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Tong Ren Tang Technologies Co. Ltd.

北京同仁堂科技發展股份有限公司

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

(Stock Code: 1666)

ANNUAL RESULTS ANNOUNCEMENT
FOR THE YEAR ENDED 31 DECEMBER 2018

CHAIRMAN'S STATEMENT

I am pleased to present the annual results of Tong Ren Tang Technologies Co. Ltd. (the "**Company**") and its subsidiaries (hereafter collectively referred to as the "**Group**") for the year ended 31 December 2018 (the "**Reporting Period**") for shareholders' review.

Results of the Year

For the year ended 31 December 2018, the Group's revenue amounted to RMB5,059,638,000, representing an increase of 0.69% from RMB5,025,183,000 for the corresponding period of last year; net profit attributable to owners of the Company amounted to RMB677,815,000, representing an increase of 1.67% from RMB666,666,000 for the corresponding period of last year; earnings per share was RMB0.53 (2017: RMB0.52); and dividend per share was RMB0.18 (2017: RMB0.17).

Review of the Year

In recent years, in face of national control over medical insurance premium, centralized tender procurement of medicines and increasing pharmaceutical regulations, as well as continuous intensifying health insurance coverage, coupled with the overall slowdown of GDP growth, the growth rate of traditional Chinese medicine industry has slowed down accordingly, and the industry is still facing challenges of policy and increase in cost. On the other hand, the Chinese government unswervingly promoted the "Healthy China Strategy" which was also included as a basic strategy of national development in the Report of the 19th National Congress of the Communist Party of China. Moreover, the report specified that we should "support both traditional Chinese medicine and Western medicine, and ensure the preservation and development of traditional Chinese medicine", which provided a clear direction for the development of traditional Chinese medicine industry. The official implementation of "National Catalogue of Essential Drugs (2018 Edition)" (《國家基本藥物目錄 (2018 年版)》) also fully reflected the adherence to the principle of supporting both traditional Chinese medicine and Western medicine. Traditional Chinese medicine industry has benefited from the current macro environment and continued to optimize and upgrade.

2018 was a key year for the policy reform of China's pharmaceutical industry as well as a key year for the Group to carry out the "13th Five-Year Plan" linking the past with the future. Facing challenges and changes, we took a pragmatic and forward-looking attitude, carefully planning and progressively developing centering on the three main themes of "Reform, Deepening and Adjustment", made efforts in intensifying marketing organization reform, thoroughly implementing industrial layout adjustment and facilitating development, so as to promote the overall stable development of the group. On the one hand, we actively grasped the industry development trend and market demand, intensified channel planning, product planning and promotion planning, and carried out market segmentation and accurate marketing. On the other hand, we aligned us with the developments and changes arising from coordinated development of the Beijing-Tianjin-Hebei region as well as relieving Beijing of functions non-essential to its role as the capital, sped up the adjustment of industry layout and optimized resources allocation. During the Reporting Period, construction of key projects of the Group all entered the final stage and the Group took a further step towards the new production layout of "main center plus sub-center".

Outlook and Prospects

In the future, with intensifying new-type industrialization, informatization and agricultural modernization, as well as acceleration in the aging of population, health service industry is booming, and demand for traditional Chinese medicine services is increasing. Despite the demand growth, the quality of products and services is still the key to enhance the competitiveness of traditional Chinese medicine industry. With increasingly stringent pharmaceutical regulations of the Chinese government, the development of the industry will be pushed forward in the direction of compliance, standardization and high efficiency. In addition, competition in the traditional Chinese medicine industry and the reform of national medical and health system will both continue to intensify, and the pressure on environmental protection will continue to increase. Traditional Chinese medicine enterprises will inevitably bear multiple pressures and tests in production and operation.

A tree has to strike a firm root before it can flourish. A river has to have a fully dredged source before it can flow unceasingly far. The Group understands that the medicine safety relates to public health and safety. Therefore, ensuring product safety is the fundamental principle of the development of the Group. 2019 is a key year for the Group to comprehensively improve its management on quality. We will pay constant attention to product quality, system standards and proper operation, enhance control in each session, strengthen internal control, and improve the integrity, systematism, coordination and standardization of work. In the meantime, when focusing and highlighting the principal business, we will carefully select capable and reputable partners, and enhance leadership in joint venture and cooperation in various aspects such as operation management, quality management and financial management to achieve multi-angle and all-around management and control system and effectively improve the internal control and management level of the Group.

Those who plan carefully can walk far, and those who behave morally can succeed. The Group will, as always, adhere to the ancient motto of “Nurturing kindness and virtue, Preserving tranquility and wellness” of Tong Ren Tang, thoroughly implement ethical culture of “Complexity and quality are not to be forfeited by costs” of Tong Ren Tang and regard honesty and quality as the lifeline of survival and development, so as to inherit, develop and make good use of traditional Chinese medicine with a higher standard and higher level of operation and management and achieve healthy, sustained and stable high-quality development of the Group.

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

FINANCIAL INFORMATION

The Board is pleased to announce the audited consolidated income statement, consolidated statement of comprehensive income and consolidated balance sheet of the Group for the year ended 31 December 2018, together with the comparative figures of 2017, as follows:

CONSOLIDATED INCOME STATEMENT

	Note	***2018***	*2017*
		RMB'000	*RMB'000*
Revenue	*d*	**5,059,638**	5,025,183
Cost of sales		**(2,631,659)**	(2,499,641)
Gross profit		**2,427,979**	2,525,542
Distribution expenses	*f*	**(866,651)**	(994,455)
Administrative expenses	*f*	**(364,248)**	(364,651)
Net impairment (losses)/gains on financial assets		**(6,055)**	1,427
Operating profit		**1,191,025**	1,167,863
Finance income	*e*	**32,031**	19,830
Finance costs	*e*	**(14,964)**	(21,685)
Finance income/(costs), net	*e*	**17,067**	(1,855)
Share of (losses)/income of investments accounted for using the equity method		**(138)**	96
Other (losses)/gains		**(884)**	120
Profit before income tax		**1,207,070**	1,166,224
Income tax expense	*g*	**(201,217)**	(196,332)
Profit for the year		**1,005,853**	969,892
Profit attributable to:			
Owners of the Company		**677,815**	666,666
Non-controlling interests		**328,038**	303,226
		1,005,853	969,892
Earnings per share for profit attributable to owners of the Company during the year			
- Basic and diluted	*i*	**RMB0.53**	RMB0.52

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	2018	*2017*
	RMB'000	*RMB'000*
Profit for the year	**1,005,853**	969,892
Other comprehensive income/(losses)		
Items that may be reclassified to profit or loss		
Change in fair value of available-for-sale financial assets	**-**	1,734
Foreign currency translation differences		
- Group	**104,859**	(130,778)
- Joint ventures and associates	**2,179**	(325)
Items that will not be reclassified to profit or loss		
Change in fair value of financial assets at fair value through other comprehensive income	**127**	-
Other comprehensive income/(losses) for the year, net of tax	**107,165**	(129,369)
Total comprehensive income for the year	**1,113,018**	840,523
Attributable to:		
Owners of the Company	**717,121**	618,361
Non-controlling interests	**395,897**	222,162
Total comprehensive income for the year	**1,113,018**	840,523

