmations:

1 On 19 October 2000, the Company and Beijing Tong Ren Tang Company Limited entered into an agreement with us to regulate the non-competition undertaking ("**Non-competition Undertaking**"), which include but not limited to the options, pre-emptive rights or right of first refusal provided by us on our existing or future competing businesses;

2 We have provided to the independent non-executive directors of the Company with all the necessary information in order for them to conduct review on the enforcement of the Non-competition Undertaking;

3 We confirm that we have fully complied with the Non-competition Undertaking for the year ended 31 December 2016;

4 We also agree this confirmation to be disclosed in the Company's 2016 annual report.

We further undertake that if we become aware of any data or information in the future which constitute any doubt on the truthfulness, accuracy or completeness of the data or information provided by this confirmation, we will notify the Company in writing on such data or information as soon as possible.

China Beijing Tong Ren Tang Group Co., Ltd.
24 March 2017

DECLARATION

To: TONG REN TANG TECHNOLOGIES CO. LTD.
No 20. Nansanhuan Zhonglu
Fengtai District, Beijing, the PRC

Dear Sir or Madam,

In order to ensure the interests of Tong Ren Tang Technologies Co. Ltd. (the "**Company**") and its shareholders as a whole, we, Beijing Tong Ren Tang Company Limited and our subsidiaries (excluding the Company and its subsidiaries), make the following confirmations:

1 On 19 October 2000, the Company and China Beijing Tong Ren Tang Group Co., Ltd. entered into an agreement with us to regulate the non-competition undertaking ("**Non-competition Undertaking**"), which include but not limited to the options, pre-emptive rights or right of first refusal provided by us on our existing or future competing businesses;

2 We have provided to the independent non-executive directors of the Company with all the necessary information in order for them to conduct review on the enforcement of the Non-competition Undertaking;

3 We confirm that we have fully complied with the Non-competition Undertaking for the year ended 31 December 2016;

4 We also agree that this confirmation to be disclosed in the Company's 2016 annual report.

We further undertake that if we become aware of any data or information in the future which constitute any doubt on the truthfulness, accuracy or completeness of the data or information provided by this confirmation, we will notify the Company in writing on such data or information as soon as possible.

Beijing Tong Ren Tang Company Limited
24 March 2017

NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

Continuing Connected Transactions with Tong Ren Tang Holdings

(i) Land Use Right Leasing Agreement

On 6 October 2000 and 1 January 2006, the Company entered into the land use right leasing agreement and the supplemental agreement on termination of leasing certain land with Tong Ren Tang Holdings for a term of 20 years from 6 October 2000 to 5 October 2020. Pursuant to the agreements, the Company is entitled to rent a parcel of land located at No. 20 Nansanhuan Zhonglu, Feng Tai District, Beijing, the PRC (area: 43,815.15 sq.m.) from Tong Ren Tang Holdings for operating purposes. The rental for leasing is calculated based on the rate of RMB53.95 per sq.m. and is payable in cash on the 20th day of December of each year. On 10 October 2013, the Company applied for the new annual caps of such agreements for each of the three years ending 31 December 2016. The annual caps of the rental fee for each of the three years ending 31 December 2016 shall be RMB2,600,000, RMB2,900,000 and RMB3,200,000, respectively. Please refer to the announcement published by the Company on 10 October 2013 on the websites of the Hong Kong Stock Exchange and the Company for details.

In 2016, the rental fee paid by the Company to Tong Ren Tang Holdings amounted to RMB2,364,000, which did not exceed the relevant annual cap.

(ii) Storage and Custody Agreement

On 10 October 2013, the Company renewed the storage and custody agreement with Tong Ren Tang Holdings for a term of three years from 1 January 2014, whereby Tong Ren Tang Holdings agreed to provide storage and custody services to the Company. The annual storage fee is determined by reference to the annual rate of RMB252 per sq.m. and the actual leased storage area by the Company and the annual storage fee is payable in cash in two installments. The annual caps for the continuing connected transactions contemplated under the renewed storage and custody agreement for each of the three years ending 31 December 2016 was RMB7,000,000. Please refer to the announcement published by the Company on 10 October 2013 on the websites of the Hong Kong Stock Exchange and the Company for details.

In 2016, the storage fee paid by the Company to Tong Ren Tang Holdings amounted to RMB2,916,000, which did not exceed the relevant annual cap.

(iii) Property Lease Framework Agreement

On 25 January 2017, the Company and Tong Ren Tang Holdings entered into the property leasing framework agreement, pursuant to which, Tong Ren Tang Holdings has agreed to lease and procure other members of the Tong Ren Tang Group to lease certain premises to the Group for its productions and operations, including but not limited to office premises, warehouses and staff quarter. The property leasing framework agreement is for a term of three years commencing from 1 January 2017 to 31 December 2019.

The annual caps of the property leasing framework agreement for each of the three years ending 31 December 2019 is RMB10,900,000, RMB11,600,000 and RMB11,800,000, respectively. Please refer to the announcement published by the Company on 25 January 2017 on the websites of the Hong Kong Stock Exchange and the Company for details.

(iv) Distribution Framework Agreement

On 10 October 2013, the Company renewed the distribution framework agreement with Tong Ren Tang Holdings for a term of three years from 1 January 2014, whereby the Group may sell its products to Tong Ren Tang Group. The annual caps for the continuing connected transactions contemplated under the renewed distribution framework agreement for the three years ending 31 December 2016 is RMB470,000,000, RMB580,000,000 and RMB740,000,000, respectively. The renewal of the distribution framework agreement has been approved by the independent shareholders of the Company on 16 December 2013. Please refer to the announcements dated 10 October 2013 and 16 December 2013 and the circular of the Company dated 29 October 2013 published by the Company on the websites of the Hong Kong Stock Exchange and the Company for details.

On 20 March 2015, the Board resolved to revise the original annual caps for the year 2015 and 2016 for the continuing connected transactions contemplated under the distribution framework agreement to RMB910,000,000 and RMB1,300,000,000, respectively. The revised 2015 and 2016 annual caps for the continuing connected transactions contemplated under the distribution framework agreement were approved by the independent shareholders of the Company on 9 June 2015. Please refer to the announcements dated 20 March 2015 and 9 June 2015 and the circular dated on 15 April 2015 published by the Company on the websites of the Hong Kong Stock Exchange and the Company for details.

Under the distribution framework agreement, the price of the products to be sold by the Group to Tong Ren Tang Group shall not be lower than that charged by the Group to other independent third parties and shall be determined in accordance with a reasonable cost plus a fair and reasonable profit margin: (i) the reasonable cost shall be determined by reference to the cost of the raw materials, the cost of labour and the manufacturing expense etc.; and (ii) the profit margin shall be determined by reference to the prevailing market and the then market price for comparable products in the related industry, and the profit rate of the products of the Group in the past years of not exceeding 50%, which is in line with the previous gross profit rate of the Group.

In 2016, sales amount of the Group to the Tong Ren Tang Group amounted to RMB757,327,000, which did not exceed the relevant annual cap.

As the above-mentioned distribution framework agreement expired on 31 December 2016, on 29 September 2016, the Company renewed the distribution framework agreement with Tong Ren Tang Holdings for a term of three years from 1 January 2017. The annual caps for the continuing connected transactions contemplated under the renewed distribution framework agreement for the three years ending 31 December 2019 shall be RMB1,300,000,000, RMB1,550,000,000 and RMB1,850,000,000, respectively. The renewal of the distribution framework agreement has been approved by the independent shareholders of the Company on 16 December 2016. For details, please refer to the announcements of the Company dated 29 September 2016 and 16 December 2016 and the circular of the Company dated 31 October 2016 published by the Company on the websites of the Hong Kong Stock Exchange and the Company.

(v) Master Procurement Agreement

On 10 October 2013, the Company and Tong Ren Tang Holdings renewed the master procurement agreement for a term of three years from 1 January 2014, whereby the Group may purchase the raw materials and semi-finished products and finished products ("**Relevant Products**") for manufacturing and distribution from the Tong Ren Tang Group. The price to be paid for the Relevant Products procured by the Group from the Tong Ren Tang Group shall be determined in accordance with the following principle: (1) the price shall be negotiated and agreed by the parties within the range of the then prevailing market price for the similar products (the "**Market Price**"); (2) if there is no comparable Market Price available for the Relevant Products, the price shall be determined based on the integrated cost plus not more than 15% surcharge; and (3) in any event, the price to be paid by the Group for the procurement of the Relevant Products shall not be higher than that available from independent third parties for similar products, or higher than the Market Price, whichever is the lower. For the three years ending 31 December 2016, the annual caps for the continuing connected transactions contemplated under the renewed master procurement agreement shall be RMB190,000,000, RMB240,000,000 and RMB300,000,000, respectively. The renewal of the master procurement agreement has been approved by the independent shareholders of the Company on 16 December 2013. Please refer to the announcements dated 10 October 2013 and 16 December 2013 and the circular of the Company dated 29 October 2013 published by the Company on the websites of the Hong Kong Stock Exchange and the Company for details.

In 2016, purchase of the Relevant Products by the Group from the Tong Ren Tang Group amounted to RMB125,784,000, which did not exceed the relevant annual cap.

As the above-mentioned master procurement agreement expired on 31 December 2016, on 29 September 2016, the Company renewed the master procurement agreement with Tong Ren Tang Holdings for a term of three years from 1 January 2017. The annual caps for the continuing connected transactions contemplated under the renewed master procurement agreement for the three years ending 31 December 2019 shall be RMB240,000,000, RMB270,000,000 and RMB300,000,000, respectively. The renewal of the master procurement agreement has been approved by the independent shareholders of the Company on 16 December 2016. For details, please refer to the announcements of the Company dated 29 September 2016 and 16 December 2016 and the circular of the Company dated 31 October 2016 published by the Company on the websites of the Hong Kong Stock Exchange and the Company.

(vi) **Advertising Agency Framework Agreement**

On 20 March 2014, Tong Ren Tang Century Advertising, a wholly-owned subsidiary of the Company, entered into the advertising agency framework agreement with Tong Ren Tang Holdings for the purpose of the provision of advertising agency services by Tong Ren Tang Century Advertising to Tong Ren Tang Group for a period from 1 April 2014 to 31 December 2016. Pursuant to the advertising agency framework agreement, Tong Ren Tang Holdings entrusted Tong Ren Tang Century Advertising as a non-exclusive advertising agent, to provide advertising agency services to Tong Ren Tang Group and its subsidiaries or joint ventures. The fees for the provision of specific services by Tong Ren Tang Century Advertising to Tong Ren Tang Group and its subsidiaries or joint ventures under individual implementation agreement shall be negotiated and determined by the parties according to the then prevailing market price, but in any event the price shall not be less than those offered to other independent third parties for similar services. For the period from 1 April 2014 to 31 December 2014 and the two years ending 31 December 2016, the annual caps for the continuing connected transactions contemplated under the advertising agency framework agreement shall be RMB50,000,000, RMB55,000,000 and RMB61,000,000, respectively. Please refer to the announcement published by the Company on 20 March 2014 on the websites of Hong Kong Stock Exchange and the Company for details.

In 2016, total amount paid by Tong Ren Tang Group to Tong Ren Tang Century Advertising for the continuing connected transactions contemplated under the advertising agency framework agreement was RMB38,588,000, which did not exceed the relevant annual cap.

As the above-mentioned advertising agency framework agreement expired on 31 December 2016, on 29 September 2016, Tong Ren Tang Century Advertising renewed the advertising agency framework agreement with Tong Ren Tang Holdings for a term of three years from 1 January 2017. The annual caps for the continuing connected transactions contemplated under the renewed advertising agency framework agreement for the three years ending 31 December 2019 shall be RMB50,000,000, RMB52,000,000 and RMB54,000,000, respectively. Please refer to the announcement dated 29 September 2016 published by the Company on the websites of the Hong Kong Stock Exchange and the Company for details.

Tong Ren Tang Holdings is the ultimate holding company of the Company, and thus a connected person of the Company pursuant to the Listing Rules. As such, all the transactions between Tong Ren Tang Holdings and the Company under the aforementioned agreements constitute continuing connected transactions of the Company.

Continuing Connected Transactions with Tong Ren Tang Chinese Medicine

Exclusive Distributorship Framework Agreements

On 28 October 2014, the Company renewed the exclusive distributorship framework agreement with Tong Ren Tang Chinese Medicine, for a term of three years from 1 January 2015 to 31 December 2017. Pursuant to the agreement, the Company appoints International Pharm, a wholly-owned subsidiary of Tong Ren Tang Chinese Medicine, as its sole overseas distributor for the purpose of the distribution of the relevant products of the Group (for the purpose of the exclusive distributorship framework agreement, refers to the Company and its subsidiaries and associates, excluding Tong Ren Tang Chinese Medicine and its subsidiaries and associates) outside the PRC. Within the term of the agreement and for the purpose of the overseas distribution of the relevant products of the Group, International Pharm will procure from the Group, and the Group shall supply to International Pharm, the relevant products as agreed by the parties. The price of the relevant products supplied by the Group to International Pharm shall not be higher than the wholesale price of the relevant products sold by the Group to its wholesale customers in the PRC. The annual caps for the continuing connected transactions contemplated under the renewed exclusive distributorship framework agreements for the three years ending 31 December 2017 shall be RMB19,900,000, RMB23,400,000 and RMB27,600,000, respectively.

On the same day, Tong Ren Tang Ltd. renewed the Tong Ren Tang exclusive distributorship framework agreement with Tong Ren Tang Chinese Medicine, for a term of three years from 1 January 2015 to 31 December 2017. Pursuant to the agreement, Tong Ren Tang Ltd. appoints International Pharm as its sole overseas distributor for the purpose of the distribution of the relevant products of Tong Ren Tang Ltd. and its subsidiaries and associates, excluding the Company and its subsidiaries and associates (the "**Tong Ren Tang Ltd. Group**") outside the PRC. Within the term of the agreement and for the purpose of the overseas distribution of the relevant products of Tong Ren Tang Ltd. Group, International Pharm will procure from Tong Ren Tang Ltd. Group, and Tong Ren Tang Ltd. Group shall supply to International Pharm, the relevant products as agreed by the parties. The price of the relevant products supplied by Tong Ren Tang Ltd. Group to International Pharm shall not be higher than the wholesale price of the relevant products sold by Tong Ren Tang Ltd. Group to the wholesale customers in the PRC. The annual caps for the continuing connected transactions contemplated under the renewed Tong Ren Tang exclusive distributorship framework agreements for the three years ending 31 December 2017 shall be RMB51,900,000, RMB61,200,000, and RMB72,000,000, respectively.

For the year ended 31 December 2016, total amount paid to the Group and Tong Ren Tang Ltd. Group by International Pharm for the continuing connected transactions under the exclusive distributorship framework agreement and Tong Ren Tang exclusive distributorship framework agreement amounted to RMB23,243,000 and RMB37,926,000 respectively, neither of which exceeds the relevant annual caps.

As at 31 December 2016, Tong Ren Tang Ltd. is the intermediate controlling shareholder of the Company, which holds 46.85% direct interest in the Company, and 33.62% direct interest in Tong Ren Tang Chinese Medicine which is a non-wholly-owned subsidiary of the Company. Therefore, Tong Ren Tang Chinese Medicine and Tong Ren Tang Ltd. are both connected persons of the Company pursuant to the Listing Rules. As such, all the transactions between Tong Ren Tang Chinese Medicine and the Company and all the transactions between Tong Ren Tang Chinese Medicine and Tong Ren Tang Ltd., under the above-mentioned agreements constitute continuing connected transactions of the Company. For details about the above-mentioned transactions, please refer to the relevant announcements of the Company dated 29 October 2012 and 28 October 2014.

The Company has confirmed that the execution and enforcement of the implementation agreements under the continuing connected transactions set out above in the year of 2016 has followed the pricing policies of such continuing connected transactions.

Annual Review of Continuing Connected Transactions

The Company's overseas auditor was engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The overseas auditor has issued unqualified letter in accordance with paragraph 14A.56 and 14A.57 of the Listing Rules, that containing the findings and conclusions in respect of the above non-exempt continuing connected transactions for the year of 2016 as disclosed by the Company:

(i) nothing has come to their attention that causes them to believe that the disclosed continuing connected transactions have not been approved by the Board;

(ii) for transactions involving the provision of goods or services by the Group, nothing has come to their attention that causes them to believe that the transactions were not, in any material respect, in accordance with the pricing policies of the Group;

(iii) nothing has come to their attention that causes them to believe that the transactions were not entered into, in any material respect, in accordance with the relevant agreements governing such transactions; and

(iv) with respect to the aggregate amount of each of the continuing connected transactions, nothing has come to their attention that causes them to believe that the amount of each of the continuing connected transactions has exceeded the annual cap set by the Company.

The independent non-executive Directors has reviewed the above-mentioned continuing connected transactions and confirmed that in the year of 2016:

(i) these continuing connected transactions were entered into in the ordinary and usual course of business of the Group;

(ii) these continuing connected transactions were entered into on normal commercial terms, or better;

(iii) these continuing connected transactions were entered into according to the relevant agreement governing each of these transactions on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole; and

(iv) the aggregate amount of each of these transactions did not exceeded the annual caps as set out in the relevant announcements of the Company.

NON-EXEMPT CONNECTED TRANSACTIONS

Acquisition of 100% of the Equity Interest in Tong Ren Tang Second Traditional Chinese Medicine Hospital

On 30 March 2016, the Company entered into the equity trading agreement with Tong Ren Tang Holdings, pursuant to which the Company has agreed to acquire and Tong Ren Tang Holdings has agreed to sell 100% equity interest in Tong Ren Tang Second Traditional Chinese Medicine Hospital at a consideration of RMB13.50 million. The above-mentioned transaction was completed in June 2016, and Tong Ren Tang Second Traditional Chinese Medicine Hospital has become a wholly owned subsidiary of the Company.

For the year ended of 31 December 2016, the sales revenue of Tong Ren Tang Second Traditional Chinese Medicine Hospital amounted to RMB168,017,000, representing an increase of 12.97% as compared with the corresponding period of the last year, and the net profit amounted to RMB763,000, representing an increase of 38.48% as compared with the corresponding period of the last year.

Tong Ren Tang Holdings is the ultimate holding company of the Company and is therefore a connected person of the Company. Accordingly, the acquisition of 100% equity interest in Tong Ren Tang Second Traditional Chinese Medicine Hospital constitutes a connected transaction for the Company for the purpose of the Listing Rules. For details about the above-mentioned transaction, please refer to the relevant announcements of the Company dated 30 March 2016 and 7 June 2016.

Disposal of Land Use Right, Construction in Progress, and related interests to Bozhou Herbal Pieces

On 29 September 2016, the Company entered into the assets transfer agreement with Beijing Tong Ren Tang (Bozhou) Herbal Pieces Co. Ltd. (北京同仁堂(亳州)飲片有限責任公司) ("**Bozhou Herbal Pieces**"), pursuant to which the Company has agreed to dispose and Bozhou Herbal Pieces has agreed to acquire the target assets at a total consideration of RMB113,733,565.92. The target assets, being the land use right, construction in progress and related interests owned by the Company in Weiwu Avenue, Qiaocheng District, Bozhou, Anhui Province, the PRC, includes (i) land use right of 82.5 mu industrial site (the "**Industrial Site**") located in west side of the northern Weiwu Avenue, Qiaocheng District, Bozhou, Anhui Province, the PRC, of which the term of such land use right is 50 years from 1 June 2011 and the land use right certificate number is Bo Qiao Guo Yong (2011) No. 114, (ii) construction in progress, namely two completed integrated warehouse with building area of 31,342 square meters and two production workshops with building area of 18,239.4 square meters on the Industrial Site, and (iii) related interests, being the amortized value of fees rebate from transferring the land use right of the Industrial Site, which is beneficial to optimising the Company's industrial layout and in line with the Company's strategic development. The transfer was completed after Company received the consideration in full on 29 December 2016.

Bozhou Herbal Pieces is an indirect subsidiary of Tong Ren Tang Holdings, the controlling shareholder of the Company and is therefore a connected person of the Company. As such, the transactions contemplated under the assets transfer agreement constitute connected transactions of the Company under the Listing Rules. For details about the above-mentioned transactions, please refer to the relevant announcement of the Company dated 29 September 2016.

Save as disclosed above, there is no related party transaction or continuing related party transaction set out in Note 33 to the financial statements that falls into the category of connected transaction or continuing connected transaction that needs to be disclosed under the Listing Rules. The Company has fully complied with the disclosure requirements under Chapter 14A of the Listing Rules with respect to the connected transactions and continuing connected transactions of the Company.

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.

PRE-EMPTIVE RIGHT

The shareholders of the Company do not have pre-emptive rights under the PRC Laws and the Articles of Association of the Company (the "**Articles of Association**").

DONATIONS

Cash charitable donations made by the Group for the year ended 31 December 2016 amounted to RMB1,025,000 (2015: RMB80,000).

PERMITTED INDEMNITY PROVISION

Subject to the applicable laws and the coverage of the director liability insurance the Company placed for the Directors, every Director shall be entitled to be indemnified against all costs, charges, losses, expenses and liabilities incurred by him or her in the execution and discharge of his or her duties or in relation thereto. Such provisions were in force during the course of the year ended 31 December 2016 and remained in force as of the date of this report.

INDEPENDENT AUDITORS

The accompanying financial statements of this report were audited by PricewaterhouseCoopers. The Company did not change its independent auditors in any of the past three years. The Audit Committee was satisfied with the work of the independent auditors, their independence and objectivity. PricewaterhouseCoopers and PricewaterhouseCoopers Zhong Tian LLP were proposed by the Board to be respectively re-appointed as the overseas auditor and domestic auditor of the Company for the year of 2017 which is subject to approval at 2016 AGM of the Company.

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

Beijing, the PRC
24 March 2017

Report of the Supervisory Committee

To the shareholders:

The supervisory committee of Tong Ren Tang Technologies (the "**Supervisory Committee**") has executed its duties and powers earnestly, safeguarded the rights and interests of the shareholders as well as the interests of the Company, complied with the principle of good faith, fulfilled the Company's trust and took the initiative in carrying out its work in a reasonable, cautious and diligent manner pursuant to the provisions of the Company Law of the PRC, relevant laws and regulations of Hong Kong and the Articles of Association.

During the year, the Supervisory Committee reviewed cautiously the operation and development plans of the Company and put forward reasonable suggestions and opinions to the Board. It also strictly and effectively monitored and supervised the significant policies and specific decisions made by the management of the Company to ensure that they were in compliance with the laws and regulations of the PRC and the Articles of Association, and in the interests of the Company's shareholders.

The Supervisory Committee have reviewed earnestly and approved the report of the Board, audited financial statements and the dividend payment proposal to be presented by the Board at the forthcoming 2016 AGM. We are of the opinion that the Directors, general manager and other senior management of the Company have strictly complied with the principle of good faith, and have worked diligently, exercised their authority faithfully in the best interests of the Company, and executed various tasks pursuant to the Articles of Association so that the Company is operated within the regulatory framework, and the internal control regime is increasingly improving. The transactions between the Company and associated companies were executed on terms in the interests of the shareholders of the Company as a whole and at fair and reasonable prices. Up till now, none of the Directors, general manager or senior management of the Company has been found to have abused their authority, damaged the interests of the Company or infringed upon the interests of the shareholders and employees of the Company, or to have been in breach of any laws or regulations or the Articles of Association.

The Supervisory Committee is satisfied with the various tasks carried out by the Company in 2016 and the economic benefits generated therefrom. It has full confidence in the future development outlook of the Company.

By Order of the Supervisory Committee
Tong Ren Tang Technologies Co. Ltd.
Ma Bao Jian
Chairman of the Supervisory Committee

Beijing, the PRC
24 March 2017

Corporate Governance Report

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 Listing Rules as the Company's standards, and combined them with its own experience, aiming to establish a good corporate governance structure.

BOARD OF DIRECTORS

The Company's business and operation are led and authorized to be managed by the Board. Several powers shall be entrusted by the Board to the management, so that the management can formulate and implement the Company's scheme and operational planning, as well as conducting the Company's daily operation. The Board tries its best to monitor the performance of the management, while it is the management's responsibility to conduct the daily operation of the Company.

The Board has established three special committees, namely the Audit Committee, the Remuneration Committee and the Nomination Committee, to supervise the specific affairs of the Company. According to the requirements of the Listing Rules and other related laws, the Board and the special committees shall discharge their respective duties in accordance with the well-established written terms of reference.

The Board convenes meetings regularly and when significant decision has to be made. The Board convened twelve meetings in 2016 to discuss and decide development strategies, major operational matters, financial matters and other matters of the Company as stipulated under the Articles of Association. The following table sets out the attendance of Directors to the Board meetings, committee meetings, general meetings, and conferences between the Chairman and independent non-executive Directors in the year of 2016:

	The number of times of attendance/meeting					
Directors	**Board meeting**	**Audit Committee meeting**	**Remuneration Committee meeting**	**Nomination Committee meeting**	**General meeting**	**Conference between the Chairman and independent non-executive Directors**
Executive Directors						
Gao Zhen Kun *(Chairman)*	12/12		2/2	2/2	3/3	1/1
Gong Qin[1]	11/11				2/2	
Gu Hai Ou	12/12				3/3	
Rao Zu Hai[2]	1/1				1/1	
Li Bin	12/12				3/3	
Wang Yu Wei	12/12				3/3	
Fang Jia Zhi	12/12				3/3	
Independent non-executive Directors						
Tam Wai Chu, Maria	12/12	3/3		2/2	3/3	1/1
Ting Leung Huel, Stephen	12/12	3/3	2/2		3/3	1/1
Jin Shi Yuan	11/12	3/3	2/2	2/2	2/3	1/1

Note 1: On 16 December 2016, Mr. Gong Qin retired from the position of executive Director and the Vice-Chairman of the sixth session of the Board. Mr. Gong Qin attended all eleven meetings of the Board in person during his tenure.

