



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)

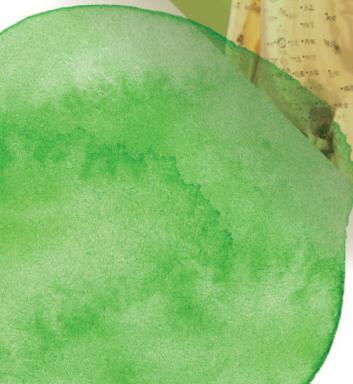
Stock code 股份代號：8138



Healthy Life Global Choice

創造健康 全球共享

Interim Report 2014
中期報告





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This report, for which the directors (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 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
Chan Ngai Chi
Zhao Zhong Zhen

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

REGISTERED ADDRESS

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LEGAL ADVISER

DLA Piper Hong Kong
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The Landmark, 15 Queen's Road Central
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COMPLIANCE ADVISOR

Kim Eng Securities (Hong Kong) Limited
30th Floor, Three Pacific Place
1 Queen's Road East
Admiralty
Hong Kong

AUDITOR

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

STOCK CODE

8138

FINANCIAL HIGHLIGHTS



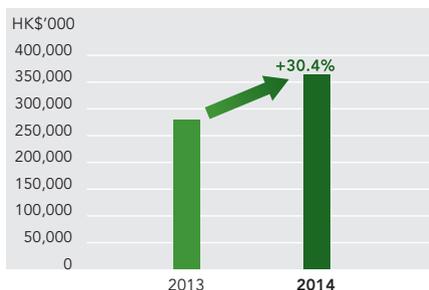
(HK\$'000)	Six months ended 30 June		Change
	2014	2013	
Revenue	364,044	279,263	+30.4%
Gross profit	255,374	193,216	+32.2%
Profit attributable to owners of the Company	140,335	93,457	+50.2%
Earnings per share	HK\$0.17	HK\$0.14	+21.4%

(HK\$'000)	30 June	31 December	Change
	2014	2013	
Cash and bank balances	975,063	923,597	+5.6%
Total assets	1,523,162	1,410,115	+8.0%
Total equity	1,401,430	1,309,719	+7.0%

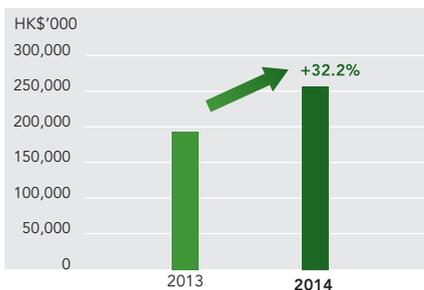
Financial Analysis

For the six months ended 30 June 2014

Revenue



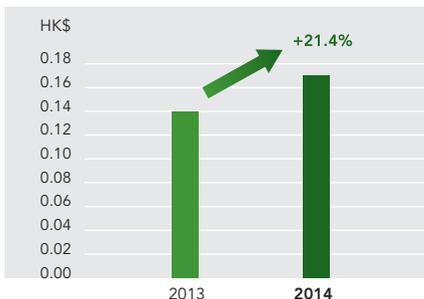
Gross Profit



Profit Attributable to Owners of the Company



Earnings Per Share





MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

In view of the growing popularity of the Chinese regimen, the culture of Chinese medicines and the increase in health consciousness of the modern generation, the demand for Chinese medicines has been increasing. Capitalizing on the unique market position and the foundation in Hong Kong, the Company and its subsidiaries (collectively referred to as the “Group”) have actively expanded to overseas markets, broaden the impact of Tong Ren Tang brand overseas and increased our market share.

For the six months ended 30 June 2014 (the “Period”), the revenue of the Group was approximately HK\$364.0 million, representing an increase of 30.4% as compared to the same period last year (2013: HK\$279.3 million), and the profit for the Period attributable to owners of the Company was approximately HK\$140.3 million, representing an increase of 50.2% as compared to the same period last year (2013: HK\$93.5 million).

As of 30 June 2014, the Group has established business presence in 15 countries and regions with 52 stores, including Hong Kong, Thailand, Malaysia, Canada, Macao, Korea, Indonesia, Singapore, Australia, Cambodia, Brunei, Dubai, Poland, the United Kingdom and New Zealand. The overseas sales network was further expanded.

Market Expansion

Currently, the Group has been actively expanding to the European market and enhancing the influence and penetration of Tong Ren Tang brand through a series of promotions, and we will further strengthen our efforts for overseas expansion and implement overall planning at various stages. We will also accelerate the establishment of overseas sales outlets and the healthcare centres, and tap into the major markets of Europe and the United States.

In line with our direction to match consultation and medication, with a focus in healthcare services, the Company completed certain share acquisition of Union Health International Limited (with a business name as Fook Ming Tong Chinese Medical Center, “Fook Ming Tong”) on 30 June 2014. Fook Ming Tong is a Chinese medical centre principally providing integrated healthcare services such as Chinese medical diagnosis, acupuncture, orthopaedics and massage.