CONSOLIDATED BALANCE SHEET

		As at 31 December	
	Note	***2018***	*2017*
		RMB'000	*RMB'000*
Assets			
Non-current assets			
Leasehold land and land use rights		**164,370**	152,193
Property, plant and equipment		**2,029,183**	1,674,297
Intangible assets		**73,990**	75,469
Investments accounted for using the equity method		**26,469**	27,839
Financial assets at fair value through other comprehensive income		**13,553**	-
Available-for-sale financial assets		**-**	12,804
Prepayments for purchase of non-current assets		**33,038**	58,977
Deferred income tax assets		**37,585**	30,702
		2,378,188	2,032,281
Current assets			
Inventories		**2,361,161**	2,302,890
Trade and bills receivables	*k*	**1,048,988**	1,147,894
Amounts due from related parties		**214,778**	203,329
Other financial assets at amortised cost		**53,273**	-
Prepayments and other current assets		**100,490**	117,274
Financial assets at fair value through profit or loss		**29,000**	-
Financial assets at fair value through other comprehensive income		**141,827**	-
Short-term bank deposits		**1,538,125**	1,048,428
Cash and cash equivalents		**1,904,036**	2,023,561
		7,391,678	6,843,376
Total assets		**9,769,866**	8,875,657

CONSOLIDATED BALANCE SHEET (CONT'D)

	Note	As at 31 December *2018* *RMB'000*	*2017* *RMB'000*
Equity and liabilities			
Equity attributable to owners of the Company			
Share capital		**1,280,784**	1,280,784
Reserves	*m*	**4,035,868**	3,535,836
		5,316,652	4,816,620
Non-controlling interests		**1,960,197**	1,642,922
Total equity		**7,276,849**	6,459,542
Liabilities			
Non-current liabilities			
Borrowings		**911,331**	915,480
Deferred income tax liabilities		**5,679**	5,302
Deferred income – government grants		**83,680**	93,787
		1,000,690	1,014,569
Current liabilities			
Trade and bills payables	*l*	**665,038**	698,415
Salary and welfare payables		**92,970**	89,900
Advances from customers		**51,297**	57,131
Contract liabilities	*d*	**4,324**	-
Amounts due to related parties		**154,678**	69,150
Current income tax liabilities		**50,282**	49,509
Other payables		**273,592**	227,641
Borrowings		**200,146**	209,800
		1,492,327	1,401,546
Total liabilities		**2,493,017**	2,416,115
Total equity and liabilities		**9,769,866**	8,875,657

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS:

a. GENERAL INFORMATION

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

b. BASIS OF PREPARATION

The consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("**IFRS**") and the disclosure requirements of the Hong Kong Companies Ordinance. The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets at fair value through other comprehensive income ("**FVOCI**") and financial assets at fair value through profit or loss ("**FVPL**").

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

(i) Changes in accounting policies and disclosures

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

The Group has adopted the following new standards, interpretations and amendments to standards which are mandatory for the financial year beginning on or after 1 January 2018:

Amendment to IAS 28	Investments in Associates and Joint Ventures
Amendments to IAS 40	Transfers to Investment Property
Amendment to IFRS 1	First Time Adoption of IFRS
Amendments to IFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to IFRS 4	Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts
IFRS 9	Financial Instruments
IFRS 15	Revenue from Contracts with Customers
Amendments to IFRS 15	Clarifications to IFRS 15
IFRIC 22	Foreign Currency Transactions and Advance Consideration

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

b. BASIS OF PREPARATION (CONT'D)

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

(a) Adoption of new standards , interpretations and amendments to standards (Cont'd)

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

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

Consolidated balance sheet (extract)	31 December 2017			1 January 2018
	As originally presented	IFRS 9	IFRS 15	Restated
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Current assets				
Financial assets at fair value through other comprehensive income	-	228,135	-	228,135
Trade and bills receivables	228,135	(228,135)	-	-
Non-current assets				
Financial assets at fair value through other comprehensive income	-	12,804	-	12,804
Available-for-sale financial assets	12,804	(12,804)	-	-
Current liabilities				
Advances from customers	4,607	-	(4,607)	-
Contract liabilities	-	-	4,607	4,607
Equity				
Reserves				
Available-for-sale financial assets reserve	498	(498)	-	-
Financial assets at FVOCI reserve	-	498	-	498
Other reserves	3,535,338	-	-	3,535,338

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

b. BASIS OF PREPARATION (CONT'D)

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

(a) Adoption of new standards , interpretations and amendments to standards (Cont'd)

a) Impact of adopting IFRS 9 "Financial Instruments"

IFRS 9 replaces the provisions of IAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting. In accordance with the transitional provisions in IFRS 9, comparative figures have not been restated. The impact is set as below.

Classification and measurement

The Group elected to present the changes in the fair value of its equity investments previously classified as available-for-sale financial assets in other comprehensive income ("OCI"), because these investments are held as long-term strategic investments that are not expected to be sold in the short to medium term. As a result, assets with a fair value of RMB12,804,000 were reclassified from available-for-sale financial assets to financial assets at FVOCI and fair value gains of RMB498,000 were reclassified from the available-for-sale financial assets reserve to the financial assets at FVOCI reserve on 1 January 2018.

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

b. BASIS OF PREPARATION (CONT'D)

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

(a) Adoption of new standards , interpretations and amendments to standards (Cont'd)

a) Impact of adopting IFRS 9 "Financial Instruments" (Cont'd)

Classification and measurement (Cont'd)

The Group reclassified part of the bills receivables to financial assets at FVOCI, because the Group endorses a portion of bank's acceptance bills according to its daily fund management needs. The Group's business model is achieved both by collecting contractual cash flows and selling of these assets. On 1 January 2018, assets of RMB228,135,000 were reclassified from trade and bills receivables to financial assets at FVOCI.

On the date of initial application, there is no other changes in classification and measurement for the Group's financial instruments.

Impairment of financial assets

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

- trade and bills receivables,
- amounts due from related parties (excluding prepayments),
- other financial assets at amortised cost, and
- bills receivables at FVOCI.

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

b. BASIS OF PREPARATION (CONT'D)

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

(a) Adoption of new standards, interpretations and amendments to standards (Cont'd)

a) Impact of adopting IFRS 9 "Financial Instruments" (Cont'd)

Impairment of financial assets (Cont'd)

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

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

Besides, other receivables were previously presented together with prepayments and other current assets but are now presented as other financial assets at amortised cost in the balance sheet, to reflect their different nature.

b) Impact of adopting IFRS 15 "Revenue from Contracts with Customers"

IFRS 15 replaces the provisions of IAS 18, IAS 11 and their related interpretations. The Group has chosen the modified retrospective approach to adopt the new standard and has not restated comparatives for the corresponding period of 2017. The adoption of IFRS 15 did not have a material impact on the Group, no adjustments to the amounts recognised in the financial statements as at 1 January 2018 are made.

Under IFRS 15, a contract liability, rather than a payable, is recognised when a customer pays non-refundable consideration before the Group recognises the related revenue. Receipt in advance from customers amounting to RMB4,607,000 which were previously included in advances from customers are now recognised as contract liabilities as at 1 January 2018 to reflect the terminology of IFRS 15.

