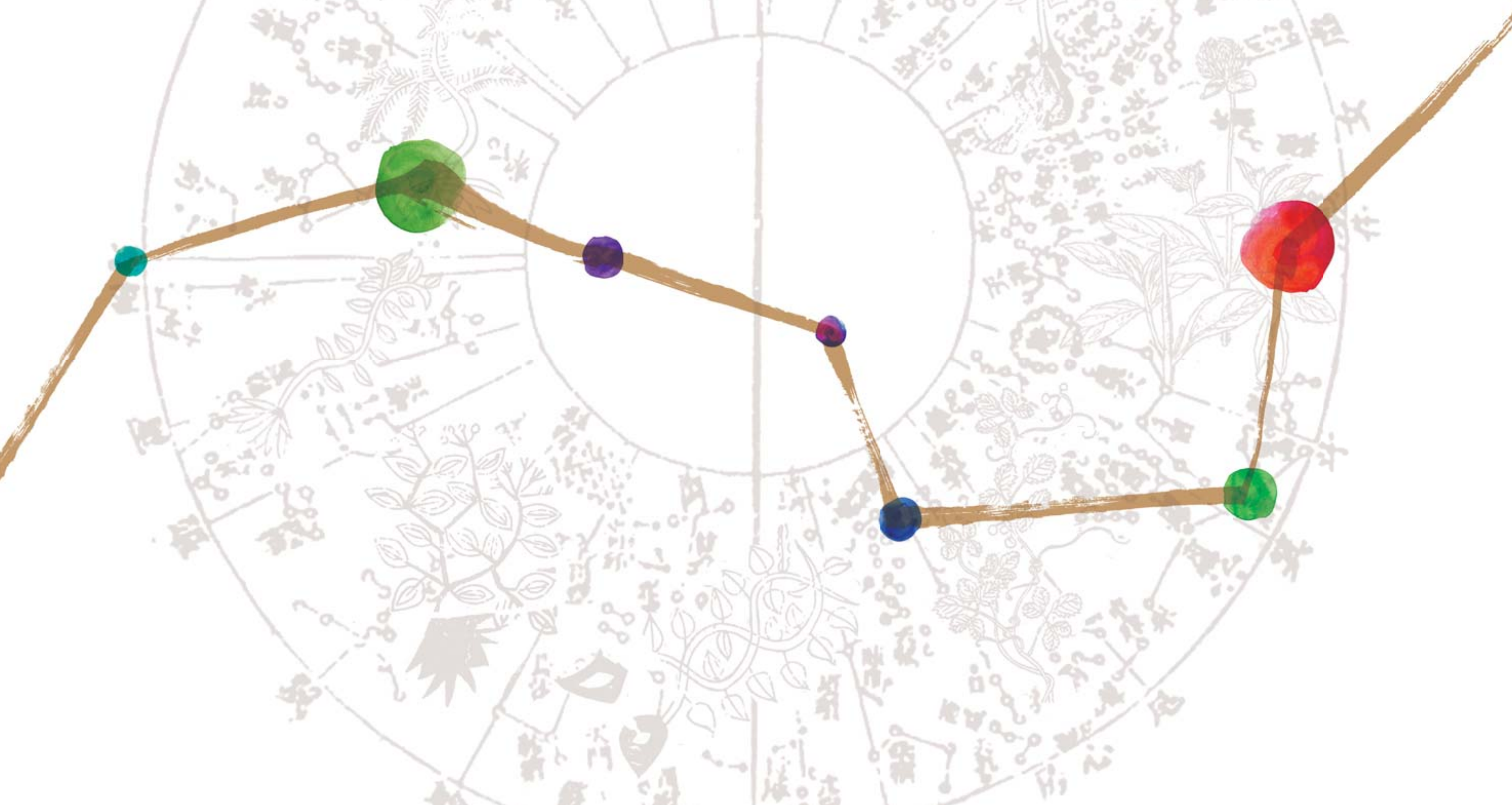
Beijing Tong Ren Tang Chinese Medicine Company Limited

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



2013

Annual Report 年報

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

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

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

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 Growth Enterprise Market of the Stock Exchange (the "GEM Listing Rules") 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 Profile

BEIJING TONG REN TANG is a famous time-honored brand in traditional Chinese medicine industry. It was founded in the eighth year (1669 A.D.) of the reign of Emperor Kangxi during the Qing Dynasty. Since the first year (1723 A.D.) of the reign of Emperor Yongzheng, Tong Ren Tang had been designated to supply medicines to the royal pharmacy of the Imperial Court of the Qing Dynasty for a duration of eight generations of Qing emperor, a total of 188 years. Tong Ren Tang have been adhering to the full significance of the handed-down motto that “No compromise on cost and labour despite the complexity of processing herbal medicines. No compromise on quality and standard despite the scarcity of medicine ingredients”. Tong Ren Tang has established the self-discipline awareness with the motto that “Although nobody knows the continuing hard works being done, God knows our dedication behinds every work”, which has guaranteed the prolonged glory of the well-established Tong Ren Tang brand.

Contents

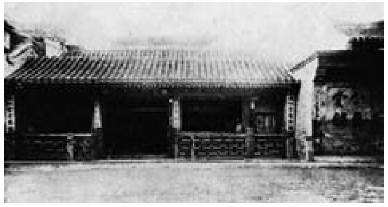
同修仁德
濟世養生
趙樸初書

立春 the Beginning of Spring
雨水 Rain Water
驚蟄 the Waking of Insects
春分 the Spring Equinox
清明 Pure Brightness
穀雨 Grain Rain
立夏 the Beginning of Summer
小滿 Grain Full
芒種 Grain in Ear
夏至 the Summer Solstice
小暑 Slight Heat
大暑 Great Heat
立秋 the Beginning of Autumn
處暑 the Limit of Heat
白露 White Dew
秋分 the Autumnal Equinox
寒露 Cold Dew
霜降 Frost's Descent
立冬 the Beginning of Winter
小雪 Slight Snow
大雪 Great Snow
冬至 the Winter Solstice
小寒 Slight Cold
大寒 Great Cold

Milestones

1669

Tong Ren Tang was founded in 1669 by Dr. Yue Xianyang, a famous Court Physician. Since the first year (1723 A.D.) of the reign of Emperor Yongzheng, Tong Ren Tang had been designated to supply medicines to the royal pharmacy of the Imperial Court of the Qing Dynasty for 188 years.