Fook Ming Tong is accounted for as a joint venture of the Group and its business name will be changed to “Beijing Tong Ren Tang Fook Ming Tong Chinese Medical Center”. In addition to the provision of integrated healthcare services, it also drives the sales of Tong Ren Tang branded products. Moreover, leveraging on the sophisticated operation model of Fook Ming Tong together with the Group’s experience in Chinese medical operation, we aim to improve the effectiveness and efficiency of the chain operation model to strengthen the development of Tong Ren Tang with matching its consultation and medication in overseas markets.



The Group has been exploring new business development model to diversify its services and propagate the culture of healthcare via Chinese medicine. In particular, to kick off in Hong Kong, the Group is actively establishing a Chinese medical healthcare centre. We aim to conduct diversified investments throughout the entire service chain in order to further enlarge our business coverage and develop new business model for the sound development in the healthcare market.

During the Period, the Group has completed the asset acquisition for the business operation and has launched the sales of Tong Ren Tang branded products in New Zealand. The Group will strive to enhance the propagation of Chinese medicine culture and the Tong Ren Tang brand locally. We target to develop Tong Ren Tang into the leading player by supporting the development of local Chinese medical industry and overcoming the trading barriers in major western markets. In addition, based on the culture of Tong Ren Tang and leveraging on its advanced resources and principles of operation, we are to establish a localized Chinese medical chain to provide quality Chinese medical services for the general public in New Zealand.

Despite the overall growth of the global retail market continuously to be slow in the first half of the year, the retail revenue of the Group during the Period recorded a steady growth of 20.6% as compared to the same period last year. The Group is actively training our frontline sales with specialized knowledge to ensure customers are using the medication safely. We also adopted diversified marketing strategies and arranged for our overall strategies.

Production, Research and Development

During the Period, we continued the renovation of the cleanliness zone and freezer of the production plant in Taipo to enhance and ensure the safety of the production plant. The Group has continued to focus on the research and development of Chinese medicines and healthcare supplements. During the Period, the Group has completed pilot-scale study, commenced the research on quality standard and safety as well as pilot production of a series of products.



MANAGEMENT DISCUSSION AND ANALYSIS

Future Prospects

In the second half of the year, the Group will continue to impel projects investment and seek suitable business opportunities and cooperation partners in the major markets, such as Europe and the United States. Besides, we will conduct thorough feasibility studies on the supply chain to secure the overseas supply of quality raw materials. We will also enhance our competitiveness and speed up our development through mergers and acquisitions. Aiming to localize the production and sales, the Group will leverage on the advantages of local resources and processing capability of healthcare food products in overseas market to develop and produce a series of healthcare food products under Tong Ren Tang brand, which will be launched to the overseas markets in various stages.

Moreover, we will be devoted to promoting the culture of Chinese medicines and Chinese medical healthcare services, and enhance the branding of Tong Ren Tang so as to support the brand development, modernization, globalization and scale-operation of Chinese medicines.

Looking forward, the Group will continue to strengthen its development, overcome challenges and be innovative, and aim to develop ourselves to be the leader in the overseas Chinese medicines industry and endorse the global health via Chinese medicines. We endeavour to develop Tong Ren Tang as a global Tong Ren Tang.

Human Resources

As of 30 June 2014, the Group had a total of 488 employees (2013: 429 employees), whom were mainly new recruits of the sales, marketing and production teams. During the Period, the staff cost of the Group was HKD\$43.8 million (2013: HKD\$42.3 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 2014, the Group's total equity were HK\$1,401.4 million (31 December 2013: HK\$1,309.7 million) including reserves of HK\$481.6 million (31 December 2013: HK\$406.4 million). The Group continued to be in a strong financial position with cash and bank balances amounting to HK\$975.1 million (31 December 2013: HK\$923.6 million). Based on the Group's steady cash inflow from operations, coupled with sufficient cash and bank balances, the Group has adequate liquidity and financial resources to meet the working capital requirements as well as to fund its expansion plans in 2014 and as disclosed in the prospectus of the Company dated 25 April 2013 (the "Prospectus").



As at 30 June 2014, the Group's cash and bank balances were mainly denominated in Hong Kong dollar, with the remaining mainly being Renminbi, Macao pataca, Singapore dollar and Australian dollar which were deposited in reputable financial institutions with maturity dates falling within one year.

As at 30 June 2014, the Group had total non-current assets, net current assets and net assets of HK\$269.8 million, HK\$1,135.0 million and HK\$1,401.4 million, respectively (31 December 2013: HK\$251.5 million, HK\$1,062.5 million and HK\$1,309.7 million). During the Period, the Group funded its liquidity by the net proceeds from the Listing (as defined below) and resources generated internally. The current ratio of the Group, defined as the ratio of current assets to current liabilities, was 10.6 as at 30 June 2014 (31 December 2013: 12.1), which reflects the abundance of financial resources of the Group.