Note 2: At the 2016 EGM, Mr. Rao Zu Hai was elected as an executive Director of the sixth session of the Board. Mr. Rao Zu Hai attended the one meeting of the Board in person during his tenure.

Note 3: All of the Directors attended in person rather than by proxy.

Composition of the Board of Directors

The Directors are elected at the general meetings for a term of office of three years, and can be re-elected when the term expires. The sixth session of the Board was elected at the 2014 AGM with the term of office ending upon the conclusion date of the AGM to be convened in 2018. For details about the resume of the Directors are set out on pages 57 to 58 of this report.

The independent non-executive Directors are independent from the management with solid experience in business or finance. They make recommendations to the Board and management on the strategic development of the Company, and provide balancing mechanism to protect the interests of shareholders and the Company as a whole.

All of the three independent non-executive Directors have been serving for more than nine years. In a circular dispatched to the shareholders on 15 April 2015 regarding the re-election of such independent non-executive Directors, the Company has confirmed the independence of the three persons and set out the reasons for their re-election pursuant to the provisions of the Listing Rules. Each of them was re-elected as the independent non-executive Director at the 2014 AGM by a separate resolution. Please refer to the circular of the Company dated 15 April 2015 and the announcement of the Company dated 9 June 2015 for details.

According to the requirements of the Listing Rules, the Company has received a written confirmation of the independence from each of such independent non-executive Directors for the year of 2016. The Company considers that all independent non-executive Directors are independent from the Company.

At any time during the year ended 31 December 2016, the Board had complied with the minimum requirement of the Listing Rules in relation to the appointment of at least three independent non-executive directors and the number of independent non-executive directors being at least one-third of the members of the board of directors, as well as the requirement of having one independent non-executive director with appropriate professional qualifications or accounting or related financial management expertise.

As is known to the Company, the Directors, Supervisors and senior management of the Company do not have any relationship among themselves in financial, business, family or other material aspects other than working relationship in the Company.

Responsibilities of the Board and the Management

According to the requirements of the Articles of Association, the Board is responsible to the general meeting and exercises the following powers:

- to convene general meetings and report its work to the general meeting;
- to implement the resolutions of general meetings;
- to determine the Company's business plans and investment plans;
- to formulate the Company's plans on annual financial budgets and final accounts;
- to formulate the Company's profit distribution plans and plans on making up losses;
- to formulate the plans for increase or decrease of the registered capital of the Company and issue of corporate bonds;
- to formulate plans for merger, division and dissolution of the Company;
- to determine the establishment of the Company's internal management structure;
- to appoint or remove the manager of the Company and to appoint or remove the deputy manager and chief financial officer of the Company based on the nomination by the manager and to determine their remunerations;
- to formulate the basic management system of the Company;
- to formulate proposals for amendment to the Articles of Association; and
- to determine the establishment of specific committees and to appoint and remove the relevant persons in charge.

Pursuant to the provisions of the Code, the Board exercises the following powers in respect of corporate governance:

- to formulate and review the principles and policies of the Company's corporate governance;
- to review and monitor the implementation of corporate governance policies by the Company as a whole and to ensure compliance with statutory and regulatory requirements;
- to review the Company's compliance with the Code and other rules applicable;
- to approve the Company's annual corporate governance report and its publication on the websites of the Hong Kong Stock Exchange and the Company;
- to formulate, review and monitor the shareholder communication policy to ensure its effectiveness;
- to review and monitor the training and continuous professional development of the Directors and senior management; and
- to handle other corporate governance issues that the Board shall be responsible for.

According to the requirements of the Articles of Association, the management is the executives of the Company, shall be accountable to the Board and exercises the following powers:

- to lead the Company's production, operation and management, and to organize the implementation of the Board's resolutions;
- to organize the implementation of the Company's annual business plans and investment plans;
- to draft plans for the establishment of the Company's internal management structure;
- to draft the Company's basic management system;
- to formulate the basic rules and regulations of the Company;
- to propose the appointment or dismissal of the Company's deputy manager(s) and chief financial officer;
- to appoint or dismiss management personnel other than those required to be appointed or dismissed by the Board; and
- to exercise other powers conferred under the Articles of Association and by the Board.

Chairman of the Board and General Manager

Mr. Gao Zhen Kun is the Chairman of the Board and Mr. Wang Yu Wei is the general manager of the Company. The Chairman of the Board and the general manager of the Company are two clearly defined positions. The Chairman of the Board is responsible for the operation of the Board while the general manager is in charge of day-to-day operational management. The Board formulated and approved The Terms of Reference of Chairman and General Manager, which sets out their respective duties and powers in written form.

Continuous Professional Development of Directors

The Directors should participate in continuous professional development to develop and update their knowledge and skills in order to ensure that they continue making contributions to the Board in an informed and appropriate manner. The Company is responsible for arranging appropriate training and providing relevant funding with appropriate emphasis on the roles, functions and duties of a director of the Company. In the year ended 31 December 2016, New Directors have participated in induction programs, covering the continuing obligations of the Directors, code of conduct and corporate governance, etc., so as to ensure that they have knowledge and understanding of the Group's operation as well as their relevant roles and duties. All of the Directors were arranged to participate in trainings in relation to responsibility for disclosure of interests, disclosure of inside information and transactions of securities by the Directors. The Company also issued compliance memorandum for daily work of the Directors, Supervisors and members of the senior management to all of the Directors, so that they can continue to familiarize themselves during their performance of duties. In addition, the Directors also participated in relevant trainings or studied reading materials according to the actual needs for performance of their duties. These materials includes information in respect of inside information, connected transactions, corporate internal control and risk management, which may deepen the Directors' understanding and get them informed of the regulation and standardized operation of listing companies and in turn effectively facilitate the improvement of duty performance.

Directors' Attendance to Training Courses and Reading/Studying Training Materials

Directors	Responsibilities of directors	Corporate governance	Legal/ regulatory requirements	Inauguration training (for newly-elected Directors)	Other
Executive Directors					
Gao Zhen Kun	✓	✓	✓		✓
Gong Qin	✓	✓	✓		✓
Gu Hai Ou	✓	✓	✓		✓
Rao Zu Hai	✓	✓	✓	✓	✓
Li Bin	✓	✓	✓		✓
Wang Yu Wei	✓	✓	✓		✓
Fang Jia Zhi	✓	✓	✓		✓
Independent Non-executive Directors					
Tam Wai Chu, Maria	✓	✓	✓		✓
Ting Leung Huel, Stephen	✓	✓	✓		✓
Jin Shi Yuan	✓	✓	✓		✓

FINANCIAL REPORTING

The management provides members of the Board with updated information on a monthly basis, setting out relevant accounts data and financial position of the Company. This is to ensure Directors have sufficient information and knowledge about the Company's affairs to effectively fulfill their responsibilities and obligations.

The Directors acknowledged their responsibility for preparation of financial statements which shall give a true and fair view of the Company's financial situation, business performance and cash flows for the year. In preparing the financial statements for the year, the Directors have:

1. approved the adoption of the International Financial Reporting Standards;

2. selected and applied appropriate accounting policies;

3. made reasonable judgments and estimates; and

4. prepared the financial statements on a going concern basis.

The Board recognizes the importance of good corporate governance, transparency and its accountability to shareholders, and it has present a balanced, clear and understandable assessment in the annual and interim reports and other financial disclosures of the Company as required under the Listing Rules, and reports to regulators as well as information required to be disclosed pursuant to statutory requirements.

RISK MANAGEMENT AND INTERNAL CONTROL

The Board is responsible for evaluating and determining the nature and extent of the risks the Group is willing to take in achieving its strategic goals, so as to ensure that the Group establishes and maintains appropriate and effective risk management and internal control systems, and oversees management in the design, implementation and monitoring of the risk management and internal control systems, and is also responsible for reviewing the effectiveness of the systems. Such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss. Meanwhile, the terms of reference of the Audit Committee cover its duties in respect of risk management, including supervision of relevant risk management system to ensure that the system conforms to the strategies and risk tolerance of the Group.

The Group has established its risk management and internal control system and issued the relevant reports with reference to certain documents, including the Basic Standard for Corporate Internal Control, the Guidelines for Corporate Internal Control Assessment, the Rules for the Preparation and Reporting of Information Disclosure by Listed Issuers of Securities No. 21 – General Provisions on the Annual Internal Control Assessment Report and the Internal Control Evaluation Manual.

The Group has internal audit functions. A dedicated internal audit department will independently review the operation of each department of the Group on a regular basis to identify violation and risk, if any, and propose suggestions therefor to cope with the identified risks. The internal audit department carries out comprehensive risk identification and streamline countermeasures within the scope of the Group in order to update the Group's risk list and countermeasures on a semiannual basis, evaluate the overall effectiveness of risk management of the Company, suggest relevant treatment (if necessary) and explain the critical findings and internal audit process and results to the Audit Committee with an independent report.

The Group adopts a three-level risk management and monitoring model comprising risk management, risk supervision and independent review, in order to identify, assess and manage material risks with the following procedures including formulation and implementation of strategy; risk identification, assessment and response; risk monitoring report and early warning; risk treatment; and supervision and evaluation of risk management. In case of material risk or serious internal monitoring omission, relevant units shall immediately report to the internal audit department and members of corporate management, who shall promptly hold a meeting to discuss treatment methods and finally approve the solutions for material risk or serious internal monitoring omission.

The Group has formulated a series of risk management and internal monitoring systems and relevant supporting operation guidelines. For instance, the Company has promulgated the Information Disclosure Management System to regulate the disclosure procedure of inside information and other types of information. With the aforesaid monitoring systems and guidelines, the Company has established a standard and effective risk management and internal monitoring systems so as to safeguard the assets of the Group and interests of shareholders.

Preparation and implementation of risk management strategies	Set up risk assessment criteria and develop risk reference tables to classify the categories of risks, the magnitude of impacts and the possibilities of occurrence.
Identification of risks	The relevant units regularly identify the risks with potential impacts on their operations and submit the risk management self-checklist.
Assessment of risks	The relevant units assess the impacts of the identified risks on their business and the possibilities of their occurrence and the effectiveness of existing monitoring measures.
Response to risks	The relevant units give weighting to risks and benefits and select the risk response solutions according to the results of risk assessment and by taking into account the causes of risk and tolerance.
Monitoring reports and early warning of risks	The relevant units monitor the risk relief work, and submit to the Group's audit department Report on Self-examination of Risks every six months.
Treatment of risks	The internal audit department summarizes and arranges the self-examination of relevant units, reports to the management and provides the corresponding treatment plan.
Supervision and assessment of risk management	The audit department of the Group prepares a comprehensive risk management and internal control supervision and evaluation report on a regular basis and submits it to the management and Audit Committee, and the Board for review.

Major risks and response measures

In 2016, the material risks listed by the Group included operational risk, financial risk, policy risk, etc., During the year, with the increase in sales volume of the Group, the amount of accounts receivable also increased accordingly, thus the Company might be exposed to the risks such as, among others, shortage of liquidity, and loss from bad debt. Meanwhile, as affected by the industry characteristics and the expand of scale of the Group, the inventory amount of the Group was relatively large and might has the risks of depreciation and damage to goods. In addition, as the "Tong Ren Tang" brand used by the Group enjoys a high reputation, willful infringement, adverse behaviors in the industry and other emergencies had uncertainty risks against the product sales of the Group. In addition to the above newly identified risks, other material risks decreased generally as compared with the last year.

For the identified material risks, the Group has taken proactive measures to cope with various risks.

For the risks of increase in amount of trade receivables, the Group continued to strengthen credit management and delivery management and control, and stopped delivery to the distributors who had used up annual line of credit. Meanwhile, more efforts have been exerted to assess the speed and quality of payment collection from distributors. The Company has intensified distribution of distributors' inventory and organized more terminal promotion activities to promote the backflow of payment for goods of distributors, thus expediting payment collection from distributors.

For the risks caused by the large inventory amount, the Group has grasped the quantity and costs of various raw material inventories from smooth information channels and formed a linkage mechanism to reasonably arrange the use of funds to prevent tie-up of funds by inventory, in order to avoid the unplanned purchase of raw materials. In the meanwhile, the Group has sorted out inventory varieties and rationally arranged procurement plan in accordance with the production and sales plans to maintain a reasonable inventory and optimise the inventory structure, so as to ensure supply while reducing the tie-up of funds.

For the uncertain risks from the emergencies in relation to "Tong Ren Tang" brand, the Group has prepared a good brand protection emergency mechanism, in which the brand management department will cooperate with all relevant departments in collecting the emergencies in relation to the "Tong Ren Tang" brand in a timely manner and set up relevant measures to maintain the image of the "Tong Ren Tang" brand.

The Board has reviewed the risk management and internal control system for the period from 1 January 2016 to 31 December 2016 at the Board meeting held on 24 March 2017. The chief auditor, special internal audit department and Audit Committee have reviewed the effectiveness of internal control systems of the Company and its subsidiaries covering financial, operational, compliance and risk management procedures.

In addition, the review of the Directors will also take into account the adequacy of resources, staff qualification and experience, and training programs and the relevant budgets of the Company's accounting and financial reporting function. For the year end of 31 December 2016, the Group had no material monitoring error or monitoring weakness, and the Board is satisfied that the risk management and internal control system of the Group are working effectively and implemented on an ongoing basis. The Group will continue to improve the internal control system and strengthen the risk management function as necessary, so as to continuously optimize the risk management and internal control system.

AUDIT COMMITTEE

The Company has set up an Audit Committee with specific written terms of reference and duties pursuant to the relevant requirements of the Listing Rules and "A Guide For The Formation of An Audit Committee" complied by the Hong Kong Institute of Certified Public Accountants. Its primary duties are to review and monitor the completeness and effectiveness of the Company's financial 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.

REMUNERATION COMMITTEE

The Company has established the Remuneration Committee according to the relevant provisions of the Listing Rules with specific written terms of reference and duties. Its primary duties are to make proposals to the Board with respect to the overall remuneration policy and framework for Directors, Supervisors and senior management of the Company and the establishment of formal and transparent procedures for formulating the remuneration policy.

The Remuneration Committee is chaired by Mr. Jin Shi Yuan, an independent non-executive Director and the members comprise an executive Director, Mr. Gao Zhen Kun, and an independent non-executive Director, Mr. Ting Leung Huel, Stephen, which is in compliance with the requirement of the Listing Rules that independent non-executive directors shall form the majority of the remuneration committee.

According to Rule B.1.2 of the Code, the Remuneration Committee of the Company makes proposals to the Board with respect to the remuneration packages for individual executive Directors and senior management, including non-monetary benefits, pension rights and compensation (including the compensation for the loss or termination of office or appointment). The exact amount shall be determined by the Board according to the general meeting's authorisation.

During the year of 2016, two meetings have been held by the Remuneration Committee. At the meeting held on 12 March 2016, the Remuneration Committee reviewed and discussed the matters including the Directors', Supervisors' and senior management' emoluments for the year ended 31 December 2015 as well as the Directors' and Supervisors' relevant service contracts. At the meeting held on 16 December 2016, the Remuneration Committee discussed matters including the remuneration and related services contracts of newly appointed Executive Directors, and made recommendations to the Board.

NOMINATION COMMITTEE

The Company has established the Nomination Committee with specific written terms of reference and duties according to the relevant provisions of the Listing Rules. Its primary duties include (among others):

i. reviewing the framework, size and composition including skills and professional knowledge of the Board on a regular basis and making proposals to the Board in respect of any proposed change;

ii. reviewing the Board diversity policy regularly, including but not limited to gender, age, cultural and educational background as well as professional experience, and reviewing any measurable objectives that it has set for implementing the Board diversity policy and progress on achieving those objectives; and

iii. identifying individuals suitably qualified to become Board members and selecting or making recommendations to the Board on the selection of individuals nominated for directorships.

The Nomination Committee is chaired by Mr. Gao Zhen Kun, the executive Director and the Chairman of the Board and the members comprise two independent non-executive Directors, namely Miss Tam Wai Chu, Maria and Mr. Jin Shi Yuan, which is in compliance with the requirement of the Listing Rules that independent non-executive directors should form the majority of the Nomination Committee.

Factors set out in Rule 3.13 of the Listing Rules shall be considered by the Nomination Committee while assessing the independence of the independent non-executive Directors.

During the year of 2016, two meeting was held by the Nomination Committee. At the meeting held on 12 March 2016, the Nomination Committee reviewed and discussed the structure, size and composition of the Board. At the meeting held on 25 October 2016, the Nomination Committee identified suitably qualified individuals who could take up the position of Director, selected and nominated the relevant individuals for appointment as Executive Directors of the Company, and advised the Board accordingly.

In addition, the Nomination Committee assessed the independence of the independent non-executive Directors; and reviewed the adequacy of time devoted by Directors in performing their duties.

The Nomination Committee also attaches importance to the diversity of Board composition, which is believed to be beneficial for the Board as well as the Company. The Company established a policy in respect of the diversity of the Board Composition. In reviewing and evaluating the Board composition and making recommendations to the Board on appointment of new Directors, the Nomination Committee shall take account of the benefits of diversity in various aspects as well as the factors including integrity of relevant persons, their accomplishments and the time they can devote to the Company, in order to maintain an appropriate scope and the balance between expertise, skills, experience and background of the Board members. The Nomination Committee will make discussion to agree upon all the measurable targets to realize the diversity of Board composition each year, including but not limited to genders, ages, culture and educational backgrounds and professional experiences, and propose relevant targets to the Board for adoption.

COMPLIANCE WITH THE CODE

For the year ended 31 December 2016, the Company had always strictly complied with the code provisions contained in the Code.

During the year of 2016, the Board reviewed the Company's compliance with the Code and other rules related, formulated and revised the rules in respect of the corporate governance, and approved the Company's annual corporate governance report and its publication on the websites of the Hong Kong Stock Exchange and the Company.

DIRECTORS' AND SUPERVISORS' DEALINGS IN SECURITIES

The Company has adopted a Code of Conduct formulated on the basis of the Model Code regarding securities transactions by the Directors and Supervisors on terms no less exacting than the required standards contained in the Model Code. Having made specific enquiry to all the Directors and Supervisors, all of them confirmed that they had strictly complied with the required standards set out in the Model Code and the Code of Conduct of the Company in the year ended 31 December 2016.

INDEPENDENT AUDITOR'S REMUNERATION

PricewaterhouseCoopers and PricewaterhouseCoopers Zhong Tian LLP were the overseas auditor and domestic auditor of the Company respectively for the year ended 31 December 2016. Other than annual auditing services, they also provided non-audit services for the Company and other members of the Group.

The independent auditors' remuneration in respect of its audit and non-audit services for the year ended 31 December 2016 is set out in the section "auditor's remuneration" of Note 24 to the Consolidated Financial Statements.

SHAREHOLDER'S RIGHTS AND COMMUNICATIONS WITH SHAREHOLDERS

The Board and senior management recognize that they represent the interests of all shareholders and that they need to enhance the value of the Company in full force. The major rights enjoyed by shareholders and how to enforce them are highlighted in the chapters of "Shareholders' Rights and Obligations" and "Shareholders' General Meetings" of the Articles of Association.

The Company attaches great importance to the communication with the shareholders and investors. The Company uses a number of channels to account for the performance and operations of the Company to shareholders, particularly our periodical reports such as annual and interim reports. In addition to delivering circulars, announcements and financial reports to our shareholders, the Company also publishes its corporate information on its website (http://www.tongrentangkj.com) by electronic means. The general meeting provides a good opportunity for the communication between the Board and Company's shareholders. The Company regards the general meeting as an important event and all Directors, Supervisors, senior management and the Chairmen of the Audit Committee, the Remuneration Committee and the Nomination Committee should make an effort to attend and answer questions raised by the shareholders. For the year ended 31 December 2016, the Company made great efforts to hold conferences and/or conference calls, as well as arranged field trips for investors.

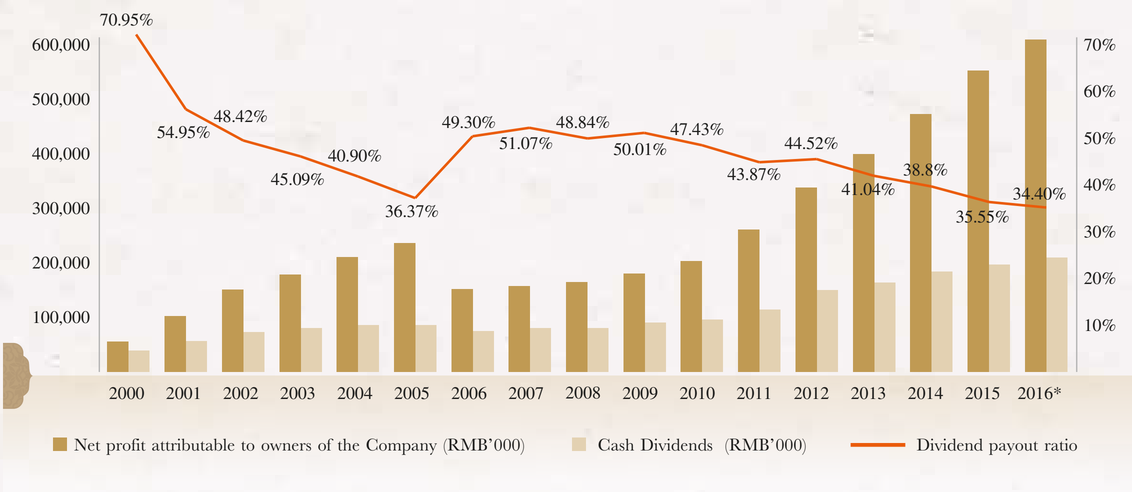
The Company encourages the shareholders to involve in the Company's affairs and to discuss the corporate business and prospects directly at the AGMs or extraordinary general meetings.

Pursuant to the Articles of Association, two or more shareholders together holding 10% or more of the shares conferring the right to vote at extraordinary general meeting can sign and submit one or more written requests in the same format and content to the Board to request the convening of an extraordinary general meeting, with the issues to be discussed clearly stated. The Board shall convene an extraordinary general meeting as soon as possible upon receiving such written request(s). If the Board fails to issue a convening notice within 30 days after the receipt of such written request(s), the shareholders making the request may convene an extraordinary general meeting on their own within four months after the Board's receipt of such request(s). The procedure for convening the meeting shall be consistent with that for convening shareholder meetings by the Board to the greatest extent possible.

At the AGM convened by the Company, shareholders holding 5% or more of the total voting shares shall have the right to make new proposals to the Company in writing. The Company shall incorporate the issues raised in the proposal that fall within the terms of reference of the general meeting into the meeting agenda.

Enquiries may be made to the Board either by contacting the Company Secretary through office and mailing address as set out under the "Corporate Information" section of this report or directly by raising questions at AGM or extraordinary general meeting.

Sticking to the principle of sustainable returns to the shareholders, the Company has been distributing cash dividends each year since its listing. As at 31 December 2016, the Company has distributed cash dividends totaling approximately RMB1.614 billion. Set out below are the net profits attributable to owners of the Company (As previously stated) and the total amount of cash dividends since the Company's listing.



* *The cash dividend for the year 2016 is subject to the shareholders' approval at the 2016 AGM.*

ARTICLES OF ASSOCIATION

For the year ended 31 December 2016, no amendment was made to the Articles of Association.

Directors, Supervisors and Senior Management

EXECUTIVE DIRECTORS

Mr. Gao Zhen Kun, aged 53, the chairman of the Company, is a senior accountant with a postgraduate qualification. He previously served in Beijing Tong Ren Tang Medicinal Materials Co., Ltd. as the general manager and the Party Branch secretary, and in Tong Ren Tang Ltd. as the chief accountant, the deputy general manager, the Party Committee secretary, a director and the general manager. Mr. Gao is currently a director, the general manager and the vice secretary of the Party Committee of Tong Ren Tang Holdings, the chairman of Tong Ren Tang Ltd., the chairman of Beijing Tong Ren Tang Commercial Investment Group Co., Ltd., and a director of Beijing Tong Ren Tang Investment Development Co., Ltd. and Chinese Medicine Group. He is also a member of Dongcheng District's 16th National People's Congress of Beijing. Mr. Gao was appointed as a Director at the 2014 AGM.

Mr. Gu Hai Ou, aged 51, is a licensed pharmacist and a senior engineer with a master's degree in medical science. He was formerly the vice general manager, the chief engineer and the chairman of Tong Ren Tang Ltd.. Mr. Gu is currently the vice general manager of Tong Ren Tang Holdings, a director of the Company and Tong Ren Tang Ltd.,. Mr. Gu was appointed as a Director at the 2014 AGM.

Mr. Rao Zu Hai, aged 42, holding a management postgraduate degree. Mr. Rao previously served as the manager in the capital management department of South Industry Assets Management Co., Ltd. with the adjunct post of general manager in Beijing North Crystal Technology Investment Consulting Co., Ltd.. Mr. Rao currently serves as a vice general manager of Tong Ren Tang Holdings and the general manager of Beijing Tong Ren Tang Investment Development Co., Ltd..Mr. Rao was appointed as a Director at the 2016 EGM.