The other standards did not have any impact on the Group's accounting policies and did not require retrospective adjustments.

b. BASIS OF PREPARATION (CONT'D)

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

(b) Standards, interpretations and amendments which are not yet effective

The following are new/revised standards, interpretations 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 2019, but have not been early adopted by the Group.

IFRS 16	Leases (1)
Amendments to IAS 12	Income Taxes (1)
Amendments to IAS 19	Plan Amendment, Curtailment or Settlement (1)
Amendments to IAS 23	Borrowing Costs (1)
Amendments to IAS 28	Long-term Interests in Associates and Joint Ventures (1)
Amendments to IFRS 3	Business Combination (1)
Amendments to IFRS 9	Prepayment Features with Negative Compensation (1)
Amendments to IFRS 11	Joint Arrangements (1)
IFRIC 23	Uncertainty over Income Tax Treatments (1)
Amendments to IAS 1 and IAS 8	Definition of Material (2)
Conceptual Framework for Financial Reporting 2018	Revised Conceptual Framework for Financial Reporting (2)
Amendments to IFRS 3	Definition of a Business (2)
IFRS 17	Insurance Contracts (3)
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (4)

(1) Effective for the accounting period beginning on or after 1 January 2019
(2) Effective for the accounting period beginning on or after 1 January 2020
(3) Effective for the accounting period beginning on or after 1 January 2021
(4) No mandatory effective date yet determined

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

The Group is a lessee of various properties which are currently classified as operating leases.

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

b. BASIS OF PREPARATION (CONT'D)

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

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

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

The Group will apply the standard from its mandatory adoption date of 1 January 2019. The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption.

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

c. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

(i) Net realisable value of inventories

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

(ii) Impairment of financial assets

The loss allowances for financial assets are based on assumptions about risk of default and expected loss rates. The Group uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the Group's past history, existing market conditions as well as forward looking estimates at the end of each reporting period.

(iii) Income taxes

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

d. REVENUE

	2018	*2017*
	RMB'000	*RMB'000*
Sales of Chinese medicine products		
- Mainland China	**4,041,543**	4,169,434
- Outside Mainland China	**923,834**	776,548
	4,965,377	4,945,982
Advertising service		
- Mainland China	**43,018**	37,606
Service income		
- Mainland China	**7,244**	-
- Outside Mainland China	**43,618**	41,129
	50,862	41,129
Royalty fee income		
- Outside Mainland China	**381**	466
	5,059,638	5,025,183

The Group has recognised the following liability related to contract with customers:

	31 December 2018	*1 January 2018*
		(Restated)
	RMB'000	*RMB'000*
Contract liabilities – Service income	**4,324**	4,607

The Group has not recognised any contract assets related to contract with customers as at 1 January 2018 and 31 December 2018.

There is no significant changes in contract liabilities during the year ended 31 December 2018.

d. REVENUE (CONT'D)

Revenue recognised in relation to contract liabilities

The following table shows revenue recognised in relation to contract liabilities in the year ended 31 December 2018 related to carried forward contract liabilities as at 1 January 2018.

	31 December 2018
	RMB'000
Revenue recognised in relation to contract liabilities at 1 January 2018	3,751

e. FINANCE INCOME AND COSTS

	2018	*2017*
	RMB'000	*RMB'000*
Finance income		
Interest income	**31,806**	23,788
Exchange gains/(losses), net	**225**	(3,958)
	32,031	19,830
Finance costs		
Interest on bonds	**(24,035)**	(24,021)
Interest on bank borrowings	**(10,396)**	(10,698)
Less: amounts capitalised on qualifying assets	**19,467**	13,034
	(14,964)	(21,685)
Finance income/(costs), net	**17,067**	(1,855)

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

f. EXPENSE BY NATURE

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

	2018	*2017*
	RMB'000	*RMB'000*
Raw materials, merchandise and consumables used	**1,545,463**	1,578,677
Change in inventories of finished goods and work-in-progress	**86,647**	51,718
Employee benefit expense	**851,793**	789,386
Depreciation of property, plant and equipment	**75,837**	77,287
Amortisation of prepaid operating lease payments	**3,631**	3,414
Amortisation of intangible assets	**7,515**	3,782
Amortisation of other long-term assets	**1,451**	1,006
Provision for impairment of inventories	**44,250**	30,113
Provision for/(Reversal of) impairment of receivables	**6,055**	(1,427)
Provision for impairment of property, plant and equipment	**-**	5,783
Operating lease rental	**97,771**	151,338
Auditor's remuneration		
- Audit services	**7,156**	6,830
- Non-audit services	**258**	141
Research and development costs[1]	**27,835**	27,585
Loss on disposal of non-current assets	**1,850**	1,003
Amortisation of deferred income - government grants	**(22,739)**	(9,263)
Processing costs	**279,506**	247,303
Advertising and promotion expenses	**301,678**	433,955
Transportation	**58,647**	57,130
Repair and maintenance	**34,479**	38,811
Utilities	**67,741**	69,671
Other taxes	**56,668**	54,420

[1] Excluding employee benefit expense, depreciation and amortisation expense. The research and development costs including employee benefit expense, depreciation and amortisation expense was RMB55,889,000 (2017: RMB54,740,000).

g. INCOME TAX EXPENSE

Pursuant to the Corporate Income Tax Law of the PRC effective from 1 January 2008, enterprises with a High/New Technology Enterprise ("**HNTE**") status are able to enjoy a preferential tax rate of 15%. For the entities without the HNTE status, the PRC income tax rate is 25% (2017: 25%). As of 31 December 2018 and 2017, the Company and certain of its subsidiaries have obtained the HNTE certificate. Consequently, their applicable income tax rate in 2018 is 15% (2017: 15%).

Hong Kong Special Administrative Region of the PRC ("**Hong Kong**") profits tax has been provided at the rate of 16.5% (2017: 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.

	2018	*2017*
	RMB'000	*RMB'000*
Current income tax expense		
- Mainland China	**105,838**	103,472
- Hong Kong	**96,423**	80,805
- Overseas (excluding Hong Kong)	**5,206**	4,839
	207,467	189,116
Deferred income tax (credit)/expense	**(6,250)**	7,216
	201,217	196,332

g. INCOME TAX EXPENSE (CONT'D)

The tax on the Group's profit before income tax differs from the theoretical amount that would arise using the weighted average income tax rate of 21.0% (2017: 21.3%) to profits of the consolidated entities as follows:

	2018	*2017*
	RMB'000	*RMB'000*
Profit before income tax	**1,207,070**	1,166,224
Tax calculated at domestic tax rates applicable to profits in the respective countries	**253,679**	248,430
Tax effects of:		
- Income not subject to tax	**(4,810)**	(3,336)
- Expenses not deductible for tax purposes	**6,330**	3,839
- Tax losses and temporary differences for which no deferred income tax assets were recognized	**4,279**	4,566
- Effect of preferential income tax treatments	**(58,986)**	(56,930)
- Final settlements and payments	**479**	(326)
- Others	**246**	89
Income tax expense	**201,217**	196,332

h. DIVIDENDS

The cash dividends paid in 2018 and 2017 were RMB217,733,000 (RMB0.17 (including tax) per share) and RMB204,925,000 (RMB0.16 (including tax) per share) respectively.