Capital Expenditure

During the Period, the Group's capital expenditure was HK\$11.1 million (2013: HK\$112.3 million), which was mainly used in the establishment of new overseas retail outlets and purchase of 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.

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

Major Investment, Acquisitions and Disposals

During the Period, the Company completed the acquisition of Fook Ming Tong and commenced business operations in New Zealand, please refer to 'Management Discussion and Analysis — Market Expansion' on pages 4 and 5 for details.

Charges over Assets of the Group

As at 30 June 2014, the Group did not pledge any assets of the Group.

Contingent Liabilities

As at 30 June 2014, the Group did not have any significant contingent liabilities.

Dividends

The Board does not recommend the payment of any interim dividend for the Period (2013: Nil).



MANAGEMENT DISCUSSION AND ANALYSIS

COMPARISON BETWEEN FUTURE PLANS AND PROSPECTS AND ACTUAL BUSINESS PROGRESS

The following is a comparison between the Group's business objectives as set out in the Prospectus and the actual business progress for the six months ended 30 June 2014.

Business plan for the six months ended 30 June 2014

Actual business progress for the six months ended 30 June 2014

Continue the promotion of Chinese Medicine Products in Non-PRC Markets

- | | |
|---|---|
| <ul style="list-style-type: none">• Continue to hold seminars and training program to broadcast Chinese regimen culture and Chinese medicine products | <ul style="list-style-type: none">• Commenced the workshop to enhance the knowledge of our Chinese medical practitioners overseas• Held seminar on product knowledge |
|---|---|

Increase geographical coverage and retail stores

- | | |
|--|--|
| <ul style="list-style-type: none">• Establish the first new store in Vietnam• Continue to evaluate new markets and prepare for new stores establishment• Continue to evaluate and explore acquisition opportunities• Continue to expand our overseas sales team and increase the number of our Chinese medicine practitioners | <ul style="list-style-type: none">• Site visit in Vietnam and commenced justification of business expansion• Commenced feasibility studies on new markets• Completion of the acquisition of Fook Ming Tong and the acquisition in New Zealand• New recruit of overseas sales team and Chinese medical practitioners |
|--|--|



Business plan for the six months ended 30 June 2014

Actual business progress for the six months ended 30 June 2014

Broaden our products and service offerings

- Commence registration of 9 “Tong Ren Tang” branded products
- Trial-run of the Chinese medical healthcare centre in Hong Kong

- Completed registration of 3 “Tong Ren Tang” branded products in UAE
- Commenced registration of 5 “Tong Ren Tang” branded products in Russia
- The Chinese medical healthcare centre is under renovation

Upgrade and expand the production facilities

- Acquire equipment to expand the capacity of our capsule production line
- Continue to evaluate our production facilities and capacities to determine any further improvements required
- Improvement in the cleanliness zone
- Continue to expand the production team

- Acquired equipment to enhance production capacity
- Evaluated on the production facilities and capacities
- Completed cleanliness zone and freezer improvement
- New recruits in the production team



MANAGEMENT DISCUSSION AND ANALYSIS

Business plan for the six months ended 30 June 2014

Actual business progress for the six months ended 30 June 2014

Continue to enhance the distribution of self-manufactured products

- Commenced preparation of registration of GLSPC in Malaysia, Vietnam and Russia
- Commenced registration of a Chinese medicine product in Hong Kong

To build up effective logistics and financial information system

- Implemented ERP system to enhance the quality control in retail shops and product registration and effectiveness on our overseas products registration

USE OF PROCEEDS FROM THE LISTING

The Company was listed on GEM of the Stock Exchange on 7 May 2013 (the "Listing") and issued 230,000,000 new shares at HK\$3.04 per share. The net proceeds from the Listing received by the Company are HK\$636.7 million. These proceeds are intended to be applied in accordance with the business plan set out in the Prospectus. The business plan and schedule of use of proceeds disclosed in the Prospectus were based on the best estimation of future market conditions made by the Group at the time of preparing the Prospectus, while the proceeds were applied in accordance with the actual development of the market.

During the six months ended 30 June 2014, the net proceeds from the Listing were applied as follows:

- HK\$5.9 million on expanding our distribution network into new overseas markets;
- HK\$20.0 million on establishing a Chinese medical healthcare centre in Hong Kong;
- HK\$14.0 million on merger and acquisitions; and
- HK\$3.9 million on acquisition of production equipment and upgrading the production facilities for Angong Niu Huang Pills.

The Directors had evaluated our business plan and considered that no modification of the business plan and future plans regarding the use of proceeds as described in the Prospectus was required.

