



Beijing Tong Ren Tang
Chinese Medicine Company Limited

北京同仁堂國藥有限公司

(incorporated in Hong Kong with limited liability)

Stock code: 8138

First Quarterly Report 2013

TONG REN TANG



CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)

GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this report, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this report.

This report, for which the directors of Beijing Tong Ren Tang Chinese Medicine Company Limited (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market (the “GEM Listing Rules”) of the Stock Exchange for the purpose of giving information with regard to the Company. The directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief the information contained in this report is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement in this report misleading.



CORPORATE INFORMATION

1. DIRECTORS

Executive Directors

Ding Yong Ling
Zhang Huan Ping
Lin Man

Non-executive Director

Yin Shun Hai (*Chairman*)

Independent Non-Executive Directors

Leung, Oi Sie Elsie
Chan Ngai Chi
Zhao Zhong Zhen

2. AUDIT COMMITTEE

Chan Ngai Chi (*Chairman*)
Leung, Oi Sie Elsie
Zhao Zhong Zhen

3. NOMINATION COMMITTEE

Leung, Oi Sie Elsie (*Chairman*)
Chan Ngai Chi
Ding Yong Ling

4. REMUNERATION COMMITTEE

Zhao Zhong Zhen (*Chairman*)
Chan Ngai Chi
Ding Yong Ling

5. COMPANY SECRETARY

Lin Man

6. COMPLIANCE OFFICER

Ding Yong Ling

7. AUTHORISED REPRESENTATIVES

Ding Yong Ling
Lin Man

8. HONG KONG SHARE REGISTRAR

Computershare Hong Kong Investor Services Limited
Shops 1712-1716
17th Floor, Hopewell Centre
183 Queen's Road East
Hong Kong

9. COMPANY'S WEBSITE

www.tongrentangcm.com

10. REGISTERED ADDRESS

3 Dai King Street
Tai Po Industrial Estate
New Territories
Hong Kong

11. COMPLIANCE ADVISOR

Kim Eng Securities (Hong Kong) Limited
30/F Three Pacific Place
1 Queen's Road East
Admiralty
Hong Kong

12. AUDITOR

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

13. Stock Code

8138



HIGHLIGHTS

- Revenue from continuing operations amounted to approximately HK\$122.9 million for the three months ended 31 March 2013, representing an increase of 89.1% as compared with that for the corresponding period in 2012.
- Profit from continuing operations attributable to owners of the Company amounted to approximately HK\$37.1 million for the three months ended 31 March 2013, representing an increase of 310.6% as compared with that for the corresponding period in 2012.
- Earnings per share for profit attributable to equity shareholders of the Company amounted to HK\$0.06 for the three months ended 31 March 2013.



FIRST QUARTERLY RESULTS (UNAUDITED)

The board of directors (the "Board") of the Company is pleased to announce the unaudited condensed consolidated results of the Company and its subsidiaries (hereafter collectively referred to as the "Group") for the three months ended 31 March 2013, together with the comparative unaudited consolidated figures for the corresponding period in 2012 as follow:

CONDENSED CONSOLIDATED INCOME STATEMENTS

		For the three months ended	
		31 March	
		2013	2012
		(Unaudited)	(Unaudited)
	<i>Notes</i>	HK\$'000	<i>HK\$'000</i>
Continuing operations			
Revenue	3	122,929	65,002
Cost of sales		(36,689)	(23,370)
Gross profit		86,240	41,632
Distribution and selling expenses		(25,100)	(17,544)
General and administrative expenses		(12,580)	(6,751)
Professional expenses incurred in connection with the Company's listing		(2,876)	(4,217)
Other gains – net		618	259
Operating profit		46,302	13,379
Finance income – net		186	88
Share of profits of jointly controlled entities		163	102
Share of loss of an associated company		(234)	(298)
Profit before income tax		46,417	13,271
Income tax expense	4	(7,886)	(4,210)
Profit for the period from continuing operations		38,531	9,061
Discontinued operations			
Profit for the period from discontinued operations	5	–	14,916
Profit for the period		38,531	23,977



