



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)

(於香港註冊成立之有限公司)

Stock code 股份代號 : 8138

# Healthy Life Global Choice

創造健康 全球共享



Interim Report 2016  
中期報告



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

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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.

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*This report, for which the directors (the “Directors”) of Beijing Tong Ren Tang Chinese Medicine Company Limited (the “Company”, and its subsidiaries, the “Group”) collectively and individually accept full responsibility, includes particulars given in compliance with The Rules Governing the Listing of Securities on the GEM (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 herein or this report misleading.*

# CORPORATE INFORMATION

## DIRECTORS

### Non-executive Director

Mei Qun (*Chairman*)

### Executive Directors

Ding Yong Ling  
Zhang Huan Ping  
Lin Man

### Independent Non-Executive Directors

Leung, Oi Sie Elsie  
Zhao Zhong Zhen  
Chan Ngai Chi

## AUDIT COMMITTEE

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

## NOMINATION COMMITTEE

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

## REMUNERATION COMMITTEE

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

## COMPANY SECRETARY

Lin Man

## COMPLIANCE OFFICER

Ding Yong Ling

## AUTHORISED REPRESENTATIVES

Ding Yong Ling  
Lin Man

## HONG KONG SHARE REGISTRAR

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

## COMPANY'S WEBSITE

[www.tongrentangcm.com](http://www.tongrentangcm.com)

## REGISTERED ADDRESS

Room 1405–1409, Office Tower  
Convention Plaza, 1 Harbour Road  
Wanchai  
Hong Kong

## LEGAL ADVISER

DLA Piper Hong Kong  
17th Floor, Edinburgh Tower  
The Landmark, 15 Queen's Road Central  
Hong Kong

## AUDITOR

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

## STOCK CODE

8138

# FINANCIAL HIGHLIGHTS



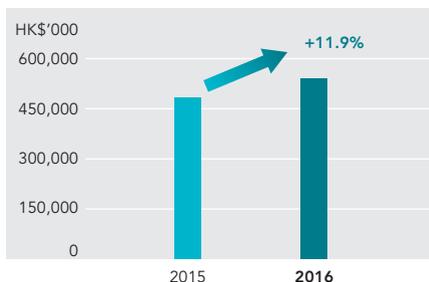
(HK\$'000)	Six months ended 30 June		Change
	2016	2015	
Revenue	<b>541,950</b>	484,117	+ 11.9%
Gross profit	<b>400,281</b>	329,106	+ 21.6%
Profit attributable to owners of the Company	<b>228,552</b>	173,126	+ 32.0%
Earnings per share	<b>HK\$0.27</b>	HK\$0.21	+ 28.6%

(HK\$'000)	30 June	31 December	Change
	2016	2015	
Cash and bank balances	<b>1,413,675</b>	1,280,266	+ 10.4%
Total assets	<b>2,168,215</b>	2,026,985	+ 7.0%
Total equity	<b>2,037,523</b>	1,908,915	+ 6.7%

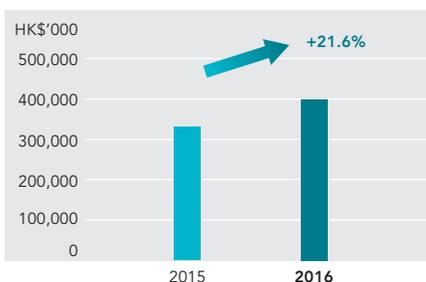
## Financial Analysis

For the six months ended 30 June 2016

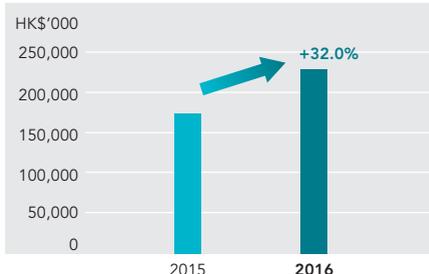
### Revenue



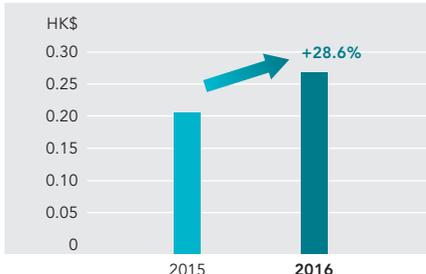
### Gross Profit



### Profit Attributable to Owners of the Company



### Earnings Per Share



# MANAGEMENT DISCUSSION AND ANALYSIS

## BUSINESS REVIEW

Despite the continuous slowdown in the global economy and the increasing uncertainty on the global politics and economy triggered by Brexit, during the six months ended 30 June 2016 (the "Period"), the revenue of the Group was HK\$542.0 million (2015: HK\$484.1 million), representing an increase of 11.9% as compared to the same period last year. Profit for the period attributable to owners of the Company was HK\$228.6 million (2015: HK\$173.1 million), representing an increase of 32.0% as compared to the same period last year.

Chinese medicine is a treasure of Chinese civilization. As the overseas development platform of Tong Ren Tang brand, the Group is committed to promoting Chinese medicine, which is an invaluable national legacy, to the world thus establishing itself as a healthcare group that embraces excellent Chinese traditional culture and operates through a holistic industrial chain. As at 30 June 2016, the Group has set up its business in 18 countries and regions outside the PRC, with 62 retail outlets across Asia, Europe, Oceania and America, realizing the dream of "Healthy life, Global choice."

### Market expansion

Hong Kong market, with tremendous potential for the development of Chinese medicine, is the development cornerstone of the Group. The Group has been devoting itself to the promotion of Chinese medicine culture. With Hong Kong as its hub, the Group speeded up the internationalization process of Chinese medicine by drawing upon the experience at the regional level and applying it to the business in the rest of the world. During the Period, we transformed a large tram stop, which is located outside our flagship store in Central, into a museum of Chinese medicine culture and history with the theme "profound cultural heritage of Chinese medicine". On top of that, we have opened a Facebook page named as "Beijing Tong Ren Tang (HK)" to provide people on the social media with real-time information on healthcare, traditional culture of Chinese medicine, as well as promotional messages about our products and events, etc., which enabled the general public to have a thorough understanding of this brand of Chinese medicine with 347 years of history.