2006

In November 2006, the construction of the production plant at Tai Po Industrial Estate in Hong Kong was completed. It is the first Tong Ren Tang's R&D and production base of Chinese medicines and healthcare products located outside of Beijing and is one of a few GMP certified Chinese medicine manufacturers in Hong Kong.

2004

Beijing Tong Ren Tang Chinese Medicine Company Limited was incorporated in Hong Kong on 18 March 2004 with the headquarter established in Hong Kong. We are the professional platform for the overseas development of Tong Ren Tang, devoted to developing manufacturing, retail and wholesale business of Chinese medicines and promoting Chinese medicine culture in Hong Kong and overseas.

2008

Launch of our self-manufactured products: Angong Niuhuang Pills and Sporoderm-broken Ganoderma Lucidum Spores Powder Capsules ("GLSPC").

2009

Opening of our first retail store (Tuen Mun Store) in Hong Kong on 1 August 2009.

2010

Opening of our flagship store (Central Store) in Hong Kong on 28 July 2010.

Completion of our group reorganisation in October 2010.

2013

The Company was successfully listed on GEM of the Stock Exchange on 7 May 2013.

Retail Network

Global Expansion

Beijing
South Korea
China
Hong Kong
Macao
The United Arab Emirates
Thailand
Cambodia
Malaysia
Brunei
Singapore
Indonesia
Australia

Financial Highlights

Profit Growth 增長

146.9%
Net Profit

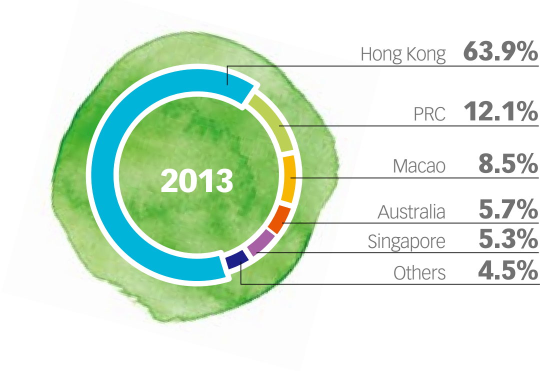
110.8%
TOTAL ASSETS

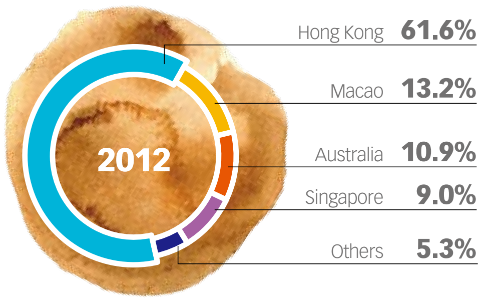
84.4%
Revenue

HK$'000	2013	2012	Change
Continuing operations			
Revenue	**613,963**	333,039	+84.4%
Gross profit	**420,043**	236,092	+77.9%
Profit for the year	**227,548**	92,161	+146.9%
Profit attributable to owners of the Company	**220,001**	88,982	+147.2%
Earnings per share	**HK$0.29**	HK$0.15	+93.3%

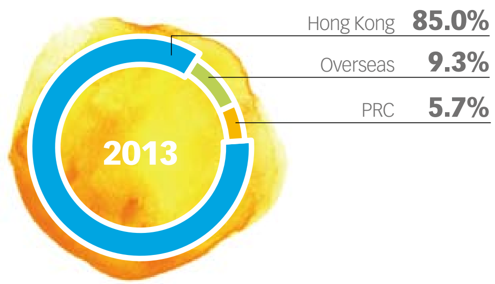
HK$'000	2013	2012	Change
Cash and bank balances	**923,597**	235,445	+292.3%
Total assets	**1,410,115**	668,859	+110.8%
Total equity	**1,309,719**	567,688	+130.7%

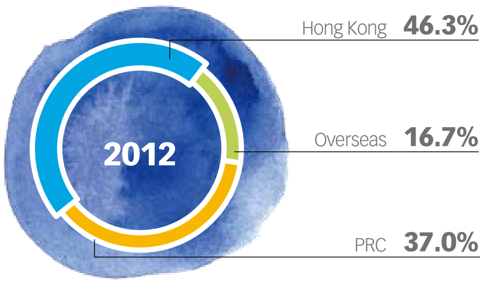
REVENUE ANALYSIS FROM CONTINUING OPERATIONS





TOTAL ASSETS





Function

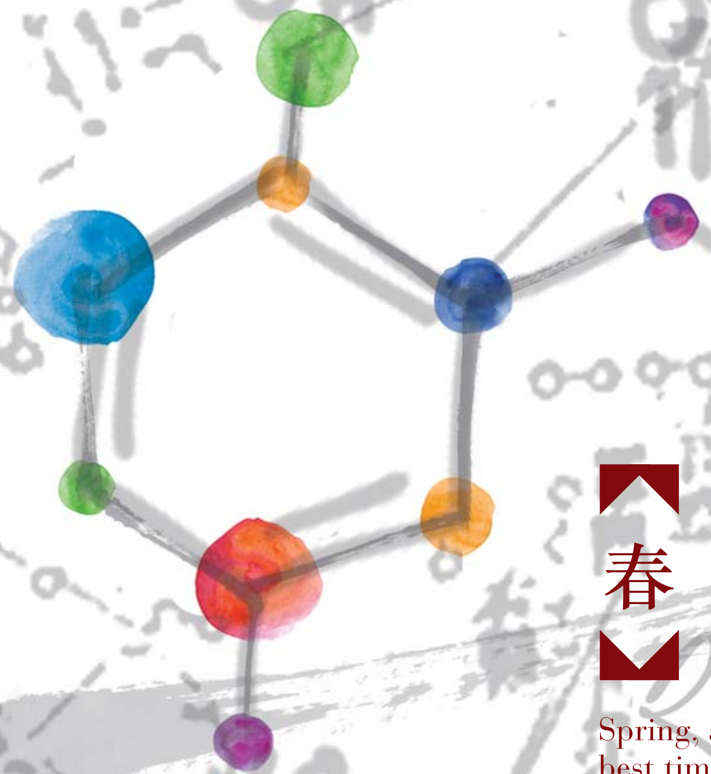
Heat-clearing and detoxifying with sedation and resuscitation effects for symptoms of pathogenic heat syndrome such as accumulation of phlegm, sustained high fever, lockjaw, convulsions, coma and delirium.