CONDENSED CONSOLIDATED INCOME STATEMENT



The board of directors of the Company (the "Board") is pleased to announce the unaudited condensed consolidated results of the Group for the three months and six months ended 30 June 2014 together with the comparative unaudited figures for the corresponding periods in 2013 as follows:

	Note	Unaudited Three months ended 30 June		Unaudited Six months ended 30 June	
		2014 HK\$'000	2013 HK\$'000	2014 HK\$'000	2013 HK\$'000
Revenue	6	203,226	156,334	364,044	279,263
Cost of sales		(63,344)	(49,358)	(108,670)	(86,047)
Gross profit		139,882	106,976	255,374	193,216
Distribution and selling expenses		(28,675)	(22,986)	(52,697)	(48,086)
General and administrative expenses		(21,054)	(15,215)	(33,611)	(27,795)
Professional expenses incurred in connection with the Company's listing		–	(9,754)	–	(12,630)
Other gains	7	251	11,536	695	12,154
Operating profit		90,404	70,557	169,761	116,859
Finance income		2,807	128	5,587	314
Share of profit/losses of joint ventures		(393)	(557)	(512)	(394)
Share of loss of an associated company		–	(365)	–	(599)
Profit before income tax		92,818	69,763	174,836	116,180
Income tax expense	9	(16,013)	(11,284)	(29,737)	(19,170)
Profit for the period		76,805	58,479	145,099	97,010
Profit attributable to:					
Owners of the Company		73,932	56,380	140,335	93,457
Non-controlling interests		2,873	2,099	4,764	3,553
		76,805	58,479	145,099	97,010
Earnings per share attributable to owners of the Company					
Basic and diluted (in HK\$)	10	0.09	0.08	0.17	0.14

The notes on pages 18 to 33 are an integral part of this condensed consolidated interim financial information.



CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Unaudited Three months ended 30 June		Unaudited Six months ended 30 June	
	2014 HK\$'000	2013 HK\$'000	2014 HK\$'000	2013 HK\$'000
Profit for the period	76,805	58,479	145,099	97,010
Other comprehensive income: <i>Item that may be subsequently reclassified to profit or loss</i>				
Currency translation differences	2,417	(3,302)	1,971	(2,963)
Total comprehensive income for the period	79,222	55,177	147,070	94,047
Attributable to:				
Owners of the Company	75,512	53,847	141,601	91,147
Non-controlling interests	3,710	1,330	5,469	2,900
	79,222	55,177	147,070	94,047

The notes on pages 18 to 33 are an integral part of this condensed consolidated interim financial information.

CONDENSED CONSOLIDATED BALANCE SHEET



	Note	Unaudited 30 June 2014 HK\$'000	Audited 31 December 2013 HK\$'000
ASSETS			
Non-current assets			
Leasehold land	11	17,909	18,180
Property, plant and equipment	12	213,088	210,073
Interests in joint ventures and an associated company		26,262	14,432
Deposits paid for purchase of property, plant and equipment		4,680	2,485
Deferred income tax assets		7,823	6,323
		269,762	251,493
Current assets			
Inventories		100,289	102,157
Trade receivables and other current assets	13	178,048	132,868
Short-term bank deposits		458,610	469,333
Cash and cash equivalents		516,453	454,264
		1,253,400	1,158,622
Total assets		1,523,162	1,410,115
EQUITY			
Equity attributable to owners of the Company			
Share capital: nominal value		–	415,000
Share premium		–	452,363
Share capital	14	867,363	867,363
Reserves		481,553	406,352
		1,348,916	1,273,715
Non-controlling interests		52,514	36,004
Total equity		1,401,430	1,309,719



CONDENSED CONSOLIDATED BALANCE SHEET

		Unaudited 30 June 2014 HK\$'000	Audited 31 December 2013 HK\$'000
LIABILITIES			
Non-current liabilities			
		3,354	4,248
Current liabilities			
		69,325	69,255
	15	49,053	26,893
		118,378	96,148
Total liabilities			
		121,732	100,396
Total equity and liabilities			
		1,523,162	1,410,115
Net current assets			
		1,135,022	1,062,474
Total assets less current liabilities			
		1,404,784	1,313,967