On 19 March 2019, the Board of Directors proposed a cash dividend in respect of the year ended 31 December 2018 of RMB0.18 (including tax) per share, amounting to a total of RMB230,541,120, which is subject to the shareholders' approval at the 2018 annual general meeting (the "**2018 AGM**") to be held on Tuesday, 11 June 2019. These financial statements do not reflect this dividend payable.

	2018	*2017*
	RMB'000	*RMB'000*
Interim dividend paid of RMB nil (2017: RMB nil) per ordinary share	**-**	-
Final dividend proposed of RMB0.18 (including tax) (2017: RMB0.17 (including tax)) per ordinary share	**230,541**	217,733
	230,541	217,733

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

i. EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the profit attributable to owners of the Company of approximately RMB677,815,000 by the weighted average number of 1,280,784,000 shares in issue during the year.

The Company had no dilutive potential shares in 2018 and 2017.

	2018	*2017*
	RMB'000	*RMB'000*
Profit attributable to owners of the Company	**677,815**	666,666
Weighted average number of ordinary shares in issue (thousands)	**1,280,784**	1,280,784
Earnings per share	**RMB0.53**	RMB0.52

j. SEGMENT INFORMATION

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

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

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

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

The Directors in the Board of Directors assess the performance of the operating segments based on revenue and profit after income tax of each segment.

j. SEGMENT INFORMATION (CONT'D)

The segment information provided to the Directors in the Board of Directors for the reportable segments for the year ended 31 December 2018 is as follows:

	The Company *RMB'000*	Tong Ren Tang Chinese Medicine *RMB'000*	All other segments *RMB'000*	Total *RMB'000*
Segment revenue	3,215,806	1,284,474	1,051,793	5,552,073
Inter-segment revenue	(33,987)	-	(458,448)	(492,435)
Revenue from external customers	3,181,819	1,284,474	593,345	5,059,638
Timing of revenue recognition				
At a point in time	3,181,819	1,231,679	550,264	4,963,762
Over time	-	52,795	43,081	95,876
	3,181,819	1,284,474	593,345	5,059,638
Profit for the year	459,353	509,080	37,420	1,005,853
Interest income	10,016	20,505	1,285	31,806
Interest expense	(12,082)	(16)	(2,866)	(14,964)
Depreciation of property, plant and equipment	(33,071)	(20,103)	(22,663)	(75,837)
Amortisation of prepaid operating lease payments	(1,901)	(459)	(1,271)	(3,631)
Amortisation of other long-term assets	(1,171)	(5,552)	(2,243)	(8,966)
Provision for impairment of inventories	(26,525)	(1,204)	(16,521)	(44,250)
Provision for impairment of receivables	(2,213)	-	(3,842)	(6,055)
Share of income/(losses) of investments accounted for using the equity method	276	(414)	-	(138)
Release of foreign currency translation differences upon liquidation of a joint venture	-	(1,442)	-	(1,442)
Income tax expense	(89,068)	(101,233)	(10,916)	(201,217)
Segment assets and liabilities				
Total assets	5,116,939	2,782,233	1,870,694	9,769,866
Investments accounted for using the equity method	8,787	17,682	-	26,469
Additions to non-current assets[1]	182,720	45,063	223,423	451,206
Total liabilities	1,846,590	126,454	519,973	2,493,017

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

j. SEGMENT INFORMATION (CONT'D)

The segment information for the year ended 31 December 2017 is as follows:

	The Company	Tong Ren Tang Chinese Medicine	All other segments	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Segment revenue	3,502,167	1,097,432	978,922	5,578,521
Inter-segment revenue	(46,838)	(416)	(506,084)	(553,338)
Revenue from external customers	3,455,329	1,097,016	472,838	5,025,183
Timing of revenue recognition				
At a point in time	3,455,329	1,055,421	434,996	4,945,746
Over time	-	41,595	37,842	79,437
	3,455,329	1,097,016	472,838	5,025,183
Profit for the year	434,872	437,267	97,753	969,892
Interest income	11,706	10,946	1,136	23,788
Interest expense	(15,571)	(28)	(6,086)	(21,685)
Depreciation of property, plant and equipment	(34,059)	(20,892)	(22,336)	(77,287)
Amortisation of prepaid operating lease payments	(1,908)	(469)	(1,037)	(3,414)
Amortisation of other long-term assets	(880)	(2,116)	(1,792)	(4,788)
Provision for impairment of inventories	(29,661)	(452)	-	(30,113)
Reversal of/(provision for) impairment of receivables	4,601	-	(3,174)	1,427
Impairment loss on property, plant and equipment	-	(5,783)	-	(5,783)
Share of income/(losses) of investments accounted for using the equity method	132	(36)	-	96
Income tax expense	(92,035)	(91,218)	(13,079)	(196,332)
Segment assets and liabilities				
Total assets	4,913,102	2,307,988	1,654,567	8,875,657
Investments accounted for using the equity method	10,480	17,359	-	27,839
Additions to non-current assets[1]	165,788	29,647	241,348	436,783
Total liabilities	1,731,427	123,269	561,419	2,416,115

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

j. SEGMENT INFORMATION (CONT'D)

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

The amounts provided to the Directors in the Board of Directors with respect to total assets and liabilities are measured in a manner consistent with that of the financial statements. These assets are allocated based on the operations of the segment and the physical location of the asset.

Revenues from external customers are derived from the sales of medicine and provision of services. The breakdown of sales of medicine by region is provided in Note d.

The total of the non-current assets other than financial instruments and deferred income tax assets located in Mainland China is RMB1,980,384,000 (2017: RMB1,671,368,000), and the total of these non-current assets located in other countries and regions is RMB 346,666,000 (2017: RMB317,407,000).

During the 2018 and 2017 financial year, revenue from two customers each accounted for ten percent or more of the Group's total external revenue. These revenues are mainly attributable to the Company Segment and Tong Ren Tang Chinese Medicine Segment. The revenues from these customers are summarised below:

	2018	*2017*
	RMB'000	*RMB'000*
Entities under control of ultimate holding company	**1,119,901**	962,443
Customer A Group	**583,586**	873,554
	1,703,487	1,835,997

k. TRADE AND BILLS RECEIVABLES

	As at 31 December	
	2018	*2017*
	RMB'000	*RMB'000*
Trade receivables	**462,030**	462,824
Bills receivables	**608,514**	702,951
	1,070,544	1,165,775
Less: provision for impairment	**(21,556)**	(17,881)
Trade and bills receivables, net	**1,048,988**	1,147,894

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 2018 and 2017, the ageing analysis of trade and bills receivables based on invoice date was as follows:

	As at 31 December	
	2018	*2017*
	RMB'000	*RMB'000*
Within 4 months	**857,710**	1,025,804
Over 4 months but within 1 year	**152,335**	114,950
Over 1 year but within 2 years	**48,283**	14,457
Over 2 years but within 3 years	**6,002**	3,310
Over 3 years	**6,214**	7,254
	1,070,544	1,165,775

k. TRADE AND BILLS RECEIVABLES (CONT'D)

As at 31 December 2018, trade receivables of RMB21,556,000 (2017: RMB17,881,000) were fully provided for impairment. The ageing analysis of these receivables was as follows:

	As at 31 December	
	2018	*2017*
	RMB'000	*RMB'000*
Within 4 months	**1,441**	133
Over 4 months	**20,115**	17,748
	21,556	17,881

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

	2018	*2017*
	RMB'000	*RMB'000*
At 1 January	**17,881**	21,219
Provision for/(reversal of) impairment	**3,675**	(3,338)
At 31 December	**21,556**	17,881

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.

k. 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	
	2018	*2017*
	RMB'000	*RMB'000*
RMB	**1,061,950**	1,093,334
Hong Kong dollars ("**HKD**")	**6,643**	66,808
United States Dollar	**1,898**	75
Australian Dollar	**20**	216
South African Rand	**17**	10
Macanese Pataca	**7**	138
UAE Dirham	**5**	47
Canadian Dollar	**2**	47
New Zealand Dollar	**1**	141
Singapore Dollar	**1**	107
Korean Won	**-**	4,781
Polish Zloty	**-**	71
	1,070,544	1,165,775

l. TRADE AND BILLS PAYABLES

As at 31 December 2018, the ageing analysis of trade and bills payables based on invoice date and financial position was as follows:

	As at 31 December	
	2018	*2017*
	RMB'000	*RMB'000*
Within 4 months	**475,392**	442,072
Over 4 months but within 1 year	**101,996**	244,678
Over 1 year but within 2 years	**86,236**	10,572
Over 2 years but within 3 years	**529**	402
Over 3 years	**885**	691
	665,038	698,415

Trade payables are unsecured and are usually paid within 120 days of recognition.

The carrying amounts of trade and bills payables are considered to be the same as their fair values, due to their short-term nature.

m. RESERVES

(a) Capital reserve

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

(b) Statutory reserves

The Company sets aside 10% of its net profit after income tax, before distribution of dividend to shareholders, as stated in the financial statements prepared under PRC accounting standards to the statutory surplus reserve fund. Approximately RMB51,208,000 (2017: RMB53,201,000), 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 2018.

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.

(c) Tax reserve

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

(d) Foreign currency translation differences

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

(e) Other reserve

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

FINAL DIVIDEND

The Board proposed a final dividend for the year ended 31 December 2018 (the "**Final Dividend**") of RMB0.18 (including tax) per share based on the total number of the Company's issued and fully paid-up shares of 1,280,784,000 as at the end of 2018, totaling RMB230,541,120 (2017: a final dividend for the year ended 31 December 2017 of RMB0.17 (including tax) per share based on the total number of the Company's issued and fully paid-up shares of 1,280,784,000, totaling RMB217,733,280). The profit distribution proposal is subject to the approval by the shareholders at the 2018 AGM of the Company.

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

ANNUAL GENERAL MEETING

The 2018 AGM will be held on Tuesday, 11 June 2019.

Closure of Register of Members of H Shares

As for the convening of the 2018 AGM, the register of members of H shares of the Company will be closed from Sunday, 12 May 2019 to Tuesday, 11 June 2019 (both days inclusive), during which time no transfer of H shares of the Company will be registered. Holders of H shares whose names appear on the register of the Company maintained by Hong Kong Registrars Ltd., the H share registrar and transfer office of the Company in Hong Kong, and holders of domestic shares whose names appear on the register of the Company on Sunday, 12 May 2019 shall be entitled to attend the 2018 AGM. In order to be qualified for attending and voting at the 2018 AGM, all transfer documents of the holders of H shares of the Company must be lodged with the Company's H share registrar and transfer office, Hong Kong Registrars Limited at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, no later than 4:30 p.m., on Friday, 10 May 2019.

As for the payment of the Final Dividend, if the relevant proposal is approved by the shareholders at the 2018 AGM, the register of members of H shares of the Company will be closed from Saturday, 15 June 2019 to Thursday, 20 June 2019 (both days inclusive), during which time no transfer of H shares of the Company will be registered. Holders of H shares whose names appear on the register of the Company maintained by Hong Kong Registrars Ltd., the H share registrar and transfer office of the Company in Hong Kong, and holders of domestic shares whose names appear on the register of the Company on Thursday, 20 June 2019 shall be qualified to the Final Dividend. In order to be qualified for the payment of the Final Dividend, all transfer documents of the holders of H shares of the Company must be lodged with the Company's H share registrar and transfer office, Hong Kong Registrars Limited at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, no later than 4:30 p.m. on Friday, 14 June 2019.The Company is expected to complete the dividend distribution on or before 31 August 2019.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

In 2018, faced with stringent situation of pharmaceutical regulations, intensifying industry competition, as well as difficulties brought by internal marketing organization reform and industrial layout adjustment, the Group endured multiple pressures in the process of production and operation. After arduous efforts, the Group's performance maintained stable. For the year ended 31 December 2018, the Group's revenue amounted to RMB5,059,638,000, representing an increase of 0.69% from RMB5,025,183,000 for the corresponding period of last year; net profit attributable to owners of the Company amounted to RMB677,815,000, representing an increase of 1.67% from RMB666,666,000 for the corresponding period of last year.

During the year, the Company actively responded to the new changes and challenges of the internal and external situation and steadily pushed forward marketing organization reform. On the one hand, we completed the business registration of the marketing subsidiary, improved the establishment of functional organizations under the unified sales management platform step by step, specified their authorities and functions and optimized the business process, facilitating thorough understanding and accurate grasp of the whole marketing process and thus laying the foundation for the systematization, specialization and precision of marketing work. On the other hand, we focused on both core products and products for cultivation, taking into consideration the characteristics of individual products and the trend of change in recent years, profitability as well as the situation of competitors and policy changes and other factors. Through comprehensive analysis, products including Ganmao Qingre Granules (感冒清熱顆粒) and Jingzhi Niuhuang Jiedu Tablets (京製牛黃解毒片) were selected to undergo all-around management from delivery, marketing, distribution, promotion and other aspects, so as to develop stronger control capacity in the market as well as competitive advantage. In addition, we focused on customer management, re-affirmed channel development planning, taking into account the characteristics of traditional sales channels such as business channel and OTC channel, refined market strategies, admitted partners on a selective basis, worked together for better channel maintenance and control, and created a healthy and good business environment. Meanwhile, we continued to expand e-commerce channels, launched new "WM specialty store" and "WM cosmetic flagship store" on TMALL.COM. Also, we improved existing store design and product details pages etc., with an aim to enhance the attractiveness and attention of our own flagship store and online products, and enhanced online sales recognition of the products and brands of the Group through e-commerce promotional activities.

The Group mainly produces Chinese patent medicine, involving forms pills, tablets, granules, oral liquid and gums. Most of the products of the Company were not exclusive and the competition among homogeneous products and among manufacturers become increasingly fierce and more difficult to capture or consolidate market share. Therefore, the Company gives full play to its competitive advantages of multi-category, multi-dose and multi-specification product offering, with comprehensive consideration to factors including competing products of other manufacturers and market capacity, sorts out and analyzes the existing product structure, highlights the characteristics of products, and continuously expands product portfolio.