Mr. Li Bin, aged 43, is an engineer with a university qualification. He formerly served as the head of the general manager office of the Company and the deputy head of the manager office, the assistant to the chairman of Tong Ren Tang Holdings. Mr. Li is currently the deputy general manager and the secretary to the board of directors of Tong Ren Tang Holdings. Mr. Li was appointed as a Director at the 2014 AGM.

Mr. Wang Yu Wei, aged 49, is a senior engineer with a postgraduate qualification. He formerly served as the deputy officer of the new technology development center and the deputy factory manager of Factory 2 of Beijing Tong Ren Tang Pharma, the assistant to the general manager and the deputy general manager of the Company. He is currently the general manager of the Company, the director of Tong Ren Tang Tangshan Healthcare, Tong Ren Tang Technologies Tangshan, Chinese Medicine Group and Tong Ren Tang Second Traditional Chinese Medicine Hospital and the executive director of Nansanhuan Zhonglu Drugstore. He is also a member of the Fengtai District's 14th, 15th and 16th National People's Congress of Beijing. Mr. Wang was appointed as a Director at the 2008 AGM.

Ms. Fang Jia Zhi, aged 50, is a senior auditor with a university qualification. She formerly served as the deputy head and head of audit department of Tong Ren Tang Holdings, the deputy chief accountant of the Company. She is currently the chief accountant of the Company, the director of Tong Ren Tang Yanbian, Tong Ren Tang Anhui, Tong Ren Tang Zhejiang, Tong Ren Tang Hebei, Tong Ren Tang Hubei, Tong Ren Tang Nanyang, Tong Ren Tang Tongke, Tong Ren Tang WM, Tong Ren Tang Xing An Meng, Tong Ren Tang Tangshan Healthcare, Tong Ren Tang Technologies Tangshan and Tong Ren Tang Chengdu, and the supervisor of Nansanhuan Zhonglu Drugstore. Ms. Fang was appointed as a Director at the 2008 AGM.

Directors, Supervisors and Senior Management

INDEPENDENT NON-EXECUTIVE DIRECTORS

Miss Tam Wai Chu, Maria, aged 71, GBM, GBS, JP, LL.D (Honoris Causa), LL.B (Honours), barrister, is currently also an independent non-executive director of other seven companies listed on the Hong Kong Stock Exchange namely Guangnan (Holdings) Limited, Minmetals Land Limited, Nine Dragons Paper (Holdings) Limited, Sa Sa International Holdings Limited, Sinopec Kantons Holdings Limited, Wing On Company International Limited, and Macau Legend Development Limited. She was a member of the Preparatory Committee for the Hong Kong Special Administrative Region (PRC), Hong Kong Affairs Advisor (PRC) and a member of the Operations Review Committee of the ICAC. She is currently the chairman of the Operations Review Committee, a member of the Witness Protection Review Board and the ex-officio member of the Advisory Committee on Corruption of the ICAC (effective from January 2015). She is a member of the National People's Congress of The People's Republic of China and a member of the Hong Kong Basic Law Committee. Miss Tam was appointed as an independent non-executive Director on 11 October 2000.

Mr. Ting Leung Huel, Stephen, aged 63, MH, FCCA, FCPA (Practising), ACA, CTA (HK), FHKIoD, is the chairman of the Audit Committee and a member of the Remuneration Committee of the Company. He is a non-executive director of Chow Sang Sang Holdings International Limited and an independent non-executive director of other six listed companies namely Tongda Group Holdings Limited, New Silkroad Culturaltainment Limited Company Limited, Computer And Technologies Holdings Limited, Texhong Textile Group Limited, Dongyue Group Limited and China SCE Property Holdings Limited respectively. Mr. Ting is a member of the 9th, 10th and 11th Chinese People's Political & Consultative Conference, Fujian. Mr. Ting is an accountant in public practice and the managing partner of Messrs. Ting Ho Kwan & Chan, Certified Public Accountants (Practising). Mr. Ting was appointed as an independent non-executive Director on 11 October 2000.

Mr. Jin Shi Yuan, aged 90, a chief pharmacist, is currently the Chinese medicine investigation expert in state secret technology for the State Ministry of Science and Technology, evaluation expert in Chinese medicine project for the National Natural Science Foundation of China, appraisal expert in science and technology achievements for the State Administration of Traditional Chinese Medicine, appraisal expert in basic medicines for the State Food and Drug Administration, and representative successor to Chinese medicine preparations technology in State nonmaterial cultural heritages. Mr. Jin is also a lifelong councilor of the China Association of Traditional Chinese Medicine, member of the Committee on Clinical Medicine Evaluation Experts, consultant to the Council of Beijing Association of Traditional Chinese Medicine, postdoctoral mentor of China Academy of Chinese Medical Sciences, guest professor of the School of Chinese Medicine of Capital University of Medical Sciences and Beijing University of Chinese Medicine, Master in Traditional Chinese Medicine, Capital Renowned Expert of Chinese Medicine and the technical consultant of China National (Group) Corporation of Traditional & Herbal Medicine. He was appointed as an independent non-executive Director on 16 October 2000.

SUPERVISORS

Ms. Ma Bao Jian, aged 53, chief supervisor, is a senior accountant with a master's degree. She was formerly the vice minister and acting minister of Financing Plan Department, the head of the Financial Operation Department, and the deputy chief accountant of Tong Ren Tang Holdings. She is currently the deputy general manager of Tong Ren Tang Holdings, the chief supervisor of Tong Ren Tang Ltd. and a director of each of Beijing Tong Ren Tang Commercial Investment Group Co., Ltd., Beijing Tong Ren Tang Medicinal Materials and Shen Rong Investment Group Co., Ltd., Beijing Tong Ren Tang Health Pharmaceutical Co., Ltd., Beijing Tong Ren Tang Pharmaceutical Co., Ltd. and Beijing Tong Ren Tang Traditional Chinese Medicine Hospital, the chairman of Beijing Tong Ren Tang Biological Product Development Co., Ltd.. Ms. Ma was elected as a Supervisor at the 2013 AGM.

Mr. Wu Yi Gang, aged 58, holding a bachelor degree of law, was admitted as a solicitor in 1984 and started practice in the same year. Mr. Wu founded Wu Luan Zhao Yan Law Firm in Beijing in 1994 and has been the managing partner of the firm since then. He served as one of the arbitrators of the first session of the Beijing Arbitration Commission in 1995. He currently serves as the deputy director of Foreign Affairs Committee of Beijing Lawyers Association, and member of the First Council of Beijing Club of Non-Party Senior Intellectuals. He was appointed as a Supervisor at the extraordinary general meeting on 22 October 2003.

Ms. Ding Guo Ping, aged 53, is an assistant accountant with a university qualification. She previously served as deputy head of the investment and audit department as well as the subsidiary management department of the Company. Ms. Ding is currently the vice chairman of the labor union of the Company. She was elected as a Supervisor in 2015.

SENIOR MANAGEMENT

Mr. Bai Jian, aged 57, is a deputy chief pharmacist with a university qualification. He formerly served as the head of the foreign economic relations and trade section, the assistant to the factory manager, the deputy factory manager of Factory 2 of Tong Ren Tang Pharma, the deputy factory manager of pharmaceuticals factory of Tong Ren Tang Ltd. and the factory manager of southern pharmaceuticals branch factory of Tong Ren Tang Ltd. and the deputy general manager of the Company. He is currently the secretary to the Party Committee and the general auditor of the Company, a director of each of Tong Ren Tang Yanbian, Tong Ren Tang Anhui, Tong Ren Tang Zhejiang, Tong Ren Tang Hebei, Tong Ren Tang Hubei, Tong Ren Tang Nanyang and the chairman of Tong Ren Tang WM.

Mr. Li Da Ming, aged 59, is a senior engineer with a postgraduate qualification. He formerly served as the secretary of the Party Committee of Beijing Tong Ren Tang Pharmacy, the factory manager of Factory 3 of Beijing Tong Ren Tang Pharm, the manager of the Beijing Tong Ren Tang Medicinal Herbal Wine Branch, the factory manager of the North Branch of Tong Ren Tang Ltd., and the deputy general manager of the Tong Ren Tang Chinese Medicine. He is currently the deputy general manager of the Company, the chairman of Tong Ren Tang Tangshan Healthcare, Tong Ren Tang Tongke, and the chairman and the general manager of Tong Ren Tang Technologies Tangshan.

Ms. Liu Cun Ying, aged 52, is a senior accountant with a university qualification. She formerly served as the chief of the finance section of supply station of Tong Ren Tang Holdings, the deputy manager of the sale branch of the Company, and the assistant to the general manager of the Company. She is currently the deputy general manager of the Company and the chairman of Tong Ren Tang Xing An Meng.

Ms. Guo Gui Qin, aged 52, is a senior engineer and a licensed pharmacist with a postgraduate qualification. She formerly served as the deputy manager of the import and export branch of the Company, and the assistant to the general manager of the Company. She is currently the deputy general manager of the Company, and the director of Tong Ren Tang Xing An Meng, Tong Ren Tang Tongke, Tong Ren Tang Tangshan Healthcare and Tong Ren Tang Technologies Tangshan.

Mr. Yang De Chun, aged 53, a Pharmacist-in-charge with a postgraduate qualification. He formerly served as the assistant to the factory manager and the deputy factory manager of Beijing Tong Ren Tang Pharma; the deputy factory manager in charge of production and the deputy manager of southern branch factory, the deputy factory manager, the factory manager and the secretary to the Party Committee of northern branch factory of Tong Ren Tang Ltd.; the deputy secretary to the Party Committee, the secretary to the Disciplinary Inspection Committee and the chairman of the labour committee of the Company. He is currently the deputy general manager of the Company, the chairman of Tong Ren Tang Chengdu, and the director of Tong Ren Tang Technologies Tangshan.

Ms. Zhang Jing Yan, aged 43, is a licensed pharmacist with a master degree in economics. She formerly served as a securities representative of Tong Ren Tang Ltd.. She is currently the secretary to the Board and the Company secretary.

Environmental, Social and Governance Report

The Board believes that a sound environmental, social and governance structure is vital for the development of the Group. In addition to business growth, the Group has been pursuing excellence in environmental protection, social responsibility, corporate governance and other areas. Meanwhile, the Company also expects to enhance its transparency of operation to achieve and uplift the sense of social responsibility. With reference to its own experience, the Group primarily adopts the principles and basis of Environmental, Social and Governance Reporting Guide set out in Appendix 27 to the Listing Rules as its standards, with an aim to establish a sound environmental, social and governance structure.

As the fourth Environmental, Social and Governance Report published by the Group, this report is a review of its performance in environmental, social and governance areas, which sets out the Group's (for the purposes of this report, it does not include Tong Ren Tang Chinese Medicine (8138.HK) and its subsidiaries) policies and practices in four aspects, namely working environment, operational management, public welfare and environmental protection for the period from 1 January 2016 to 31 December 2016. This report is designed to allow shareholders, investors and the public to have a more comprehensive and profound understanding of the Group's corporate governance and culture.

The report contains only the information of the Group for the year 2016 due to changes in the calculation method and change in caliber. In the future, the Group will disclose the Environmental, Social and Governance Report periodically and continuously publish trend data based on this report to provide the public with the Group's latest updates in these aspects. For any suggestion or opinion on this report or the Group's environmental, social and governance work, please kindly send it to the Company through our communication channels.

ENVIRONMENTAL

Emissions

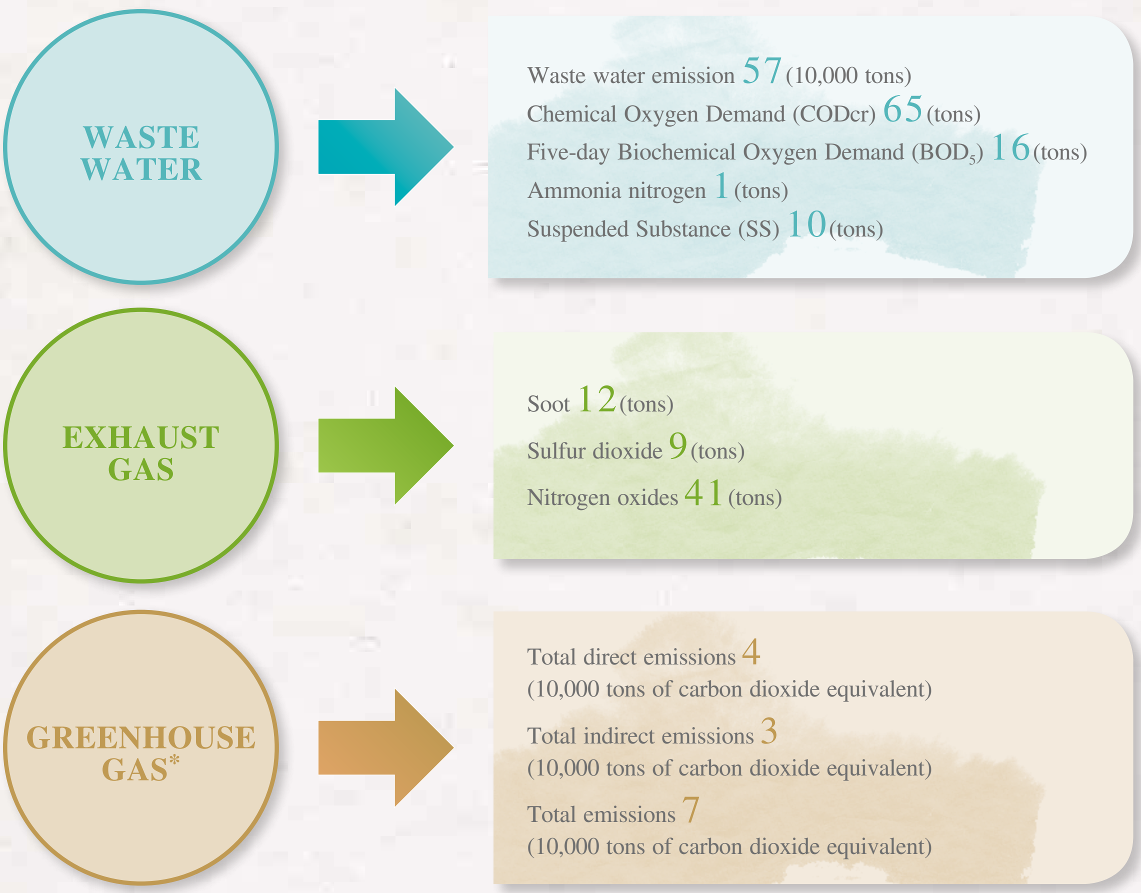
The Group has attached great attention to the construction and improvement of environment protection management system, continuously focused on the problem of pollutant emission during production and operation, meanwhile supervises its own discharge data.

The Group has strictly abided by national and local laws and regulations, such as Environmental Protection Law of the People's Republic of China, Air Pollution Prevention Law of the People's Republic of China, the Laws on Promoting Clean Production of the People's Republic of China. It has also formulated relatively complete regulations and systems including the Management System on Environmental Protection, the Management System on Clean Production and the Management Procedure for Environmental Protection, which further realized the objective of clean production, energy-saving, consumption reduction, pollution reduction and efficiency improvement, meanwhile has controlled the discharge of various pollutants to the extreme extent.

During production and operation, the Group has actively advocated clean production, energy saving and emission reduction. It has controlled the creation of pollutants from the source through continuous efforts to strengthen environmental protection. Via usage of clean energy including natural gas, solar energy and other measures, the Group reduced the creation of exhaust gas pollutants from the source and also reduced the environmental contamination caused by noise emission to the utmost extent. Within the year, in order to realize the objective of energy saving and consumption reduction and further reduce environmental influence, some production units of the Group changed the original high energy-consumption motors to new-type energy-saving motors to reduce electricity consumption. At the same time, in order to reduce the environmental influence caused by exhaust gas to the utmost extent, the Group adopted all sorts of energy-saving and environmental protection boilers including biofuel boilers, natural gas boilers, energy-storage electric boilers to replace the original coal consuming boilers step by step, meanwhile gradually utilized clean energy such as natural gas to reduce coal consumption. During the Reporting Period, some production units purchased exhaust gas condensation and recovery type boilers which can pressurize exhaust gas from the original boiler for secondary combustion, thereby reducing natural gas consumption and nitrogen oxide emissions. At the same time, the Group also paid attention to the detection of pollutant concentration and ensured the emissions of various pollutants to meet national and local environmental protection regulations so as to protect enterprise and nearby community environment to the utmost extent.

During 2016, emissions from the Group's production process mainly include carbon dioxide, sulfur dioxide, nitrogen oxides, wastewater (mainly containing such pollutants as COD, BOD, ammonia nitrogen and suspended substances), etc.

The main pollutant emissions of the Group during the Reporting Period is illustrated as below:



* *Greenhouse gases are mainly carbon dioxide, methane, and nitrous oxide.*

Resource use

The Group advocates a green office concept which integrates a low-carbon operation principle into production and operation, with an aim to develop towards paperless, energy-saving and low-carbon offices, and minimize the consumption of fossil fuel, wood, water, electricity and other natural resources and energy. The Group has adopted OA, ERP and other information management platforms at all levels and tapped on electronic communication means including teleconferencing and video conferencing. The Group has also exercised stringent control on the consumption of paper, portfolios, crates and other paper products, and made strenuous efforts in reducing the use of non-biodegradable articles such as plastics, inks, chemical fiber, electronic equipment and other consumables.

The Group is also in light of the green production concept, achieving the purpose of energy conservation, consumption reduction and pollution reduction. To save all sorts of energy, the Group has took many approaches during production such as, among others, improving process procedures, boosting technological level, upgrading production equipment, and also applied many measures among others, including LED energy-saving lighting, installation of steam timing switches. In the process of production, the Group has taken measures such as LED energy saving lighting, installation of steam timing switch, improving of technological processes, upgrading of technical content, upgrading production equipment, and other measures to save all kinds of resources. On conservation and recycling of water resources, circulating water systems are employed across our production process to minimize consumption of water resources, and tertiary treated wastewater is used for lawn irrigation. Moreover, we has encouraged employees to participate in designing solutions of energy saving and consumption reduction, to continuously improve their environmental awareness.

The energy consumption of the Group during the Reporting Period is illustrated as below:

Power
3,388 (10k kwh)

Coal
1 (10k tons)

Steam
1 (10k tons)

Natural gas
637 (10k cubic meters)

Water
74 (10k tons)

Cultivate the environmental protection concept of staff

CONSERVE WATER

Advocate employees for saving water and strengthen the daily overhaul and maintenance of water equipment

CONSERVE POWER

Use energy-saving environmental protection lamps to cultivate employees' awareness of energy-saving

GREEN TRAVEL

Provide regular bus for part of the line to reduce the use of cars for travel

CONSERVE PAPER

Reduce the use of paper and promote the use of e-mail and electronic office platform.

ENVIRONMENTAL AND NATURAL RESOURCES

The Group has taken all sorts of traditional Chinese medicinal material as main raw material of which production and operation may have a some slight effects on environment and natural resources. The Group has actively fulfilled social responsibilities, stuck to the principle of paying equal attention to development and environmental protection, properly utilized all sorts of resources and put environment protective actions into practice so as to minimize the influence on the ecological system caused by production and operation.

SOCIAL

Employment and staff standards

The Group attaches importance to development and growth of talents, and believes that realization and promotion of employees' value will help to achieve the Group's overall goals. The Group highly recognizes employees' contributions to its business growth. The Group also provides skill training, career planning and development opportunities to the staff as well as humanistic cares to each employee, seeking to create a platform for mutual growth and sharing of success between the Group and employees.

Employee Criteria and Policy

The employee recruitment and utilization standards of the Group base strictly complied with the relevant laws of the PRC including Labor Law of the People's Republic of China, Labor Contract Law of the People's Republic of China, and the Law of the People's Republic of China on Protection of Minors. The Group has maintained strict recruitment system and process to avoid employment case of child labor and forced labor. In case of any suspected irregularity above, the Group will immediately assist the victim employee in reporting to the police or relevant labor authorities in strict compliance with national laws and regulations, and will take every effort to cooperate in investigation. Should the case be confirmed, the Group will promptly affix the responsibility of the person liable. During the Reporting Period, the Group did not exist any child labor, forced labor or any other violations.

To maintain a rational and adequate personnel structure, the Group has established qualifications and requirements specific to different posts, which are taken as criteria in recruitment. The Group's recruitment channels include campus recruitment, social recruitment and internal referral. Each candidate is subject to verification of academic qualifications and professional skill certificates as well as relevant interviews. The Group adheres to the principle of equal pay for equal work without any discrimination due to gender, age, race, religion, cultural and educational background or any other factors, and enters into written employment contracts with all employees on the basis of equality, free will and consensus.

The Group has also established a rigorous and prudent dismissal process in accordance with national laws and regulations. The Group may terminate employment contract with an employee who involves in serious dereliction of duty or severe violation of national laws and regulations or the Group's rules and regulations, in which case the procedures shall be handled in accordance with the Management System on Service Termination and Retirement of Employees of the Group.

Structure of Employees

The Group understands and recognizes the benefits of the diversity of staff, which is regarded as one of the key elements to maintaining its competitive strengths in the long run. A company with a wide diversity of cultures should be inclusive of employees with different genders, ages, skills, educational backgrounds, industry experiences and other qualities in order to achieve the most suitable composition and balance.

STRUCTURE OF THE GROUP EMPLOYEES

The Group had 3,160* employees in total.

Male/Female 1.2:1.

THE GROUP EMPLOYEES BY AGE

Aged below 30	38%
Aged 30-39	26%
Aged 40-49	17%
Aged 50 and above	19%

THE GROUP EMPLOYEES BY ACADEMIC QUALIFICATION

Post-graduate and above	3%
University	27%
College graduate	24%
High School and below	46%

STRUCTURE OF THE COMPANY EMPLOYEES

The Company had 2,090 employees in total.

Male/Female 1.5:1.

THE COMPANY EMPLOYEES BY AGE

Aged below 30	42%
Aged 30-39	22%
Aged 40-49	13%
Aged 50 and above	23%

THE COMPANY EMPLOYEES BY ACADEMIC QUALIFICATION

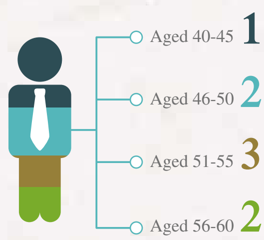
Post-graduate and above	4%
University	33%
College graduate	23%
High School and below	40%

The Company had 118 employees with intermediate or senior titles which accounted for 5.6% of the total headcount, 117 ethnic minority employees which accounted for 5.6% of the total headcount, and 25 handicapped employees which accounted for 1.2% of the total headcount.

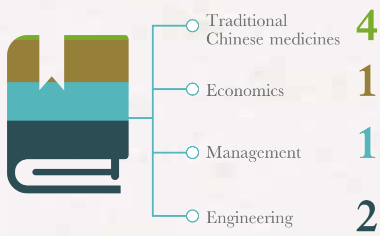
* *The number of employees of Tong Ren Tang Chinese Medicine and its subsidiaries are not included.*

The diversity policy for employees also applies to the Company's senior management. As at 31 December 2016, the Company had a male/female composition of 1:1 for senior management contained in this report, with the breakdowns by age and specialty illustrated as below:

SENIOR MANAGEMENT OF THE COMPANY BY AGE



SENIOR MANAGEMENT OF THE COMPANY BY SPECIALTY



The Group believes that an appropriate personnel turnover can bring new vitality continuously, which is conducive for its long-term healthy development. During the Reporting Period, the Company recorded a personnel inflow of 83 persons, representing an inflow ratio of 4.0%; a personnel outflow (including departures, retirees and personnel dead due to illness.) of 110 persons, representing an outflow ratio of 5.3%.

Employee Training and Development

With a focus on employee growth needs and career planning, the Group has established an assessment system and promotion mechanism integrating training, use and evaluation of talents, in order to build up a sound career-development platform for employees. The virtuous cycle of talent cultivation, utilization and identification lays a solid foundation for and plays as a strong driver to the Group's sustainable development and the self-growth of employees.

The Group adopts the principle of unified management and tiered training for its staff education and training work and it has a multi-layer system with diversified format of training in place. The Group also provides a wide range of training sessions each year for all employees covering management, quality standards, skills and extended areas. Upon joining the Group, new employees must participate in pre-service training in relation to the Company's corporate culture, corporate policies and goals, production safety, necessary skills, etc. A series of training courses are provided to senior management and middle management on anti-corruption practices of leaders as well as trainings for middle and senior management in listed companies. The Group will evaluate the training effects subsequently, so as to enhance the pertinence and effectiveness of training, which has further enhanced the technical skills and professional literacy of the Group's employees of each level with satisfactory results.

Training sessions organized by the Company: over 300 sessions
Attendees of the Company to the training sessions: over 20,000 persons

The Group, based on the nature and job characteristics of each position, has identified three career advancement pathways, namely operation management, professional technique and technical operation. The Group encourages and organizes qualified employees to participate in professional technical training programs and examinations, and issues letters of appointment as appropriate to qualified employees who passed the examinations and obtained certificates based on the actual work requirements. They are also entitled to allowances for the corresponding positions. Meanwhile, the Group also encourages employees to participate in various vocational qualification examinations, and allows adequate free time for professional technical and vocational personnel to participate in training or continuing education specific to their posts or specialties in expectation of their fulfillment of self-worth and career development goals.