The notes on pages 18 to 33 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							Total	Non-controlling interests	Total equity
	Share capital	Share premium	Merger reserve	Other reserve	Statutory reserve	Exchange reserve	Retained earnings			
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	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
Comprehensive income										
Profit for the period	-	-	-	-	-	-	93,457	93,457	3,553	97,010
Other comprehensive income										
Currency translation differences	-	-	-	-	-	(2,310)	-	(2,310)	(653)	(2,963)
Total comprehensive income	-	-	-	-	-	(2,310)	93,457	91,147	2,900	94,047
Transfer of statutory reserve to retained earnings	-	-	-	-	(106)	-	106	-	-	-
Issue of new shares	115,000	584,200	-	-	-	-	-	699,200	-	699,200
Professional expenses incurred in connection with the Company's issuance of new shares	-	(32,433)	-	-	-	-	-	(32,433)	-	(32,433)
Transfer of professional expenses previously capitalised	-	(4,747)	-	4,747	-	-	-	-	-	-
Issue of new shares upon the capitalisation of share premium	98,570	(98,570)	-	-	-	-	-	-	-	-
Dividends	-	-	-	-	-	-	(100,000)	(100,000)	-	(100,000)
Deemed acquisition of a subsidiary	-	-	-	-	-	-	-	-	7,779	7,779
Disposal of a subsidiary	-	-	-	380	-	-	-	380	(44,724)	(44,344)
Total transactions with owners, recognised directly in equity	213,570	448,450	-	5,127	(106)	-	(99,894)	567,147	(36,945)	530,202
At 30 June 2013	415,000	452,363	(13,124)	742	1,246	12,147	284,803	1,153,177	38,760	1,191,937

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Unaudited

	Attributable to owners of the Company							Non-controlling interests		Total equity
	Share capital	Share premium	Merger reserve	Other reserve	Statutory reserve	Exchange reserve	Retained earnings	Total	interests	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2014	415,000	452,363	(13,124)	742	1,634	6,141	410,959	1,273,715	36,004	1,309,719
Comprehensive income										
Profit for the period	-	-	-	-	-	-	140,335	140,335	4,764	145,099
Other comprehensive income										
Currency translation differences	-	-	-	-	-	1,266	-	1,266	705	1,971
Total comprehensive income	-	-	-	-	-	1,266	140,335	141,601	5,469	147,070
Transfer of retained earnings to statutory reserve	-	-	-	-	1,108	-	(1,108)	-	-	-
Transition to no-par value regime on 3 March 2014	452,363	(452,363)	-	-	-	-	-	-	-	-
Dividends	-	-	-	-	-	-	(66,400)	(66,400)	-	(66,400)
Capital injection	-	-	-	-	-	-	-	-	1,901	1,901
Capital contributions to newly formed subsidiaries	-	-	-	-	-	-	-	-	9,140	9,140
Total transactions with owners, recognised directly in equity	452,363	(452,363)	-	-	1,108	-	(67,508)	(66,400)	11,041	(55,359)
At 30 June 2014	867,363	-	(13,124)	742	2,742	7,407	483,786	1,348,916	52,514	1,401,430

The notes on pages 18 to 33 are an integral part of this condensed consolidated interim financial information.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS



	Unaudited Six months ended 30 June	
	2014 HK\$'000	2013 HK\$'000
Net cash generated from operating activities	119,275	60,140
Net cash used in investing activities	(3,007)	(7,863)
Net cash (used in)/generated from financing activities^(Note)	(55,359)	546,490
Net increase in cash and cash equivalents	60,909	598,767
Cash and cash equivalents at the beginning of the period	454,264	249,301
Exchange gains/(losses) on cash and cash equivalents	1,280	(2,240)
Cash and cash equivalents at the end of the period	516,453	845,828
Analysis of balances of cash and cash equivalents		
Cash at bank and on hand and deposits with banks with maturity within three months	516,453	845,828

Note: The amount for the period ended 30 June 2014 includes 2013 final dividend payment of HK\$66,400,000. The amount for the period ended 30 June 2013 includes proceeds from issuance of new shares of HK\$699,200,000 and 2012 special dividend payment of HK\$100,000,000.

The notes on pages 18 to 33 are an integral part of this condensed consolidated interim financial information.



NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

1 GENERAL INFORMATION

The Group is principally engaged in manufacturing, retail and wholesale of Chinese medicine products. The immediate holding company of the 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. 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 and is listed on GEM of the Stock Exchange. The address of its registered office is Room 1405-1409, Office Tower, Convention Plaza, 1 Harbour Road, Wanchai, Hong Kong.

This condensed consolidated interim financial information is presented in thousands of units of Hong Kong dollars ("HK\$'000"), unless otherwise stated. This condensed consolidated interim financial information has been approved for issue by the Board on 7 August 2014.

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 2014 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.

This condensed consolidated interim financial information should be read in conjunction with the Group's annual financial statements for the year ended 31 December 2013, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS").



3 ACCOUNTING POLICIES

Except as described below, the accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2013, 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 2014:

HKAS 32 (Amendment)	Offsetting Financial Assets and Financial Liabilities
HKAS 36 (Amendment)	Recoverable Amount Disclosures for Non-Financial Assets
HKFRS 10, HKFRS 12 and HKAS 27 (2011) (Amendment)	Investment Entities

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

(b) Standards and amendments which are not yet effective

The following are new standards and amendments to existing standards that have been published and are relevant and mandatory for the Group's accounting periods beginning on or after 1 January 2015, but have not been early adopted by the Group.