		For the three months ended	
		31 March	
		2013	2012
		(Unaudited)	(Unaudited)
<i>Notes</i>		HK\$'000	HK\$'000
Attributable to:			
	Equity holders of the Company	37,077	23,946
	Non-controlling interests	1,454	31
		38,531	23,977
Profit attributable to owners of the Company arises from:			
	Continuing operations	37,077	9,030
	Discontinued operations	-	14,916
		37,077	23,946
Earnings per share attributable to owners of the Company			
Basic and diluted (in HK\$)			
	From continuing operations	0.06	0.02
	From discontinued operations	-	0.02
	From profit for the period	0.06	0.04

7



CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	For the three months ended	
	31 March	
	2013	2012
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Profit for the period	38,531	23,977
Other comprehensive income:		
Currency translation differences	339	1,341
Total comprehensive income for the period	38,870	25,318
Attributable to:		
Equity holders of the Company	37,300	24,897
Non-controlling interests	1,570	421
	38,870	25,318
Total comprehensive income attributable to owners of the Company arises from:		
Continuing operations	37,300	9,983
Discontinued operations	-	14,914
	37,300	24,897

UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE THREE MONTHS ENDED 31 MARCH 2013

	Share capital HK\$'000	Share premium HK\$'000	Merger reserve HK\$'000	Other reserve HK\$'000	Statutory reserve HK\$'000	Exchange reserve HK\$'000	Retained earnings HK\$'000	Total HK\$'000	Non-controlling interests HK\$'000	Total Equity HK\$'000
At 1 January 2012	201,430	3,913	(13,124)	742	1,352	12,105	135,305	341,723	68,042	409,765
Profit for the period	-	-	-	-	-	-	23,946	23,946	31	23,977
Other comprehensive income										
Currency translation differences	-	-	-	-	-	951	-	951	390	1,341
Total comprehensive income	-	-	-	-	-	951	23,946	24,897	421	25,318
Professional expenses incurred in connection with the Company's listing	-	-	-	(1,406)	-	-	-	(1,406)	-	(1,406)
Total transactions with owners	-	-	-	(1,406)	-	-	-	(1,406)	-	(1,406)
At 31 March 2012	<u>201,430</u>	<u>3,913</u>	<u>(13,124)</u>	<u>(664)</u>	<u>1,352</u>	<u>13,056</u>	<u>159,251</u>	<u>365,214</u>	<u>68,463</u>	<u>433,677</u>
	Share capital HK\$'000	Share premium HK\$'000	Merger reserve HK\$'000	Other reserve HK\$'000	Statutory reserve HK\$'000	Exchange reserve HK\$'000	Retained earnings HK\$'000	Total HK\$'000	Non-controlling interests HK\$'000	Total Equity HK\$'000
At 1 January 2013	201,430	3,913	(13,124)	(4,385)	1,352	14,457	291,240	494,883	72,805	567,688
Profit for the period	-	-	-	-	-	-	37,077	37,077	1,454	38,531
Other comprehensive income										
Currency translation differences	-	-	-	-	-	223	-	223	116	339
Total comprehensive income	-	-	-	-	-	223	37,077	37,300	1,570	38,870
Transfer of statutory reserve to retained profits	-	-	-	-	(106)	-	106	-	-	-
Professional expenses incurred in connection with the Company's listing	-	-	-	(1,333)	-	-	-	(1,333)	-	(1,333)
Total transactions with owners	-	-	-	(1,333)	(106)	-	106	(1,333)	-	(1,333)
At 31 March 2013	<u>201,430</u>	<u>3,913</u>	<u>(13,124)</u>	<u>(5,718)</u>	<u>1,246</u>	<u>14,680</u>	<u>328,423</u>	<u>530,850</u>	<u>74,375</u>	<u>605,225</u>