In addition, we actively expanded to the mainstream markets in Europe and the United States and further speeded up the internationalization process of Chinese medicine. In March this year, we attended the Boao Forum for Asia again and shared the precious experience of Tong Ren Tang's overseas development. With the opportunity arising from Beijing and Prague becoming sister cities, we particularly invited certain famous Chinese medicine experts in China to head for Tong Ren Tang's company in Czech and organized seminars on Chinese medicine and healthcare so as to allow the general public in Czech to experience the curative effect of Chinese medicine and recognize the profundity of the traditional culture of Chinese medicine. In May this year, the Group set up its first healthcare centre in Vancouver, Canada to provide local public with high quality Chinese medicine healthcare services, so as to further improve the business development layout of North America.



## Production, Research and Development

During the Period, we continued to improve our production processes in our manufacturing plant in Tai Po, while actively revamping and reasonably planning our production layout. The 10 new healthcare products under four series developed in 2015, including Omega-3 extracted from plants, probiotics and etc., will be launched phase by phase this year, which further enrich our product diversity. We have also stepped up the application for registration of the products of our parent group, in order to provide consumers in Hong Kong with more quality products.

## Future Prospect

The year of 2016 marks the commencement of the “Thirteenth Five-year Plan”, which is precisely a new milestone of the development of Chinese medicine. Given the new national “The Belt and Road” initiative of opening up, and adhering to the new development concepts of “innovative-driven, green, global progress and benefit of all”, the Group believes in “entrepreneurship, creativity and innovation” in overseas development. We formulate corresponding strategies to cater for the development needs of different overseas countries. Meanwhile, we innovate and localize our modes of sales, utilizing the new development model of Internet “Going Global” and reliance on the integration of online and offline services, so as to achieve the integration of traditional Chinese medicine and innovative technology for the enhancement of overseas market share.

## Human Resources

As at 30 June 2016, we had a total of 670 employees (2015: 645 employees). During the Period, the staff cost of the Group was HK\$67.1 million (2015: HK\$67.1 million). In order to attract and retain talents, the Group reviewed its remuneration policy on a regular basis and offered discretionary bonus to qualified employees according to the results and personal performance.

## FINANCIAL REVIEW

### Financial Resources and Liquidity

As at 30 June 2016, the Group continued to be in a strong financial position with cash and bank balances amounting to HK\$1,413.7 million (31 December 2015: HK\$1,280.3 million). During the Period, as the Group’s internal resources generated steady cash inflow coupled with the net proceeds from the listing, the Group has adequate liquidity and financial resources to meet the current working capital requirements as well as to fund its current expansion plans.

As at 30 June 2016, the Group’s cash and bank balances were mainly denominated in Hong Kong dollars, Renminbi, Macao pataca, Singapore dollar, Australian dollar and Canadian dollar and were deposited in reputable financial institutions with maturity dates falling within one year.

# MANAGEMENT DISCUSSION AND ANALYSIS

As at 30 June 2016, the Group had total non-current assets, net current assets and net assets of HK\$371.0 million, HK\$1,671.7 million and HK\$2,037.5 million, respectively (31 December 2015: HK\$372.8 million, HK\$1,541.5 million and HK\$1,908.9 million). The current ratio of the Group, defined as the ratio of current assets to current liabilities, was 14.3 as at 30 June 2016 (31 December 2015: 14.7), which reflects the abundance of financial resources of the Group. The gearing ratio of the Group, defined as the borrowings to total equity, was 0.03% as at 30 June 2016 (31 December 2015: 0.03%).

## Capital Expenditure

During the Period, the Group's capital expenditure was HK\$7.7 million (2015: 16.6 million), which was mainly used in the establishment of new overseas retail outlets, purchase of property and production equipment.

## Foreign Currency Risk

The Group's main business operations are conducted in Hong Kong and other overseas counties/regions. The transactions, monetary assets and liabilities of the Group are mainly denominated in Hong Kong dollar, Renminbi, Macao pataca, Singapore dollar, Australian dollar, Canadian dollar and United States dollar. During the Period, there was no material impact to the Group arising from the fluctuation in the exchange rates of these currencies.

The Group did not engage in any derivatives activities and did not commit to any financial instruments to hedge its foreign exchange exposure during the Period.

## Major Investment, Acquisitions and Disposals

During the Period, the Group did not have any major investment, acquisitions and disposals.

## Charges over Assets of the Group

At 30 June 2016, the Group did not pledge any assets of the Group.

## Contingent Liabilities

At 30 June 2016, the Group did not have any significant contingent liabilities.

## Dividends

The board of Directors ("Board") does not recommend the payment of any interim dividend for the six months ended 30 June 2016 (2015: Nil).

# CONDENSED CONSOLIDATED INCOME STATEMENT



The Board is pleased to announce the unaudited condensed consolidated results of the Group for the three months and six months ended 30 June 2016 together with the comparative unaudited figures for the corresponding periods in 2015 as follows:

	Note	Unaudited Three months ended 30 June		Unaudited Six months ended 30 June	
		2016 HK\$'000	2015 HK\$'000	2016 HK\$'000	2015 HK\$'000
Revenue	6	276,628	250,118	541,950	484,117
Cost of sales	7	(72,109)	(76,049)	(141,669)	(155,011)
<b>Gross profit</b>		<b>204,519</b>	174,069	<b>400,281</b>	329,106
Distribution and selling expenses	7	(35,970)	(34,272)	(71,915)	(67,713)
General and administrative expenses	7	(21,821)	(25,298)	(44,573)	(43,309)
Other gains		1,954	351	2,362	816
<b>Operating profit</b>		<b>148,682</b>	114,850	<b>286,155</b>	218,900
Finance income		1,841	2,941	4,050	5,260
Finance costs		(9)	(63)	(18)	(135)
Finance income, net		1,832	2,878	4,032	5,125
Share of loss of investments accounted for using the equity method		(546)	(476)	(1,491)	(218)
<b>Profit before income tax</b>		<b>149,968</b>	117,252	<b>288,696</b>	223,807
Income tax expense	8	(24,705)	(22,117)	(49,645)	(41,000)
<b>Profit for the period</b>		<b>125,263</b>	95,135	<b>239,051</b>	182,807
<b>Profit attributable to:</b>					
Owners of the Company		120,136	90,124	228,552	173,126
Non-controlling interests		5,127	5,011	10,499	9,681
		125,263	95,135	239,051	182,807
<b>Earnings per share attributable to owners of the Company (expressed in HK\$ per share)</b>					
Basic and diluted	9	0.14	0.11	0.27	0.21

The notes on pages 13 to 29 are an integral part of this condensed consolidated interim financial information.

# CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Unaudited		Unaudited	
	Three months ended		Six months ended	
	30 June		30 June	
	2016	2015	2016	2015
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Profit for the period</b>	<b>125,263</b>	95,135	<b>239,051</b>	182,807
<b>Other comprehensive income:</b>				
<i>Item that may be subsequently reclassified to profit or loss</i>				
Currency translation differences	(2,513)	(111)	4,133	(7,252)
<b>Other comprehensive (loss)/income for the period</b>	<b>(2,513)</b>	(111)	<b>4,133</b>	(7,252)
<b>Total comprehensive income for the period</b>	<b>122,750</b>	95,024	<b>243,184</b>	175,555
<b>Attributable to:</b>				
Owners of the Company	117,833	90,023	230,984	167,839
Non-controlling interests	4,917	5,001	12,200	7,716
<b>Total comprehensive income for the period</b>	<b>122,750</b>	95,024	<b>243,184</b>	175,555

The notes on pages 13 to 29 are an integral part of this condensed consolidated interim financial information.

# CONDENSED CONSOLIDATED BALANCE SHEET



	Note	Unaudited 30 June 2016 HK\$'000	Audited 31 December 2015 HK\$'000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Leasehold land	11	16,823	17,094
Property, plant and equipment	12	260,234	262,430
Intangible assets	13	60,686	61,336
Investments accounted for using the equity method		22,209	23,081
Deposits paid for purchase of property, plant and equipment		1,498	334
Deferred income tax assets		9,520	8,520
		<b>370,970</b>	<b>372,795</b>
<b>Current assets</b>			
Inventories		163,181	160,259
Trade receivables and other current assets	14	220,389	213,665
Short-term bank deposits		574,299	520,406
Cash and cash equivalents		839,376	759,860
		<b>1,797,245</b>	<b>1,654,190</b>
<b>Total assets</b>		<b>2,168,215</b>	<b>2,026,985</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity attributable to owners of the Company</b>			
Share capital	15	938,789	938,789
Reserves			
— Other reserves		(19,346)	(22,807)
— Retained earnings		1,018,426	899,726
		<b>1,937,869</b>	<b>1,815,708</b>
Non-controlling interests		99,654	93,207
<b>Total equity</b>		<b>2,037,523</b>	<b>1,908,915</b>

# CONDENSED CONSOLIDATED BALANCE SHEET

		Unaudited 30 June 2016 HK\$'000	Audited 31 December 2015 HK\$'000
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Borrowings		575	561
Deferred income tax liabilities		4,533	4,791
		<b>5,108</b>	5,352
<b>Current liabilities</b>			
Trade and other payables	16	56,705	76,984
Current income tax liabilities		68,879	35,734
		<b>125,584</b>	112,718
<b>Total liabilities</b>		<b>130,692</b>	118,070
<b>Total equity and liabilities</b>		<b>2,168,215</b>	2,026,985

The notes on pages 13 to 29 are an integral part of this condensed consolidated interim financial information.

# CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY



Unaudited

	Attributable to owners of the Company								
	Share capital 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
<b>At 1 January 2015</b>	867,363	(13,124)	742	2,927	(2,549)	630,390	1,485,749	51,112	1,536,861
<b>Comprehensive income</b>									
Profit for the period	-	-	-	-	-	173,126	173,126	9,681	182,807
<b>Other comprehensive loss</b>									
Currency translation differences									
— the Group	-	-	-	-	(4,385)	-	(4,385)	(1,965)	(6,350)
— Joint ventures and an associate	-	-	-	-	(902)	-	(902)	-	(902)
<b>Total comprehensive income</b>	-	-	-	-	(5,287)	173,126	167,839	7,716	175,555
<b>Transactions with owners in their capacity as owners</b>									
Transfer of retained earnings to statutory reserve	-	-	-	1,245	-	(1,245)	-	-	-
Dividends relating to 2014 paid in May 2015 (Note 10)	-	-	-	-	-	(83,710)	(83,710)	-	(83,710)
Issue of ordinary shares relating to business combination	71,426	-	-	-	-	-	71,426	-	71,426
Non-controlling interests arising from acquisition of a subsidiary	-	-	-	-	-	-	-	21,144	21,144
Change in ownership interests in a subsidiary without change of control	-	-	88	-	-	-	88	921	1,009
<b>Total transactions with owners in their capacity as owners</b>	71,426	-	88	1,245	-	(84,955)	(12,196)	22,065	9,869
<b>At 30 June 2015</b>	938,789	(13,124)	830	4,172	(7,836)	718,561	1,641,392	80,893	1,722,285
<b>At 1 January 2016</b>	<b>938,789</b>	<b>(13,124)</b>	<b>830</b>	<b>4,130</b>	<b>(14,643)</b>	<b>899,726</b>	<b>1,815,708</b>	<b>93,207</b>	<b>1,908,915</b>
<b>Comprehensive income</b>									
Profit for the period	-	-	-	-	-	228,552	228,552	10,499	239,051
<b>Other comprehensive income</b>									
Currency translation differences									
— the Group	-	-	-	-	1,813	-	1,813	1,701	3,514
— Joint ventures and an associate	-	-	-	-	619	-	619	-	619
<b>Total comprehensive income</b>	-	-	-	-	2,432	228,552	230,984	12,200	243,184
<b>Transactions with owners in their capacity as owners</b>									
Transfer of retained earnings to statutory reserve	-	-	-	1,030	-	(1,030)	-	-	-
Dividends relating to 2015 paid in May 2016 (Note 10)	-	-	-	-	-	(108,823)	(108,823)	(9,800)	(118,623)
Capital injection into subsidiaries	-	-	-	-	-	-	-	4,047	4,047
<b>Total transactions with owners in their capacity as owners</b>	-	-	-	1,030	-	(109,853)	(108,823)	(5,753)	(114,576)
<b>At 30 June 2016</b>	<b>938,789</b>	<b>(13,124)</b>	<b>830</b>	<b>5,160</b>	<b>(12,211)</b>	<b>1,018,425</b>	<b>1,937,869</b>	<b>99,654</b>	<b>2,037,523</b>