The Group also maintains a "Pyramid Talent Project" catering to its development plan and needs to cultivate, discover and select technical talent with excellent technical and business skills, under which talents are classified into experts, chief technicians, chief workers, outstanding young talents, etc. and bonus is provided monthly so as to establish a fleet of professional leaders supported by a pool of backup talents at different levels to serve at various positions, such as scientific research, quality, production, sales and management, so as to build a development channel for ordinary employees. For the year ended 2016, 214 employees were appointed as the "Pyramid Talent" of the Company, represents an increase of 16 persons during the year.

CRAFTSMANSHIP IN SUBTLETY, TONG REN TANG PILL-MAKING EXPERT XUE LIAN GUI AND HIS APPRENTICES

Xue Lian Gui was addicted in traditional Chinese medicine preparations since he joined Tong Ren Tang in 1980 and has become an expert in the field of applied technology of dosage forms including micro pill, paste pill, water pill, condensed pill, water-honeyed pill and so on. What Mr. Xue often says is: "As a pills maker, our responsibility is to consider and meet demand of the patients". Mr. Xue uses his several-decade-long exquisite craftsmanship to demonstrate the stories behind the inheritance manual pill-making, this special technique. He also demonstrates the spirit of craftsman inherited by several generations of employees of the old enterprise.

Employee Rights and Benefits

The Group actively guarantees and safeguards the rights and interests of employees, and lays stress on enhancing the sense of belonging of employees, and improves all kinds of employee benefits on an ongoing basis.


The fifth anniversary of "Sail" magazine since its first publication

Remunerations of the employees of the Group are determined with reference to the prevailing market level as well as the competency, qualifications and experience of individual employee. Discretionary bonuses based on individual performance will be paid to the employees as recognition of and as rewards for their contributions to the Group. Other statutory benefits include contributions by the Group to the endowment insurance, medical insurance, unemployment insurance, employment injury insurance, maternity insurance and housing fund. Meanwhile, in continually updating and improving its employee remuneration policy and system, the Group takes full consideration of the balanced growth between employee remuneration and the Company's business performance, to ensure an equal access to and sharing of value according to employees' contribution. The working time of employees in the Group complied with related requirements in Labor Law of the People's Republic of China and Labor Contract Law of the People's Republic of China. The Group's employees are entitled to statutory holidays prescribed by PRC, as well as paid leaves for circumstances including ethnic minority events such as the Lesser Bairam Day, participation in parents' meetings and preschool children vaccination. Furthermore, employees' bonuses, allowances, subsidies and benefits during paid leaves are distributed in accordance with relevant requirements of the State and the Company. Apart from paying the premium for basic medical insurance for employees, the Group also has set up a supplementary medical insurance system to complement basic medical insurance, which further enhance medical benefit for employees by establishing a tiered healthcare protection system. A mechanism is also in place to provide a certain percentage of medical expense reimbursement for family members of qualified employees to lessen their burden. During the Reporting Period, the Group visited sick and retired employees and gave their care and support in the form of financial aid and sympathy expense.

During 2016, the Group made every effort to improve the working environment and facilities, endeavoring to provide a pleasant and comfortable workplace for all employees. In addition, the Group has nearly ten canteens at different workplaces for daily provision of over 100 nutritious and varied healthy foods. Within 2016, the Company hosted learning and exchange activities about cooking skills. Through competition, learning and exchange between different cooking skills, the quality and types of dishes in the canteen have been further improved.

The Group lays emphasis on employees' rights to know and to speak. For this purpose, it has established the system for employee representatives' meetings as well as labor union in accordance with the law, which has provided smooth and effective communication channels to the employees. Moreover, the Group has delivered latest corporate news to all staff in a timely manner through various means, such as the Office Automation Platform ("OA Platform"), internal publications, advertising board and questionnaires. The Group also listens to and adopts employee's opinions and suggestions, whereby appropriate measures are taken in a timely manner to address their concerns and protect their interests.

The Group takes efforts to promote the balance between life and work for employees, and provides venues and facilities such as basketball courts, badminton halls, gymnasium and multi-purpose halls, and organizes various activities from time to time. The Group also provides employees with clean and comfortable reading and painting rooms, and publishes internal periodicals such as "Sail (起航)", "Speak and Hear (亦聲亦聞)", "Our Voices (通聞同聲)" and "Home Growth Talks (成長家話)" to enrich their cultural life. During the Reporting Period, the Group organized a total of more than 30 events, including the Basketball Tournament, Chess Competition, Walking, Fun Games, outing folk songs, and the number of participants was nearly 4,000. These activities not only helped the employees to relieve stress and enjoy an enriched lifestyle, but also established a platform for employees to express themselves and communicate with each other.

The lecturing competition of “I am a Trainer”

Quality-extended training

A friend-making and social activity “Romantic Era, My Deskmate”.

“Red Flag” performance

Employee Health and Safety

Under the Management Procedures for Employees’ Healthcare and the Management Procedures on Hygiene and Employees’ Health Conditions, the Group arranges regular physical examinations for all employees each year. For employees engaged in occupational hazards, the Group strictly implements relevant provisions in the Law of the PRC on Prevention and Control of Occupational Diseases and relevant labor protection regulations, and seeks to reduce the incidence of occupational diseases through physical examinations, recuperation and other measures.

The Group has continued to promote safe production to protect its employees, and formulated three-leveled safety inspection regulations and standards which include factory level, workshop level and group level. It has also established a good preventive mechanism. Through the safe officer’s daily inspection, the Group has supervised and troubleshot safety risks in a timely manner to continuously strengthen the construction of safe production standardization. In the same time, dedusting, denoising and poison-proof devices are furnished at production workshops, where standard identification marks for hazard articles are in place and inflammables and explosives are stored and used according to strict requirements. Production staffs are provided with worker-protection item such as protective articles with a view to minimize the negative impact on employees’ health.

The Group also holds regular drills on fire evacuation, self-help and escape each year to strengthen safety and self-protection awareness of employees to avoid of accidents in workplace. Furthermore, the Group also carries out monitoring and evaluation of occupational hazards in production premises on a regular basis. Within 2016, some industrial units under the Company invited the third party to detect microwave, dust and other occupational hazards. The results met related national standards and realized the objective to prevent, control and eliminate occupational hazards and improve the working environment.

OPERATIONAL MANAGEMENT

The Group strives to provide clients and consumers with quality and safe products to establish good reputation and credibility. In addition to ensuring product sanitation and safety through the production process, the Group places great emphasis on sustainable and effective supply chain management in order to ensure compliant operation of the Company. In addition, the Group is dedicated to consolidating and enhancing the legitimacy of business environment, to maintain a healthy and rational environment for development. The Group requires employees strictly comply with our code of conducts to eliminate corruption, bribery, fraud or any form of dishonesty in a bid to strengthen our integrity.

Supply Chain Management

As a time-honored traditional Chinese medicine brand, Tong Ren Tang is well known throughout the world by virtue of its "high quality materials". As such, supply chain management is always one of the key links in the Group's quality control system. With a focus on product quality risk management, the Group keeps a close eye on quality and safety crisis signals of its medicines. Attaching great importance to product compliance, the Group organizes self-inspections and rectifications in a timely manner to ensure product quality.

To ensure the quality of the purchased raw materials, auxiliary ingredients and packaging, the Group has strictly complied with the Law of the People's Republic of China on the Administration of Pharmaceuticals, Good Manufacturing Practice ("**GMP**") and relevant laws and regulations, and established supplier management systems, such as Management Regulations about Suppliers of Traditional Chinese Medicine Material, Management Regulations about Suppliers of Raw Material, Auxiliary Ingredient and Packaging Material, Management Regulations about Supplier Audit, Evaluation and Approval. The Group has adopted standardization management toward material purchasing, and has clarified supplier qualifications, selection standards, quality auditing and evaluation standards and material quality evaluation standards to establish an increasingly complete management system.

The Group exercises a high level of scrutiny over the selection of suppliers. Based on adequate qualifications, suppliers are subject to assessment and on-site audits on product quality as well as suitability and quality consistency tests made by our quality department. Suppliers must pass the audits and assessment before being included into the "Qualified Supplier List".

Based on material risk, the Group has adopted level-to-level administration on material which is classified into four levels, A, B, C and D. The Group has classified the risk level of different material supplier accordingly. Aiming at different risk level, the Group has formulated corresponding audit cycle, meanwhile combined with the supplier annual review and risk evaluation results to formulate supplier audit plan for the next year. In 2016, the Company increased audit frequencies on material suppliers with high risks so as to further reduce material purchasing risks and ensure product quality.

At the same time, the Group also carries out long-term quality monitoring and regular reviews on all suppliers. At the end of each year, the Company will take a comprehensive evaluation on the qualifications and quality of material suppliers and adopt different handling methods for suppliers according to evaluation results.

PROCESSING OF THE SUPPLIER'S ANNUAL REVIEW RESULTS

Level I suppliers	Level II suppliers	Level III suppliers	Level IV suppliers
Priority Procurement for the new year		Rectification within the time limit; if the rectification fails, the qualification will be cancelled	Directly cancel the qualification

During routine management, in case of a significant change in supplier qualification or serious quality issue, the Group will suspend the material delivery of the supplier immediately and, if necessary, cancel its qualification as a qualified supplier to ensure pharmaceutical quality and safety of the Group.

Product Liability

The Group has strictly complied with Law of the People's Republic of China on the Administration of Pharmaceuticals, Law of the People's Republic of China on Product Quality, Good Manufacturing Practices for Pharmaceutical Products, Administrative Measures on Adverse Drug Reaction Reporting and Monitoring and other national laws and regulations about product safety so as to ensure product safety. Especially, most products of the Group belong to medicine, so ensuring product quality and safety is no doubt the top priority of the Group's work.

The Group's quality control is executed primarily in accordance with relevant requirements of GMP, GSP, the ISO9001 quality management system and the Group's internal quality control standards. The Group has formulated a complete set of quality inspection management standards covering traditional Chinese medical raw materials, auxiliary ingredients, packaging materials, semi-finished and finished products, which detailed the requirements for various objects, methods and coverage of tests.

Under a comprehensive source-to-end management framework, the Group implements strict acceptance inspections from raw material procurement, sourcing and storage, which shall be suspended upon identification of any quality defect.

PROFESSIONAL ACCREDITATION AND CONTROL OF QUALITY

The Company takes the internal control standards for the raw materials quality control. Meanwhile, the Company has developed a raw material source identification of internal control standard, to prevent the mix of raw materials from the different sources. The Company has professional acceptance and inspection teams, with the experts in medicinal materials to firstly carry out appearance character inspection for the raw materials, and implement the all-item inspection for the content of raw materials lot by lot through professional inspection teams and professional equipment detection, and control their quality strictly.

During the production, the Group has always followed the provisions of "No compromise on labour cost despite the complexity of processing herbal medicines. No compromise on material resources despite the scarcity of medicine ingredients", sticking to strict product quality control throughout the production process, and has won sound reputation. The Group conducts the whole process monitoring through building the quality personnel dispatch system and three-level quality supervision and management system to strictly ensure the product quality. Inspections in the production process are mainly conducted through random sampling in accordance with the Group's internal control standards formulated based on national standards. In case of substandard product in the production process, the quality officers have the right of one-vote veto to ensure our products fully comply with the quality requirements. During 2016, the Group has carried out the careful and comprehensive on-site inspection of the production workshops monthly from time to time in strict accordance with, and controlled the product quality rigorously through strengthening the site management and control.

Meanwhile, the Group will keep upgrading and improving its production equipment to improve the technology and process standards, and ensure the quality of the products. During the Reporting Period, the Yizhuang branch plant of the Company achieved automation of the granule workshop packaging process, which further reduced the error rate of packaging, and improved the quality of the products. Within 2016, no products are recalled due to product quality issue.

The Group has carried out advertisement promotion in accordance with the law, further protected the rights and interests of consumers and safeguarded the brand image of "Tong Ren Tang". The Group has strictly complied with the relevant laws and regulations, including Advertising Law of the People's Republic of China, Measures for the Administration of Medical Advertisement, Drug Administration Law of the People's Republic of China, Measures on the Review of Drug Advertisements, and formulated internal management systems of the Group such as Measures for Administration of Advertisement Promotion and Administration System for Internal Review on Dissemination of Online Information. It has also established systems for management procedures, review and filing of advertisements. The Group has strictly implemented the above measures to ensure the legal compliance of the Group's advertisement promotion and stringently prohibited any acts that would cause damage to the image of the Company and the brand such as illegal advertisements.

Consumer Services

Upholding the principle of honesty and trustworthiness, we endeavor to provide correct information for consumers to safeguard their rights to know, seeking to build up a trustable service ecosystem for them.

The Group places great emphasis on safe medication of patients and attaches great importance to the monitoring and reporting of adverse drug reaction. We has strictly complied with the relevant laws and regulations, including Administration Measures on Reporting and Monitoring of Adverse Drug Reaction, Rules for Implementation of Administration Measures on Reporting and Monitoring of Adverse Drug Reaction in Beijing. The Group has also developed relevant management regulations for reporting and monitoring of adverse drug reaction as well as the processes thereof, enabling the Group to monitor adverse reaction actively and report the results to the National Center for Adverse Drug Reaction Monitoring (國家藥品不良反應監測中心) in a timely manner. The Group has also established a market observer patrol system. The market observers paid visits to various provinces and cities such as Shandong, Jiangsu and Hunan in the PRC in 2016, focusing on inspection on potential illegal product promotions and suspected counterfeit products in order to further standardize market order, prevent potential risks and protect interests of consumers and the Company.

The Group has established standard operational procedures which are strictly implemented for dealing with pharmaceutical enquires, complaints and handling. The after-sales service inspection department of the Company will record consumers' visits and incoming calls in detail, and patiently explain and reply their enquiries. In case of product complaints, the department will carry out investigation promptly and handle the cases properly. During the Reporting Period, the Company received over 3,000 cases of consumer enquires and complains through its customer service hotline with a handling ratio of 100%, effectively safeguarding the legitimate interests of each consumer.

Anti-Corruption

In strict compliance with national laws and regulations and its internal policies, the Group requires its employees abstaining from such misconducts as offering or accepting bribery and corruption in any circumstance.

To effectively carry out the integrity campaign, the Group continues to improve its internal audit rules and regulations, and the internal control system with an aim at strengthened internal supervision, risk management and anti-corruption management. A chief auditor has been appointed to build up the Group's internal audit monitoring and internal control system. To reduce operation risks, an internal audit department is also in place to exercise monitoring over the issues of the Group including financial incomes and expenses, budgets, final accounts, asset quality, operating performance and other economic activities as well as infrastructure projects, major technological upgrades and other internal investments. The Group has also formulated the Management System on Internal Supervision Information Feedbacks and supervision complaints channels to encourage all employees to participate in supervision by giving feeding backs and reporting any internal operational defects or irregularities through multiple channels. Based on ensuring the relevant personnel avoidance and keeping confidentiality for the complainant, the Group has conducted investigation and verification, and prepared the responsibility investigation scheme and remedy and rectification measures, submitted them to the manager office for research handling, and decide. For those being suspected of committing crime, the Group will timely accuse, report and strictly prohibit any forms of illegal operation activities such as bribery, fraud and corruption, so as to promote the Group's operation compliance with laws. During the Reporting Period, these rules and systems played a sound control and preventive role in risk control and anti-corruption management of the Group, and no material defect was identified. During 2016, no relevant lawsuit with corruption were occurred in the Group.

CONDUCTING THE LECTURES RELATED TO EDUCATION OF ANTI-CORRUPTION POLITICS BY THE COMPANY

The Company has continued to strengthen construction of a clean government, and organized nearly a hundred of new leading cadres to hold "the klatch of a clean government" during 2016, continuously improved the awareness of organizational discipline, and incorruptibility and self-discipline of the leading cadres at all levels, enhanced moral cultivation and achieved self-respect, self-examination, self-alertness and self-excitation at all time, and firmly established the ideological and moral defense against corruption.

PUBLIC WELFARE

Through over 300 years since its inception, Tong Ren Tang has been firmly adhering to the philosophy of "Take Righteousness as priority, and make Righteousness-based Profits", a heritage which has been and will be carried forward. As an integral part of its sustainable development, the Group actively gives back to the society while taking resources from it. Public welfare practice is not only an obligation, but also a compulsory course necessary in the growth and development road of the Group. Effectively integrating its business development with social responsibility, the Group extends active presence in public welfare activities under the motto of "Be Kind to the Society".

As the successor and disseminator of the Tong Ren Tang culture, the Group capitalizes on its expertise and strengths in "unique prescription, superior materials, superb technique, obvious effects" to actively deliver on its promise to public welfare. Continuous efforts were taken in caring public health in 2016. Scholars and experts in traditional Chinese medicines were organized to host welfare activities such as lectures and healthcare forums across the country, to promote the culture of traditional Chinese medicines and disseminate healthcare knowledge. The Group exclusively carried out "Let the Chinese Dream Dance, and Allow the Health to Be Shown Off – the First Session of National Aerobic Dance Competition for Seven Stars of Liuwei from Beijing Tong Ren Tang" in its name to popularize Chinese medicinal culture to the society, and spread family health management concept and family health preservation knowledge. It also conducted the theme activities of "Concern the Children Health, and Provide Help to Happy Life", and set up health lectures, parent-child athletic meetings in its name and other forms of cooperation, propagated the values of "Cultivating Kindheartedness, and Benefiting Mankind and Preserving Health" and popularized the medication common knowledge for children and paid attention to Children health. The Group believes that through persistent efforts, the healthy living and medication concept will be eventually delivered to each person.

WALKING INTO BEIJING TONG REN TANG – A OPEN DAY FOR STATE-OWNED ENTERPRISES IN BEIJING

In May, the Group invited the citizen representatives from some communities of Beijing to walk into the Tong Ren Tang Tangshan Healthcare to visit the whole process of the Ejiao production to show the Ejiao production process of ancient method, and promote traditional culture of Chinese medicine. By means of free trial of products and the health lectures given by the experts of traditional Chinese medicine, the public health awareness has been promoted.

Environmental, Social and Governance Report

The Group extends active presence in poverty relief and development of philanthropy to help disadvantaged groups in society. During 2016, the Group interpreted the concept of public welfare through a string of activities including “Angel’s Home Operation”, “Benevolent Salary Program”, “Warm Clothes in Winter” and “Donate our Love”, to trying our best to lend people in special needs, poverty-stricken areas and orphanages a helping hand and show them our cares, thereby putting our culture of righteousness into action.

“Love Drifting” Charity Sale

“Career Experience” Camp

“Warm Clothes in Winter” donation activity

The Group also encourages all employees to actively participate in volunteer activities and environmental protection activities, which allow our employees to take part in social services and promote the public welfare culture and spirit incorporating interaction, cares and understanding. During 2016, the Group’s young volunteer lecturer participated in the activity at the promotion day of the volunteer service of learning from Lei Feng, and gave careful medication consulting and explanation to the public, contributing his power to caring people’s health and popularizes the traditional culture of traditional Chinese medicine. Meanwhile, the Group continued to be committed to public environmental activities. We actively organized Voluntary Tree-planting Activities with “Care for Our Living Environment, Strive to be a Green Pioneer” as the theme, and continued to promote the green concept of low carbon living, so as to live up to Tong Ren Tang’s cultural motto of “Be Kind to the Society”

DISCLOSURE OF ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The Board approved this Environmental, Social and Governance Report for 2016 as well as its disclosure on the websites of the Hong Kong Stock Exchange and the Company.

Deloitte.

INDEPENDENT ASSURANCE REPORT

To the Board of Directors of Tong Ren Tang Technologies Co. Ltd (the "Board of Directors"):

We have been engaged by the Boards of Directors of Tong Ren Tang Technologies Co. Ltd (**"Tong Ren Tang Technologies**" or "**the company**"; *Tong Ren Tang Technologies* with its subsidiaries, joint ventures and affiliated companies, are collectively called "**the Group**") to perform a limited assurance engagement on the *Environment, Social and Governance Report* ("**ESG Report**") of its 2016Annual Report for the period from 1 January 2016 and 31 December 2016.

RESPONSIBILITIES OF THE BOARD OF DIRECTORS

The Board of Directors is responsible for preparing the ESG report in accordance with *Environmental, Social and Governance Reporting Guide* ("**ESG Reporting Guide**") issued by Hong Kong Stock Exchange, and its presentation (including reporting guidelines, limitations, reporting data and relevant identification procedures).

The Board of Directors is also responsible for determining its objectives in respect of ESG performance and reporting, including identification of stakeholders and material issues that are relevant to these stakeholders; establishing and maintaining appropriate performance management and internal control systems regarding the report performance information generation, and maintaining adequate records.

OUR RESPONSIBILITIES

In accordance with the agreed terms with Tong Ren Tang Technologies, we are responsible for the limited assurance engagement ("**Engagement**"), performing limited assurance process on the key Indicators in *2016 ESG report*, and expressing an opinion on whether there is any material mispresentation. This *Independent Assurance Report* ("**the Report**") is only for the Board of Directors, and for no other purpose. We do not accept or assume liability to any third parties for our work or the content in this report.

OUR INDEPENDENCE AND QUALITY CONTROL

We conducted our engagement in accordance with the independence and other ethical requirements in the *Code of Ethics for Professional Accountants* issued by the International Ethics Standards Board for Accountants. Our firm applies *International Standard on Quality Control 1*.

BASIS OF OUR WORK

We conducted our work in accordance with *International Standard on Assurance Engagements 3000: Assurance Engagements Other Than Audits or Reviews of Historical Financial Information* issued by the International Federation of Accountants. We planned and performed our work so as to obtain all the information and explanations which we considered necessary in order to provide sufficient evidence to form conclusions.

PROCEDURES' SCOPES AND LIMITATIONS OF OUR WORK

Our procedures performed include interviewing with *the Group's* personnel responsible for collecting, compiling and presenting the information, analyzing the information obtained, and other procedures relevant to the collection of necessary evidence. Specifically our procedures include:

- Interviewing the management and staff responsible for collecting and disclosing the information of *the Group*, to understand the procedure of identifying stakeholders and major issues concerned by key stakeholders, and controls relating to preparing the *ESG Report*;

- Based on the ESG Reporting Guide, reviewing whether the key information has been included in the ESG Report from comparing the sampled original documents of head office with the information in the ESG Report;

- Establishing the key ESG indicators and assurance standard in assurance process on the 2016 ESG Report with *the Group*;

- Sampling, recalculating and analyzing *Tong Ren Tang Technologies's* key ESG indicators, reviewing the consistency with our work results, and the effectiveness of the control on the ESG Report preparation procedure.

Limited assurance conducts process to confirm the credibility of information, and its scope is smaller than that of reasonable assurance. Our assurance engagement and report will not express an opinion on the effectiveness and performance of *the Group's* management system and procedure. Moreover, interviewing with external stakeholders and historical data are not within the scope of our work.

OUR CONCLUSIONS

Based on our work performed, nothing has come to our attention that would lead us to believe that there is any material mispresentation related to the key indicators in *the Group's 2016 ESG Report*.

This is translation of the Chinese language version of the Independent Assurance Report. If there is any conflict between the Chinese and English versions, the Chinese version will prevail.

Deloitte Touche Tohmatsu Certified Public Accountants LLP

24 March 2017

pwc 羅兵咸永道

To the Shareholders of Tong Ren Tang Technologies Co. Ltd.
(incorporated in the People's Republic of China with limited liability)

OPINION

What we have audited

The consolidated financial statements of Tong Ren Tang Technologies Co. Ltd. (the "Company") and its subsidiaries (the "Group") set out on pages 86 to 172, which comprise:

- the consolidated balance sheet as at 31 December 2016;
- the consolidated income statement for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

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T: +852 2289 8888, F:+852 2810 9888, www.pwchk.com

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter identified in our audit is related to realisability of inventories:

Key Audit Matter	How our audit addressed the Key Audit Matter
Realisability of Inventories Refer to Note 2.15 "Summary of Significant Accounting Policies – Inventories" and Note 4 "Critical Accounting Estimates and Judgements" to the consolidated financial statements. At 31 December 2016, the Group held inventories of RMB2,206,330,000. Inventories are stated at the lower of cost and net realisable value, and the latter is the estimated selling price in the ordinary course of business less estimated costs to completion and those necessary to make the sale. We focused on this area given the significance of inventories at 31 December 2016 and that management applies judgements in determining the appropriate level of provisions for inventories based on inspections and analyses of degree of obsolescence on various categories and types of inventories, pricing plans for different products, etc.	We obtained evidence over the appropriateness of management's assumptions in determining the net realisable value of inventories by: – evaluating and testing the Group's monitoring controls on analysing slow-moving indicators of raw materials and finished goods such as turnover ratios and aging structures on monthly basis as well as comparing sales budget with production plan, – checking the effectiveness of inventory controls operating across the Group including inspection of materials and products by quality officers as well as notification for products near expiries with follow-up actions, – attending physical observations at production premises and warehouses to identify any potential obsolescence and damages on the Group's inventories, – assessing the appropriateness and consistency of management's judgements and assumptions applied in estimating the provisions, and – comparing the net realisable values, obtained through sales prices subsequent to the year end, to the carrying cost of inventories to check for adequacy and calculation of provisions. Based on the above, we found that the assumptions and judgements applied by management on their assessment of the realisability of inventories were supported by the evidence we obtained.