In 2018, the sales revenue of the Group's products was basically the same as that of the previous year. The number of products achieved a sales amount of more than RMB5 million increased from 51 to 53 and the product portfolio expanded further. At the same time, in order to cope with the changes in various factors such as market fluctuations of different series of products, we further optimized our product mix, highlighted the products with traditional advantages and ensured stable business performance. Among our major products, the sales amount of Liuwei Dihuang Pills (六味地黄丸) series, Niuhuang Jiedu Tablets (牛黄解毒片) series, Ejiao (阿膠) series and Xihuang Pills (西黃丸) series decreased by 12.63%, 11.10%, 55.69% and 11.58%, respectively, as compared with the corresponding period last year. Despite the decrease in the sales amount of our major products as compared with the corresponding period last year, the sales amount of Jinkui Shenqi Pills (金匱腎氣丸) series and Ganmao Qingre Granules (感冒清熱顆粒) series stably increased by 29.91%, 14.65%, respectively, as compared with the corresponding period last year. In addition, other products including Shugan Hewei Pills (舒肝和胃丸) series and Qiguanyan Pills (氣管炎丸) series increased significantly by 6.04% and 37.85% respectively, as compared with the corresponding period last year.

During the Reporting Period, in a dynamic product market, the Company gave full play to the key role of production scheduling, took into consideration market demand, seasonal impact, supply of the previous process and production capacity of each production unit, constantly strengthened communication and coordination with sales units, according to the market demand of its core products and products for cultivation, refined and split production plans, set priorities, and timely adjusted the pace of production. In the meantime, the Company coordinated and arranged production staff and effectively deployed the production capacity of each production unit to enable rational allocation of resources and orderly allocation of production.

During the year, the Company continued to promote the constructions in progress in a steady and orderly manner. The Daxing Production Base ("**Daxing Base**") of the Company located in Da Xing Bio-Pharma Industrial Base of Zhongguancun Technology Park District, Beijing primarily consists of three standalone buildings, namely the research and development centre, solid dosage production workshop, and pills production workshop. Upon its completion, the Daxing Base will become comprehensive production base which focuses on the manufacture and research of water-honeyed pills, condensed pills, big honeyed pills, and other pills. In 2018, construction of elevators fire-fighting equipment and low voltage electric system and interior decoration works were carried out at the research and development centre, solid dosage production workshop, and pills production workshop of Daxing Base. The installation and commissioning of production equipment and related supporting facilities have also been carried out in an orderly manner. As at the end of 2018, the total investment in the Daxing Base has reached RMB598 million. The construction of research and development centre, solid dosage production workshop, and honey pills production workshop were all completed.

Tong Ren Tang Technologies Tangshan located in Yutian County, Tangshan City, Hebei Province primarily engages in the core businesses of storage of basic materials and net materials, processing and extraction of certain raw materials, and manufacturing of liquid dosage. It is constructing Chinese medicine extraction workshop and liquid dosage workshop in local area and will be another production base of the Company for Chinese medicine products upon completion. Construction of the production base is a result of the proactive implementation of Beijing municipal government's requirements concerning relieving functions nonessential to its role as the capital. In addition, it will further enhance production efficiency by building high-standard workshops and adopting advanced automatic and mechanical equipment. As of 31 December 2018, RMB610 million had been invested in the aforesaid base. Currently, the construction of the extraction workshop and liquid dosage workshop have been completed. The workshops are in the process of GMP certification.

The Company has abundant products and is mainly committed to conducting secondary scientific research on existing product, taking into consideration of the curative effects of existing products and tapping the potential of technological improvement and upgrading. During the year, the Company continuously upgraded the essence of quality of its products and exercised stricter internal quality control standardization system for water-soluble extracts, microbial limit and water content requirements of major raw materials of the leading product Liuwei Dihuang Pills (六味地黄丸), such as Cortex Moutan, Cornel and Tuckahoe, raw materials, so as to improve the product quality of Liuwei Dihuang Pills (六味地黄丸) series. Meanwhile, taking into consideration the characteristics of curative effects of Xihuang Pills (西黄丸), the Company conducted systematic study of its inhibitory effect on esophageal cancer cells so as to broaden the clinical value of products. Moreover, during the Reporting Period, the prescription of the Company's exclusive Ertong Qingre Liquid (兒童清熱口服液) was granted the national invention patent, which provides protection for the product.

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

Based in Hong Kong, our principal subsidiary Tong Ren Tang Chinese Medicine, as our overseas development platform, primarily engaged in manufacturing, retail and wholesale of Chinese medicine products outside Mainland China. The Company adopts a strategy of driving medicine demand by providing medical services and promoting culture at first. It based itself in Hong Kong to build a global layout, with the aim of continuously accelerating the internationalization of traditional Chinese medicine. During the Reporting Period, Tong Ren Tang Chinese Medicine continued to explore the overseas market and set up new retail terminals in America. It's business has expanded into 21 countries and regions outside of Mainland China. The number of retail terminals has increased from 80 in 2017 to 81 in 2018. The Company achieving the global strategy of "Anchor in Hong Kong and Asia and march to overseas". As of 31 December 2018, the sales revenue of Tong Ren Tang Chinese Medicine and its subsidiaries was RMB1,284,474,000, representing an increase of 17.04% as compared with the corresponding period of last year; net profit attributable to owners of the Company amounted to RMB 187,068,000, representing an increase of 16.00% as compared with the corresponding period of last year.

Founded in 2001, Beijing Tong Ren Tang WM Dianorm Biotech Co., Limited ("**Tong Ren Tang WM**") has been devoted to the combination of natural herbal plants and modernization of Chinese medicines and the application thereof, whose main products are masks, creams and daily chemical products. During the year, Tong Ren Tang WM focused on marketing of "Ginseng Vitamin E Emulsion (人參維生素E乳)" and "Tong Ren Tang Freckle-Removing and Moisturizing Cream (同仁堂祛斑潤膚霜)" series through a variety of promotional activities and order-placing meeting, which effectively enhanced the reputation and recognition of the products. Furthermore, in respect of the existing moisturizing products and Ganoderma lucidum series, Hancao (漢草) series mask and other products, with upgraded formulation and improved production process, product quality and user experience were both enhanced. During the year, Tong Ren Tang WM obtained a patent certificate for invention of traditional Chinese toothpaste from the State Intellectual Property Office, which further protected the intellectual property rights of the Group. Meanwhile, Tong Ren Tang WM passed the re-certification of high-tech enterprises, which ensured Tong Ren Tang WM can enjoy preferential tax rates in the next three years. As of 31 December 2018, the sales revenue of Tong Ren Tang WM was RMB133,370,000, representing a year-on-year increase of 10.41%; net profit amounted to RMB15,071,000, representing a year-on-year increase of 17.16%.

Beijing Tong Ren Tang Second Traditional Chinese Medicine Hospital Co., Ltd ("**Tong Ren Tang Second Traditional Chinese Medicine Hospital**") and Beijing Tong Ren Tang Nansanhuan Zhonglu Drugstore Co., Limited are wholly-owned medical institution and retail pharmacy of the Company. The two companies adhere to Tong Ren Tang's service principle of "Benefiting the Mankind", and serve customers with kindness. Tong Ren Tang Second Traditional Chinese Medicine Hospital has persisted with the treatment principle of using traditional Chinese medicine as the primary cure while combing it with western medicine. It combined Chinese and Western patent medicines with Chinese herbal medicine, and used physical therapy, acupuncture and other unique Chinese medicine treatments as the complementary methods to provide treatment based on specific disease case. Due to these efforts, the hospital received warm response from the public. During the year, Tong Ren Tang Second Traditional Chinese Medicine Hospital further satisfied the needs of patients. New diagnostic and therapeutic examinations, including 4 test items of blood coagulation and small dense low-density lipoprotein, were added. Through upgrading inspection equipment, comprehensive medical service capacity and service quality were continuously improved, highlighting the unique diagnostic and therapeutic methods of integration of traditional Chinese and Western medicine. As of 31 December 2018, the two companies jointly achieved sales revenue of RMB231,043,000, representing a year-on-year increase of 11.59%. Net profit reached RMB17,129,000, representing a year-on-year increase 76.10%.