NOTES TO THE CONDENSED CONSOLIDATED RESULTS

1 GENERAL INFORMATION

The Company was incorporated as a limited liability company in Hong Kong on 18 March 2004 and was listed on GEM of the Stock Exchange in Hong Kong on 7 May 2013. Its immediate holding company is Tong Ren Tang Technologies Co., Ltd. ("Tong Ren Tang Technologies") which is a limited liability company established in the People's Republic of China (the "PRC") and is listed on the Main Board of the Stock Exchange in Hong Kong. Its ultimate holding company is China Beijing Tong Ren Tang (Holdings) Corporation ("Tong Ren Tang Holdings") which is a limited liability company incorporated in the PRC.

The unaudited condensed consolidated results are presented in Hong Kong dollars ("HK\$"), unless otherwise stated. These unaudited consolidated results have been approved for issue by the Board of Directors on 8 May 2013.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

The accompanying unaudited condensed consolidated results have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and under historical cost convention.

The accounting policies adopted in preparing the unaudited condensed consolidated results for the three months ended 31 March 2013 are consistent with those used in the preparation of the annual financial statements for the year ended 31 December 2012 except for the amendments to Hong Kong Accounting Standard 28 (revised 2011) "Investments in Associates and Joint Ventures" and HKFRS 10, HKFRS 11 and HKFRS 12 "Consolidated Financial Statement, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance" which the Group has adopted since 1 January 2013. As a result of adoption of these amendments, the accounting of the Group's investment in jointly controlled entities has changed from proportionate consolidation to equity method of accounting and it is applied retrospectively. Certain comparative amounts have been restated to conform to the current period's presentation and accounting treatment.

The Group has not early adopted the new and revised HKFRSs that have been issued but are not yet effective for the accounting periods beginning on or after 1 January 2013.

3 REVENUE

	For the three months ended 31 March	
	2013 (Unaudited) HK\$'000	2012 (Unaudited) HK\$'000
Hong Kong and overseas operation		
Retail	51,560	39,121
Wholesale	71,063	17,017
Agency fee income	–	8,551
Royalty fee income	306	313
	<u>122,929</u>	<u>65,002</u>

4 INCOME TAX EXPENSE

Hong Kong profits tax has been provided at the rate of 16.5% (2012: 16.5%) on the estimated assessable profit for the period. 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 entities operate.

5 DISCONTINUED OPERATIONS

The Group had a PRC distribution operation substantially distributing its self-manufactured products to fellow subsidiaries of the Company and independent third parties in the PRC for the period ended 31 March 2012. The Group has terminated its PRC distribution business from 1 November 2012. The PRC distribution business is presented as a discontinued operation in the unaudited consolidated results.

	For the three months ended 31 March 2012 (unaudited) HK\$'000
Revenue	25,761
Expenses	<u>(10,845)</u>
Profit for the period from discontinued operations	<u>14,916</u>



6 SHARE CAPITAL

	Number of shares	HK\$'000
Authorised ordinary shares:		
At 1 January 2013	1,000,000,000	1,000,000
Share subdivision (<i>Note</i>)	1,000,000,000	—
At 31 March 2013 (unaudited)	<u>2,000,000,000</u>	<u>1,000,000</u>
Issued and fully paid ordinary shares:		
At 1 January 2013	201,430,473	201,430
Share subdivision (<i>Note</i>)	201,430,473	—
At 31 March 2013 (unaudited)	<u>402,860,946</u>	<u>201,430</u>

Note: Pursuant to the written resolution passed by the shareholders of the Company on 27 March 2013, the authorised ordinary shares of the Company was subdivided from 1,000,000,000 shares with a par value of HK\$1.00 each into 2,000,000,000 shares of HK\$0.50 each while the issued share capital was subdivided from 201,430,473 shares of par value of HK\$1.00 each into 402,860,946 shares of HK\$0.50 each.