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises all of the information included in the annual report other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF DIRECTORS AND AUDIT COMMITTEE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The Audit Committee is responsible for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Peter Man Kam Tsang.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 24 March 2017

Consolidated Balance Sheet

As at 31 December 2016

		As at 31 December	
	Note	**2016** **RMB'000**	2015 RMB'000 (Restated)
Assets			
Non-current assets			
Leasehold land and land use rights	6	**143,102**	152,258
Property, plant and equipment	7	**1,374,169**	1,055,978
Intangible assets	8	**82,785**	61,268
Investments accounted for using the equity method	10	**28,068**	21,339
Available-for-sale financial assets	12	**11,908**	–
Prepayments for purchase of property, plant and equipment		**33,805**	25,188
Deferred income tax assets	15	**38,199**	29,165
		1,712,036	1,345,196
Current assets			
Inventories	14	**2,206,330**	1,961,149
Trade and bills receivables	13	**792,498**	378,293
Amounts due from related parties	33(e)	**158,243**	111,033
Prepayments and other current assets		**127,151**	135,219
Short-term bank deposits	32(b)	**855,798**	724,261
Cash and cash equivalents	32(b)	**2,332,110**	1,548,130
		6,472,130	4,858,085
Total assets		**8,184,166**	6,203,281
Equity and liabilities			
Equity attributable to owners of the Company			
Share capital	16	**1,280,784**	1,280,784
Reserves	17	**3,122,400**	2,688,518
		4,403,184	3,969,302
Non-controlling interests	9	**1,481,924**	1,193,734
Total equity		**5,885,108**	5,163,036

Consolidated Balance Sheet (CONT'D)

As at 31 December 2016

		As at 31 December	
	Note	**2016 RMB'000**	2015 RMB'000 (Restated)
Liabilities			
Non-current liabilities			
Borrowings	19	**917,549**	470
Deferred income tax liabilities	15	**5,321**	7,267
Deferred income – government grants	18	**75,932**	86,254
		998,802	93,991
Current liabilities			
Trade and bills payables	20	**597,129**	376,176
Salary and welfare payables	21	**30,214**	22,693
Advances from customers		**69,737**	70,859
Amounts due to related parties	33(e)	**57,813**	48,864
Current income tax liabilities		**43,118**	49,746
Other payables		**291,245**	196,416
Borrowings	19	**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

The notes on pages 93 to 172 are an integral part of these financial statements.

The financial statements on pages 86 to 172 were approved by the Board of Directors on 24 March 2017 and were signed on its behalf.

Gao Zhen Kun
Chairman

Fang Jia Zhi
Director

Consolidated Income Statement

For the year ended 31 December 2016

	Note	2016 RMB'000	2015 RMB'000 (Restated)
Revenue	22	**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	23	**30,371**	24,090
Finance costs	23	**(11,098)**	(2,627)
Finance income, net	23	**19,273**	21,463
Share of loss of investments accounted for using the equity method	10	**(1,905)**	(3,534)
Impairment loss on an investment accounted for using the equity method	10	**(1,106)**	–
Profit before income tax		**1,023,505**	899,742
Income tax expense	26	**(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			
– Basic and diluted	27	**RMB0.47**	RMB0.42

The notes on pages 93 to 172 are an integral part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2016

	2016 RMB'000	2015 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

The notes on pages 93 to 172 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2016

	Attributable to owners of the Company									Non-controlling interests	Total equity
	Share capital (Note 16) RMB'000	Capital reserve (Note 17 (a)) RMB'000	Statutory surplus reserve fund (Note 17 (b)) RMB'000	Statutory public welfare fund (Note 17 (b)) RMB'000	Tax reserve (Note 17 (c)) RMB'000	Foreign currency translation differences (Note 17 (d)) RMB'000	Other reserve (Note 17 (e)) RMB'000	Retained earnings RMB'000	Total RMB'000	RMB'000	RMB'000
Balance as at 1 January 2015, as previously stated	1,280,784	414,100	294,709	45,455	102,043	(31,349)	139,047	1,304,799	3,549,588	886,566	4,436,154
Adoption of merger accounting (Note 36)	–	630	–	–	–	–	–	9,820	10,450	–	10,450
Balance as at 1 January 2015, as restated	1,280,784	414,730	294,709	45,455	102,043	(31,349)	139,047	1,314,619	3,560,038	886,566	4,446,604
Comprehensive income											
Profit for the year	–	–	–	–	–	–	–	541,032	541,032	201,549	742,581
Foreign currency translation differences											
– Group	–	–	–	–	–	30,464	–	–	30,464	48,070	78,534
– Joint ventures and associates	–	–	–	–	–	(673)	–	–	(673)	–	(673)
Transactions with owners in their capacity as owners											
Appropriation from retained earnings	–	–	44,904	–	–	–	–	(44,904)	–	–	–
2014 dividends paid to shareholders of the Company	–	–	–	–	–	–	–	(179,310)	(179,310)	–	(179,310)
2014 dividends paid to non-controlling interests	–	–	–	–	–	–	–	–	–	(50,820)	(50,820)
Acquisition of subsidiaries											
– non-controlling interests arising	–	–	–	–	–	–	–	–	–	106,880	106,880
– dilution gain upon share issuance	–	–	–	–	–	–	17,720	–	17,720	(17,720)	–
Capital injection from non-controlling interests	–	–	–	–	–	–	–	–	–	17,078	17,078
Disposal of partial interests in subsidiaries	–	–	–	–	–	–	31	–	31	2,131	2,162
Balance as at 31 December 2015, as restated	1,280,784	414,730	339,613	45,455	102,043	(1,558)	156,798	1,631,437	3,969,302	1,193,734	5,163,036

For the year ended 31 December 2016

	Attributable to owners of the Company										Non-controlling interests	Total equity
	Share capital (Note 16) RMB'000	Capital reserve (Note 17 (a)) RMB'000	Statutory surplus reserve fund (Note 17 (b)) RMB'000	Statutory public welfare fund (Note 17 (b)) RMB'000	Tax reserve (Note 17 (c)) RMB'000	Foreign currency translation differences (Note 17 (d)) RMB'000	Available-for-sale financial assets reserve RMB'000	Other reserve (Note 17 (e)) RMB'000	Retained earnings RMB'000	Total RMB'000	RMB'000	RMB'000
Balance as at 1 January 2016, as previously stated	1,280,784	414,100	339,613	45,455	102,043	(1,558)	–	156,798	1,621,066	3,958,301	1,193,734	5,152,035
Adoption of merger accounting (Note 36)	–	630	–	–	–	–	–	–	10,371	11,001	–	11,001
Balance as at 1 January 2016, as restated	1,280,784	414,730	339,613	45,455	102,043	(1,558)	–	156,798	1,631,437	3,969,302	1,193,734	5,163,036
Comprehensive income												
Profit for the year	–	–	–	–	–	–	–	–	595,654	595,654	255,335	850,989
Change in value of available-for-sale financial assets	–	–	–	–	–	–	(162)	–	–	(162)	(263)	(425)
Foreign currency translation differences												
– Group	–	–	–	–	–	42,915	–	–	–	42,915	75,921	118,836
– Joint ventures and associates	–	–	–	–	–	1,040	–	–	–	1,040	–	1,040
Transactions with owners in their capacity as owners												
Appropriation from retained earnings	–	–	48,090	–	–	–	–	–	(48,090)	–	–	–
2015 dividends paid to shareholders of the Company	–	–	–	–	–	–	–	–	(192,118)	(192,118)	–	(192,118)
2015 dividends paid to non-controlling interests	–	–	–	–	–	–	–	–	–	–	(85,376)	(85,376)
Capitalisation of earnings upon reform of Tong Ren Tang Second Traditional Chinese Medicine Hospital	–	10,371	–	–	–	–	–	–	(10,371)	–	–	–
Payment for business combination under common control (Note 36)	–	(13,500)	–	–	–	–	–	–	–	(13,500)	–	(13,500)
Capital injection from non-controlling interests	–	–	–	–	–	–	–	–	–	–	42,573	42,573
Others	–	–	–	–	–	–	–	53	–	53	–	53
Balance as at 31 December 2016	1,280,784	411,601	387,703	45,455	102,043	42,397	(162)	156,851	1,976,512	4,403,184	1,481,924	5,885,108

The notes on pages 93 to 172 are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 December 2016

	Note	2016 RMB'000	2015 RMB'000 (Restated)
Cash flows from operating activities:			
Cash generated from operations	32(a)	**611,059**	458,417
Interest paid		**(11,098)**	(2,627)
Income tax paid		**(189,956)**	(151,947)
Net cash generated from operating activities		**410,005**	303,843
Cash flows from investing activities:			
Purchase of property, plant and equipment		**(434,111)**	(174,180)
Purchase of land use rights		**(2,094)**	(3,441)
Purchase of available-for-sale financial assets		**(12,333)**	–
Purchase of other long-term assets		**(30,293)**	(7,711)
Proceeds from government grants relating to property, plant and equipment		**6,737**	19,279
Proceeds from transfer/disposals of property, plant and equipment		**98,228**	368
Proceeds from transfer/disposals of land use rights		**8,750**	–
Proceeds from short-term bank deposits		**719,261**	376,200
Increase in short-term bank deposits		**(813,643)**	(719,261)
Proceeds from wealth management products		**415,000**	25,000
Increase in wealth management products		**(400,000)**	(15,000)
Payment for business combination under common control	36	**(13,500)**	–
Acquisition of subsidiaries, net of cash acquired		**–**	3,203
Investments in associates		**(8,700)**	(3,150)
Interest received		**26,052**	22,911
Net cash used in investing activities		**(440,646)**	(475,782)
Cash flows from financing activities:			
Proceeds from issuance of bonds		**800,000**	–
Proceeds from borrowings		**330,000**	199,470
Repayments of borrowings		**(181,500)**	(122,000)
Capital injection from non-controlling interests		**42,573**	17,078
Dividends paid to shareholders of the Company		**(192,118)**	(179,310)
Dividends paid to non-controlling interests		**(85,376)**	(50,820)
Disposal of partial interests in subsidiaries		**–**	2,162
Others		**(2,121)**	–
Net cash generated from/(used in) financing activities		**711,458**	(133,420)
Net increase/(decrease) in cash and cash equivalents		**680,817**	(305,359)
Cash and cash equivalents at beginning of the year		**1,548,130**	1,785,571
Exchange gains on cash and cash equivalents		**103,163**	67,918
Cash and cash equivalents at end of the year	32(b)	**2,332,110**	1,548,130

The notes on pages 93 to 172 are an integral part of these consolidated financial statements.

1. GENERAL INFORMATION

Tong Ren Tang Technologies Co. Ltd. (the "**Company**") was incorporated as a joint stock limited company in Beijing, the People's Republic of China (the "**PRC**") on 22 March 2000. The address of its registered office is No. 16 Tongji Beilu, Beijing Economic and Technological Development Zone, Beijing, the PRC.

The Company and its subsidiaries are hereafter collectively referred to as the "**Group**". The Group is principally engaged in the production and distribution of Chinese medicine and primarily operates in Mainland China and Hong Kong.

The directors of the Company (the "**Directors**") consider China Beijing Tong Ren Tang Group Co., Ltd., a limited liability company incorporated in Beijing, the PRC, as the ultimate holding company.

The Company's shares have been listed on the Growth Enterprise Market (the "**GEM**") of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") since 31 October 2000. On 9 July 2010, the Company transferred the listing from GEM to the Main Board (the "**MB**") of the Stock Exchange.

These financial statements are presented in RMB unless otherwise stated.

These consolidated financial statements have been approved for issue by the Board of Directors on 24 March 2017.

The following is a list of principal subsidiaries as at 31 December 2015 and 2016:

Name	Place/date of incorporation/ kind of legal entity	Percentage of equity interest held		Issued/ registered and paid-up capital	Principal activities/ place of operation
		2016	2015		
Subsidiaries:					
Beijing Tong Ren Tang Nanyang Shanzhuyu Co., Limited ("Tong Ren Tang Nanyang")	Henan, PRC 24 October 2001 Limited liability company	**51%***	51%*	RMB4,000,000	Cultivating and selling of Chinese medicinal raw materials Henan, PRC
Beijing Tong Ren Tang Hubei Chinese Medicinal Raw Materials Co., Limited ("Tong Ren Tang Hubei")	Hubei, PRC 26 October 2001 Limited liability company	**51%***	51%*	RMB3,000,000	Cultivating, purchasing and selling of Chinese medicinal raw materials Hubei, PRC
Beijing Tong Ren Tang Zhejiang Chinese Medicinal Raw Materials Co., Limited ("Tong Ren Tang Zhejiang")	Zhejiang, PRC 31 October 2001 Limited liability company	**51%***	51%*	RMB10,000,000	Cultivating, purchasing and selling of Chinese medicinal raw materials Zhejiang, PRC

* *Equity interests directly held by the Company*

1. GENERAL INFORMATION (CONT'D)

Name	Place/date of incorporation/ kind of legal entity	Percentage of equity interest held		Issued/ registered and paid-up capital	Principal activities/ place of operation
		2016	2015		
***Subsidiaries** (Cont'd):*					
Beijing Tong Ren Tang Hebei Chinese Medicinal Raw Materials Technologies Co., Limited ("Tong Ren Tang Hebei")	Hebei, PRC 19 November 2001 Limited liability company	**51%***	51%*	RMB48,000,000	Cultivating, purchasing and selling of Chinese medicinal raw materials Hebei, PRC
Beijing Tong Ren Tang Tongke Pharmaceutical Company Limited ("Tong Ren Tang Tongke")	Beijing, PRC 4 November 2003 Limited liability company	**95%***	95%*	RMB75,000,000	Production of ointment, medical research and development Beijing, PRC
Beijing Tong Ren Tang Technologies (Tangshan) Co., Ltd ("Tong Ren Tang Technologies Tangshan")	Hebei, PRC 17 June 2015 Limited liability company	**100%***	100%*	RMB85,000,000	Production (including extraction) of Chinese medicine, food and healthcare products Hebei, PRC
Beijing Tong Ren Tang Technologies Chengdu Co., Ltd ("Tong Ren Tang Chengdu")	Sichuan, PRC 26 February 2003 Limited liability company	**51%***	51%*	RMB53,060,000	Production and processing of biochemical products and Chinese medicine, extraction and processing of plants Sichuan, PRC
Beijing Tong Ren Tang Second Traditional Chinese Medicine Hospital Co., Ltd ("Tong Ren Tang Second Traditional Chinese Medicine Hospital")	Beijing, PRC 12 September 2000 Limited liability company	**100%***	–	RMB10,490,000	Internal and external surgery, medical examination, traditional Chinese medicine department and hospital management Beijing, PRC
Beijing Tong Ren Tang Chinese Medicine Company Limited [1] ("Tong Ren Tang Chinese Medicine")	Hong Kong, PRC 18 March 2004 Limited liability company	**38.05%***	38.05%*	HKD938,789,000	Manufacturing and sales of Chinese medicine and healthcare products Hong Kong, PRC

* *Equity interests directly held by the Company*

[1] Although the Group owns less than half of the equity interest, it is able to gain power over more than half of the voting rights by virtue of an agreement with Beijing Tong Ren Tang Company Limited ("**Parent Company**"). Consequently, the Group consolidates Tong Ren Tang Chinese Medicine.

1. GENERAL INFORMATION (CONT'D)

Name	Place/date of incorporation/ kind of legal entity	Percentage of equity interest held		Issued/ registered and paid-up capital	Principal activities/ place of operation
		2016	2015		
***Subsidiaries** (Cont'd):*					
Beijing Tong Ren Tang Nansanhuan Zhonglu Drugstore Co., Limited ("Nansanhuan Zhonglu Drugstore")	Beijing, PRC 28 April 2004 Limited liability company	**90%***	90%*	RMB500,000	Sales of medicinal products Beijing, PRC
Beijing Tong Ren Tang Yanbian Chinese Medicinal Raw Materials Co., Limited ("Tong Ren Tang Yanbian")	Jilin, PRC 24 September 2004 Limited liability company	**51%***	51%*	RMB4,000,000	Cultivating and selling of Chinese medicinal raw materials Jilin, PRC
Beijing Tong Ren Tang Anhui Chinese Medicinal Raw Materials Co., Limited ("Tong Ren Tang Anhui")	Anhui, PRC 18 October 2004 Limited liability company	**51%***	51%*	RMB24,000,000	Cultivating, purchasing and selling of Chinese medicinal raw materials Anhui, PRC
Beijing Tong Ren Tang WM Dianorm Biotech Co., Limited ("Tong Ren Tang WM")	Beijing, PRC 20 February 2001 Sino-foreign equity joint venture	**60%***	60%*	USD3,000,000	Technological development and sales of biological products, Chinese and western medicines, cosmetics and healthcare products Beijing, PRC
Beijing Tong Ren Tang Chinese Medicine (Hong Kong) Group Co., Ltd. ("Chinese Medicine Group")	Hong Kong, PRC 1 March 2012 Limited liability company	**53.09%***	53.09%*	HKD10,000	Investment holding Hong Kong, PRC
Beijing Tong Ren Tang Xing An Meng Chinese Medicinal Raw Materials Co., Limited ("Tong Ren Tang Xing An Meng")	Inner Mongolia, PRC 14 April 2004 Limited liability company	**51%***	51%*	RMB19,000,000	Cultivating, purchasing and selling of Chinese medicinal raw materials, production and selling of tea drinks product series and foot care product series Inner Mongolia, PRC

* *Equity interests directly held by the Company*

1. GENERAL INFORMATION (CONT'D)

Name	Place/date of incorporation/ kind of legal entity	Percentage of equity interest held 2016	2015	Issued/ registered and paid-up capital	Principal activities/ place of operation
***Subsidiaries** (Cont'd):*					
Beijing Tong Ren Tang Century Advertising Co., Limited ("Tong Ren Tang Century Advertising)	Beijing, PRC 25 September 2013 Limited liability company	**100%***	100%*	RMB1,000,000	Advertisement services Beijing, PRC
Beijing Tong Ren Tang (Tangshan) Nutrition and Healthcare Co., Ltd ("Tong Ren Tang Tangshan Healthcare")	Hebei, PRC 13 September 2010 Limited liability company	**74%***	74%*	RMB170,000,000	Production and sales of healthcare products and Chinese medicine Hebei, PRC
Beijing Tong Ren Tang International Natural-Pharm Co., Ltd. ("Tong Ren Tang International Natural-Pharm")	Beijing, PRC 6 March 2006 Limited liability company	**100%**	100%	HKD10,000,000	Wholesale of Chinese medicine and healthcare products Beijing, PRC
Beijing Tong Ren Tang Australia Pty. Ltd. ("Tong Ren Tang Australia")	Sydney, Australia 20 May 2004 Limited liability company	**75%**	75%	AUD1,000,000	Wholesale and retail of Chinese medicine and healthcare products and provision of Chinese medical consultation and treatments Sydney, Australia
Beijing Tong Ren Tang Science Arts (Singapore) Co Pte. Ltd. ("Tong Ren Tang Singapore")	Singapore 1 December 2003 Limited liability company	**51%**	51%	SGD857,000	Wholesale and retail of Chinese medicine and healthcare products and provision of Chinese medical consultation and treatments Singapore

* *Equity interests directly held by the Company*

1. GENERAL INFORMATION (CONT'D)

Name	Place/date of incorporation/ kind of legal entity	Percentage of equity interest held 2016	2015	Issued/ registered and paid-up capital	Principal activities/ place of operation
***Subsidiaries** (Cont'd):*					
Beijing Tong Ren Tang (Toronto) Inc. ("Tong Ren Tang Toronto")	Toronto, Canada 24 June 2010 Limited liability company	**51%**	51%	CAD100	Retail of Chinese medicine and healthcare products and provision of Chinese medical consultation and treatments Toronto, Canada
Beijing Tong Ren Tang (Macau) Company Limited ("Tong Ren Tang Macau")	Macau, PRC 28 October 2002 Limited liability company	**51%**	51%	MOP1,000,000	Wholesale and retail of Chinese medicine and healthcare products and provision of Chinese medical consultation and treatments Macau, PRC
Beijing Tong Ren Tang Gulf FZ-LLC ("Tong Ren Tang Gulf")	Dubai, United Arab Emirates 8 June 2011 Limited liability company	**51%**	51%	AED1,920,000	Retail of Chinese medicine and healthcare products and provision of Chinese medical consultation and treatments Dubai, United Arab Emirates
Beijing Tong Ren Tang Poland sp.zo.o. ("Tong Ren Tang Poland")	Warsaw, Poland 26 July 2012, Limited liability company	**100%**	100%	Zloty50,000	Retail of Chinese medicine and healthcare products and provision of Chinese healthcare treatments Warsaw, Poland
Beijing Tong Ren Tang Canada Co. Ltd. ("Tong Ren Tang Canada")	Vancouver, Canada 11 January 2002 Limited liability company	**51%**	51%	CAD1,000,000	Retail of Chinese medicine and healthcare products and provision of Chinese medical consultation and treatments Vancouver, Canada

1. GENERAL INFORMATION (CONT'D)

Name	Place/date of incorporation/ kind of legal entity	Percentage of equity interest held		Issued/ registered and paid-up capital	Principal activities/ place of operation
		2016	2015		
Subsidiaries (Cont'd):					
Beijing Tong Ren Tang Melbourne Pty Limited ("Tong Ren Tang Melbourne")	Melbourne, Australia 9 April 2014 Limited liability company	**51%**	51%	AUD100,000	Retail of Chinese medicine and healthcare products and provision of Chinese medical consultation and treatments Melbourne, Australia
Beijing Tong Ren Tang (Seoul) Company Limited ("Tong Ren Tang Seoul")	Seoul, South Korea 10 March 2014 Limited liability company	**51%**	51%	WON1,052,000,000	Wholesale of Chinese medicine and healthcare products Seoul, South Korea
Beijing Tong Ren Tang (Auckland) Company Limited ("Tong Ren Tang Auckland")	Auckland, New Zealand 2 May 2014 Limited liability company	**51%**	51%	NZD2,000,000	Retail of Chinese medicine and healthcare products and provision of Chinese medical consultation and treatments Auckland, New Zealand
Beijing Tong Ren Tang Tong Xin Tong Le Company Limited ("Tong Ren Tang Tong Xin Tong Le")	Hong Kong, PRC 19 May 2014 Limited liability company	**100%**	100%	HKD10,000	Retail of Chinese medicine and healthcare products and provision of Chinese medical consultation and treatments Hong Kong, PRC
Honour Essence Trading Limited ("Honour Essence")	Hong Kong, PRC 10 March 1997 Limited liability company	**51%**	51%	HKD2,000	Wholesale of Chinese medicine and healthcare products Hong Kong, PRC
Beijing Tong Ren Tang Pudu Health Centre B.V. ("Tong Ren Tang Pudu")	Den Haag, the Netherlands 17 August 2015 Limited liability company	**60%**	60%	Euro650,000	Retail of healthcare products and provision of Chinese medical consultation and treatments Den Haag, Netherlands

1. GENERAL INFORMATION (CONT'D)

Name	Place/date of incorporation/ kind of legal entity	Percentage of equity interest held		Issued/ registered and paid-up capital	Principal activities/ place of operation
		2016	2015		
Subsidiaries (Cont'd):					
Beijing Tong Ren Tang Czech Republic SE ("Tong Ren Tang Czech")	Prague, the Czech Republic 11 December 2015 Limited liability company	**60%**	60%	Euro120,000	Retail of Chinese medicine and healthcare products and provision of Chinese medical consultation and treatments Prague, Czech Republic
Beijing Tong Ren Tang Sweden AB ("Tong Ren Tang Sweden")	Stockholm, Sweden 9 September 2015 Limited liability company	**60%**	60%	SEK50,000	Retail of Chinese medicine and healthcare products and provision of Chinese medical consultation and treatments Stockholm, Sweden
Beijing Tong Ren Tang Vancouver Co., Ltd ("Tong Ren Tang Vancouver")	Vancouver, Canada 19 January 2016 Limited liability company	**51%**	–	CAD750,000	Retail of Chinese medicine and healthcare products and provision of Chinese medical consultation and treatments Vancouver, Canada
Beijing Tong Ren Tang Los Angeles Healthcare Centre LLC ("Tong Ren Tang Los Angeles")	Los Angeles, United States 18 November 2015 Limited liability company	**60%**	60%	USD600,000	Retail of healthcare products and provision of Chinese medical consultation and treatments Los Angeles, United States
Beijing Tong Ren Tang Concord New York LLC ("Tong Ren Tang Concord")	New York, United States 13 June 2016 Limited liability company	**60%**	–	USD800,000	Retail of Chinese medicine and healthcare products New York, United States
Beijing Tong Ren Tang Ming Qi Group, LLC ("Tong Ren Tang Mingqi")	New York, United States 22 April 2005 limited liability company	**70%**	–	USD1,000	Wholesale and retail of Chinese medicine and healthcare products New York, United States

1. GENERAL INFORMATION (CONT'D)

The following is a list of joint ventures as at 31 December 2015 and 2016:

Name	Place/date of incorporation/ kind of legal entity	Percentage of equity interest held		Issued/ registered and paid-up capital	Principal activities
		2016	2015		
Joint ventures:					
Beijing Tong Ren Tang Bozhou Chinese Medicinal Raw Materials and Logistics Co., Limited [2] ("Tong Ren Tang Bozhou")	Anhui, PRC 12 July 2011 Limited liability company	**–**	40%*	RMB5,000,000	Storage and logistics of Chinese medicinal raw materials, transportation and labor services
Peking Tongrentang (M) SDN. BHD. [2] ("Tong Ren Tang Malaysia")	Kuala Lumpur, Malaysia 19 January 2001 Limited liability company	**60%**	60%	MYR1,900,000	Retail of Chinese medicine and healthcare products and provision of Chinese medical consultation and treatments
PT. Beijing Tong Ren Tang Indo ("Tong Ren Tang Indonesia")	Jakarta, Indonesia 22 September 2003 Limited liability company	**50%**	50%	USD1,000,000	Retail of Chinese medicine and healthcare products and provision of Chinese medical consultation and treatments
Beijing Tong Ren Tang (Thailand) Co., Ltd. [2] ("Tong Ren Tang Thailand")	Bangkok, Thailand 23 March 2000 Limited liability company	**49%**	49%	THB38,000,000	Wholesale and retail of Chinese medicine and healthcare products and provision of Chinese medical consultation and treatments
Beijing Tong Ren Tang (Boryung) Co., Ltd. [2] ("Tong Ren Tang Boryung")	Boryung, South Korea 10 May 2002 Limited liability company	**51%**	51%	WON1,829,835,000	Wholesale of Chinese medicine and healthcare products

* *Equity interests directly held by the Company*

1. GENERAL INFORMATION (CONT'D)

Name	Place/date of incorporation/ kind of legal entity	Percentage of equity interest held		Issued/ registered and paid-up capital	Principal activities
		2016	2015		
Joint ventures (Cont'd):					
Beijing Tong Ren Tang (Thai Boon Roong) Company Limited [2] ("Tong Ren Tang Thai Boon Roong")	Phnom Penh, Cambodia 29 December 2005 Limited liability company	**51%**	51%	USD500,000	Retail of Chinese medicine and healthcare products
Union Health International Limited ("Tong Ren Tang Fook Ming Tang")	Hong Kong, PRC 3 May 2004 Limited liability company	**50%**	50%	HKD10,000	Retail of Chinese medicine and healthcare products and provision of Chinese medical consultation and treatments

[2] Although the Company owns more than or less than 50% of the equity interests in these entities, the directors of the Company consider that these entities are joint ventures of the Company because decisions about their relevant activities are jointly controlled by the Company and the joint venture partners in accordance with the joint venture agreements rather than under the unilateral control or significant influence of the Company.