The notes on pages 13 to 29 are an integral part of this condensed consolidated interim financial information.

# CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Unaudited	
	Six months ended 30 June	
	2016	2015
	HK\$'000	HK\$'000
<b>Net cash generated from operating activities</b>	<b>251,562</b>	190,560
<b>Cash flows from investing activities</b>		
Interest received	4,050	5,260
Increase in short-term bank deposits with original maturities exceeding three months	(53,893)	(41,350)
Investment in an associate	–	(3,930)
Purchase of property, plant and equipment	(7,371)	(14,690)
Deposit paid for purchase of property, plant and equipment	(1,498)	(785)
Acquisition of a subsidiary, net of cash acquired	–	3,197
<b>Net cash used in investing activities</b>	<b>(58,712)</b>	(52,298)
<b>Cash flows from financing activities</b>		
Capital injection by non-controlling interests	4,047	–
Dividends paid to the Company's shareholders	(108,823)	(82,937)
Dividends paid to non-controlling interests	(9,800)	–
Drawdown of borrowings	–	4,317
Proceeds from disposal of interest in a subsidiary without loss of control	–	1,009
<b>Net cash used in financing activities</b>	<b>(114,576)</b>	(77,611)
<b>Net increase in cash and cash equivalents</b>	<b>78,274</b>	60,651
Cash and cash equivalents at the beginning of the period	759,860	563,383
Exchange gains/(losses) on cash and cash equivalents	1,242	(3,100)
<b>Cash and cash equivalents at the end of the period</b>	<b>839,376</b>	620,934
<b>Analysis of balances of cash and cash equivalents</b>		
Cash at bank and on hand and deposits with banks with original maturity within three months	839,376	620,934

The notes on pages 13 to 29 are an integral part of this condensed consolidated interim financial information.

# NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION



## 1 GENERAL INFORMATION

The Group is engaged in manufacturing, retail and wholesale of Chinese medicine products and healthcare products and provision of Chinese medical consultation and treatments. The immediate holding company of the Company is Tong Ren Tang Technologies Co., Ltd. (“Tong Ren Tang Technologies”) which is a joint stock limited company established in the People’s Republic of China (the “PRC”) and is listed on the Main Board of the Stock Exchange. The intermediate holding company of the Company is Beijing Tong Ren Tang Co., Ltd. (“Tong Ren Tang Ltd.”) which is a joint stock limited company incorporated in the PRC and is listed on the Shanghai Stock Exchange. The ultimate holding company of the Company is China Beijing Tong Ren Tang (Holdings) Corporation (“Tong Ren Tang Holdings”) which is a company incorporated in the PRC.

The Company is a limited liability company incorporated in Hong Kong. The address of its registered office is Room 1405–1409, Office Tower, Convention Plaza, 1 Harbour Road, Wanchai, Hong Kong.

The condensed consolidated interim financial information is presented in Hong Kong dollars (“HK\$”), unless otherwise stated. This consolidated interim financial information has been approved for issue by the Board on 8 August 2016.

This condensed consolidated interim financial information has not been audited.

## 2 BASIS OF PREPARATION

This condensed consolidated interim financial information for the three months and six months ended 30 June 2016 has been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the GEM Listing Rules of the Stock Exchange.

The financial information relating to the year ended 31 December 2015 that is included in this condensed consolidated interim financial information as comparative information does not constitute the Company’s statutory annual consolidated financial statements for the year but is derived from those financial statements. Further information relating to these statutory financial statements required to be disclosed in accordance with section 436 of the Hong Kong Companies Ordinance (Cap. 622) is as follows:

The Company has delivered the financial statements for the year ended 31 December 2015 to the Companies Registry as required by section 662(3) of, and Part 3 of Schedule 6 to, the Hong Kong Companies Ordinance (Cap. 622).

# NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

## 2 BASIS OF PREPARATION *(Continued)*

The Company's auditor has reported on those financial statements. The auditor's report was unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its report; and did not contain a statement under sections 406(2), 407(2) or 407(3) of the Hong Kong Companies Ordinance (Cap. 622).

## 3 SIGNIFICANT ACCOUNTING POLICIES

Save as disclosed below, the accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2015, as described in those annual financial statements.

Taxation on income in the interim periods is accrued using the tax rate that would be applicable to expected total annual earnings.

### (a) Adoption of amendments to standards

The following are amendments to existing standards which are relevant to the Group's operations and are mandatory for the financial year beginning on 1 January 2016.

Annual Improvements Project HKAS 1 (Amendment) HKAS 16 and HKAS 38 (Amendment) HKAS 27 (Amendment)	Annual Improvements 2012–2014 Cycle Disclosure initiative Clarification of Acceptable Methods of Depreciation and Amortisation Equity Method in Separate Financial Statements
HKFRS 10, HKFRS 12 and HKAS 28 (Amendment)	Investment Entities: Applying the Consolidation Exception

The adoption of above amendments to existing standards does not have any significant financial effect on this condensed consolidated interim financial information.



## 3 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (b) Standards and amendments which are not yet effective

The following are new standard and amendments to existing standards that have been published and are relevant and mandatory for the Group's accounting periods beginning on or after 1 January 2017, but have not been early adopted by the Group.