Major Ingredients

Calculus Bovis, Moschus, Margarita, Cinnabaris, Realgar, Rhizoma Coptidis, Radix Scutellariae, Fructus Gardeniae, Radix Curcumae, Borneolum Syntheticum

Angong Niuhuang Pills

進化 To Evolve



春 Spring

Spring, a season of growth, is the best time to nourish the liver. In the theory of Chinese medicine based on the five elements philosophy, spring corresponds to "wood", which is of similar nature of the liver. We should maintain a relaxing mood in spring to protect the health of our livers.

Chairman's Statement

Yin Shun Hai
Chairman

I am pleased to announce that the Group recorded a steady growth with outstanding results for the year ended 31 December 2013.

Despite the global economic downturn, slow consumption growth and increasingly fierce competition among pharmaceutical enterprises, the Company and its subsidiaries (collectively the "Group") have overcome various challenges and further increased the penetration of Tong Ren Tang products in Hong Kong and overseas markets, resulting in a rapid growth in operating results. As the overseas development platform of Tong Ren Tang, the Group has integrated traditional Chinese culture and Chinese medicine and healthcare culture with its diversified overseas market strategies based on the Chinese medicine culture of Tong Ren Tang to enhance overseas sales network coverage. For the year ended 31 December 2013 (the "Year"), the retail network in Hong Kong was further optimised with the number of retail outlets rapidly increased to 15. The Group has extended its business coverage to 13 overseas countries and regions (excluding Hong Kong) with a total of 24 retail outlets, and has become an enterprise with the largest coverage and greatest number of overseas retail outlets among its peers.

For the Year, revenue from the continuing operations of the Group increased by 84.4% to HK$614.0 million from HK$333.0 million for the previous year. The profit from continuing operations attributable to owners of the Company was HK$220.0 million for the Year, representing an increase of 147.2% as compared to HK$89.0 million for the previous year.

The Group is devoted to creating satisfactory and stable returns for shareholders. The board of Directors (the "Board") is pleased to propose a final dividend of HK$0.08 per share with the total amount of HK$66.4 million.

Developing healthcare business based on modern Chinese medicine to become an internationally renowned group in modern Chinese medicine industry.

Marking a New Chapter with Successful Listing

2013 was crucial to the success of the Group as it marked an important milestone of its development. Under the leadership of the Board and the effort of all of its employees, the Company was successfully listed on GEM of the Stock Exchange on 7 May 2013. It has become the second company under Tong Ren Tang Group (refers to China Beijing Tong Ren Tang (Holdings) Corporation ("Tong Ren Tang Holdings") and its subsidiaries, including the Group) listed on the Hong Kong Stock Exchange after Tong Ren Tang Technologies Co., Ltd. ("Tong Ren Tang Technologies"). Upon its listing, the share price of the Company soared from the initial offer price of HK$3.04 to a record high of HK$14.9, representing an increase of approximately 3.9 times, and its new shares was one of the most coveted in 2013.

Expansion and Innovation based on Traditions

In view of the growing popularity of the culture of healthcare and Chinese medicines in the overseas markets and the rising health consciousness of the modern generation, the Group will capitalise on the international financing platform of Hong Kong through its listing by grasping the massive opportunities in the overseas Chinese medicine markets. It will also expedite expansion and innovation to maintain the steady growth. Its market share will be enlarged in line with its targets of sustainable operation and development. Through enhancing the knowledge and understanding of Chinese medicine culture and recognition of the philosophy of Chinese medicines in overseas markets, the Tong Ren Tang, a centuries-old brand, will enjoy a stronger global presence by serving more people all over the world, and will become a popular brand worldwide.

Functions

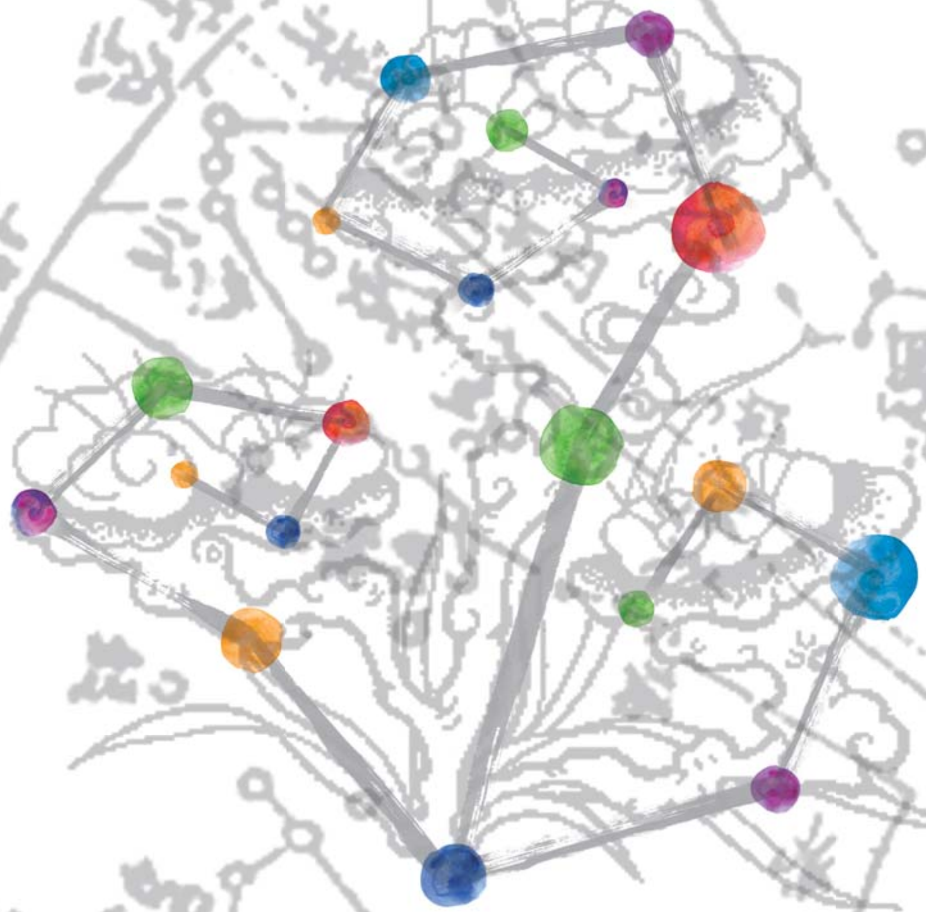
To enhance immunity. For people with weak immune function, such as the elderly and the frail, and for patients after surgery or other therapy.