7 EARNINGS PER SHARE

The calculation of basic and diluted earnings per share is based on the following:

	For the three months ended	
	31 March	
	2013	2012
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Profit attributable to equity holders of the Company		
– Continuing operations	37,077	9,030
– Discontinued operations	—	14,916
	<u>37,077</u>	<u>23,946</u>
Weighted average number of shares in issue (<i>thousand shares</i>)	600,000	600,000
Earnings per share (<i>HK\$</i>)		
– Continuing operations	0.06	0.02
– Discontinued operations	—	0.02
	<u>0.06</u>	<u>0.04</u>

The basic and diluted earnings per share as presented above have taken into account the effect of the sub division of each ordinary share with par value of HK\$1.00 each into 2 shares of par value of HK\$0.50 each and the capitalisation issue as described in note 9.

The Company had no potential dilutive shares for the three months ended 31 March 2013 (2012: Nil).

8 DIVIDENDS

The directors did not declare any dividend to the shareholders of the Company for the three months ended 31 March 2013 (2012: Nil).

Pursuant to the written resolution passed by the board of directors of the Company on 15 April 2013, a dividend of HK\$100.0 million was declared to the shareholders of the Company whose names appeared on the register of members of the Company on 15 April 2013 in proportion to the number of shares held by them. Such dividend was fully paid on 18 April 2013.

9 SUBSEQUENT EVENT

The Company entered into a sales and purchase agreement dated 4 March 2013 to dispose of all its equity interests in Beijing Tong Ren Tang (Tang Shan) Nutrition and Healthcare Co., Ltd. ("TRT (Tang Shan)"), a 68% owned subsidiary of the Company, to a fellow subsidiary at a cash consideration of RMB84.6 million. The consideration was fully settled on 16 April 2013 and the equity transfer of TRT (Tang Shan) was approved by the relevant PRC authority on 26 April 2013. A gain of approximately HK\$8.8 million will be recognised in the consolidated income statement in April 2013.

Pursuant to the resolutions passed by the shareholders of the Company on 28 March 2013, the Directors were authorised to capitalise an aggregate amount of HK\$98,569,527 standing to the credit of the share premium of the Company and to appropriate such amount as capital to pay up in full at par 197,139,054 shares for allotment and issue to the persons whose names appear on the register of members of the Company at the close of business on 25 April 2013 each ranking *pari passu* in all respects with the then existing issued shares.

The Company was listed on GEM on 7 May 2013. On the same day, the Company's total number of ordinary shares, which are issued and fully paid, increased to 800,000,000 shares by issuing 397,139,054 new shares at par (including 197,139,054 shares arising from the capitalisation issue as mentioned above).



BUSINESS REVIEW

The Group is a distributor of Chinese medicine products engaged in retail and wholesale business in Hong Kong, Macao and overseas markets, taking the role as an overseas platform of Tong Ren Tong Group as well as a channel to promote the Chinese medicine culture and Chinese healthcare services in overseas markets. For the three months ended 31 March 2013, revenue from the Group's continuing operations was approximately HK\$122.9 million, representing a year-on-year increase of 89.1% (2012: HK\$65.0 million); and the profit from continuing operations attributable to the owners of the Company was approximately HK\$37.1 million, representing a year-on-year increase of 310.6% (2012: HK\$9.0 million).

After terminating the PRC distribution operation and becoming the sole overseas distributor of the "Tong Ren Tang" branded Chinese medicine products for Beijing Tong Ren Tang Company Limited ("Tong Ren Tang Ltd.") and Tong Ren Tang Technologies since 1 November 2012, the Group proactively communicated with Hong Kong and overseas customers and developed marketing programmes to strengthen the promotion and sale in Hong Kong of its self-manufactured products, especially Angong Niu Huang Pills. For the three months ended 31 March 2013, revenue of the self-manufactured Angong Niu Huang Pills amounted to approximately HK\$67.4 million, representing a year-on-year increase of 266.3% (2012: HK\$18.4 million).