Six subsidiaries that engage in planting continued to capitalize on their geographical advantages, based on the local geographical and climatic characteristics, followed the planting principle of "planting and harvesting specific to places of origin and seasons" and adopted the partnership planting model, which ensured the stability of quality and quantity of major medicinal materials including Cornel, Tuckahoe, catnip, Corydalis Bungeanae and Cortex Moutan. Meanwhile, the subsidiaries continued to explore the advantages of native medicinal materials in Hebei Province, Anhui Province and Jilin Province, carried out experimental planting of native medicinal materials such as Bupleurum Chinense, Paeonia lactiflora, Siler Root, Schisandra chinensis during the year, widened the planted strains and enriched experience in planting. As at 31 December 2018, six subsidiaries engaging in production of Chinese medicinal raw materials recorded an aggregate sales revenue of RMB207,250,000, representing a year-on-year increase of 14.26%, and net profit of RMB16,412,000, representing a year-on-year increase of 15.90%.

Financial Review

Liquidity and Financial Resources

The Group has maintained a sound financial position. During the year of 2018, 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 2018, the Group's cash and cash equivalents amounted to RMB1,904,036,000 in total (31 December 2017: RMB2,023,561,000).

As at 31 December 2018, the Group's short-term borrowings amounted to RMB 195,000,000 (31 December 2017: RMB207,300,000), carrying an interest rate of per annum 4.501% (2017: 4.354%), and current portion of non-current unsecured bank borrowing amounted to RMB 5,146,000 (31 December 2017: 2,500,000), total accounting for 8.03% of the total liabilities (31 December 2017: 8.68%). Long-term borrowings amounted to RMB 911,331,000 (31 December 2017: RMB915,480,000), bearing annual interest rate of long-term borrowings at 1.202% (2017: 1.216%), and the actual annual interest rate of bonds was 3.008% (2017: 3.008%), representing 36.56% of the total liabilities (31 December 2017: 37.89%). Of all the borrowings of the Group as at 31 December 2018, RMB200,146,000 will mature within one year and RMB911,331,000 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 2018, the total assets of the Group amounted to RMB9,769,866,000 (31 December 2017: RMB8,875,657,000). The funds comprised non-current liabilities of the Group amounted to RMB1,000,690,000 (31 December 2017: RMB1,014,569,000), current liabilities amounted to RMB1,492,327,000 (31 December2017: RMB 1,401,546,000), equity attributable to owners of the Company amounted to RMB5,316,652,000 (31 December 2017: RMB4,816,620,000) and non-controlling interests amounted to RMB1,960,197,000 (31 December 2017: RMB1,642,922,000).

In 2018, the Group's funds were mainly used for production and operation activities, construction of engineering projects, purchase of property, plant and equipment, repayment of borrowings and payment of cash dividends, etc.

Liquidity

As at 31 December 2018, the Group's liquidity ratio (the ratio of current assets to current liabilities) was 4.95 (31 December 2017: 4.88), reflecting that the Group had sufficient financial resources. The Group's quick ratio (the ratio of liquid assets to current liabilities) was 3.30 (31 December 2017: 3.17), 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 11.43 (31 December 2017: 13.74), 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 3.98 (31 December 2017: 4.08), 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 2.17 (31 December 2017: 2.23), 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 2018, the Group's gearing ratio (the ratio of total borrowings to equity attributable to owners of the Company) was 0.21 (31 December 2017: 0.23).

Expenses and Expense Ratio

As of 31 December 2018, the Group's distribution expenses amounted to RMB866,651,000 (31 December 2017: RMB994,455,000) and the distribution expense ratio, i.e. the ratio of distribution expenses to revenue, was 0.17 (31 December 2017: 0.20). The decrease in distribution expenses was mainly due to the decrease in business promotion and marketing expenses incurred by advertising, exhibition promotion, etc..

As of 31 December 2018, the Group's administrative expenses amounted to RMB364,248,000 (31 December 2017: RMB364,651,000) and the administrative expense ratio, i.e. the ratio of administrative expenses to revenue, was 0.07 (31 December 2017: 0.07). Compared with previous year, the Group's administrative expenses remained almost the same.

As of 31 December 2018, the Group's finance income amounted to RMB17,067,000 (31 December 2017: finance costs RMB1,855,000) and the financial income ratio, i.e. the ratio of financial income to revenue, was 0.0034 (31 December 2017: the ratio of financial costs to revenue, 0.0004). The increase in financial income was mainly due to the increase in interest income.

Gross Margin and Net Profit Margin

As of 31 December 2018, the gross margin of the Group was 47.99% (31 December 2017: 50.26%), while the net profit margin was 19.88% (31 December 2017: 19.30%).

Research and Development Expenses

For the year ended 31 December 2018, the research and development expenses (excluding employee benefit expense, depreciation and amortisation expense) of the Group were RMB27,835,000 (31 December 2017: RMB27,585,000), accounting for 0.38% of net assets (31 December 2017: 0.43%) and 0.55% of revenue (31 December 2017: 0.55%), respectively. The research and development expenses including employee benefit expense, depreciation and amortisation expense were RMB55,889,000 (2017: RMB54,740,000), accounting for 0.77% of net assets (31 December 2017:0.85%) and 1.10% of revenue (31 December 2017: 1.09%), respectively.

Capital Expenditure

For the year ended 31 December 2018, the Group's capital expenditure incurred amounted to RMB 379 million (31 December 2017: RMB430 million), primarily used for the construction of production base.

Pledges over Assets of the Group

As at 31 December 2018, RMB9,562,000 (31 December 2017: RMB10,318,000) of the Group's assets was pledged as security for long-term borrowing of RMB48,000 (31 December 2017: RMB506,000).

Contingent Liabilities

The Group had no contingent liabilities as at 31 December 2018 (31 December 2017: Nil).

Foreign Currency Risk

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

Capital Commitments

As at 31 December 2018, 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 RMB245,914,000 (31 December 2017: RMB395,855,000).

Significant Investment

During the year of 2018, the Group did not have any significant investment. As of the date of this announcement, the Group does not have any plan for material investments or purchase of capital assets.

Material Acquisition and Disposal of Subsidiaries, Joint Ventures and Associates

During the year of 2018, the Group did not have any material acquisition and disposal in relation to subsidiaries, joint ventures and associates.

Employees and Remuneration Policies

As at 31 December 2018, the Group had a total of 3,879 employees (31 December 2017: 3,873 employees), of which 1,957 are employees of the Company (31 December 2017: 2,005 employees). Remunerations of the employees of the Company are determined with reference to the prevailing market level as well as the performance, qualification and experience of individual employee. Discretionary bonuses based on individual performance will be paid to the employees as a recognition of and a reward for their contributions to the Company. Other employee welfares include contributions by the Company to the endowment insurance, medical insurance, unemployment insurance, work injury insurance, maternity insurance and housing fund.