1. GENERAL INFORMATION (CONT'D)

The following is a list of associates as at 31 December 2015 and 2016:

Name	Place/date of incorporation/ kind of legal entity	Percentage of equity interest held		Issued/ registered and paid-up capital	Principal activities
		2016	2015		
Associates:					
Beijing Tong Ren Tang Bozhou Chinese Medicinal Raw Materials and Logistics Co., Limited [3] ("Tong Ren Tang Bozhou")	Anhui, PRC 12 July 2011 Limited liability company	**40%***	–	RMB5,000,000	Storage and logistics of Chinese medicinal raw materials, transportation and labor services
Beijing Tong Ren Tang (Hong Kong) Ltd. ("Tong Ren Tang E-commerce")	Hong Kong, PRC 2 April 2015 Limited liability company	**30%**	30%	HKD10,000	E-commerce
Tong Ren Tang Shanxi Sheye Co., Ltd. ("Tong Ren Tang Sheye")	Shanxi, PRC 14 December 2015 Limited liability company	**29%***	–	RMB30,000,000	Manufacturing and breed of musk, production products and sales, production of agricultural and sideline and sales

* *Equity interests directly held by the Company*

[3] In 2016 Tong Ren Tang Bozhou changes from a joint venture to an associate of the Company as the directors of the Company consider that the Parent Company obtained control over Tong Ren Tang Bozhou.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 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 4.

2.1.1 Changes in accounting policies and disclosures

(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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.1 *Basis of preparation (Cont'd)*

2.1.1 Changes in accounting policies and disclosures (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

– 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.1 *Basis of preparation (Cont'd)*

2.1.1 Changes in accounting policies and disclosures (Cont'd)

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

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 (Note 35 (b)).

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.

2.2 *Subsidiaries*

2.2.1 Consolidation

A subsidiary is an entity (including a structured entity) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

Subsidiaries are consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

(a) Merger accounting for common control combinations

The consolidated financial statements incorporate the financial statements of the combining entities or businesses in which the common control combination occurs as if they had been combined from the date when the combining entities or businesses first came under the control of the controlling party.

The net assets of the combining entities or businesses are combined using the existing book values from the controlling parties' perspective. No amount is recognised in consideration for goodwill or excess of acquirers' interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the continuation of the controlling party's interest.

The consolidated income statements include the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under the control of the controlling party, whichever is shorter.

Transaction costs, including professional fees, registration fees, costs of furnishing information to shareholders, costs or losses incurred in combining operations of the previously separate businesses, etc., incurred in relation to the common control combination that is to be accounted for by using merger accounting is recognised as an expense in the year in which it is incurred.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.2 *Subsidiaries (Cont'd)*

2.2.1 Consolidation (Cont'd)

(b) *Acquisition method for business combinations other than common control combinations*

The Group applies the acquisition method to account for business combinations other than common control combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis. Non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation are measured at either fair value or the present ownership interests' proportionate share in the recognised amounts of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by IFRS.

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date, any gains or losses arising from such re-measurement are recognised in through profit or loss.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the income statement.

Intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. When necessary, amounts reported by subsidiaries have been adjusted to conform with the Group's accounting policies.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.2 *Subsidiaries* *(Cont'd)*

2.2.1 Consolidation (Cont'd)

(c) *Changes in ownership interests in subsidiaries without change of control*

Transactions with non-controlling interests that do not result in a loss of control are accounted for as equity transactions – that is, as transactions with the owners of the subsidiaries in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

2.2.2 Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving a dividend from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

2.3 *Associates*

An associate is an entity over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. The Group's investment in associates includes goodwill identified on acquisition. Upon the acquisition of the ownership interest in an associate, any difference between the cost of the associate and the Group's share of the net fair value of the associate's identifiable assets and liabilities is accounted for as goodwill.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income is reclassified to profit or loss where appropriate.

The Group's share of post-acquisition profit or loss is recognised in the income statement, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income with a corresponding adjustment to the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.3 Associates *(Cont'd)*

The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount adjacent to "share of loss of investments accounted for using the equity method" in the income statement.

Profits and losses resulting from upstream and downstream transactions between the Group and its associate are recognised in the Group's financial statements only to the extent of unrelated investor's interests in the associates. Unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

Gain or losses on dilution of equity interest in associates are recognised in the income statement.

2.4 Joint arrangements

The Group has applied IFRS 11 to all joint arrangements. Under IFRS 11 investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations of each investor. The Group has assessed the nature of its joint arrangements and determined them to be joint ventures. Joint ventures are accounted for using the equity method.

Under the equity method of accounting, interests in joint ventures are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses and movements in other comprehensive income. The Group's investments in joint ventures include goodwill identified on acquisition. Upon the acquisition of the ownership interest in a joint venture, any difference between the cost of the joint venture and the Group's share of the net fair value of the joint venture's identifiable assets and liabilities is accounted for as goodwill. When the Group's share of losses in a joint venture equals or exceeds its interests in the joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the joint venture), the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint venture.

Unrealised gains on transactions between the Group and its joint ventures are eliminated to the extent of the Group's interest in the joint ventures. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of the joint ventures have been changed where necessary to ensure consistency with the policies adopted by the Group.

In the Company's balance sheet, its investments in joint ventures are stated at cost less provision for any impairment losses. Income from joint ventures is recognised by the Company on the basis of dividends received and receivable.

In the Company's balance sheet, impairment testing of the investments in joint ventures is required upon receiving dividends from these investments if the dividend exceeds the total comprehensive income of the joint venture in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.5 *Segment reporting*

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Directors in the Board of Directors that makes strategic decisions.

2.6 *Foreign currency translation*

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "**functional currency**"). The consolidated financial statements are presented in RMB, which is the Company's functional and the Group's presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in other comprehensive income as qualifying cash flow hedges and qualifying net investment hedges.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the income statement within "Finance income/costs, net".

Translation differences on non-monetary financial assets, such as equities classified as available for sale, are included in other comprehensive income.

(c) Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and
- all resulting exchange differences are recognised in other comprehensive income.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. Currency translation differences arising are recognised in other comprehensive income.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.7 Leasehold land and land use rights

Leasehold land and land use rights are stated at cost less accumulated amortisation and impairment losses. Cost represents consideration paid for the rights to use the land for periods varying from 10 to 50 years. Amortisation of leasehold land and land use rights are calculated on a straight-line basis over the period of the leasehold land and land use rights.

2.8 Property, plant and equipment

Land and buildings comprise mainly factories and offices. Leasehold land held under finance lease and all other property, plant and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Leasehold land held under finance lease commences depreciation from the time when the land interest becomes available for its intended use. Depreciation on leasehold land held under finance lease and other assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

Buildings and leasehold land held under finance lease	8-50 years
Equipment and machinery	3-15 years
Motor vehicles	5-8 years
Office equipment	2.5-12 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.11).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in the income statement.

Construction in progress ("**CIP**") represents property, plant and equipment in the course of construction or pending installation and is stated at cost less any recognised impairment losses. Cost includes the costs of construction of property, plant and equipment, and interest charges arising from borrowings used to these assets during the period of construction or installation and testing. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property, plant and equipment, commences when the assets are ready for their intended use.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.9 Research and development costs

Research expenditure is recognised as an expense as incurred. Costs incurred in development projects (relating to the design and testing of new or improved products) are recognised as intangible assets when it is probable that the project will be successful considering its commercial and technical feasibility and its costs can be measured reliably. Other development expenditures that do not meet these criteria are expensed as incurred. Development costs previously recognised as expenses are not recognised as assets in subsequent periods. Capitalised development costs are recorded as intangible assets and amortised from the point at which the asset is ready for use on a straight-line basis over its useful life, not exceeding five years; and tested for impairment according to Note 2.11.

2.10 Intangible assets

(a) Goodwill

Goodwill arises on the acquisition of subsidiaries represents the excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identified net assets acquired.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units ("**CGUs**"), or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of the CGU containing the goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs of disposal. Any impairment is recognised immediately as an expense and is not subsequently reversed.

(b) Contractual customer relationships and other intangible assets

Contractual customer relationships acquired in a business combination are recognised at fair value at the acquisition date. The contractual customer relations have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method by ten years over the expected life of the customer relationships.

There are two types of other intangible assets: management contract and exclusive supply contract. These intangible assets acquired have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method over their expected useful lives within twenty years.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.10 *Intangible assets (Cont'd)*

(c) Patented technology and computer software

Costs associated with maintaining patented technology and computer software programmes are recognised as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique patented technology and software products controlled by the Group are recognised as intangible assets when the following criteria are met:

- it is technically feasible to complete the product so that it will be available for use;
- management intends to complete the product and use or sell it;
- there is an ability to use or sell the product;
- it can be demonstrated how the product will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the product are available; and
- the expenditure attributable to the product during its development can be reliably measured.

Directly attributable costs that are capitalised as part of the patented technology and software product include the development employee costs and an appropriate portion of relevant overheads.

Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

Patented technology and computer software development costs recognised as assets are amortised over their estimated useful lives, which does not exceed ten years.

2.11 *Impairment of non-financial assets*

Assets that have an indefinite useful life – for example, goodwill or intangible assets not ready to use – are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (CGUs). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.12 Financial assets

2.12.1 Classification

The Group classifies its financial assets in the following categories: loans and receivables, and available for sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(a) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for the amounts that are settled or expected to be settled more than 12 months after the end of the reporting period. These are classified as non-current assets. The Group's loans and receivables comprise "trade and bill receivables", "amounts due from related parties", "short-term bank deposits" and "cash and cash equivalents" in the balance sheet (Notes 2.16 and 2.17).

(b) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose of it within 12 months of the end of the reporting period.

2.12.2 Recognition and measurement

Regular way purchases and sales of financial assets are recognised on the trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets are subsequently carried at fair value. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

Changes in the fair value of available-for-sale financial assets are recognised in other comprehensive income.

When securities classified as available for sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the income statement as "other gains/losses, net".

Dividends on available-for-sale equity instruments are recognised in the income statement as part of other gains when the Group's right to receive payments is established.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.13 *Offsetting financial instruments*

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the company or the counterparty.

2.14 *Impairment of financial assets*

(a) Assets carried at amortised cost

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "**loss event**") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated income statement. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the consolidated income statement.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.14 Impairment of financial assets (Cont'd)

(b) Assets classified as available for sale

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired.

For equity investments, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If any such evidence exists the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is reclassified from equity and recognised in profit or loss. Impairment losses recognised in the consolidated income statement on equity instruments are not reversed through the consolidated income statement.

2.15 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2.16 Trade and other receivables

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

2.17 Cash and cash equivalents

In the consolidated statement of cash flows, cash and cash equivalents includes cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less.

2.18 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.19 Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.20 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

2.21 Borrowing costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

2.22 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity, respectively.

(a) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company's subsidiaries, joint ventures and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.22 Current and deferred income tax (Cont'd)

(b) Deferred income tax

Inside basis differences

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Outside basis differences

Deferred income tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries, associates and joint ventures, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Generally, the Group is unable to control the reversal of the temporary difference for associates. Only when there is an agreement in place that gives the Group the ability to control the reversal of the temporary difference in the foreseeable future, deferred tax liability in relation to taxable temporary differences arising from the associate's undistributed profits is not recognised.

Deferred income tax assets are recognised on deductible temporary differences arising from investments in subsidiaries, associates and joint ventures only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilised.

(c) Offsetting

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.23 Employee benefits

(a) Pension obligations

The Group participates in a number of defined contribution plans in the PRC and Hong Kong. The pension plans are generally funded by payments from employees and relevant Group companies. The Group pays contributions to the pension plans which are calculated as a certain percentage of the employees' salaries.

The Group has no legal or constructive obligations to make further payments once the required contributions have been paid, even if the plans do not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

(b) Termination benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to a termination when the entity has a detailed formal plan to terminate the employment of current employees without possibility of withdrawal. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to their present value.

2.24 Provision

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.25 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods supplied, stated net of discounts returns and value added taxes. The Group recognises revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of the Group's activities, as described below. The Group bases its estimates of return on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

(a) Sales of goods

The Group sells healthcare products and Chinese medicine to wholesalers and individual customers. Sales of goods are recognised when a Group entity has delivered products to the wholesaler or customer.

For wholesale, the wholesaler has full discretion over the channel and price to sell the products, and there is no unfulfilled obligation that could affect the wholesaler's acceptance of the products. Delivery occurs when the products have arrived at the specified location, the risks of obsolescence and loss have been transferred to the wholesaler, and either the wholesaler has accepted the products in accordance with sales contract, the acceptance provisions have lapsed, or the Group has objective evidence that all criteria for acceptance have been satisfied. Sales are recorded based on the price specified in the sales contracts.

For retailed sales, the Group also sells products to individual customers through its retail outlets. Sales of goods are recognised in the accounting period in which the retail outlet sells a product to the customer. Retail sales are usually settled in cash or by credit card.

(b) Advertising services

The Group provides advertising services. Advertising services revenue is recognised by the reference to the stage of completion of service according to contractual agreement or by the reference to the percentage of completion method. Under this method, the percentage of completion is identified with proportion of incurred contract costs to estimated total cost.

(c) Chinese medical consultation services

The Group provides Chinese medical consultation service in retail outlets. Chinese medical consultation income is recognised in the accounting period in which the service is provided to the customer and it is settled in cash or by credit card.

(d) Royalty fee

Royalty fee income is based on pre-determined rates on the total turnover of overseas entities for them to use the "Tong Ren Tang" brand name. Royalty fee is recognised on an accrual basis upon sales recognised by the overseas entities.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.26 Interest income

Interest income is recognised using the effective interest method. When a loan and receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loan and receivables are recognised using the original effective interest rate.

2.27 Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

2.28 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's and the Company's financial statements in the period in which the dividends are approved by the Company's shareholders.

2.29 Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the income statement over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to property, plant and equipment are included in non-current liabilities as deferred income – government grants and are credited to the income statement on a straight-line basis over the expected lives of the related assets.

3. FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk and interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. Risk management is carried out by management of each individual entity within the Group.

3. FINANCIAL RISK MANAGEMENT (CONT'D)

3.1 *Financial risk factors (Cont'd)*

(a) Market risk

(i) Foreign exchange risk

The Group operates internationally and foreign exchange risk arises from commercial transactions, recognised assets and liabilities and net investments in foreign operations, primarily with respect to the Hong Kong dollar ("**HKD**").

The Group currently does not have a foreign currency hedging policy. The Group manages its foreign exchange risk by closely monitoring the movement of the foreign currency rates.

If the respective functional currency of the Group's entities had strengthened/weakened by 5% against the relevant foreign currencies, with all other variables held constant, the profit before income tax for the year ended 31 December 2016 and 2015 would increase/decrease as follows:

	2016 Increase/(decrease) on profit before income tax if exchange rates change by		2015 Increase/(decrease) on profit before income tax if exchange rates change by	
	+5%	-5%	+5%	–5%
	RMB'000	RMB'000	RMB'000	RMB'000
HKD	23,096	(23,096)	19,099	(19,099)

(ii) Interest rate risk

The Group's interest rate risk arises from long-term borrowings. Borrowings obtained at variable rates expose the Group to cash flow interest rate risk which is partially offset by cash held at variable rates. Borrowings obtained at fixed rates expose the Group to fair value interest rate risk. The interest rates and repayment terms of the Group's borrowings are disclosed in Note 19. As at 31 December 2016 and 2015, the non-current borrowings were at fixed interest rates and the operating cash flows are substantially independent of changes in market interest rates. The current debt level of the Group is relatively low and the exposure to the fair value interest rate risk is limited.

The management of the Group monitors the interest rate exposure regularly. The Group has not used any interest rate swaps to hedge its exposure to interest rate risk.

3. FINANCIAL RISK MANAGEMENT (CONT'D)

3.1 *Financial risk factors (Cont'd)*

(b) Credit risk

Credit risk is managed on group basis. Credit risk arises from cash and cash equivalents and deposits with banks and financial institutions, as well as credit exposures to wholesale and retail customers, including outstanding receivables and committed transactions.

Cash at bank and short-term bank deposits are deposited with high-credit-quality financial institutions. The Group has policies that limit the amount of credit exposure to any financial institution. As at 31 December 2016, majority of the bank deposits are placed with state-owned banks and listed financial institutions, which are at lower credit risk.

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
		(Restated)
State-owned banks and listed financial institutions	**3,052,727**	2,170,686
Other banks	**132,979**	96,128
Total cash at bank and short-term bank deposits (Note 32 (b))	**3,185,706**	2,266,814

The Group has policies to ensure that sales of products are made to customers (including customers that are related parties) with an appropriate credit history. Individual credit risk limit is set up based on internal assessment, taking into account the customer's financial position, past experience and other factors. The factors considered by management in determining the impairment are described in Note 13.

(c) Liquidity risk

The Group's policy is to maintain sufficient cash and cash equivalents or have available funding through adequate amount of committed credit facilities to meet its working capital requirements. The amounts of borrowings and undrawn credit facilities at the balance sheet date are disclosed in Note 19 and Note 34 respectively.

The trade and bills payables, amounts due to related parties and other payables are normally expected to be settled within one year after receipt of goods or services, while generally no specific credit period is granted by the suppliers.

3. FINANCIAL RISK MANAGEMENT (CONT'D)

3.1 Financial risk factors (Cont'd)

(c) Liquidity risk (Cont'd)

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Within 1 year RMB'000	Over 1 year but within 2 years RMB'000	Over 2 years but within 5 years RMB'000	Over 5 years RMB'000
At 31 December 2016				
Borrowings	**240,874**	**27,551**	**880,776**	**105,526**
Trade and bills payables	**597,129**	**–**	**–**	**–**
Amounts due to related parties	**49,164**	**–**	**–**	**–**
Other payables	**219,843**	**–**	**–**	**–**
	1,107,010	**27,551**	**880,776**	**105,526**
At 31 December 2015, as restated				
Borrowings	186,009	29	529	–
Trade and bills payables	376,176	–	–	–
Amounts due to related parties	29,512	–	–	–
Other payables	140,511	–	–	–
	732,208	29	529	–

Except for the bonds included in borrowings, the carrying amounts of the Group's financial liabilities approximate their fair values as the impact of discounting is not significant.

3. FINANCIAL RISK MANAGEMENT (CONT'D)

3.2 Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, provide returns for shareholders, issue new shares or sell assets to repay borrowings.

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as total borrowings divided by total equity. Total borrowings included "current and non-current borrowings" as shown in the consolidated balance sheet. Total equity was shown in the consolidated balance sheet.

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
		(Restated)
Total borrowings	**1,128,549**	181,970
Total equity	**5,885,108**	5,163,036
Gearing ratio	**19.2%**	3.5%

3.3 Fair value estimation

The Group's financial assets include cash and cash equivalents, short-term bank deposits, receivables and available-for-sale financial assets. Financial liabilities include payables, short-term borrowings and long-term borrowings. Except for long-term borrowings, the carrying amount of the financial assets and financial liabilities approximate their fair values due to their short maturities.

Below analyses the Group's financial instruments carried at fair value by level of the inputs to valuation techniques used to measure fair value. Such inputs are categorised into three levels within a fair value hierarchy as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

Details on the fair vale measurement for bonds and available-for sale financial assets are set out in Note 19(b) and Note 12 respectively.

4. 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.

5. 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) 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.

5. 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 RMB'000	Tong Ren Tang Chinese Medicine RMB'000	All other segments RMB'000	Total 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

5. SEGMENT INFORMATION (CONT'D)

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

(Restated)	The Company RMB'000	Tong Ren Tang Chinese Medicine RMB'000	All other segments RMB'000	Total 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

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.

5. SEGMENT INFORMATION (CONT'D)

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 22.

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 RMB'000	2015 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

6. LEASEHOLD LAND AND LAND USE RIGHTS

The interests in leasehold land and land use rights represent prepaid operating lease payments and their net book values are analysed as follows:

	2016 RMB'000	2015 RMB'000
At 1 January	**152,258**	146,523
Additions	**2,094**	3,441
Acquisition of subsidiaries	**–**	4,900
Amortisation	**(3,449)**	(3,450)
Transfer to a fellow subsidiary (Note 33 (b)(vii))	**(8,750)**	–
Exchange differences	**949**	844
At 31 December	**143,102**	152,258

As at 31 December 2016, no (2015: RMB436,000) land use rights are pledged as securities for the Group's bank borrowings (Note 19).

7. PROPERTY, PLANT AND EQUIPMENT

	Buildings and leasehold land held under finance lease RMB'000	Equipment and machinery RMB'000	Motor vehicles RMB'000	Office equipment RMB'000	CIP RMB'000	Total RMB'000
At 1 January 2015						
Cost, as previously stated	589,831	487,374	29,013	35,879	238,890	1,380,987
Adoption of merger accounting (Note 36)	–	4,209	302	1,090	–	5,601
Cost, as restated	589,831	491,583	29,315	36,969	238,890	1,386,588
Accumulated depreciation, as previously stated	(148,566)	(293,527)	(14,809)	(21,406)	–	(478,308)
Adoption of merger accounting (Note 36)	–	(1,873)	(293)	(613)	–	(2,779)
Accumulated depreciation, as restated	(148,566)	(295,400)	(15,102)	(22,019)	–	(481,087)
Accumulated impairment	–	(12,268)	–	–	–	(12,268)
Net book amount, as restated	441,265	183,915	14,213	14,950	238,890	893,233
Year ended 31 December 2015						
Opening net book amount, as previously stated	441,265	181,579	14,204	14,473	238,890	890,411
Adoption of merger accounting (Note 36)	–	2,336	9	477	–	2,822
Opening net book amount, as restated	441,265	183,915	14,213	14,950	238,890	893,233
Additions	16,375	4,262	776	7,341	169,289	198,043
Acquisition of subsidiaries	9,416	3,778	865	220	13,134	27,413
Transferred from CIP	2,267	46,791	1,144	1,539	(51,741)	–
Disposals	(5)	(891)	(23)	(401)	(1,714)	(3,034)
Depreciation	(23,578)	(34,933)	(3,435)	(6,474)	–	(68,420)
Exchange differences	7,873	687	36	147	–	8,743
Closing net book amount, as restated	453,613	203,609	13,576	17,322	367,858	1,055,978

7. PROPERTY, PLANT AND EQUIPMENT (CONT'D)

	Buildings and leasehold land held under finance lease RMB'000	Equipment and machinery RMB'000	Motor vehicles RMB'000	Office equipment RMB'000	CIP RMB'000	Total RMB'000
At 31 December 2015						
Cost, as previously stated	630,453	535,905	33,282	43,984	367,858	1,611,482
Adoption of merger accounting (Note 36)	–	5,401	302	1,208	–	6,911
Cost, as restated	630,453	541,306	33,584	45,192	367,858	1,618,393
Accumulated depreciation, as previously stated	(176,840)	(322,882)	(19,715)	(27,179)	–	(546,616)
Adoption of merger accounting (Note 36)	–	(2,547)	(293)	(691)	–	(3,531)
Accumulated depreciation, as restated	(176,840)	(325,429)	(20,008)	(27,870)	–	(550,147)
Accumulated impairment	–	(12,268)	–	–	–	(12,268)
Net book amount, as restated	453,613	203,609	13,576	17,322	367,858	1,055,978
Year ended 31 December 2016						
Opening net book amount, as previously stated	**453,613**	**200,755**	**13,567**	**16,805**	**367,858**	**1,052,598**
Adoption of merger accounting (Note 36)	**–**	**2,854**	**9**	**517**	**–**	**3,380**
Opening net book amount, as restated	**453,613**	**203,609**	**13,576**	**17,322**	**367,858**	**1,055,978**
Additions	**10,670**	**6,408**	**3,022**	**6,749**	**457,252**	**484,101**
Transferred from CIP	**29,937**	**42,328**	**493**	**1,379**	**(74,137)**	**–**
Transfer to a fellow subsidiary (Note 33 (b)(vii))	**–**	**–**	**–**	**–**	**(105,125)**	**(105,125)**
Disposals	**(13)**	**(2,301)**	**(305)**	**(65)**	**–**	**(2,684)**
Depreciation	**(25,029)**	**(35,004)**	**(5,298)**	**(6,760)**	**–**	**(72,091)**
Exchange differences	**12,788**	**637**	**56**	**509**	**–**	**13,990**
Closing net book amount	**481,966**	**215,677**	**11,544**	**19,134**	**645,848**	**1,374,169**
At 31 December 2016						
Cost	**685,285**	**581,058**	**34,927**	**52,995**	**645,848**	**2,000,113**
Accumulated depreciation	**(203,319)**	**(353,137)**	**(23,383)**	**(33,861)**	**–**	**(613,700)**
Accumulated impairment	**–**	**(12,244)**	**–**	**–**	**–**	**(12,244)**
Net book amount	**481,966**	**215,677**	**11,544**	**19,134**	**645,848**	**1,374,169**

7. PROPERTY, PLANT AND EQUIPMENT (CONT'D)

Depreciation expenses were charged to the consolidated income statements as follows:

	2016 RMB'000	2015 RMB'000 (Restated)
Cost of sales	**48,282**	47,141
Distribution expenses	**10,022**	10,073
Administrative expenses	**13,787**	11,206
	72,091	68,420

During the year, the Group has capitalised borrowing costs amounting to RMB7,750,000 (2015: RMB4,900,000) on qualifying assets. Borrowing costs were capitalised at the weighted average rate of its general borrowings of 3.22% (2015: 4.91%).