The Group increased the number of overseas retail stores to expand and optimise its overseas distribution network. At the date of this report, the Group has established retail and wholesale business in Hong Kong, Macao and 10 foreign countries covering Singapore, Australia, Canada, Thailand, Dubai, Brunei, Malaysia, South Korea, Indonesia and Cambodia and has set up 36 retail stores in total.

The Group owns the manufacturing facilities in Tai Po Industrial Estate in Hong Kong with a gross floor area of over 10,000 square metres. Through enhancing and upgrading the manufacturing facilities, the Group expanded the manufacturing capacity of self-manufactured products to satisfy the demand in Hong Kong and overseas markets. The Group also committed resources to establishing an ERP system to enhance business and financial management.

FUTURE PROSPECTS

In 2013, the Group will continue to promote Chinese medicine culture in overseas markets to enhance the recognition of Chinese medicine products and Chinese healthcare services. The Group is committed to broadening its geographical coverage, seeking to expand into other Middle East, European and American countries where the Group has not yet entered by adopting a flexible approach. The Group actively prepares for the construction of Hong Kong Chinese medicine healthcare centre and continues to explore opportunities to apply the expertise in Chinese medicine products and Chinese healthcare services in order to diversify its income sources. The Group continuously endeavours to expand the manufacturing capacity of Angong Niu Huang Pills to meet the market demand. Upon the implementation of ERP system, the Group will build up an effective logistics and financial information system to enhance cost control and operating efficiency.

The Group is committed to forging "Tong Ren Tang" into an internationally renowned brand through continuous efforts, aiming to achieve a healthy and sustainable development for its businesses.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES

The shares of the Company were listed on GEM on 7 May 2013. As at 31 March 2013, none of the Directors and chief executive of the Company had any interest and short positions in the shares and underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which would have to be notified to the Company pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests which they are taken or deemed to have under such provisions of the SFO).

As at the date of this report, the interests of Directors and chief executive of the Company in the shares and underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests which they are taken or deemed to have under such provisions of the SFO) and required to be entered in the register maintained by the Company pursuant to Section 352 of the SFO or which were required, pursuant to Rules 5.48 to 5.67 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange, were as follows:

Long positions in shares in associated corporations

Tong Ren Tang Technologies

Names	Types of interests	Capacity	Number of shares <i>(Note)</i>	Percentage of domestic shares	Approximate percentage of total registered capital
Yin Shun Hai	Personal	Beneficial Owner	1,500,000	0.460%	0.255%

Note: All are domestic shares.

Tong Ren Tang Ltd.

Names	Types of interests	Capacity	Number of shares <i>(Note)</i>	Approximate percentage of total registered capital
Yin Shun Hai	Personal	Beneficial Owner	116,550	0.009%

Note: All are A shares.



Beijing Tong Ren Tang International Co., Limited

Names	Types of interests	Capacity	Number of shares	Percentage of total registered share capital
Yin Shun Hai	Personal	Beneficial Owner	39,000	0.125%
Ding Yong Ling	Personal	Beneficial Owner	39,000	0.125%

Save as disclosed above, as at 31 March 2013 and at the date of this report, none of the Directors and chief executives of the Company had any interests and short positions in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of 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 Stock Exchange pursuant to the standards of dealing by Directors as referred to in Rule 5.48 to 5.67 of the GEM Listing Rules.

SUBSTANTIAL SHAREHOLDERS

The shares of the Company were listed on GEM of the Stock Exchange on 7 May 2013. As at 31 March 2013, there was no interest in the shares and underlying shares of the Company which were required to be notified to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO and entered in the register maintained by the Company pursuant to under Section 336 of the SFO.