Annual Improvements Project	Annual Improvements 2010–2012 Cycle and 2011–2013 Cycle ⁽¹⁾
HKAS 16 and HKAS 38 (Amendment)	Classification of Acceptable Methods of Depreciation and Amortisation ⁽²⁾
HKFRS 15	Revenue from Contracts with Customers ⁽³⁾
HKFRS 9	Financial Instruments ⁽⁴⁾

⁽¹⁾ Effective for the accounting period beginning on 1 January 2015

⁽²⁾ Effective for the accounting period beginning on 1 January 2016

⁽³⁾ Effective for the accounting period beginning on 1 January 2017

⁽⁴⁾ Effective date to be determined



NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

3 ACCOUNTING POLICIES *(Continued)*

(b) Standards and amendments which are not yet effective *(Continued)*

The Group will apply the above new standards 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 2013.

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 2013.

(b) Liquidity risk

Compared to 31 December 2013, 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	
	2014	2013	2014	2013
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Sales of Chinese medicine products	195,467	149,837	350,179	266,562
Chinese medical consultation services	7,563	6,217	13,532	12,115
Royalty fee income	196	280	333	586
	203,226	156,334	364,044	279,263

(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 the "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.

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



NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

6 REVENUE AND SEGMENT INFORMATION *(Continued)* (b) **Segment information** *(Continued)*

Unallocated items comprise mainly corporate expenses and finance income.

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, interests in joint ventures and an associated company, 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 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

	Unaudited			
	Hong Kong HK\$'000	PRC HK\$'000	Overseas HK\$'000	Total HK\$'000
Six months ended 30 June 2014				
Segment revenue	255,559	129,024	92,843	477,426
Inter-segment revenue				(113,382)
Revenue from external customers				364,044
Segment results	152,881	14,715	11,010	178,606
Inter-segment elimination				(8,845)
Operating profit				169,761
Finance income	5,414	56	117	5,587
Share of profit/losses of joint ventures				(512)
Profit before income tax				174,836
Income tax expense	(26,085)	(2,691)	(961)	(29,737)
Profit for the period				145,099
Six months ended 30 June 2013				
Segment revenue	190,924	41,052	65,178	297,154
Inter-segment revenue				(17,891)
Revenue from external customers				279,263
Segment results	123,297	(5,506)	12,261	130,052
Inter-segment elimination				(563)
Professional fee in connection with the Company's listing				(12,630)
Operating profit				116,859
Finance income	17	122	175	314
Share of profit/losses of joint ventures				(394)
Share of loss of an associated company				(599)
Profit before income tax				116,180
Income tax expense	(19,094)	1,221	(1,297)	(19,170)
Profit for the period				97,010



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	PRC HK\$'000	Overseas HK\$'000	Total HK\$'000
At 30 June 2014				
Segment assets and liabilities (unaudited)				
Total assets	1,207,420	110,788	204,954	1,523,162
Interests in joint ventures and an associated company	–	–	26,262	26,262
Total liabilities	(70,449)	(31,515)	(19,768)	(121,732)
At 31 December 2013				
Segment assets and liabilities (audited)				
Total assets	1,198,523	80,073	131,519	1,410,115
Interests in joint ventures and an associated company	–	–	14,432	14,432
Total liabilities	(53,282)	(30,260)	(16,854)	(100,396)



7 OTHER GAINS

	Unaudited Three months ended 30 June		Unaudited Six months ended 30 June	
	2014	2013	2014	2013
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Gain on disposal of a subsidiary (Note (a))	-	8,767	-	8,767
Gain on remeasurement of existing interest in the then joint venture which became a subsidiary (Note (b))	-	2,067	-	2,067
Others	251	702	695	1,320
	251	11,536	695	12,154

Notes:

- (a) The amount for the three months and six months ended 30 June 2013 represents the gain on disposal of all equity interests in a 68% owned subsidiary, Beijing Tong Ren Tang (Tang Shan) Nutrition and Healthcare Co., Ltd. to a fellow subsidiary in April 2013.
- (b) The amount for the three months and six months ended 30 June 2013 represents the gain on remeasurement of existing interest in a 51% owned joint venture, Beijing Tong Ren Tang Canada Co., Ltd., in relation to the deemed acquisition pursuant to the revised shareholders agreement entered into on 1 June 2013.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

8 EXPENSES BY NATURE

	Unaudited Three months ended 30 June		Unaudited Six months ended 30 June	
	2014	2013	2014	2013
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cost of inventories sold	58,441	43,525	93,569	75,512
Employee benefit expenses (including directors' emoluments)	22,856	21,883	43,817	42,329
Operating lease payments	11,908	9,620	22,467	19,099
Amortisation of leasehold land	135	185	271	479
Depreciation of property, plant and equipment	4,070	3,657	8,281	7,250
Write-off of inventories	250	–	250	–
Net exchange (gain)/loss	(145)	587	56	761
Write-off of property, plant and equipment	25	20	25	20

9 INCOME TAX EXPENSE

Hong Kong profits tax has been provided at the rate of 16.5% (2013: 16.5%) on the estimated assessable profit for the three months and six months ended 30 June 2014. Income tax on overseas profits has been calculated on the estimated assessable profit for the three months and six months ended 30 June 2013 and 2014 at the income tax rates prevailing in the tax jurisdictions in which the entities operate.