As at 31 December 2016, bank borrowings are secured by land and buildings with carrying amount of RMB10,363,000 (2015: RMB12,062,000) (Note 19).

8. INTANGIBLE ASSETS

	Goodwill RMB'000	Contractual customer relationships and others RMB'000	Patented technology and computer software RMB'000	Total RMB'000
At 1 January 2015				
Cost	–	–	4,213	4,213
Accumulated amortisation	–	–	(2,337)	(2,337)
Net book amount	–	–	1,876	1,876
Year ended 31 December 2015				
Opening net book amount	–	–	1,876	1,876
Additions	–	–	2,411	2,411
Acquisition of subsidiaries	42,307	10,305	3,550	56,162
Amortisation	–	(872)	(1,087)	(1,959)
Exchange differences	2,228	550	–	2,778
Closing net book amount	44,535	9,983	6,750	61,268
At 31 December 2015				
Cost	44,535	10,855	10,174	65,564
Accumulated amortisation	–	(872)	(3,424)	(4,296)
Net book amount	44,535	9,983	6,750	61,268
Year ended 31 December 2016				
Opening net book amount	**44,535**	**9,983**	**6,750**	**61,268**
Additions	**–**	**19,375**	**1,748**	**21,123**
Amortisation	**–**	**(1,487)**	**(1,550)**	**(3,037)**
Exchange differences	**2,803**	**628**	**–**	**3,431**
Closing net book amount	**47,338**	**28,499**	**6,948**	**82,785**
At 31 December 2016				
Cost	**47,338**	**31,003**	**11,922**	**90,263**
Accumulated amortisation	**–**	**(2,504)**	**(4,974)**	**(7,478)**
Net book amount	**47,338**	**28,499**	**6,948**	**82,785**

8. INTANGIBLE ASSETS (CONT'D)

The goodwill acquired in the acquisitions of Honour Essence and Tong Ren Tang Chengdu during 2015 is allocated to each unit respectively. The recoverable amounts of these CGUs are determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using estimated growth rates of 3% and 0% for Honour Essence and Tong Ren Tang Chengdu respectively. Other key assumptions used for value-in-use calculations include 16% (2015:20%) and 12% (2015:12%) discount rates applied to the cash flow projections of Honour Essence and Tong Ren Tang Chengdu respectively.

Management determined annual volume growth rate covering over the five-year forecast period to be a key assumption. The volume of sales in each period is the main driver for revenue and costs. The annual volume growth rates are based on past performance and management's expectations of market development. The discount rates used are pre-tax and reflect specific risks relating to the relevant business.

Amortisation expenses were charged to the consolidated income statements under administrative expenses.

9. SUBSIDIARIES

Material non-controlling interests

As at 31 December 2016, the total non-controlling interest is RMB1,481,924,000 (2015: RMB1,193,734,000), of which RMB1,269,844,000 (2015: RMB1,020,449,000) is for Tong Ren Tang Chinese Medicine. The non-controlling interest in respect of others is not material.

Set out below are the summarised financial information for Tong Ren Tang Chinese Medicine that has non-controlling interests that are material to the Group.

Summarised balance sheet

	Tong Ren Tang Chinese Medicine As at 31 December	
	2016 RMB'000	2015 RMB'000
Current		
Assets	**1,750,222**	1,385,848
Liabilities	**(109,926)**	(94,433)
Total current net assets	**1,640,296**	1,291,415
Non-current		
Assets	**356,169**	312,320
Liabilities	**(4,198)**	(4,483)
Total non-current net assets	**351,971**	307,837
Non-controlling interests	**(93,653)**	(78,087)
Net assets	**1,898,614**	1,521,165

9. SUBSIDIARIES (CONT'D)

Summarised statement of comprehensive income

	Tong Ren Tang Chinese Medicine	
	2016 **RMB'000**	2015 RMB'000
Revenue	**930,524**	783,125
Profit before income tax	**456,369**	367,574
Income tax expense	**(79,216)**	(66,039)
Profit for the year	**377,153**	301,535
Other comprehensive income	**110,376**	74,572
Total comprehensive income	**487,529**	376,107
Total comprehensive income allocated to non-controlling interests	**22,088**	16,546
Dividends paid to non-controlling interests	**16,495**	4,900

Summarised statement of cash flows

	Tong Ren Tang Chinese Medicine	
	2016 **RMB'000**	2015 RMB'000
Cash generated from operations	**483,230**	343,858
Income tax paid	**(82,206)**	(59,227)
Net cash generated from operating activities	**401,024**	284,631
Net cash used in investing activities	**(306,138)**	(79,883)
Net cash used in financing activities	**(99,843)**	(65,327)
Net (decrease)/increase in cash and cash equivalents	**(4,957)**	139,421
Cash and cash equivalents at beginning of year	**636,595**	444,453
Exchange gain on cash and cash equivalents	**81,777**	52,721
Cash and cash equivalents at end of year	**713,415**	636,595

The information above is the amount before inter-company eliminations.

10. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Joint ventures	**17,720**	21,339
Associates	**10,348**	–
	28,068	21,339

The followings represent the amounts related to the joint ventures recognised in the consolidated income statement and the Group's share of the commitments of the joint ventures.

	2016	2015
	RMB'000	RMB'000
Share of losses for the year	**(1,551)**	(379)
Impairment loss	**(1,106)**	–
The Group's share of joint ventures' commitments	**4,852**	2,384

Notes:

(a) The joint ventures are private companies and there are no quoted market prices available for their shares.

(b) There are no contingent liabilities relating to the Group's interests in the joint ventures.

(c) Details of the joint ventures are set out in Note 1 to the consolidated financial statements.

The followings represent the amounts related to associates recognised in the consolidated income statement.

	2016	2015
	RMB'000	RMB'000
Share of losses for the year	**(354)**	(3,155)

Notes:

Details of the associates are set out in Note 1 to the consolidated financial statements.

11. FINANCIAL INSTRUMENTS BY CATEGORY

	Loans and receivables RMB'000	Available-for-sale RMB'000	Total RMB'000
As at 31 December 2016			
Assets as per consolidated balance sheet			
Available-for-sale financial assets	**–**	**11,908**	**11,908**
Trade and bills receivables	**792,498**	**–**	**792,498**
Amounts due from related parties	**155,678**	**–**	**155,678**
Other current assets	**20,045**	**–**	**20,045**
Short-term bank deposits	**855,798**	**–**	**855,798**
Cash and cash equivalents	**2,332,110**	**–**	**2,332,110**
Total	**4,156,129**	**11,908**	**4,168,037**

	Loans and receivables RMB'000 (Restated)
As at 31 December 2015	
Assets as per consolidated balance sheet	
Trade and bills receivables	378,293
Amounts due from related parties	111,033
Other current assets	29,864
Short-term bank deposits	724,261
Cash and cash equivalents	1,548,130
Total	2,791,581

11. FINANCIAL INSTRUMENTS BY CATEGORY (CONT'D)

	Financial liabilities at amortised cost RMB'000
As at 31 December 2016	
Liabilities as per consolidated balance sheet	
Trade and bills payables	**597,129**
Amounts due to related parties	**49,164**
Other payables	**291,245**
Borrowings	**1,128,549**
Total	**2,066,087**

	Financial liabilities at amortised cost RMB'000 (Restated)
As at 31 December 2015	
Liabilities as per consolidated balance sheet	
Trade and bills payables	376,176
Amounts due to related parties	48,864
Other payables	196,416
Borrowings	181,970
Total	803,426

12. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2016 RMB'000	2015 RMB'000
At 1 January	**–**	–
Additions	**12,333**	–
Losses transferred to equity	**(425)**	–
At 31 December	**11,908**	–

The available-for-sale financial asset is a Hong Kong listed equity security which is denominated in HKD. The fair value is within level 1 of the fair value hierarchy (Note 3.3).

13. 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

13. 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

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.

13. TRADE AND BILLS RECEIVABLES (CONT'D)

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
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

14. INVENTORIES

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
		(Restated)
Raw materials	**668,410**	626,376
Work-in-progress	**493,695**	369,005
Finished goods	**1,082,829**	995,412
	2,244,934	1,990,793
Less: provision for impairment	**(38,604)**	(29,644)
	2,206,330	1,961,149

The cost of inventories recognised as expense and included in 'cost of sales' amounted to RMB1,204,452,000 (2015: RMB1,028,163,000 (Restated)).

15. DEFERRED INCOME TAX

Deferred income tax is calculated in full on temporary differences under the liability method using the tax rates which are expected to apply at the time of reversal of the temporary differences.

The analysis of deferred tax assets and deferred tax liabilities is as follows:

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Deferred tax assets:		
– Deferred tax assets to be recovered after 12 months	**2,286**	2,560
– Deferred tax assets to be recovered within 12 months	**36,343**	27,110
	38,629	29,670
Deferred tax liabilities:		
– Deferred tax liabilities to be settled after 12 months	**(3,941)**	(5,718)
– Deferred tax liabilities to be settled within 12 months	**(1,810)**	(2,054)
	(5,751)	(7,772)
Deferred tax assets, net	**32,878**	21,898

15. DEFERRED INCOME TAX (CONT'D)

The movement in deferred income tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

Deferred income tax assets

	2016 RMB'000	2015 RMB'000
Beginning of the year	**29,670**	18,113
Credited to income statement	**8,541**	11,317
Exchange differences	**418**	240
End of the year	**38,629**	29,670

	Provision for termination benefits RMB'000	Other provisions and amortisation RMB'000	Unrealised profit resulting from intragroup transactions RMB'000	Deferred income arising from government grant RMB'000	Others RMB'000	Total RMB'000
At 1 January 2015	226	5,165	11,420	1,302	–	18,113
(Charged)/credited to income statement	(82)	1,748	9,679	(28)	–	11,317
Exchange differences	–	9	231	–	–	240
At 31 December 2015	**144**	**6,922**	**21,330**	**1,274**	**–**	**29,670**
(Charged)/credited to income statement	**(24)**	**1,365**	**8,002**	**(1,274)**	**472**	**8,541**
Exchange differences	**–**	**3**	**415**	**–**	**–**	**418**
At 31 December 2016	**120**	**8,290**	**29,747**	**–**	**472**	**38,629**

15. DEFERRED INCOME TAX (CONT'D)

Deferred income tax liabilities

	2016 RMB'000	2015 RMB'000
Beginning of the year	**7,772**	4,841
Credited to income statement	**(2,270)**	(2,000)
Acquisition of subsidiaries	**–**	4,712
Exchange differences	**249**	219
End of the year	**5,751**	7,772

	Accelerated tax depreciation allowance RMB'000	Deferred income tax liabilities arising from business combination RMB'000	Total RMB'000
At 1 January 2015	4,481	360	4,841
Credited to income statement	(801)	(1,199)	(2,000)
Acquisition of subsidiaries	–	4,712	4,712
Exchange differences	151	68	219
At 31 December 2015	**3,831**	**3,941**	**7,772**
Credited to income statement	**(401)**	**(1,869)**	**(2,270)**
Exchange differences	**213**	**36**	**249**
At 31 December 2016	**3,643**	**2,108**	**5,751**

Deferred income tax assets are recognised for tax loss carry-forwards to the extent that the realisation of the related tax benefit through future taxable profits is probable. The Group did not recognise deferred income tax assets of RMB5,734,000 (2015: RMB6,326,000) in respect of losses amounting to RMB30,274,000 (2015: RMB35,736,000) at 31 December 2016. At 31 December 2016, these tax losses have no expiry dates except for the tax losses of RMB16,867,000 (2015: RMB11,438,000) which will expire between 2017 and 2036 (2015: between 2016 and 2019).

16. SHARE CAPITAL

	As at 31 December			
	2016		2015	
	Number of shares	**Nominal value RMB'000**	Number of shares	Nominal value RMB'000
Total share capital	**1,280,784,000**	**1,280,784**	1,280,784,000	1,280,784
Issued and fully paid				
– Domestic shares with a par value of RMB1 per share	**652,080,000**	**652,080**	652,080,000	652,080
– H shares with a par value of RMB1 per share	**628,704,000**	**628,704**	628,704,000	628,704
	1,280,784,000	**1,280,784**	1,280,784,000	1,280,784

	2016			2015		
	Domestic shares RMB'000	**H shares RMB'000**	**Total RMB'000**	Domestic shares RMB'000	H shares RMB'000	Total RMB'000
At 1 January	**652,080**	**628,704**	**1,280,784**	652,080	628,704	1,280,784
At 31 December	**652,080**	**628,704**	**1,280,784**	652,080	628,704	1,280,784

17. 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.

17. 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.

18. DEFERRED INCOME – GOVERNMENT GRANTS

	2016 RMB'000	2015 RMB'000
Beginning of the year	**86,254**	74,053
Government grants received	**8,409**	19,429
Amortisation in the income statement (Note 24)	**(10,317)**	(7,228)
Transfer to a fellow subsidiary (Note 33 (b)(vii))	**(8,414)**	–
End of the year	**75,932**	86,254

The ending balance of the government grants are relating to:

	As at 31 December	
	2016 RMB'000	2015 RMB'000
Research and development expenditure	**9,499**	25,598
Property, plant and equipment	**36,221**	19,727
Land use rights	**14,785**	23,612
Other expenditures	**15,427**	17,317
Total	**75,932**	86,254

19. BORROWINGS

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Non-current		
Corporate bonds ("**bonds**")	**798,052**	–
Bank borrowings		
– Secured	**497**	470
– Unsecured	**119,000**	–
	917,549	470
Current		
Bank borrowings		
– Secured	**3,000**	4,500
– Unsecured	**176,000**	145,000
Borrowings from a related party (Note 33 (e))	**32,000**	32,000
	211,000	181,500
Total borrowings	**1,128,549**	181,970

Certain secured bank borrowings are secured by land and buildings of carrying amounts of RMB10,363,000 (2015: RMB12,498,000) of the Group (Notes 6 and 7).

(a) At 31 December 2016, the Group's borrowings would be repayable as follows:

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Within 1 year	**211,000**	181,500
Between 1 and 2 years	**2,500**	–
Between 2 and 5 years	**813,549**	470
Over 5 years	**101,500**	–
	1,128,549	181,970

19. BORROWINGS (CONT'D)

(b) In 2016, the Company issued bonds with aggregate principal amount of RMB800 million and a maturity of five years with a nominal interest rate of 2.95% per annum, which are listed on the Shanghai Stock Exchange. The fair value of bonds as at 31 December 2016 amounted to RMB773,586,000 which is determined by reference to published price quotations and within level 1 of the fair value hierarchy (Note 3.3).

The carrying amounts of other borrowings approximate to their fair value.

(c) The carrying amounts of the Group's borrowings are denominated in the following currencies:

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
RMB	**1,128,052**	181,500
Australian Dollar	**497**	470
	1,128,549	181,970

(d) The average interest rates (per annum) are as follows:

	2016	2015
Bonds	**3.008%**	–
Other borrowings		
– RMB	**3.385%**	4.869%
– Australian Dollar	**6.260%**	6.260%

20. 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 **RMB'000**	2015 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

21. SALARY AND WELFARE PAYABLES

	As at 31 December	
	2016 **RMB'000**	2015 RMB'000 (Restated)
Salary payable	**27,442**	16,339
Welfare payable	**2,772**	6,354
	30,214	22,693

22. REVENUE

	2016 RMB'000	2015 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

23. FINANCE INCOME AND COSTS

	2016 RMB'000	2015 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 (Note 7)	**7,750**	4,900
	(11,098)	(2,627)
Finance income, net	**19,273**	21,463

24. EXPENSE BY NATURE

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

	2016 RMB'000	2015 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 (Note 25)	**740,150**	643,198
Depreciation of property, plant and equipment (Note 7)	**72,091**	68,420
Amortisation of prepaid operating lease payments (Note 6)	**3,449**	3,450
Amortisation of intangible assets (Note 8)	**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 (Note 13)	**(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 (Note 18)	**(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

25. EMPLOYEE BENEFIT EXPENSE

	2016 RMB'000	2015 RMB'000 (Restated)
Salary and wages	**550,540**	475,475
Staff welfare	**53,734**	56,111
Housing fund	**33,210**	27,522
Contribution to pension schemes	**102,666**	84,090
	740,150	643,198

The five individuals whose emoluments before individual income tax were the highest in the Group for the year include one (2015: one) director and no (2015: one) supervisor whose emoluments are reflected in the analysis presented in Note 29. The emoluments payable to the remaining four (2015: three) individuals during the year are as follows:

	2016 RMB'000	2015 RMB'000
Basic salaries, allowances and bonuses	**5,398**	4,686
Contribution to pension scheme	**125**	103
	5,523	4,789

The emoluments of these individuals fell within the following band:

	2016	2015
HKD1,000,001-HKD1,500,000 (Equivalent to RMB857,401-RMB1,286,100)	**1**	1
HKD1,500,001-HKD2,000,000 (Equivalent to RMB1,286,101-RMB1,714,800)	**3**	1
HKD2,000,001-HKD2,500,000 (Equivalent to RMB1,714,801-RMB2,143,500)	**–**	–
HKD2,500,001-HKD3,000,000 (Equivalent to RMB2,143,501-RMB2,572,200)	**–**	–
HKD3,000,001-HKD3,500,000 (Equivalent to RMB2,572,201-RMB3,000,900)	**–**	1

None of the five highest paid individuals of the Group waived any emoluments and no emoluments were paid by the Group to any of such individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

26. 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 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 **RMB'000**	2015 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

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 **RMB'000**	2015 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 assets 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

27. 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 RMB'000	2015 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

28. 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. These financial statements do not reflect this dividend payable.

	2016 RMB'000	2015 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

29. BENEFITS AND INTERESTS OF DIRECTORS AND SUPERVISORS

Directors' and supervisors' emoluments

For the year ended 31 December 2016:

	Emoluments paid or receivable in respect of a person's services as a director/ supervisor, whether of the Company or its subsidiary undertaking	Emoluments paid or receivable in respect of director's/ supervisor's other services in connection with the management of the affairs of the Company or its subsidiary undertaking			
	Fees RMB'000	Salary RMB'000	Discretionary bonuses (3) RMB'000	Employer's contribution to a retirement benefit scheme RMB'000	Total RMB'000
Chairman					
Mr. Gao Zhen Kun	–	–	–	–	–
Executive directors					
Mr. Gong Qin (2)	–	–	–	–	–
Mr. Gu Hai Ou	–	–	–	–	–
Mr. Li Bin	–	–	–	–	–
Mr.Wang Yu Wei (4)	–	1,270	847	47	2,164
Ms. Fang Jia Zhi	–	508	242	47	797
Mr. Rao Zu Hai (1)	–	–	–	–	–
Independent non-executive directors					
Miss Tam Wai Chu, Maria	206	–	–	–	206
Mr. Ting Leung Huel, Stephen	206	–	–	–	206
Mr. Jin Shi Yuan	100	–	–	–	100
Supervisors					
Ms. Ma Bao Jian	–	–	–	–	–
Mr. Wu Yi Gang	100	–	–	–	100
Ms. Ding Guo Ping	–	325	–	46	371

Notes:

(1) Appointed on 16 December 2016

(2) Resigned on 16 December 2016

(3) Bonuses are accrued according to current year's results, which will be paid in the following year after Board of Directors' approval.

(4) Chief executive of the Company

29. BENEFITS AND INTERESTS OF DIRECTORS AND SUPERVISORS (CONT'D)

Directors' and supervisors' emoluments (Cont'd)

For the year ended 31 December 2015:

	Emoluments paid or receivable in respect of a person's services as a director/supervisor, whether of the Company or its subsidiary undertaking	Emoluments paid or receivable in respect of director's/supervisor's other services in connection with the management of the affairs of the Company or its subsidiary undertaking			
	Fees RMB'000	Salary RMB'000	Discretionary bonuses (3) RMB'000	Employer's contribution to retirement benefit scheme RMB'000	Total RMB'000
Chairman					
Mr. Gao Zhen Kun (1)	–	–	–	–	–
Mr. Mei Qun (2)	–	–	–	–	–
Executive directors					
Mr. Wang Quan (2)	–	–	–	–	–
Mr. Gong Qin	–	–	–	–	–
Mr. Gu Hai Ou (1)	–	–	–	–	–
Mr. Li Bin (1)	–	–	–	–	–
Mr. Wang Yu Wei (4)	–	1,270	847	44	2,161
Ms. Fang Jia Zhi	–	508	242	44	794
Independent non-executive directors					
Miss Tam Wai Chu, Maria	193	–	–	–	193
Mr. Ting Leung Huel, Stephen	193	–	–	–	193
Mr. Jin Shi Yuan	100	–	–	–	100
Supervisors					
Ms. Ma Bao Jian	–	–	–	–	–
Mr. Wu Yi Gang	100	–	–	–	100
Mr. Bai Jian (2)	–	762	484	44	1,290
Ms. Ding Guo Ping (1)	–	269	–	43	312

Notes:

(1) Appointed on 9 June 2015

(2) Retired on 9 June 2015

(3) Bonuses are accrued according to current year's results, which will be paid in the following year after Board of Directors' approval.

(4) Chief executive of the Company

29. BENEFITS AND INTERESTS OF DIRECTORS AND SUPERVISORS (CONT'D)

No directors and supervisors waived any emoluments and no emoluments were paid by the Group to any of the directors and supervisors as an inducement to join or upon joining the Group or as compensation for loss of position.

No payments or benefits in respect of termination of directors' and supervisors' services were paid or made, directly or indirectly, to or receivable by any director or supervisor; nor are any payable.

No consideration was provided to or receivable by third parties for making available directors' or supervisors' services.

There are no loans, quasi-loans or other dealings in favour of the directors and supervisors, their controlled bodies corporate and connected entities.

Saved as disclosed in Note 33 and elsewhere in these financial statements, none of the directors and supervisors had a material interest, either directly or indirectly, in any transactions, arrangements and contracts of significance relating to the business of the Group, to which the Company or any of its subsidiaries was a party, and which was subsisting at the end of the year or at any time during the year.

30. RETIREMENT AND TERMINATION BENEFITS

Pursuant to the PRC laws and regulations, the Group is required to make monthly contributions to various retirement benefit schemes organised by the relevant provincial and municipal governments for the Group's employees in the PRC at rates ranging from 28% to 32% (2015: 28% to 32%) of the employees' standard salaries, of which 20% to 24% (2015: 20% to 24%) is borne by the Group and the remaining portion is borne by the employees.

The Group's subsidiaries in Hong Kong participate in a Mandatory Provident Fund scheme (the "**MPF scheme**") in accordance with the Mandatory Provident Fund Scheme Ordinance of Hong Kong (the "**MPF Ordinance**"). The only obligation of the Group with respect to the MPF Scheme is to make the required contributions under the scheme. These defined contribution schemes are responsible for the pension liabilities of the employees. The Group's contributions to these defined contribution schemes are expensed as incurred.

In addition, the Group provides termination benefits to certain employees up to their normal retirement age as set out in Note 2.23 (b). The carrying amount of the relevant provision included in "Other payables" as at 31 December 2016 was approximately RMB800,000 (2015: RMB960,000).

31. HOUSING FUND

The Group's full-time employees in the PRC participate in a state-sponsored housing fund ("**Fund**"). The housing fund can be used by the Group's employees for purchasing houses, or withdrawn upon their retirement. The Group is required to make annual contributions to the Fund based on certain percentages of the employees' salaries. The Group's liability in respect of the housing fund is limited to the contributions payable in each period. For the year ended 31 December 2016, the Group contributed approximately RMB33,587,000 (2015: RMB27,522,000 (Restated)) to the Fund.