As at 31 March 2013 and immediately after the completion of the Company's share offer and the capitalisation issue, the interest of the persons, other than Directors or chief executive of the Company, in the shares and underlying shares of the Company which were notified to the Company and the Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO and entered in the register maintained by the Company pursuant to Section 336 of the SFO, or otherwise notified to the Company were as follows:

Name of shareholder	Capacity	Number of shares	Approximate percentage of total registered share capital as at 31 March 2013	Approximate percentage of total registered share capital immediately after the share offer and capitalisation issue
Tong Ren Tang Technologies	Beneficial Owner	318,540,000	53.09%	39.82%
Tong Ren Tang Ltd. (Note 1)	Beneficial Owner	281,460,000	46.91%	35.18%
	Interest of a controlled corporation	318,540,000	53.09%	39.82%
Tong Ren Tang Holdings (Note 2)	Interest of a controlled corporation	600,000,000	100.00%	75.00%

Notes:

- (1) Tong Ren Tong Ltd. directly holds 51.02% of the issued share capital of Tong Ren Tang Technologies. Accordingly, Tong Ren Tang Ltd. is deemed to be interested in 318,540,000 Shares held by Tong Ren Tang Technologies.
- (2) Tong Ren Tang Holdings directly holds 55.24% of the issued share capital of Tong Ren Tang Ltd. which in turns directly holds 51.02% of the issued share capital of Tong Ren Tang Technologies. Tong Ren Tang Holdings also directly holds 0.81% of the issued share capital of Tong Ren Tang Technologies. Accordingly, Tong Ren Tang Holdings is deemed to be interested in 318,540,000 Shares and 281,460,000 Shares held by Tong Ren Tang Technologies and Tong Ren Tang Ltd., respectively.

Save as disclosed above, as at 31 March 2013 and as at the date of this report, the Company had not been notified by any persons (other than Directors or chief executive of the Company) who had interests or short positions in the shares or underlying shares of the Company which would fall under the provisions of Divisions 2 and 3 of Part XV of the SFO to be disclosed to the Company, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO.



RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Other than as disclosed under the sections “Directors’ and chief executives’ interests in shares” above, at no time during the three months ended 31 March 2013 and since the date of the Listing up to the date of this report, was the Company or any of its subsidiaries, or any of its fellow subsidiaries, a party to any arrangement to enable the Directors or chief executives of the Company or their respective associates (as defined in the GEM Listing Rules) to have any right to subscribe for securities of the Company or any of its associated corporations as defined in the SFO or to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate.

INTEREST OF COMPLIANCE ADVISER

As at the date of this report, as notified by the Company’s compliance adviser, Kim Eng Securities (Hong Kong) Limited (the “Compliance Adviser”), except for the compliance adviser agreement entered into between the Company and the Compliance Adviser dated 6 May 2013 effective on the date of the Listing, neither the Compliance Adviser nor its directors, employees or associates had any interests in relation to the Company which is required to be notified to the Company pursuant to Rule 6A.32 of the GEM Listing Rules.

INTERESTS IN COMPETING BUSINESSES

To ensure that the business classification between the Company, Tong Ren Tang Ltd., Tong Ren Tang Technologies and Tong Ren Tang Holdings (collectively the “Controlling Shareholders”) are properly documented and established, each of the Controlling Shareholders entered into a deed of non-competition in favour of the Company on 18 April 2013 (“Deed of Non-competition”), details of which are set out in the prospectus of the Company dated 25 April 2013, mainly to the effect that at any time until their collective beneficial interest in the equity interest in the Company is less than 30%, each of them shall not, and shall procure their respective subsidiaries (except through its interests in the Group) not to, without prior written consent of the Company, directly or indirectly

- (i) engage in the research, development, manufacture and/or sales of any products containing ganoderma lucidum or ganoderma lucidum spores as raw materials in Hong Kong, Macao and markets outside of the PRC (the “Non-PRC Markets”);
- (ii) engage in the research, development, manufacture and sale of any products with “Tong Ren Tang” brands in Non-PRC Markets, except for the manufacture of the Chinese medicine products for the two independent third parties in Japan; for the avoidance of doubt and without prejudice to the generality of the Deed of Non-competition, except for the current excluded business in Japan, engage in arrangement with any other parties in the Non-PRC Markets similar to the excluded business in Japan;
- (iii) carry out any sales or registration (new or renewal) for Angong Niu Huang Pills manufactured by Tong Ren Tang Ltd., Tong Ren Tang Technologies and Tong Ren Tang Holdings and their respective subsidiaries and excluding the Group (including their respective predecessors) (the “Parent Group”) in Non-PRC Markets;

- (iv) engage in the distribution of any Chinese medicine products in Non-PRC Markets, except for certain existing arrangements as disclosed in the prospectus of the Company; and
- (v) carry out any new overseas registration of “Tong Ren Tang” branded products, ((i) to (v) are collectively known as “Restricted Business”).