Ingredients

Ganoderma Lucidum Spores

Sporoderm-broken Ganoderma Lucidum Spores Powder Capsules

Path to Success 成功



夏 Summer

Summer, a season of bloom, is the best time to nourish the heart. In the theory of Chinese medicine based on the five elements philosophy, summer corresponds to "fire", which is of similar nature of the heart. We should stay calm in summer to protect the health of our hearts.

Business Review

91.1%

For 2013, the revenue from Hong Kong amounted to HK$392.1 million.

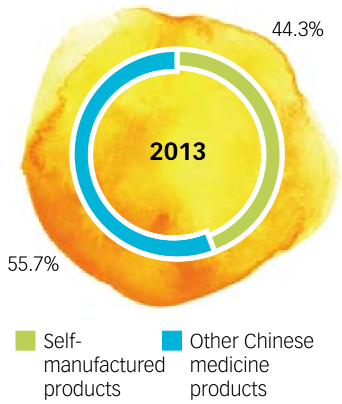
Hong Kong Market

Hong Kong is a prosperous city and one of the largest financial centers in the world. It is also one of the places where Chinese medicines are highly recognised. The Group, with the hub established in Hong Kong, has been actively expanding its retail and wholesale business in Hong Kong in order to promote the internationalisation of the Chinese medicine industry.

In 2013, the Group opened four additional retail stores in Hong Kong to further optimise its retail network in Hong Kong. The Group has also established cooperation with reputable colleges and universities in Hong Kong. The Group and the School of Continuing and Professional Studies of the Chinese University of Hong Kong (the "CUSCS") jointly held a seminar of "Chinese Medicine and Stroke Prevention and Treatment" at the Central Learning Centre of the CUSCS. The Group also made a donation to Hong Kong Baptist University for the establishment of the "Tong Ren Tang Chinese Medicine Scholarship" to promote the development of Chinese medicine in Hong Kong and the cultivation of talents in Chinese medicine. The Group has laid a solid foundation for the overseas business of Tong Ren Tang and promotion of the Tong Ren Tang brand in Hong Kong. The revenue from Hong Kong for the Year amounted to HK$392.1 million, representing an increase of 91.1% as compared to HK$205.2 million for the previous year.

15
retail outlets
in Hong Kong

Retail sales of products in Hong Kong



The Group has also continued to broaden its breadth of service offerings. The Group is establishing a Chinese medicine healthcare center in Hong Kong. Targeting at mid- to high-end customers, the center is established to provide traditional Chinese medicine healthcare services, mainly including traditional Chinese medicine prophylactic, facial and massage and acupuncture and etc., tailoring to the health conditions of individual customers, and is scheduled to commence business in 2014.

In addition to the Hong Kong market, the Group has also been devoted to further expand its overseas business. New overseas distribution channels are established to increase its market share and increase the influence of Tong Ren Tang brand in overseas markets.

As at 31 December 2013, in addition to the Group's business in existing 11 overseas countries and regions, including Thailand, Malaysia, Canada, Macao, South Korea, Indonesia, Singapore, Australia, Cambodia, Brunei and the United Arab Emirates, the Group has established a new subsidiary each in Leeds, the United Kingdom and Warsaw, Poland to further explore new overseas markets. In 2013, Beijing Tong Ren Tang Poland sp.zo.o., which is the first Tong Ren Tang healthcare centre in Europe, has commenced its operation to offer Chinese medicine healthcare services and organise healthcare lectures and courses featuring traditional Chinese culture, such as Chinese, Tai Ji Quan and Eight-section Brocade teaching programmes and etc., with a view to cultivating local awareness of healthcare, promoting the culture of traditional Chinese

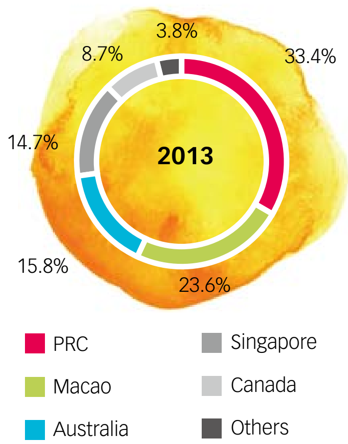
73.6%

For 2013, the revenue from non-Hong Kong markets from continuing operations amounted to HK$221.9 million.

24 Overseas Retail Outlets

Non-Hong Kong Markets

Sales in non-Hong Kong markets by territory



medicine and gaining more recognition, understanding and trusts from foreigners. The Group has successfully established footprints in western markets.

In order to further standardise the management of overseas sales network of Tong Ren Tang brand, the Group has become the sole distributor of "Tong Ren Tang" branded products of Beijing Tong Ren Tang Company Limited ("Tong Ren Tang Ltd.") and Tong Ren Tang Technologies in overseas markets since 1 November 2012, which further consolidated the business resources and optimised the operation procedures, and expedited the business expansion in overseas markets.

Since December 2013, GLSPC, a self-manufactured product of the Group has been launched in the PRC market and has won high recognition.

The total revenue from non-Hong Kong markets from continuing operations amounted to HK$221.9 million for the Year (2012: HK$127.8 million), representing an increase of 73.6% as compared to the previous year.

To manage its global business, the Group has commenced the implementation of an enterprise resources planning ("ERP") system to establish an information platform for all production bases and retail outlets, which cover all aspects of corporate operation and management such as production, supply, marketing and human resources, to optimise the internal resources. The Group will be able to implement real-time automatic management and supervision over its global operations and establish an advanced management model to further standardise the management of overseas sales network of Tong Ren Tang brand for the healthy and stable development of its overseas business.