	Unaudited Three months ended 30 June		Unaudited Six months ended 30 June	
	2014	2013	2014	2013
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Current income tax				
Hong Kong	14,772	9,643	26,935	17,643
The PRC	1,832	358	2,849	(561)
Overseas	1,597	677	2,406	1,537
	18,201	10,678	32,190	18,619
Deferred income tax (credit)/expense	(2,188)	606	(2,453)	551
	16,013	11,284	29,737	19,170

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION



10 EARNINGS PER SHARE

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

	Unaudited Three months ended 30 June		Unaudited Six months ended 30 June	
	2014 HK\$'000	2013 HK\$'000	2014 HK\$'000	2013 HK\$'000
Profit attributable to owners of the Company	73,932	56,380	140,335	93,457
Weighted average number of ordinary shares in issue (<i>thousand shares</i>)	830,000	733,736	830,000	667,238
Earnings per share (<i>HK\$</i>)	0.09	0.08	0.17	0.14

The Company had no potential dilutive shares for the three months and six months ended 30 June 2014 (2013: Nil).

11 LEASEHOLD LAND

The interest in leasehold land represents prepaid operating lease payments for land held in Hong Kong under lease of between 10 to 50 years. Its net book value is analysed as follows:

	HK\$'000
Net book value at 1 January 2014 (audited)	18,180
Amortisation	(271)
Net book value at 30 June 2014 (unaudited)	17,909

12 PROPERTY, PLANT AND EQUIPMENT

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

	HK\$'000
Net book value at 1 January 2014 (audited)	210,073
Additions	11,117
Write-off	(25)
Depreciation	(8,281)
Currency translation differences	204
Net book value at 30 June 2014 (unaudited)	213,088



NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

13 TRADE RECEIVABLES AND OTHER CURRENT ASSETS

	Unaudited 30 June 2014 HK\$'000	Audited 31 December 2013 HK\$'000
Trade receivables		
— fellow subsidiaries	44,677	34,524
— joint ventures	873	736
— third parties	100,202	77,398
Trade receivables	145,752	112,658
Prepayment and other receivables	17,133	10,629
Deposits	14,049	8,467
Amount due from a joint venture	1,114	1,114
	178,048	132,868

Retail sales at the Group's stores are usually made in cash or by debit or credit cards. For wholesales to distributors (including group companies), the Group normally grants credit periods ranging from 30 to 90 days.

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 2014 HK\$'000	Audited 31 December 2013 HK\$'000
Up to 3 months	125,243	112,107
3 to 6 months	20,509	12
6 months to 1 year	—	301
1 to 2 years	—	238
	145,752	112,658

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION



14 SHARE CAPITAL

	30 June 2014		31 December 2013	
	Number of shares	HK\$'000	Number of shares	HK\$'000
Authorised: (Note)				
Ordinary shares of HK\$0.5 each (Note)	–	–	830,000,000	415,000

Ordinary shares, issued and fully paid:

	Number of shares	Share capital HK\$'000	Share premium HK\$'000
At 1 January 2014	830,000,000	415,000	452,363
Transfer on 3 March 2014 upon adoption of the new Hong Kong Companies Ordinance (Note)	–	452,363	(452,363)
At 30 June 2014	830,000,000	867,363	–

Note: On 3 March 2014, the new Hong Kong Companies Ordinance (Cap. 622) (new CO) came into effect. The new CO abolishes the concepts of nominal (par) value, share premium and authorised share capital for all shares of Hong Kong incorporated companies. All amounts received for issuing equity shares of a company should be recorded as share capital. Pursuant to the adoption of the new CO, the balance of share premium was transferred to share capital.



NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

15 TRADE AND OTHER PAYABLES

	Unaudited 30 June 2014 HK\$'000	Audited 31 December 2013 HK\$'000
Trade payables		
— intermediate holding company	13,569	9,536
— immediate holding company	8,669	1,608
— fellow subsidiaries	2,188	—
— third parties	21,516	35,644
Trade payables	45,942	46,788
Accruals, deposits and other payables	23,383	22,317
Amount due to a fellow subsidiary	—	150
	69,325	69,255

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

	Unaudited 30 June 2014 HK\$'000	Audited 31 December 2013 HK\$'000
Up to 3 months	40,786	44,735
3 to 6 months	1,401	1,747
6 months to 1 year	3,272	306
1 to 2 years	483	—
	45,942	46,788