HKFRS 9	Financial Instruments <sup>(1)</sup>
HKFRS 15	Revenue from Contracts with Customers <sup>(1)</sup>
HKFRS 10 and HKAS 28 (Amendment)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture <sup>(2)</sup>
HKFRS 16	Leases <sup>(2)</sup>

<sup>(1)</sup> Effective for the accounting period beginning on 1 January 2018

<sup>(2)</sup> Effective for the accounting period beginning on 1 January 2019

The Group will apply the above new standard and amendments to standards when they become effective. The Group is in the process of making an assessment of the impact of the above new standard and amendments to standards and does not expect that the adoption of these new standard and amendments to standards will result in any material impact on the Group's results and financial position.

## 4 ESTIMATES

The preparation of interim financial information requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing this condensed consolidated interim financial information, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2015.

# NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

## 5 FINANCIAL RISK MANAGEMENT

### (a) Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk and cash flow interest rate risk), credit risk and liquidity risk.

The condensed consolidated interim financial information does not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 31 December 2015.

There have been no changes in the risk management policies since last year end.

### (b) Liquidity risk

Compared to 31 December 2015, there was no material change in the contractual undiscounted cash out flows for financial liabilities.

## 6 REVENUE AND SEGMENT INFORMATION

### (a) Revenue

	Unaudited Three months ended 30 June		Unaudited Six months ended 30 June	
	2016 HK\$'000	2015 HK\$'000	2016 HK\$'000	2015 HK\$'000
Sales of products	266,845	241,565	523,366	467,525
Service income	9,567	8,376	18,161	16,242
Royalty fee income	216	177	423	350
	<b>276,628</b>	250,118	<b>541,950</b>	484,117

### (b) Segment information

The chief operating decision maker has been identified as the executive directors and non-executive director of the Company (the "Executive Directors" and "Non-executive Director"). The Executive Directors and Non-executive Director review the Group's internal reporting in order to assess performance and allocate resources and have determined the operating segments based on these reports.



## 6 REVENUE AND SEGMENT INFORMATION *(Continued)*

### (b) Segment information *(Continued)*

The Executive Directors and Non-executive Director consider the Group's business from a geographic perspective and have determined that the Group has three reportable operating segments as follows:

- (i) Hong Kong — wholesale of Chinese medicine products and healthcare products as well as sale of Chinese medicine products and healthcare products and provision of Chinese medical consultation and treatments through retail outlets in Hong Kong. In addition, it includes the royalty fee income received from overseas entities for using "Tong Ren Tang" brand name.
- (ii) Mainland China — wholesale of healthcare products in Mainland China and the sole distributor operation for Tong Ren Tang Technologies and Tong Ren Tang Ltd. for Tong Ren Tang branded products outside Mainland China.
- (iii) Overseas — sale of Chinese medicine products and healthcare products and provision of Chinese medical consultation and treatments in other overseas countries, including Macao.

Unallocated items comprise mainly corporate expenses.

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

The Executive Directors and Non-executive Director assess the performance of the operating segments based on revenue and segment results of each segment. Management has determined the operating segments based on the location of the entities and the information reviewed by the Group's chief operating decision maker for the purposes of allocating resources and assessing performance.

Segment assets include leasehold land, property, plant and equipment, intangible assets, investments accounted for using equity method, deferred income tax assets, deposits paid for purchase of property, plant and equipment, inventories, trade receivables and other current assets, short-term bank deposits and cash and cash equivalents. Segment liabilities include borrowings, trade and other payables, current and deferred income tax liabilities.

# NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

## 6 REVENUE AND SEGMENT INFORMATION *(Continued)*

### (b) Segment information *(Continued)*

#### (i) Analysis of condensed consolidated income statement

	Hong Kong HK\$'000	Mainland China HK\$'000	Overseas HK\$'000	Total HK\$'000
<b>Six months ended 30 June 2016 (Unaudited)</b>				
Segment revenue	470,809	146,186	122,639	739,634
Inter-segment revenue	(161,295)	(35,913)	(476)	(197,684)
Revenue from external customers	309,514	110,273	122,163	541,950
Segment results	268,066	13,651	10,014	291,731
Inter-segment elimination				(5,576)
Operating profit				286,155
Finance income	3,957	71	22	4,050
Finance cost	(3)	-	(15)	(18)
Share of loss of investments accounted for using equity method				(1,491)
Profit before income tax				288,696
Income tax expense	(44,362)	(2,594)	(2,689)	(49,645)
Profit for the period				239,051

# NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION



## 6 REVENUE AND SEGMENT INFORMATION *(Continued)*

### (b) Segment information *(Continued)*

#### (i) Analysis of condensed consolidated income statement *(Continued)*

	Hong Kong HK\$'000	Mainland China HK\$'000	Overseas HK\$'000	Total HK\$'000
<b>Six months ended</b>				
<b>30 June 2015 (Unaudited)</b>				
Segment revenue	392,720	130,275	123,221	646,216
Inter-segment revenue	(116,523)	(44,622)	(954)	(162,099)
Revenue from external customers	276,197	85,653	122,267	484,117
Segment results	200,929	18,050	13,369	232,348
Inter-segment elimination				(13,448)
Operating profit				218,900
Finance income	5,020	67	173	5,260
Finance cost	–	–	(135)	(135)
Share of loss of investments accounted for using equity method				(218)
Profit before income tax				223,807
Income tax expense	(32,342)	(5,670)	(2,988)	(41,000)
Profit for the period				182,807

# NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

## 6 REVENUE AND SEGMENT INFORMATION *(Continued)*

### (b) Segment information *(Continued)*

#### (ii) Analysis of condensed consolidated balance sheet

	Hong Kong HK\$'000	Mainland China HK\$'000	Overseas HK\$'000	Total HK\$'000
<b>At 30 June 2016 (Unaudited)</b>				
<b>Segment assets and liabilities</b>				
Total assets	1,788,867	148,193	231,155	2,168,215
Investments accounted for using equity method	12,576	–	9,633	22,209
Total liabilities	(93,376)	(17,451)	(19,865)	(130,692)
<b>At 31 December 2015 (Audited)</b>				
<b>Segment assets and liabilities</b>				
Total assets	1,670,019	152,002	204,964	2,026,985
Investments accounted for using equity method	13,282	–	9,799	23,081
Total liabilities	(69,362)	(27,922)	(20,786)	(118,070)

# NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION



## 7 EXPENSES BY NATURE

	Unaudited		Unaudited	
	Three months ended		Six months ended	
	30 June		30 June	
	2016	2015	2016	2015
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cost of inventories sold	<b>57,688</b>	62,107	<b>112,662</b>	126,659
Employee benefit expenses (including directors' emoluments)	<b>34,156</b>	38,835	<b>67,119</b>	67,077
Operating leases payments	<b>14,738</b>	13,036	<b>29,195</b>	26,333
Amortisation of prepaid operating payments (Note 11)	<b>135</b>	135	<b>271</b>	271
Amortisation of intangible assets (Note 13)	<b>325</b>	433	<b>650</b>	433
Depreciation of property, plant and equipment (Note 12)	<b>5,548</b>	5,318	<b>11,277</b>	10,411
Loss on disposal of property, plant and equipment	<b>24</b>	435	<b>24</b>	435
Write-off of inventories	<b>11</b>	64	<b>11</b>	64
Net exchange loss/(gain)	<b>68</b>	(11)	<b>(336)</b>	(328)

# NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

## 8 INCOME TAX EXPENSE

Hong Kong profits tax has been provided at the rate of 16.5% (2015: 16.5%) on the estimated assessable profits for the period. PRC corporate income tax has been provided at the rate of 25% (2015: 25%) on the estimated assessable profits for the period of the subsidiaries operating in the PRC. Taxation on overseas profits has been calculated on the estimated assessable profit for the period at the rates of taxation prevailing in the countries in which the entities operate.

	Unaudited Three months ended 30 June		Unaudited Six months ended 30 June	
	2016 HK\$'000	2015 HK\$'000	2016 HK\$'000	2015 HK\$'000
Current income tax				
Hong Kong	23,378	16,397	44,831	33,346
Mainland China	913	3,692	3,432	5,670
Overseas	1,135	1,701	2,710	2,988
Deferred income tax (credit)/expense	25,426	21,790	50,973	42,004
Income tax expense	(721)	327	(1,328)	(1,004)
	24,705	22,117	49,645	41,000

# NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION



## 9 EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the profit attributable to owners of the Company by the weighted average number of ordinary shares in issue during the period.

	Unaudited Three months ended 30 June		Unaudited Six months ended 30 June	
	2016 HK\$'000	2015 HK\$'000	2016 HK\$'000	2015 HK\$'000
Profit attributable to owners of the Company	120,136	90,124	228,552	173,126
Weighted average number of ordinary shares in issue (thousand shares)	837,100	832,603	837,100	834,864
Earnings per share (HK\$)	0.14	0.11	0.27	0.21

There were no potential dilutive shares for the three months and six months ended 30 June 2016 (2015: Nil).

## 10 DIVIDENDS

A dividend of HK\$108,823,000 in respect of the year ended 31 December 2015 was paid in May 2016 (2015: HK\$83,710,000).

During the six months ended 30 June 2016, the Board did not recommend the payment of any interim dividend (2015: Nil).

# NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

## 11 LEASEHOLD LAND

The Group's interest in leasehold land represents prepaid operating lease payments for land held in Hong Kong under lease term of between 10 and 50 years and its net book value is analysed as follows:

	HK\$'000
At 1 January 2016 (audited)	17,094
Amortisation of prepaid operating payments	(271)
At 30 June 2016 (unaudited)	16,823

## 12 PROPERTY, PLANT AND EQUIPMENT

The net book value of property, plant and equipment is analysed as follows:

	HK\$'000
At 1 January 2016 (audited)	262,430
Additions	7,705
Disposals	(24)
Depreciation charge	(11,277)
Currency translation differences	1,400
At 30 June 2016 (unaudited)	260,234

As at 30 June 2016, bank borrowing is secured by a freehold land and building amounted to HK\$12,128,000 (2015: HK\$12,258,000).

## 13 INTANGIBLE ASSETS

The net book value of intangible assets is analysed as follows:

	Goodwill HK\$'000	Customer relationships HK\$'000	Total HK\$'000
At 1 January 2016 (audited)	49,419	11,917	61,336
Amortisation	–	(650)	(650)
At 30 June 2016 (unaudited)	49,419	11,267	60,686

# NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION



## 14 TRADE RECEIVABLES AND OTHER CURRENT ASSETS

	Unaudited 30 June 2016 HK\$'000	Audited 31 December 2015 HK\$'000
Trade receivables		
— fellow subsidiaries	48,396	52,422
— joint ventures	721	669
— an associate	507	507
— third parties	129,441	117,517
Trade receivables	179,065	171,115
Prepayment and other receivables	23,266	25,168
Deposits	16,944	16,268
Amount due from a joint venture	1,114	1,114
	<b>220,389</b>	213,665

The aging analysis of trade receivables (including amounts due from related parties of trading in nature) based on invoice date is as follows:

	Unaudited 30 June 2016 HK\$'000	Audited 31 December 2015 HK\$'000
Up to 3 months	158,039	153,842
3 to 6 months	17,923	11,009
6 months to 1 year	2,614	3,806
Over 1 year	489	2,458
	<b>179,065</b>	171,115

# NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

## 15 SHARE CAPITAL

	Number of shares	Share capital HK\$'000
Ordinary shares issued and fully paid: At 1 January 2016 (audited) and 30 June 2016 (unaudited)	837,100,000	938,789

## 16 TRADE AND OTHER PAYABLES

	Unaudited 30 June 2016 HK\$'000	Audited 31 December 2015 HK\$'000
Trade payables		
— fellow subsidiaries	794	122
— intermediate holding company	6,898	4,422
— immediate holding company	6,215	89
— third parties	10,594	30,716
Trade payables	24,501	35,349
Accruals, deposits and other payables	32,204	41,635
	<b>56,705</b>	76,984