32. CASH GENERATED FROM OPERATIONS

(a) Reconciliation from profit before income tax to cash generated from operations:

	2016 RMB'000	2015 RMB'000 (Restated)
Profit before income tax	**1,023,505**	899,742
Adjustments for:		
Depreciation of property, plant and equipment (Note 7)	**72,091**	68,420
Amortisation of prepaid operating lease payments (Note 6)	**3,449**	3,450
Amortisation of intangible assets (Note 8)	**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 (Note 13)	**(113)**	3,508
Loss on disposal of property, plant and equipment	**1,167**	952
Amortisation of deferred income – government grants (Note 18)	**(10,317)**	(7,228)
Interest income (Note 23)	**(27,534)**	(22,977)
Interest expense (Note 23)	**11,098**	2,627
Exchange gains (Note 23)	**(2,837)**	(1,113)
Share of loss of investments accounted for using the equity method (Note 10)	**1,905**	3,534
Impairment loss on an investment accounted for using the equity method (Note 10)	**1,106**	–
Operating profit before working capital changes	**1,099,380**	976,485
Changes in:		
Inventories	**(267,171)**	(197,292)
Trade and bills receivables	**(414,092)**	(58,989)
Amounts due from related parties	**(47,210)**	(10,622)
Prepayments and other current assets	**(5,450)**	7,540
Trade and bills payables	**220,953**	(80,683)
Other current liabilities	**7,291**	(156,857)
Amounts due to related parties	**8,949**	(40,594)
Proceeds from government grants	**8,409**	19,429
Cash generated from operations	**611,059**	458,417

32. CASH GENERATED FROM OPERATIONS (CONT'D)

(b) *Analysis of the balances of cash and cash equivalents and short-term bank deposits*

As at 31 December, cash and cash equivalents were denominated in the following currencies:

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
		(Restated)
Cash at bank and in hand		
RMB	**1,512,618**	847,189
HKD	**745,410**	637,135
Macanese Pataca	**20,432**	15,979
United States Dollar	**12,066**	8,342
Canadian Dollar	**9,831**	8,644
Australian Dollar	**9,147**	5,206
Singapore Dollar	**8,881**	9,728
New Zealand Dollar	**4,257**	5,196
UAE Dirham	**3,146**	2,064
Swedish Krona	**2,441**	3,078
European Dollar	**2,336**	2,094
Brunei Ringgit	**1,020**	1,292
Polish Zloty	**348**	171
Korean Won	**140**	321
Great British Pound	**25**	907
Czech Koruna	**12**	784
	2,332,110	1,548,130

Bank deposits with original maturities of over three months were classified as short-term bank deposits and denominated in the following currencies:

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
RMB	**152,681**	288,275
HKD	**688,343**	429,606
Singapore Dollar	**8,580**	6,131
Canadian Dollar	**4,935**	–
United States Dollar	**697**	–
New Zealand Dollar	**337**	–
Australian Dollar	**225**	209
European Dollar	**–**	40
	855,798	724,261

32. CASH GENERATED FROM OPERATIONS (CONT'D)

(b) *Analysis of the balances of cash and cash equivalents and short-term bank deposits (Cont'd)*

The weighted average effective interest rate on short-term bank deposits was 1.26% (2015: 1.76%) per annum. Cash at bank earns interest at floating rates based on daily bank deposit rates.

As at 31 December 2016, the cash in hand balance of the Group was RMB2,202,000 (2015: RMB5,577,000 (Restated)). Cash at bank and short-term bank deposits balance of the Group was RMB3,185,706,000 (2015: RMB2,266,814,000 (Restated)). Management did not expect any losses from non-performance by those banks.

33. RELATED PARTY TRANSACTIONS

Related parties include the Group and its subsidiaries, other majority state-owned enterprises and their subsidiaries directly or indirectly controlled by the PRC government, other entities and corporations in which the Company is able to control or exercise significant influence in making financial and operating decisions and key management personnel of the Company as well as their close family members.

The ultimate holding company is beneficially owned by the State-owned Assets Supervision and Administration Commission of People's Government of Beijing Municipality, so it is a state-owned enterprise and is controlled by the PRC government, which also owns a significant portion of the productive assets in the PRC. In accordance with IAS 24, "Related Party Disclosures", state-owned enterprises and their subsidiaries, other than the ultimate holding company and its subsidiaries, directly or indirectly controlled by the PRC government are also defined as related parties of the Group.

A portion of the Group's business activities are conducted with other state-owned enterprises. The Group believes that these transactions are carried out on normal commercial terms that are consistently applied to all customers. For the purpose of related party transactions disclosure, the Group has identified, to the extent practicable, those corporate customers and suppliers which are state-owned enterprises based on their ownership structure. It should be noted, however, that substantially all of the Group's business activities are conducted in the PRC and the influence of the PRC government in the Chinese economy is pervasive. In this regard, the PRC government indirectly holds interests in many companies. Many state-owned enterprises have multi-layered corporate structure and the ownership structures change over time as a result of transfers and privatisation programs. Some of these interests may, in themselves or when combined with other indirect interests, be controlling interests. Such interests, however, would not be known to the Group and are not reflected in the disclosures below. In addition, a portion of the Group's revenue from sales of goods are of a retail nature to end users, which include transactions with the employees of state-controlled entities while such employees are key management personnel and their close family members. These transactions are carried out on normal commercial terms that are consistently applied to all customers. Due to the volume and the pervasiveness of these transactions, the Group is unable to determine the aggregate amount of these transactions for disclosure. Therefore, the revenue from sales of goods disclosed below does not include retail transactions with these related parties. However, the Group believes that meaningful information relating to related party disclosures has been adequately disclosed.

During the year, the Group had the following material transactions with related parties, which were entered into at terms mutually agreed with these related parties in the ordinary course of business.

33. RELATED PARTY TRANSACTIONS (CONT'D)

(a) Transactions with the ultimate holding company

Transactions with the ultimate holding company during the year are summarised as follows:

	2016	2015
	RMB'000	RMB'000
Trademark licence fee (Note (i))	**850**	850
Rental expense (Note (ii))	**2,364**	2,364
Storage fee (Note (iii))	**2,916**	2,916

Notes:

(i) A licence agreement was renewed on 28 February 2013 between the Company and the ultimate holding company whereby the Company is allowed to use certain trademarks and trademark logos (collectively, "Trademarks") of the ultimate holding company.

The licence agreement is effective from 1 March 2013 to 28 February 2018. Upon the expiration of the licence, if the ultimate holding company successfully renews the right to use the Trademarks and if the Company fully complies with the terms and conditions of agreement and requests to continue to use the Trademarks, the ultimate holding company shall renew the agreement with the Company. The renewed term of the licence shall not be shorter than 5 years.

The annual licence fee for the year ended 2016 is RMB850,000. The parties are entitled to adjust the annual licence fee thereafter. Such annual increase or decrease shall not exceed 10% of that of the previous year.

(ii) A land use right leasing agreement (the "Old Agreement") dated 6 October 2000 was entered into between the Company and the ultimate holding company. Pursuant to the agreement, the total area leased to the Company is approximately 49,776.35 sq.m. The land is located in Beijing, the PRC, with a lease period of 20 years commencing from 6 October 2000. The annual rental is calculated at a rate of RMB53.95 per sq.m. Any adjustments to the annual rental shall be made at the market rent, provided that such adjustment shall not exceed 10% of that of the previous year. On 1 January 2006, an amendment was made to reduce the total area of the land leased to 43,815.15 sq.m., the remaining clauses on the Old Agreement still remain effective.

(iii) A contract for storage and custody was renewed on 10 October 2013 between the Company and the ultimate holding company whereby the ultimate holding company agreed to provide storage and custody services to the Company, with an effective period from 1 January 2014 to 31 December 2016. From the effective date of the contract, the storage fee is calculated at RMB252 per sq.m. per year. Adjustment to the storage fee is permitted after one-year period provided that the annual increase or decrease shall not exceed 10% of that of the previous year. The above contract for storage and custody, which expired on 31 December 2016.

33. RELATED PARTY TRANSACTIONS (CONT'D)

(b) *Transactions with the subsidiaries and joint ventures of the ultimate holding company*

	2016 RMB'000	2015 RMB'000
Sales of Chinese medicine related products (Note (i))	**757,327**	700,879
Purchases of Chinese medicine related products (Note (ii))	**125,784**	110,355
Sole overseas exclusive distributorship (Note (iii))	**37,926**	30,383
Research and development expense (Note (iv))	**–**	5,509
Advertising services income (Note (v))	**38,588**	34,081
Property leasing expense	**1,895**	1,449

Notes:

(i) The Company renewed a distribution framework agreement with the ultimate holding company on 10 October 2013. In accordance with this agreement, the Group can sell its products to the subsidiaries and joint ventures of the ultimate holding company. The selling price to the ultimate holding company's subsidiaries and joint ventures shall not be lower than the prices to independent third parties. The agreement has been approved at the Company's extraordinary general meeting of 2013 and is effective from 1 January 2014 to 31 December 2016.

On 29 September 2016, the Company renewed the distribution framework agreement with the ultimate holding company. Pursuant to the renewed agreement, the price of the products to be sold by the Group to the ultimate holding company or its subsidiaries and joint ventures shall not be lower than that charged by the Group to other independent third parties and shall be determined in accordance with a reasonable cost plus a fair and reasonable profit margin: (i) the reasonable cost shall be determined by reference to the cost of the raw materials, the cost of labour and the manufacturing expense etc.; and (ii) the profit margin shall be determined by reference to the prevailing market and the then market price for comparable products in the related industry, and the profit rate of the products of the Group in the past years of not exceeding 50%, which is in line with the previous gross profit rate of the Group. The renewed agreement was approved at the extraordinary general meeting of the Company on 16 December 2016 and for a term of three years from 1 January 2017 to 31 December 2019.

33. RELATED PARTY TRANSACTIONS (CONT'D)

(b) Transactions with the subsidiaries and joint ventures of the ultimate holding company (Cont'd)

Notes (Cont'd):

(ii) The Company renewed a master procurement agreement with the ultimate holding company on 10 October 2013. Pursuant to the agreement, the subsidiaries and joint ventures of the ultimate holding company can supply to the Group the products that are required for the Group's production, sale and distribution. The price procured by the Group from the ultimate holding company's subsidiaries and joint ventures shall be negotiated by the parties on an arm's length basis. The ultimate holding company shall not supply the products to the Group (1) at a price higher than that of the products of the same type and quality offered to the Group by independent third parties or the prevailing market price; (2) if there is no comparable market price available for the relevant materials/products, the price shall be determined based on the integrated cost plus not more than 15% surcharge, and in any event, the price for such procurement shall not be higher than terms offered by independent third parties to the Group. The agreement has been approved at the Company's 2013 extraordinary general meeting and is effective from 1 January 2014 to 31 December 2016.

On 29 September 2016, the Company renewed the master procurement agreement with the ultimate holding company with similar pricing policies. The renewed agreement was approved at the extraordinary general meeting of the Company on 16 December 2016 and for a term of three years from 1 January 2017 to 31 December 2019.

(iii) Tong Ren Tang Chinese Medicine entered into an exclusive distributorship frame-work agreement with Parent Company on 29 October 2012, with a term from 1 November 2012 to 31 December 2014, pursuant to which, Tong Ren Tang International Natural-Pharm, a wholly-owned subsidiary of Tong Ren Tang Chinese Medicine, is appointed as the sole overseas distributor of the Parent Company, for the purpose of the distribution of the relevant Tong Ren Tang branded products supplied by Parent Company ("Relevant Products") outside the PRC. The price of the Relevant Products supplied shall not be higher than the wholesale price of the Relevant Products sold to the wholesale customers in the PRC and shall be determined with reference to the then prevailing market price.

Tong Ren Tang Chinese Medicine renewed the agreement with Parent Company on 28 October 2014, with an effective period from 1 January 2015 to 31 December 2017. The renewed agreement has been approved by the extraordinary general meeting of Tong Ren Tang Chinese Medicine on 27 November 2014.

(iv) On 19 March 2013, the Company entered into a framework agreement ("Framework Agreement") with Beijing Zhongyan Tong Ren Tang Pharmaceuticals Research and Development Co., Ltd. ("Zhongyan Company", a joint venture of the ultimate holding company), for the purpose of the cooperation between the parties in technology research and development, with a term from 19 March 2013 to 31 December 2015. The research and development expenses will be determined based on the costs and expenditures incurred by Zhongyan Company for completion of the research work under the Framework Agreement, including raw material and test material fees, energy consumption, purchase and maintenance of instruments and equipment, laboratory construction costs, staff salaries and technical consultation and assessment fees, etc. The agreement expired on 31 December 2015.

33. RELATED PARTY TRANSACTIONS (CONT'D)

(b) Transactions with the subsidiaries and joint ventures of the ultimate holding company (Cont'd)

Notes (Cont'd):

(v) On 20 March 2014, Tong Ren Tang Century Advertising, a wholly-owned subsidiary of the Company, entered into a framework agreement with the ultimate holding company for the purpose of the provision of the advertising services by Tong Ren Tang Century Advertising to the ultimate holding company and its subsidiaries or joint ventures for a period from 1 April 2014 to 31 December 2016. Accordingly, the ultimate holding company agreed to entrust Tong Ren Tang Century Advertising, as a non-exclusive advertising agent, to provide the advertising services to the ultimate holding company and its subsidiaries or joint ventures. The fees for the provision of specific services by Tong Ren Tang Century Advertising to the ultimate holding company and its subsidiaries or joint ventures under individual implementation agreement shall be negotiated and determined by the parties according to the then prevailing market price, but in any event the price shall not be less than those offered to other independent third parties for similar services.

On 29 September 2016, Tong Ren Tang Century Advertising renewed the advertising agency framework agreement with the ultimate holding company for a term of three years from 1 January 2017 to 31 December 2019. Accordingly, the fees for the provision of specific services by Tong Ren Tang Century Advertising to the ultimate holding company or its subsidiaries and joint ventures under individual implementation agreement shall be negotiated and determined by the parties with reference to the actual quotation offered by the advertiser, which is at discount on the basis of its published price list, plus a reasonable fee for the advertising agency service of Tong Ren Tang Century Advertising, which is generally not higher than 15% of the quotation offered by the advertiser.

(vi) On 25 January 2017, the Company and the ultimate holding company entered into a property leasing framework agreement, pursuant to which, the ultimate holding company has agreed to lease and procure its other members to lease certain premises to the Group for its productions and operations, including but not limited to office premises, warehouses and staff quarter, for a term of three years commencing from 1 January 2017 to 31 December 2019. The agreement was entered into in accordance with the pricing policies below: (i) the relevant market price; (ii) where the market price is not available, then the contracted price, which shall be determined after arm's length negotiation based by both parties of the agreement based on the principle of cost plus a fair and reasonable profit rate and by reference to the historical rentals; and (iii) the terms of all leases under the property leasing framework agreement shall be negotiated on an arm's length basis and shall be fair and reasonable.

(vii) Pursuant to an assets transfer agreement entered into by the Company and Beijing Tong Ren Tang (Bozhou) Herbal Pieces Co. Ltd. ("Bozhou Herbal Pieces", a subsidiary of the ultimate holding company) on 29 September 2016, the Company transferred to Bozhou Herbal Pieces land use rights, CIP and related government grants with carrying amounts of RMB8,750,000, RMB105,125,000 and RMB8,414,000 respectively at a cash consideration of approximately RMB113,734,000.

33. RELATED PARTY TRANSACTIONS (CONT'D)

(c) *Transactions with other state-owned enterprises*

In the ordinary course of business, the Group sells goods to, and purchase goods from other state-owned enterprises based on terms as set out in the underlying agreements, market prices or actual cost incurred, or as mutually agreed.

The Group places deposits in and receives loans mainly from state-owned financial institutions in the ordinary course of business. The deposits and loans are in accordance with the terms as set out in the respective agreements, and the interest rates are set at prevailing market rates.

(d) *Key management compensation*

Key management includes directors (executive and non-executive) and senior management. The compensation paid or payable to key management for employee services is shown below:

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Salaries and other short-term employee benefits	**8,855**	9,579
Pension costs – defined contribution plans	**376**	396
	9,231	9,975

(e) *Balances with related parties*

As at 31 December, balances with related parties consisted of:

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
		(Restated)
Amounts due from related parties (Note(i)):		
Subsidiaries and joint ventures of the ultimate holding company	**115,900**	76,111
Other state-owned enterprises	**42,343**	34,922
	158,243	111,033
Amounts due to related parties (Note(i)):		
Subsidiaries and joint ventures of the ultimate holding company	**45,124**	31,044
Other state-owned enterprises	**12,689**	17,820
	57,813	48,864
Borrowings from a related party (Note(ii)):		
Ultimate holding company	**32,000**	32,000

33. RELATED PARTY TRANSACTIONS (CONT'D)

(e) Balances with related parties (Cont'd)

Notes:

(i) The amounts due from/to related parties are unsecured, interest-free and recoverable or repayable within twelve months.

As at 31 December, the ageing analysis of amounts due from related parties based on invoice date was as follows:

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
		(Restated)
Within 4 months	**121,805**	87,190
Over 4 months but within 1 year	**15,149**	20,811
Over 1 year	**21,289**	3,032
	158,243	111,033

As at 31 December, the ageing analysis of amounts due to related parties based on invoice date was as follows:

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
		(Restated)
Within 4 months	**52,330**	41,097
Over 4 months but within 1 year	**4,746**	6,019
Over 1 year	**737**	1,748
	57,813	48,864

(ii) Borrowings from a related party are in the form of entrusted loans which are unsecured, bear interest by reference to benchmark lending interest rate published by the People's Bank of China with moderate decrease and repayable within one year.

34. BANKING FACILITIES

As at 31 December 2016, the Group had aggregated banking facilities of RMB893,027,000 (2015: RMB930,000,000) for loan and other trade financing. As at 31 December 2016, the unutilised banking facilities amounted to RMB716,530,000 (2015: RMB770,000,000).

35. COMMITMENTS

(a) Capital commitments

As at 31 December, the Group had the following capital commitments which were contracted but not provided for:

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Property, plant and equipment	**267,456**	156,650

(b) Operating lease commitments

The Group leases various warehouse and factory premises under non-cancellable operating leases. The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Not later than one year	**64,890**	52,494
Later than one year and no later than five years	**74,415**	66,511
Later than five years	**7,543**	2,743
	146,848	121,748

36. BUSINESS COMBINATION UNDER COMMON CONTROL

On 30 March 2016, the Company entered into the equity trading agreement with the ultimate holding company in respect of the acquisition of 100% equity interest in Tong Ren Tang Second Traditional Chinese Medicine Hospital at a cash consideration of RMB13,500,000.

As the Company and Tong Ren Tang Second Traditional Chinese Medicine Hospital are under common control of the ultimate holding company before and after the business combination, the Company applies the principles of merging accounting in preparing the consolidated financial statements with reference to Hong Kong Accounting Guideline 5 "Merger Accounting for Common Control Combinations" issued by the Hong Kong Institute of Certified Public Accountants.

36. BUSINESS COMBINATION UNDER COMMON CONTROL (CONT'D)

The consolidated financial statements for the year ended 31 December 2015 have been restated as if the acquired subsidiary had been combined from the date when it first came under the control of the ultimate holding company. Effects for common control combination of the acquired subsidiary on the consolidated balance sheets as at 31 December 2016 and 31 December 2015 and the Group's consolidated income statement for the years ended 31 December 2016 and 31 December 2015 are as follows:

	The Group before acquired business RMB'000	Acquired subsidiary RMB'000	Adjustments(i) RMB'000	The Group after acquired business RMB'000
Year ended 31 December 2016				
Revenue	4,562,015	168,017	(64,737)	4,665,295
Profit before income tax	1,022,556	949	–	1,023,505
Profit for the year	850,226	763	–	850,989
As at 31 December 2016				
ASSETS				
Non-current assets	1,721,120	2,624	(11,708)	1,712,036
Current assets	6,451,637	21,303	(810)	6,472,130
Total assets	8,172,757	23,927	(12,518)	8,184,166
EQUITY				
Equity attributable to owners of the Company				
Share capital	1,280,784	10,493	(10,493)	1,280,784
Reserves	3,122,291	1,324	(1,215)	3,122,400
	4,403,075	11,817	(11,708)	4,403,184
Non-controlling interests	1,481,924	–	–	1,481,924
Total equity	5,884,999	11,817	(11,708)	5,885,108
LIABILITIES				
Non-current liabilities	998,802	–	–	998,802
Current liabilities	1,288,956	12,110	(810)	1,300,256
Total liabilities	2,287,758	12,110	(810)	2,299,058
Total equity and liabilities	8,172,757	23,927	(12,518)	8,184,166

36. BUSINESS COMBINATION UNDER COMMON CONTROL (CONT'D)

	As previously stated RMB'000	Acquired subsidiary RMB'000	Adjustments[i] RMB'000	The Group after acquired business RMB'000
Year ended 31 December 2015				
Revenue	3,987,124	148,723	(68,887)	4,066,960
Profit before income tax	898,830	912	–	899,742
Profit for the year	742,030	551	–	742,581
As at 31 December 2015				
ASSETS				
Non-current assets	1,341,816	3,380	–	1,345,196
Current assets	4,840,437	17,648	–	4,858,085
Total assets	6,182,253	21,028	–	6,203,281
EQUITY				
Equity attributable to owners of the Company				
Share capital	1,280,784	630	(630)	1,280,784
Reserves	2,677,517	10,371	630	2,688,518
	3,958,301	11,001	–	3,969,302
Non-controlling interests	1,193,734	–	–	1,193,734
Total equity	5,152,035	11,001	–	5,163,036
LIABILITIES				
Non-current liabilities	93,991	–	–	93,991
Current liabilities	936,227	10,027	–	946,254
Total liabilities	1,030,218	10,027	–	1,040,245
Total equity and liabilities	6,182,253	21,028	–	6,203,281

Note:

(i) Adjustments to eliminate intercompany transactions as well as the investment costs and share capitals of the acquired business against reserves.

No other significant adjustments were made to the net assets and net profit of any entities or businesses as a result of the common control combinations to achieve consistency of accounting policies.

37. BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY

Balance sheet of the Company

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Assets		
Non-current assets		
Leasehold land and land use rights	**79,158**	89,896
Property, plant and equipment	**718,973**	584,893
Intangible assets	**2,353**	1,473
Investments in subsidiaries	**545,826**	439,926
Investments accounted for using the equity method	**10,700**	2,000
Amounts due from subsidiaries	**200,000**	–
Prepayments for purchase of property, plant and equipment	**21,844**	21,844
Deferred income tax assets	**6,858**	6,191
	1,585,712	1,146,223
Current assets		
Inventories	**1,967,081**	1,800,685
Trade and bills receivables	**621,426**	255,240
Amounts due from subsidiaries	**2,650**	4,539
Amounts due from other related parties	**74,805**	37,280
Prepayments and other current assets	**52,489**	64,627
Short-term bank deposits	**132,681**	283,275
Cash and cash equivalents	**1,319,484**	658,419
	4,170,616	3,104,065
Total assets	**5,756,328**	4,250,288

37. BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY (CONT'D)

Balance sheet of the Company (Cont'd)

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Equity and liabilities		
Equity attributable to owners of the Company		
Share capital	**1,280,784**	1,280,784
Reserves (Note (a))	**2,477,354**	2,188,214
Total equity	**3,758,138**	3,468,998
Liabilities		
Non-current liabilities		
Borrowings	**917,052**	–
Deferred income – government grants	**52,494**	71,134
	969,546	71,134
Current liabilities		
Trade and bills payables	**390,533**	260,500
Salary and welfare payables	**443**	2,443
Advances from customers	**58,927**	56,337
Amounts due to subsidiaries	**233,277**	86,160
Amounts due to other related parties	**27,892**	28,199
Current income tax liabilities	**7,555**	12,793
Other payables	**228,017**	131,724
Borrowings	**82,000**	132,000
	1,028,644	710,156
Total liabilities	**1,998,190**	781,290
Total equity and liabilities	**5,756,328**	4,250,288

The balance sheet of the Company was approved by the Board of Directors on 24 March 2017 and was signed on its behalf.

Gao Zhen Kun	**Fang Jia Zhi**
Chairman	*Director*

37. BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY (CONT'D)

Balance sheet of the Company (Cont'd)

(a) Reserve movement of the Company

	Capital reserve (Note 17 (a)) RMB'000	Statutory surplus reserve fund (Note 17 (b)) RMB'000	Statutory public welfare fund (Note 17 (b)) RMB'000	Tax reserve (Note 17 (c)) RMB'000	Retained earnings RMB'000	Total RMB'000
Balance as at 1 January 2015	414,100	294,709	45,455	102,043	1,062,184	1,918,491
Profit for the year	–	–	–	–	449,033	449,033
Appropriation from retained earnings	–	44,904	–	–	(44,904)	–
2014 dividends paid to shareholders of the Company	–	–	–	–	(179,310)	(179,310)
Balance as at 31 December 2015	414,100	339,613	45,455	102,043	1,287,003	2,188,214
Balance as at 1 January 2016	**414,100**	**339,613**	**45,455**	**102,043**	**1,287,003**	**2,188,214**
Profit for the year	**–**	**–**	**–**	**–**	**481,258**	**481,258**
Appropriation from retained earnings	**–**	**48,090**	**–**	**–**	**(48,090)**	**–**
2015 dividends paid to shareholders of the Company	**–**	**–**	**–**	**–**	**(192,118)**	**(192,118)**
Balance as at 31 December 2016	**414,100**	**387,703**	**45,455**	**102,043**	**1,528,053**	**2,477,354**

Tong Ren Tang Technologies Co. Ltd.
北京同仁堂科技發展股份有限公司

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