Prospects

In 2019, the Group will closely focus on the main idea of "quality management enhancement", constantly improve quality management, safety production and operational risk prevention and control system, consolidate the foundation of development, enhance brand image, and ensure healthy, sustainable and stable high-quality development of the Group.

The Company will identify risks from the aspects of quality management, brand maintenance, safety, environmental protection and construction projects, constantly improve the internal management system, strengthen internal control and risk prevention, achieve timely supervision, all-around inspection, comprehensive coordination and communication, and continuously improve the level of standardized management. The Company will organize production and operation in strict accordance with the requirements of supervision under the new situation, strictly enforce the relevant state regulations from the aspects of raw materials procurement, staffing, equipment management, production process, quality control, packaging and transportation, marketing and promotion, sales and operation, and continuously strengthen self-inspection of product quality as well as monitoring of raw materials, complementary materials, packaging materials, intermediary products and finished products throughout the production process. The Company will strengthen the standard execution of process and on-site management, boost initiative and technical level of quality risk prevention and control, and ensure product quality and safety. In the whole sales process, the Company will constantly enhance the level of marketing management and control, start with financial management, business management and distributor management to improve management awareness, consolidate system foundation, improve internal synergistic feedback mechanism, optimize management process, strengthen risk control, carry out risk prevention regularly, and continuously improve brand quality.

With further adjustment of industry layout, coordination between industry and commerce is still the primary task in this period. The Company will adjust production scientifically and rationally based on market demand, and comprehensively allocate the production capacity of each industrial unit on the principle of resource sharing to meet product supply. At the same time, the Company will finish the construction of key projects, speed up the establishment and improvement of management systems such as production, quality, finance, function and responsibility, process and regime and personnel team, shorten the transition time from project construction to independent operation of production branches, and facilitate the utilization of production capacity and product supply as soon as possible.

The Company will, based on the development orientation of its subsidiaries, further standardize operation, constantly strengthen corporate governance structure, strengthen the supervision role of quality dispatch and financial dispatch, and ensure the overall improvement of quality, scale, efficiency and internal control management. Subsidiaries that engage in planting will, based on local Chinese medicinal materials, continuously expand planting scale, enrich planting varieties, speed up the construction of traceability system of Chinese medicinal materials, and achieve the quality traceability in the whole process. Subsidiaries that engages in production will focus on improving product quality, strengthen the ability of product updating and upgrading, and promote the professional development of operation and management.

In the future, the Group will continue to improve its quality control, production and operation, compliance and integrity, and risk management with a pragmatic and honest attitude, so as to lay a solid foundation for high-quality development of the Group.

OTHER INFORMATION

Competing Interests

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

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

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

Save as disclosed above, the Directors confirm that none of the other products of the Company is in direct competition with Tong Ren Tang Ltd. or Tong Ren Tang Holdings.

Right of First Refusal

To procure that the Company focuses on the development of the four major forms of products (namely granules, water honeyed pills, tablets and soft capsules), Tong Ren Tang Holdings and Tong Ren Tang Ltd. have granted the Company, pursuant to the October Undertaking, a right of first refusal to manufacture and sell any of the new products which is developed by Tong Ren Tang Holdings, Tong Ren Tang Ltd. or any of their respective subsidiaries and which is one of the four main forms of the Company. Upon exercise of the right of first refusal, both Tong Ren Tang Ltd. and Tong Ren Tang Holdings or their respective subsidiaries are not allowed to manufacture any of such new products. In the event the Company develops any new product based on the existing products of Tong Ren Tang Holdings, Tong Ren Tang Ltd. or their respective subsidiaries, and such new product is one of the major forms of products forms of the Company, the Company will be entitled to manufacture such new product and none of Tong Ren Tang Holdings, Tong Ren Tang Ltd. or their respective subsidiaries will be allowed to manufacture such new product. The Directors believe that the above undertaking would clarify that both Tong Ren Tang Ltd. and Tong Ren Tang Holdings would support the Company in its development of the four major forms of products in the future.

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 2018, Tong Ren Tang Ltd. and Tong Ren Tang Holdings have provided all information necessary to the independent non-executive Directors for their annual review and report on their fulfillment on the October Undertaking. Tong Ren Tang Ltd. and Tong Ren Tang Holdings have fulfilled their undertakings on the relevant right of first refusal granted to the Company on their existing or future competing businesses. Tong Ren Tang Ltd. and Tong Ren Tang Holdings have made annual declarations on compliance with the October Undertaking. For details, please refer to the 2018 annual report to be published by the Company soon.

CORPORATE GOVERNANCE

The Board believes that a good and steady framework of corporate governance is extremely important for the development of the Company. The Company has adopted the principles and standards contained in the Corporate Governance Code (the "**Code**") as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange (the "**Listing Rules**") as the Company's standards, and combined them with its own experience, aiming to establish a good corporate governance structure. For the year ended 31 December 2018, the Company had always strictly complied with the code provisions in the Code.

AUDIT COMMITTEE

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

The Audit Committee comprises the independent non-executive Directors, being Ms. Chan Ching Har, Eliza, Mr. Ting Leung Huel and Mr. Zhan Yuan Jing, 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 2018, the Audit Committee convened two meetings. The first meeting was held on 19 March 2018 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 2017 as well as matters in relation to risk management, legal compliance and internal audit, and to listen to the result of audit reported by the auditors. The Audit Committee concluded the meeting with agreement to the contents of the 2017 annual report. The second meeting was held on 16 August 2018 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 2018 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 2018 interim report.

In addition, the Audit Committee reviewed the effectiveness of the Company's financial control, internal control and risk management; made recommendation to the Board on matters relating to the reappointment of the auditors; and held separate meetings with the auditors to discuss matters relating to its audit fees and other issues arising from the audit.

At the meeting held on 18 March 2019, 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 2018, 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 2018 annual result and annual report.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

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

AUDITORS

PricewaterhouseCoopers ("**PwC**") was appointed as the overseas auditor of the Company for the year ended 31 December 2018. The figures in respect of the results announcement of the Group for the year ended 31 December 2018 have been agreed by PwC, to the amounts set out in the Group's consolidated financial statements for the year ended 31 December 2018.

PUBLICATION OF THE ANNUAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This results announcement will be published on the Company's website (www.tongrentangkj.com) and the website of the Hong Kong Stock Exchange (www.hkex.com.hk). The Company will dispatch the 2018 annual report containing all information as required by the Listing Rules to the shareholders in due course, and will publish the same on the websites of the Company and the Hong Kong Stock Exchange.

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

Beijing, the PRC
19 March 2019

As at the date of this announcement, the Board comprises Mr. Gao Zhen Kun, Mr. Huang Ning, Mr. Wu Le Jun, Ms. Wu Qian, Mr. Wang Yu Wei and Ms. Fang Jia Zhi as executive Directors, Ms. Chan Ching Har, Eliza, Mr. Ting Leung Huel, Stephen and Mr. Zhan Yuan Jing as independent non-executive Directors.