The aging analysis of trade payables (including amounts due to the related parties of trading in nature) based on invoice date is as follows:

	Unaudited 30 June 2016 HK\$'000	Audited 31 December 2015 HK\$'000
Up to 3 months	22,577	34,094
3 to 6 months	1,729	232
6 months to 1 year	54	449
1 to 2 years	141	574
	<b>24,501</b>	35,349

# NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION



## 17 COMMITMENTS

### (a) Capital commitments

	<b>Unaudited</b> <b>30 June</b> <b>2016</b> <b>HK\$'000</b>	Audited 31 December 2015 HK\$'000
Contracted but not provided for — property, plant and equipment	<b>3,301</b>	490

### (b) Operating lease commitments

The Group leases various retail outlets, warehouses and staff quarters under non-cancellable operating lease agreements. The lease terms are between 1 and 10 years and certain lease agreements are renewable at the end of the lease period at market rate.

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

	<b>Unaudited</b> <b>30 June</b> <b>2016</b> <b>HK\$'000</b>	Audited 31 December 2015 HK\$'000
No later than 1 year	<b>47,100</b>	42,157
Later than 1 year and no later than 5 years	<b>73,612</b>	67,389
Later than 5 years	<b>7,865</b>	3,274
	<b>128,577</b>	112,820

# NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

## 18 SIGNIFICANT RELATED PARTY TRANSACTIONS

In addition to those disclosed in other sections of this condensed consolidated interim financial information, the following transactions were carried out with related parties:

	Note	Unaudited Three months ended 30 June		Unaudited Six months ended 30 June	
		2016	2015	2016	2015
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>(a)</b> Sales of products to:					
Joint ventures	(i)	574	353	1,606	1,097
Fellow subsidiaries	(i)	35,104	27,388	69,160	52,131
		<b>35,678</b>	27,741	<b>70,766</b>	53,228
<b>(b)</b> Purchases of products from:					
Immediate holding company	(i)	8,616	6,557	13,924	9,286
Intermediate holding company	(i)	12,209	16,724	27,747	32,464
Fellow subsidiaries	(i)	398	702	909	1,105
		<b>21,223</b>	23,983	<b>42,580</b>	42,855
<b>(c)</b> Royalty fee income from joint ventures	(ii)	194	149	379	301
<b>(d)</b> Rental expense to a fellow subsidiary	(i)	450	450	900	900

# NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION



## 18 SIGNIFICANT RELATED PARTY TRANSACTIONS *(Continued)*

### (e) Key management compensation

Key management includes directors (executive and non-executive) and senior management. The emoluments paid or payable to key management for employee services is as follows:

	Unaudited Three months ended 30 June		Unaudited Six months ended 30 June	
	2016 HK\$'000	2015 HK\$'000	2016 HK\$'000	2015 HK\$'000
Salaries and other short-term employee benefits	2,124	2,948	3,152	4,295
Pension costs — defined contribution plans	37	37	71	64
	<b>2,161</b>	2,985	<b>3,223</b>	4,359

Notes:

- (i) These transactions were conducted in the normal course of business at prices and terms mutually agreed between the parties involved.
- (ii) The royalty fee is charged annually by the Company at predetermined rates ranging from 1% to 3% on turnover of its joint ventures in accordance with the royalty agreements. Pursuant to these agreements, these joint ventures are allowed to trade under “Tong Ren Tang” brand name.

## OTHER INFORMATION

### DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES

As at 30 June 2016, the 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 Future Ordinance ("SFO")) of Directors and chief executive of the Company 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) 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 position in shares

	Types of interests	Capacity	Number of shares	Approximate Percentage of issued share capital
<b>The Company</b>				
Ding Yong Ling	Personal	Beneficial owner	250,000	0.029%
Lin Man	Personal	Beneficial owner	220,000	0.026%
<b>Tong Ren Tang Technologies</b>				
Mei Qun	Personal	Beneficial owner	3,000,000 <sup>(1)</sup>	0.234%
<b>Tong Ren Tang Ltd.</b>				
Mei Qun	Personal	Beneficial owner	93,242 <sup>(2)</sup>	0.007%

Notes:

- (1) These shares represent 0.46% of domestic shares of Tong Ren Tang Technologies.
- (2) All represent A shares of Tong Ren Tang Ltd.

Save as disclosed above, 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

As at 30 June 2016, 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:

#### Long position in shares

Name of shareholder	Capacity	Number of shares	Approximate percentage of issued share capital
Tong Ren Tang Technologies	Beneficial owner	318,540,000	38.05%
Tong Ren Tang Ltd. <sup>(1)</sup>	Beneficial owner	281,460,000	33.62%
	Interest of a controlled corporation	318,540,000	38.05%
Tong Ren Tang Holdings <sup>(2)</sup>	Interest of a controlled corporation	600,000,000	71.67%
Greenwoods Asset Management Holdings Limited <sup>(3)</sup>	Interest of controlled corporation	50,919,000	6.08%
Greenwoods Asset Management Limited <sup>(3)</sup>	Interest of controlled corporation	50,919,000	6.08%
Jiang Jinzhi <sup>(3)</sup>	Interest of controlled corporation	50,919,000	6.08%
Unique Element Corp. <sup>(3)</sup>	Interest of controlled corporation	50,919,000	6.08%

Notes:

- (1) Tong Ren Tang Ltd. directly holds 46.85% 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 of the Company held by Tong Ren Tang Technologies.
- (2) Tong Ren Tang Holdings directly holds 52.45% of the issued share capital of Tong Ren Tang Ltd. which in turn directly holds 46.85% of the issued share capital of Tong Ren Tang Technologies. Tong Ren Tang Holdings also directly holds 0.74% 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 of the Company and 281,460,000 shares of the Company held by Tong Ren Tang Technologies and Tong Ren Tang Ltd., respectively.