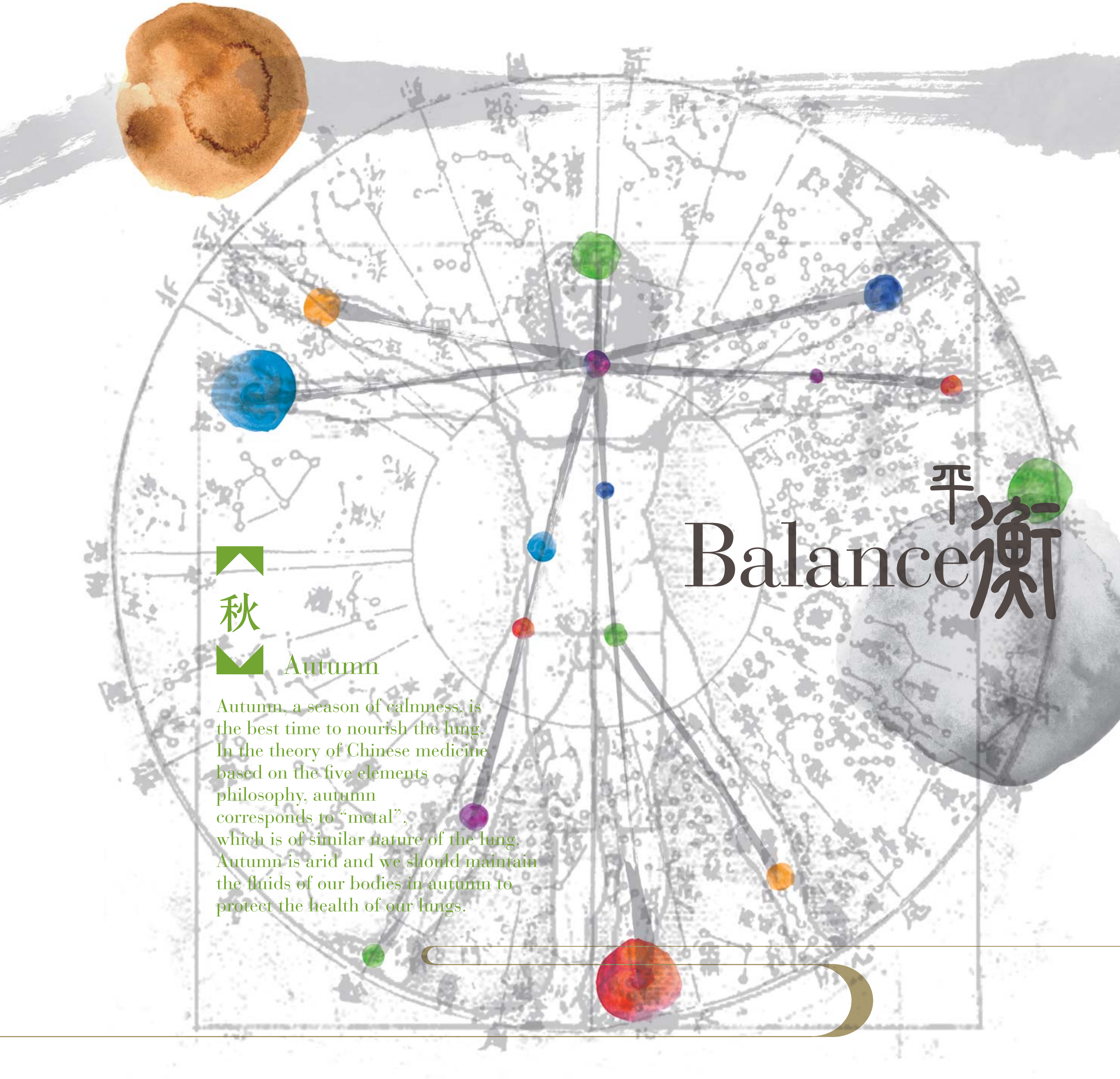
Acupuncture

Acupuncture, the general term of acupuncture and moxibustion, is an external medical treatment based on the flows of meridians and acupuncture points by applying particular skills to improve the circulation of meridian, maintain the balance of body system and strengthen body resistance to pathogenic factors.

Yue's Bronze Figure

Yue's Bronze Figure is a copper sculpture of an ancient young man with over 360 acupuncture points precisely engraved over the body. It is used for acupuncture teaching with high academic value.

Yue's Bronze Figure



平衡 Balance

秋 Autumn

Autumn, a season of calmness, is the best time to nourish the lung. In the theory of Chinese medicine based on the five elements philosophy, autumn corresponds to "metal", which is of similar nature of the lung. Autumn is arid and we should maintain the fluids of our bodies in autumn to protect the health of our lungs.

160.0%

For 2013, the revenue from self-manufactured products from continuing operations amounted to HK$403.5 million.

Production, Research and Development

During the Year, the production plant of the Group in Tai Po Industrial Estate, Hong Kong, passed the appraisal by Chinese Medicines Traders Committee under Chinese Medicine Council of Hong Kong for the fourth time, and was issued the Certificate for Good Manufacturing Practice for Proprietary Chinese Medicines. The Group has been adhering to the motto that "Although nobody knows the continuing hard works being done, God knows our dedication behinds every work". The Group manages its production and operation based on the principle of "No compromise on cost and labour despite the complexity of processing herbal medicines. No compromise on quality and standard despite the scarcity of medicine ingredients", and has formulated strict process and procedures in accordance with the requirements of Chinese Pharmacopoeia and the Department of Health of Hong Kong to maintain stringent control on production quality.

Furthermore, the Group has placed great emphasis on the research and development of new products, and diversified its product portfolios to meet the needs of different consumers, increasing its market share and enhancing the core competitiveness of Tong Ren Tang brand. The Group completed a research on a ganoderma lucidum product and the registration of this product was in progress.

In addition, the Group actively promotes the registration of its self-manufactured products. It completed the filing and began the sales of Angong Niuhuang Pills in Macao during the Year with an outstanding result. The registration of GLSPC in Canada was also completed. The product will be launched for sale in the near future.

The revenue from self-manufactured products from continuing operations for the Year amounted to HK$403.5 million (2012: HK$155.2 million), representing an increase of 160.0% as compared to the previous year.