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION



16 COMMITMENTS

(a) Capital commitments

	Unaudited 30 June 2014 HK\$'000	Audited 31 December 2013 HK\$'000
Contracted but not provided for		
— property, plant and equipment	5,837	4,218
Authorised but not contracted for		
— property, plant and equipment	25,000	293

(b) Operating lease commitments

The Group leases various retail outlets, warehouses and staff quarters under non-cancellable operating leases agreements. The lease terms are between 1 to 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:

	Unaudited 30 June 2014 HK\$'000	Audited 31 December 2013 HK\$'000
No later than 1 year	64,201	37,722
Later than 1 year and not later than 5 years	71,587	49,763
Later than 5 years	5,505	9,913
	141,293	97,398

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

17 SIGNIFICANT RELATED PARTY TRANSACTIONS

In addition to those related party transactions disclosed elsewhere in the condensed consolidated interim financial information, the Group had the following material transactions with related parties, which were entered into at terms mutually agreed with these related parties.

	Note	Unaudited Three months ended 30 June		Unaudited Six months ended 30 June	
		2014	2013	2014	2013
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
(a)	Sales of products to:				
	Joint ventures	(i) 935	2,458	1,862	2,458
	Fellow subsidiaries	(i) 25,043	-	64,384	-
		25,978	2,458	66,246	2,458
(b)	Purchases of products from:				
	Immediate holding company	(i) 7,451	1,162	7,814	7,759
	Intermediate holding company	(i) 15,329	14,815	21,492	18,951
	A fellow subsidiary	(i) 1,881	-	1,881	-
		24,661	15,977	31,187	26,710
(c)	Royalty fee income from joint ventures	(ii) 157	265	294	565
(d)	Rental expense to a fellow subsidiary	(i) 450	450	900	900

(e) Key management compensation

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

	Unaudited Three months ended 30 June		Unaudited Six months ended 30 June	
	2014	2013	2014	2013
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Salaries and other short-term employee benefits	5,872	3,628	6,840	4,436
Pension costs — defined contribution plans	36	40	74	76
	5,908	3,668	6,914	4,512



17 SIGNIFICANT RELATED PARTY TRANSACTIONS *(Continued)*

Notes:

- (i) These transactions were conducted in the normal course of business at prices and terms mutually agreed between both parties.
- (ii) The royalty fee is charged annually by the Company at predetermined rates ranging from 2% 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.

18 DIVIDENDS

During the six months ended 30 June 2014, the Board did not recommend the payment of any interim dividend (2013: Nil).

19 EVENTS OCCURRING AFTER THE BALANCE SHEET DATE

On 31 July 2014, Beijing Tong Ren Tang Management Pty Ltd., a wholly-owned subsidiary of the Company, entered into a property acquisition agreement with Quay Haymarket Pty Ltd to purchase a retail property in Australia at a consideration of AUD3,488,900 (equivalent to approximately HK\$25.0 million). The property is currently under construction and is expected to be completed in September 2014. The property will be for the Group’s own use and will be classified as property, plant and equipment in the consolidated balance sheet upon completion of the construction.



OTHER INFORMATION

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES

As at 30 June 2014, 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 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	Number of convertible bonds
The Company					
Ding Yong Ling	Personal	Beneficial owner	200,000	0.024%	–
Lin Man	Personal	Beneficial owner	190,000	0.023%	–
Tong Ren Tang Technologies					
Mei Qun	Personal	Beneficial owner	1,500,000 ⁽¹⁾	0.234%	–
Tong Ren Tang Ltd.					
Mei Qun	Personal	Beneficial owner	93,242 ⁽²⁾	0.007%	86,000 ⁽³⁾

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.
- (3) All represent A share convertible corporate bonds 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 2014, 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 issued share capital
Tong Ren Tang Technologies	Beneficial owner	318,540,000	38.38%
Tong Ren Tang Ltd. ⁽¹⁾	Beneficial owner	281,460,000	33.91%
	Interest of a controlled corporation	318,540,000	38.38%
Tong Ren Tang Holdings ⁽²⁾	Interest of a controlled corporation	600,000,000	72.29%

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 held by Tong Ren Tang Technologies.
- (2) Tong Ren Tang Holdings directly holds 54.86% of the issued share capital of Tong Ren Tang Ltd. which in turns 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 and 281,460,000 Shares held by Tong Ren Tang Technologies and Tong Ren Tang Ltd., respectively.

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 six months ended 30 June 2014 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.



OTHER INFORMATION

INTEREST OF COMPLIANCE ADVISER

As at 30 June 2014, 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, 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 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 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").

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.

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 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.



OTHER INFORMATION

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 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.

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.

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.

AUDIT COMMITTEE

The audit committee of the Company has reviewed the 2014 interim report.

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

Hong Kong, 7 August 2014



Beijing Tong Ren Tang
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北京同仁堂國藥有限公司

www.tongrentangcm.com