## OTHER INFORMATION

- (3) According to the disclosure forms filed by Greenwoods Asset Management Holdings Limited, Greenwoods Asset Management Limited, Jiang Jinzhi and Unique Element Corp. on 15 July 2015, the following interests in shares of the Company were held by Greenwoods Asset Management Holdings Limited, Greenwoods Asset Management Limited, Jiang Jinzhi and Unique Element Corp. as follows:

Name of controlled corporation	Name of controlling shareholder	% control	Direct interest (Y/N)		Number of shares
Unique Element Corp.	Jiang Jinzhi	100.00	N	Long position	50,919,000
Greenwoods Asset Management Holdings Limited	Unique Element Corp.	81.00	N	Long position	50,919,000
Greenwoods Asset Management Limited	Greenwoods Asset Management Holdings Limited	100.00	N	Long position	50,919,000
Golden China Master Fund	Jiang Jinzhi	100.00	Y	Long position	7,685,000
Greenwoods Asset Management Limited	Greenwoods Asset Management Holdings Limited	100.00	N	Long position	21,920,000
Greenwoods China Alpha Master Fund	Greenwoods Asset Management Limited	100.00	Y	Long position	15,771,000
Golden China Plus Master Fund	Jiang Jinzhi	100.00	Y	Long position	3,343,000
Greenwoods China Healthcare Master Fund	Greenwoods Asset Management Limited	100.00	Y	Long position	2,200,000

Save as disclosed above, 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 section “Directors’ and chief executives’ interests in the shares” above, at no time during the Period 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.

### 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 (the “Prospectus”), mainly to the effect that at any time until their collective beneficial interest in the equity interest in the Company is less than 30%, each of them shall not, and shall procure their respective subsidiaries (except through its interests in the Group) not to, without prior written consent of the Company, directly or indirectly:

- (i) engage in the research, development, manufacture and sales of any products containing ganoderma lucidum or ganoderma lucidum spores as raw materials in Hong Kong, Macao and markets outside of the PRC (the “Non-PRC Markets”);
- (ii) engage in the research, development, manufacture and sales 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 in the Non-PRC Markets;
- (iv) engage in the distribution of any Chinese medicine products in Non-PRC Markets, except for certain existing arrangements as disclosed in the Prospectus; and
- (v) carry out any new overseas registration of “Tong Ren Tang” branded products ((i) to (v) are collectively known as “Restricted Business”).

## OTHER INFORMATION

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

Tong Ren Tang Holdings has also granted the Company rights of first refusal to acquire its interest in Beijing Tong Ren Tang Hong Kong Medicine Management Limited, Beijing Tong Ren Tang (UK) Limited and Beijing Tong Ren Tang Tai Fong Co., Ltd. on terms which are not less favorable than the terms it wishes to sell to other parties.

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 (refer to Tong Ren Tang Holdings, Tong Ren Tang Ltd., Tong Ren Tang Technologies and their respective subsidiaries, other than the Group and their respective predecessors) 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 products 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

## OTHER INFORMATION



- (b) conduct quarterly communications with representatives of the Parent Group to confirm whether their research and development portfolio has any 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 (if applicable); 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 report.

## PURCHASE, SALE OR REDEMPTION OF SECURITIES

During the Period, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company’s listed shares.

## INTEREST OF COMPLIANCE ADVISOR

The Company’s compliance advisor, Kim Eng Securities (Hong Kong) Limited (the “Compliance Advisor”) entered into the Compliance Advisor agreement (the “Compliance Advisor Agreement”) with the Company dated 6 May 2013, the date of the listing (the “Listing Date”) of the Company’s shares on the Stock Exchange. As at 31 December 2015, the engagement of the Compliance Advisor has covered the second full financial year commencing after the Listing Date, which has been satisfied with the Rule 6A.19 of the GEM Listing Rules. As at 30 March 2016, the engagement of the Compliance Advisor has expired.

As at 30 March 2016, as notified by the Compliance Advisor, except for the Compliance Advisor Agreement, neither the Compliance Advisor nor its directors, employees or close 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.

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

The Company has adopted a code of conduct regarding securities transactions by directors on terms no less exacting than the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquires to all the Directors, all the Directors have confirmed that they have complied with the required standard of dealings and the code of conduct regarding securities transactions by directors adopted by the Company during the Period.

## OTHER INFORMATION

### CORPORATE GOVERNANCE CODE

The Company has complied with the provisions set out in Appendix 15 of the Corporate Governance Code of the GEM Listing Rules for the Period.

### RISK MANAGEMENT AND INTERNAL CONTROL

During the Period, the Group continued to improve its risk management framework. The Group is facing different inherent business risks, which are influenced by external or internal influencing factors. The key challenge of the Group are how to effectively identify, evaluate and adopt the appropriate risk management strategies (i.e. reduction, transfer, or prevention) to manage the key risks identified. In the first half of 2016, the Group has taken a proactive risk management approach of establishing a clear risk management framework and risk management process to effectively manage key risks identified.

The Group's risk management organization consists of the Board, audit committee, senior management and risk management team of the Group. We also recognize that risk management is the responsibility of every employee and should be embedded in daily operation, such as strategic development, business planning, capital allocation, investment decisions, internal controls and etc. In light of this, we are in the process of integrating our risk management practices into our day-to-day business operations and internal control system.

The Board is responsible for monitoring the Group's risk management and internal control systems on an ongoing basis. During the Period, there were no significant changes in the Group's top ten risks identified. They were categorised into business and strategic risk, operation risk, compliance and regulatory risk as well as financial and reporting risk. The risk response owners and the corresponding risk mitigating controls have been assigned and formulated to manage these risks.

Our risk management team meets regularly to review the risk management policies and procedures as well as the risk management measures. The more significant risks and the corresponding risk management strategies will be reported to the Board and the audit committee at least once annually.

### AUDIT COMMITTEE

The audit committee of the Company has reviewed the 2016 interim report.

On behalf of the Board  
**Beijing Tong Ren Tang**  
**Chinese Medicine Company Limited**  
**Mei Qun**  
*Chairman*

Hong Kong, 8 August 2016



Beijing Tong Ren Tang  
Chinese Medicine Company Limited  
北京同仁堂國藥有限公司

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