Manufacturing Procedures of Angong Niuhuang Pills

Production, Research and Development

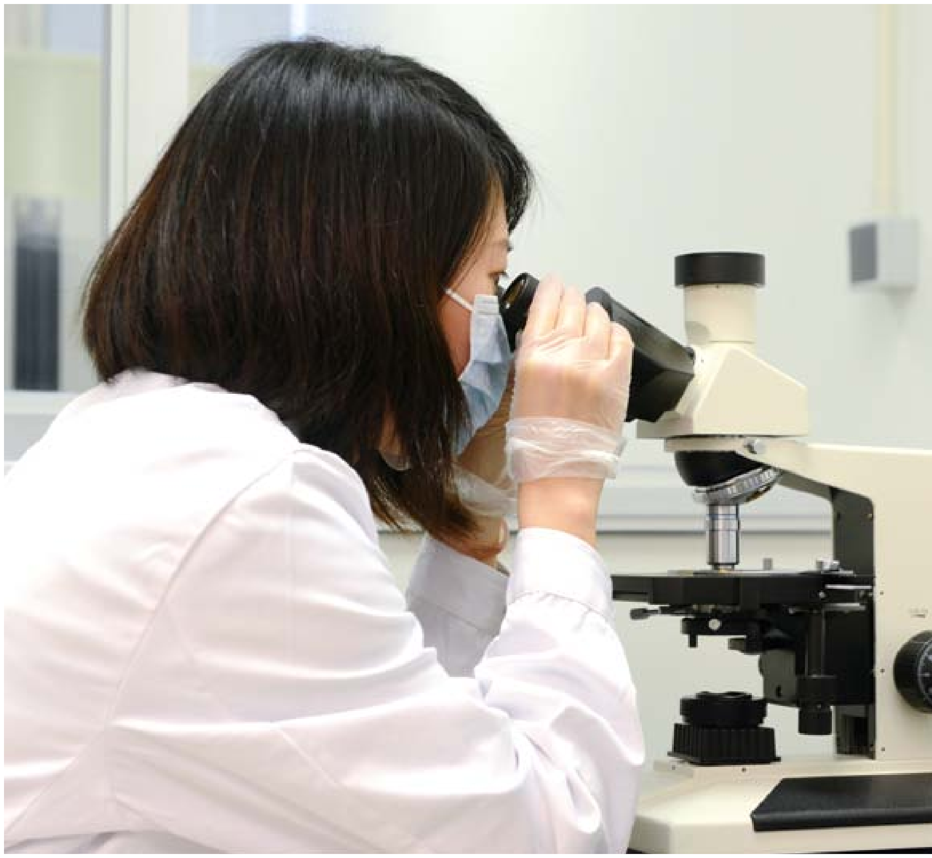
Manufacturing Procedures of GLSPC

The Group continues to strengthen the promotion and marketing of Tong Ren Tang brand in Hong Kong and various overseas countries and regions. During the Year, the Group conducted various brand promotion activities, such as placing advertisements of Angong Niuhuang Pills and GLSPC, the self-manufactured products, in various newspapers, magazines and on buses, sponsoring and participating in the exhibition of "Use of Herbs in Chinese and Western Medicine" held by the Hong Kong Museum of Medical Sciences, establishing "Tong Ren Tang Cultural Corner" in Kiang Wu Hospital in Macao, participating in various exhibitions, for instance, "Inno Carnival 2013" held in Hong Kong Science Park, the Korean Exhibition and ASEAN Exhibition, and holding various seminars in Hong Kong, Singapore, Indonesia, Malaysia and other regions to promote its brands and products. As a result of these effective promotion activities, the overseas influence and recognition of Tong Ren Tang brand as well as its competitiveness and market share were further enhanced. Moreover, the Group won the 6th Quality Life Awards 2013 — Quality Chinese Medicine Brand Award organised by the Lisa Magazine.

Brand Management

In respect of brand protection, the Group continues to strengthen the protection, development and enhancement of its brand by establishing and improving the policies of overseas brand management, crisis management and contingency planning. Brand management has been embedded in all aspects of the management system of the Group. In addition, the Group has participated in various charity activities in order to fulfil its social responsibility and promote the corporate culture of "nurturing kindness and virtue within, building up a healthier world" in overseas countries and regions. With our efforts, the core value as well as the coverage and market share of Tong Ren Tang brand have been significantly enhanced. Our cohesion and influence are further strengthened while maintaining rapid development, and the popularity and reputation of our brand continue to grow.

Opening up new markets



Future Prospect

Chinese medicine has been a cultural treasure of China for over 5,000 years and an important cornerstone of the long lasting prosperity of the nation. The Group has been committed to expanding its overseas business and building the brand of Chinese medicines in a modern and internationalised way in the global market. In the coming year, the Group will further expand its distribution business in the existing markets and explore new overseas markets in response to the product and market demand. The Group will strengthen its overseas promotion of Chinese medicines by promoting its brand and products through various channels featuring the Chinese culture. In addition to the core products of Angong Niuhuang Pills and GLSPC, the Group will develop new products to enrich its self-manufactured product portfolio under Tong Ren Tang brand in order to explore new businesses and enhance the profitability of the Group. In order to improve the economies of scale, the Group will maintain sound and healthy development by integrating the growth of economic benefits and brand building. Leveraging on the advantages of Tong Ren Tang brand, the Group aims to strengthen its profitability by extending the industrial value of Chinese medicines to enhance the brand influence. We are always committed to making greater contribution to the health of the world with our diligence and innovation, and striving for excellent results for our shareholders, our investors and society.

To explore new businesses and enhance the profitability of the Group

Ginseng

Ginseng is a perennial herbaceous plant belonging to the genus Panax of the family Araliaceae. The genus name Panax means "all-heal" in Greek and ginseng is taken as the "King of Medicine" by Chinese. According to the Compendium of Materia Medica by Li Shizhen of the Ming dynasty, ginseng is sweet and slightly bitter in flavour, neutral in nature and acts on the spleen, lung and heart channels. In terms of traditional pharmacology, ginseng is mainly used to treat the deficiency of primordial Qi. It can invigorate primordial Qi, improve strength, health of blood circulation, spleen, lung and stomach, promote the production of body fluid and quench thirst, tranquil the mind and improve intelligence.

冬 Winter

Winter, a season of rest, is the best time to nourish the kidneys. In the theory of Chinese medicine based on the five elements philosophy, winter corresponds to "water", which is of similar nature of the kidneys. The cold weather in winter is apt to impair our Yang-Qi. Therefore, we should avoid toilsome work in winter to protect the health of our kidneys.