In addition, under the Deed of Non-competition, each of the Controlling Shareholders has also undertaken that if each of them and/or any of its associates is offered or becomes aware of any project or new business opportunity (“New Business Opportunity”) that relates to the Restricted Business, whether directly or indirectly, it shall (i) promptly and in any event not later than seven days notify the Company in writing of such opportunity and provide such information as is reasonably required by the Company in order to enable the Company to come to an informed assessment of such opportunity; and (ii) use its best endeavours to procure that such opportunity is offered to the Company on terms no less favourable than the terms on which such opportunity is offered to it and/or its associates. The Directors (including the independent non-executive Directors) will review the New Business Opportunity and decide whether to invest in the New Business Opportunity within thirty (30) business days of receipt of notice from Controlling Shareholders.

In this connection, the Group adopted the following corporate governance measures to manage any potential conflicts of interest arising from any future potential competing business and to safeguard the interests of the shareholders of the Company:

- (i) the independent non-executive Directors shall review, at least on an annual basis, the compliance with and enforcement of the terms of the Deed of Non-competition by the Controlling Shareholders; and
- (ii) the Company will disclose the review by the independent non-executive Director with basis on the compliance with and enforcement of the terms of the Deed of Non-competition in its annual report.

In monitoring the competing business of the Parent Group, an executive committee (the “Competition Executive Committee”) comprising two disinterested Directors, namely Mr. Zhang Huan Ping and Ms. Lin Man, has been established with the following major responsibilities:

- (a) conduct quarterly inspection of the distribution channels of the Parent Group, including retail stores and wholesale customers, to check whether any healthcare product containing ganoderma lucidum or ganoderma lucidum spores as raw materials (other than ganoderma lucidum spores powder capsule manufactured by the Group) is sold in Non-PRC Markets; and
- (b) conduct quarterly communications with representatives of the Parent Group to confirm whether their research and development portfolio has any healthcare products which contain ganoderma lucidum or ganoderma lucidum spores as raw materials.



A supervisory committee (the "Competition Supervisory Committee"), comprising three independent non-executive Directors, namely, Ms. Leung, Oi-sie Elsie, Mr. Zhao Zhong Zhen and Mr. Chan Ngai Chi, has been established with the following major responsibilities:

- (a) meet quarterly and review the quarterly inspection record and daily communication records by the Competition Executive Committee; and
- (b) report findings during its review of the records provided by the Competition Executive Committee to the Board which will be published in the Company's annual reports.

The Group is the primary overseas distribution platform for the Parent Group, the Company manages the overseas sales network of all Chinese medicine products under the "Tong Ren Tang" brand. Tong Ren Tang Holdings has also granted the Company rights of first refusal to acquire its interest in Beijing Tong Ren Tang Chinese Medicine (Hong Kong) Group Co., Ltd., Beijing Tong Ren Tang (UK) Limited and Beijing Tong Ren Tang Tai Fong Co., Ltd. on terms which are not less favorable than the terms it wishes to sell to other parties.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

During the period ended 31 March 2013, the Company had not purchased, sold or redeemed any of the Company's listed shares.

AUDIT COMMITTEE

The audit committee of the Company has reviewed and discussed the 2013 first quarterly report.

By Order of the Board

Beijing Tong Ren Tang Chinese Medicine Company Limited

Yin Shun Hai

Chairman

Hong Kong, 8 May 2013