Flexible 靈活

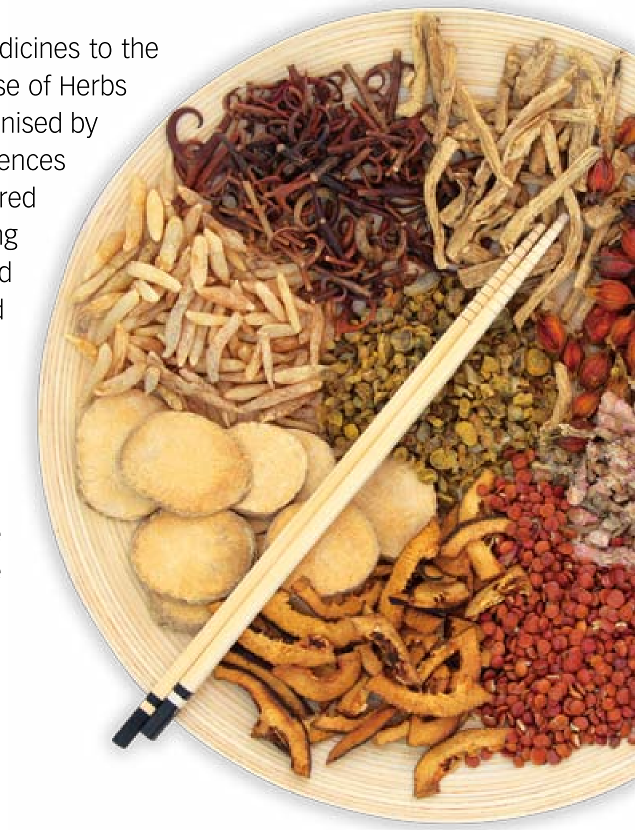
Corporate Social Responsibility Report

Corporate social responsibility, an important concept for economic development nowadays, is an integral factor for the sustainable development and promotion of Tong Ren Tang brand. By upholding the principle of "nurturing kindness and virtue within, building up a healthier world". The Group is devoted to promoting the sustainable development of the Group and the community, and aims to improve the quality of life and create a better future through its business operation. In 2013, the Group endeavoured to fulfil its corporate social responsibility by actively promoting Chinese medicine culture, nurturing Chinese medicine talents, participating in public service activities, creating quality workplace and establishing sound corporate governance.

Promoting Chinese Medicine Culture

Chinese medicines consist of herbal medicines (including root, stem, leaf and fruit), animal medicines (including viscera, skin, bone and organ) as well as mineral medicines. Chinese medicines are also known as Chinese herbal medicines as herbal medicines represent a majority of Chinese medicines. Chinese herbal medicines are unique in their application for the prevention and treatment of diseases which is also a major feature to differentiate Chinese medicines from other medicines. China is the origin of Chinese herbal medicines. Attributable to the in-depth exploration, research and conclusion of ancient masters on Chinese herbal medicines and Chinese medicines, Chinese herbal medicines are widely accepted and applied in the prevention and treatment of diseases. Currently, over 5,000 Chinese herbal medicines are used around the world in various forms of application.

In order to promote Chinese herbal medicines to the public, we sponsored the exhibition, "Use of Herbs in Chinese and Western Medicine", organised by the Hong Kong Museum of Medical Sciences in June 2013. The exhibition mainly featured Chinese and Western medicines, including the theoretical basis of Chinese and Western medicines, similarities and differences between Chinese and Western medicines and their respective history and the homology of food and medicines. A variety of Chinese medicines and Chinese herbal medicines and their pictures were displayed with their efficacy and dosage introduced in detail.



From 6 September to 20 October 2013, we participated in the World Traditional Medicine Fair & Festival in Sancheong, Korea 2013 for a period of 45 days. The fair was approved and initiated by the Ministry of Health and Welfare of Korea and organised by the governor of the Gyeongsangnam-do and the mayor of Sancheong-gun. Representatives from over 30 countries and regions, such as China, Japan and India, were invited. The fair aimed to promote the theme of "Traditional medicines — Greater Treasure for the Future "(傳統醫藥 — 創造更大的未來價值).

We featured our two major self-manufactured products, namely Angong Niuhuang Pills and GLSPC in this exhibition. We introduced the functions and efficacy of these two products in detail. In order to introduce our Tong Ren Tang brand to visitors and promote Chinese regimen culture, we designed a brochure in Chinese based on the theme of traditional Chinese medicines and demonstrated typical traditional Chinese medicine therapy on-site.

In November 2013, we participated in and sponsored "Inno Carnival 2013 — Marching Towards Modern Chinese Medicine", organised by the School of Chinese Medicine of Hong Kong Baptist University in Hong Kong Science Park. During the nine-day exhibition, we displayed the harmonious integration of traditional and modern Chinese medicines through various interesting education programmes. We exhibited samples of valuable Chinese medicines and introduced the historical background and missions of Tong Ren Tang, in order to enhance the public understanding and awareness of the culture of Chinese medicines and further facilitate the development of Chinese medicines.

To broaden and strengthen the communication between the industry and academia of traditional Chinese medicines, and to promote Chinese medicine therapy and the Chinese medicine culture of Tong Ren Tang to the public, the Company and the School of Continuing and Professional Studies of the Chinese University of Hong Kong jointly held a seminar with the theme of Chinese Medicine and Stroke Prevention and Treatment (中醫藥與中風之預防與治療) on 9 December 2013. Special topics were presented by Mr. Guan Qingwei, a prominent traditional Chinese physician of Tong Ren Tang and head of the Beijing Tong Ren Tang Chinese Medical Center (北京同仁堂名醫館), Mr. Lam Ching, a traditional Chinese physician and chairman of the Society of Hong Kong Professional Registered Chinese Medicine Practitioners Limited and guest lecturer of the School of Continuing and Professional Studies of the Chinese University of Hong Kong, and Ms. Zhou Lei, a traditional Chinese physician of Beijing Tong Ren Tang, respectively. The seminar was well-received by audience of over 120. The traditional Chinese physicians introduced the use of Chinese medicines in stroke prevention and treatment, the causes of angiocardiopathy and the importance of timely treatment, efficacy of musk and concept of Chinese medicine therapy in relation to stroke. On the next day, the Company also jointly held a seminar with the same theme with Hong Kong Federation of Women. The seminar offered the audience with practical knowledge and raised their vigilance on stroke and angiocardiopathy and introduced the knowledge and concept of regimen of Tong Ren Tang.

Nurturing our talents

We attach great importance to the nurture of talents and believe that talents will facilitate the improvement of the Chinese medicine academics and the sustainable development of Chinese medicines. We strive for better talent training and support education on Chinese medicine in order to nurture a team of Chinese medicine professionals.

During the Year, we donated HK$500,000 to the School of Chinese Medicine of Hong Kong Baptist University to set up "Tong Ren Tang Chinese Medicine Scholarship" to reward and recognise the undergraduates with outstanding academic achievements in Chinese medicines and encourage them to study hard and contribute to the community after their graduation.

2013 marked a significant milestone in the management transformation and specialised business positioning of the Group. In order to ensure its specialized development, the Hong Kong headquarter organised a five-day training programme at the production plant in Tai Po, Hong Kong from 29 January to 2 February 2013. Management of all our overseas companies and departments of the Hong Kong headquarter were invited to participate in the training. The training was delivered by the officers of the Hong Kong headquarter covering various topics such as "Overseas Retail Outlets Quality Management", "Overseas Brand Management and Promotion", "Product Knowledge Training and Research of Chinese Medicine Companies", "Summary of the New Business Model of Chinese Medicine Companies", "Financial Management Training", "Internal Control" and "Audit of the SASAC". The training aimed at strengthening the professional skills of our staff and improving the management level for ensuring the sustainable development of the Group.

Contributing to society

The Group has been supporting various charity and non-profit organisations to promote the corporate culture of "nurturing kindness and virtue within, building up a healthier world". On 6 July 2013, the Group sponsored the GLSPC as gifts for the "HKFW 20th Anniversary cum 16th Anniversary of HKSAR Celebration Banquet" held by the Hong Kong Federation of Women. On 25 October 2013, we also sponsored the Playright Children's Play Association at a charity party held at Conrad Hong Kong. During the Year, we also donated HK$650,000 to The Community Chest of Hong Kong.

Creating quality workplace

The Group attaches great importance to occupational safety and health. In addition to issuing relevant policy, manual, guidelines, procedures and notices, we held 10 trainings for employees in respect of workshop safety management, equipment operation reminders and sanitary management in 2013, and conducted evaluations on employees by way of written test or on-spot examination after each training course to ensure the effectiveness of such trainings. The occupational safety awareness of employees has been improved.

To ensure the safe operation in workshop, we conduct strict safety inspection and maintenance of all systems annually, including fire safety, closed circuit television and access control systems, emergency generators, direct digital control systems, elevator maintenance, automatic warehouse systems and canteen facilities, in order to create a safe and quality working environment for employees.

Establishing sound corporate governance

Sound corporate governance is critical to long-term business development. As a listed company, the Group strives to maintain a high standard of corporate governance by complying with the best corporate governance practice and all regulatory provisions.

The Board and Board committees of the Company play an important role in corporate governance. Their roles, functions and duties are clearly defined and are reviewed and updated regularly. The Group has arranged the Directors to attend necessary training sessions and encourages all directors to pursue excellence for all undertakings.

An effective internal control system is important for enterprises to achieve sustainable development. In this Year, the Group has established a complete and effective internal control system, including the Internal Control Manual and comprehensive administrative procedures, to protect the interests of shareholders. The Board reviews the internal control system through the auditing committee annually to ensure the system effectiveness.

In addition, the Group regularly updates its websites, issues annual, interim and quarterly reports and publishes announcements and news on its websites to provide business information of the Group to investors in a timely manner.

The corporate governance report sets out the corporate governance structure and practice of the Group. For details, please see pages 78 to 95 of this annual report.

Investor Relations Report

Effective and Two-Way Communication

The Group is committed to promoting an open, transparent and efficient communication with all individuals and institutional investors (in this Investor Relations Report, collectively, "Shareholders"), and the investment community at large, through effective two-way communication channels.

The Group strives to provide easy access to Shareholders and ensure all information about and from the Group is published in a timely, transparent and clear manner. The Group also collects feedback from investors and analysts for the attention of the Board in order to help formulate the Group's investor relations plan and improve investor relations on an on-going basis.

Shareholders' Communication Policy

To facilitate effective and systematic communication with Shareholders and attain higher standard of investor relations practices, the Board approved and adopted the Shareholders' Communication Policy during the Year, setting out the aims and practices of the Company in order to have a two-way communication with Shareholders and the investment community.

Investor Relations Activities

The Company attaches great importance to protecting the interests of investors and has further strengthened the management of investor relations. The executive Directors interact regularly with the market in a variety of ways in order to facilitate a two-way communication between the Company, Shareholders and the investment community. The Company closely communicates with the investment community through various channels such as press conferences, one-on-one meetings, conference calls, emails, site visits and company website. Through various investor relations events, the executive Directors share the views on the Company's latest operating performance and strategic initiatives, and directly address the key concerns of capital market participants.

Listing on GEM

The shares of the Company were successfully listed on GEM on 7 May 2013. On the same day, a press conference was held at JW Marriott Hotel to facilitate all investors and the media to better understand the operations and outlook of the Group, as well as to provide them an access to the Directors and investor relations personnel.

Shareholders' Meetings

Extraordinary general meeting

Shareholders' meetings are held to ensure Shareholders can participate in or appoint proxies to hear from and put questions to Directors regarding the Group's business performance.

The last shareholders' meeting was the extraordinary general meeting ("EGM") which was held at 3 Dai King Street, Tai Po Industrial Estate, New Territories, Hong Kong on 23 October 2013 for the purpose of considering and passing the resolution of the distribution framework agreement dated 3 October 2013 (the "PRC Distribution Framework Agreement") entered into between the Company and Tong Ren Tang Holdings, and the annual caps for the three months ending 31 December 2013 and two years ending 31 December 2015 for the transactions contemplated thereunder.

As at the date of the EGM, there were 830,000,000 shares of the Company in issue. Tong Ren Tang Holdings, who directly and indirectly, held 600,000,000 shares (representing approximately 72.29% of the issued share capital of the Company) and was a connected person of the Company under the GEM Listing Rules, therefore Tong Ren Tang Holdings and its associates have abstained from voting in the EGM. Accordingly, a total of 230,000,000 shares was the total number of Shares entitling the holders to attend and vote for or against the resolution proposed at the EGM. The shareholders of the Company and authorized proxies holding an aggregate of 65,802,600 shares carrying voting rights voted at the EGM and all of 65,802,600 shares were voted for the resolution. The proposed resolution was duly passed at the EGM.

Annual General Meeting

The 2014 annual general meeting will be held at 3 Dai King Street, Tai Po Industrial Estate, New Territories, Hong Kong, on 7 May 2014 (Wednesday) at 10:30 a.m.

Shareholding Structure

According to the Company's share registrar, the Company had 20 registered shareholders as at 31 December 2013. This number does not include individual Shareholders and corporations that have an indirect interest through intermediaries including custodians and nominees, investment funds and the Central Clearing and Settlement System (CCASS) operated by Hong Kong Securities Clearing Company Limited, and therefore, the Company's actual number of Shareholders would be larger.

Our largest beneficial shareholders are Tong Ren Tang Technologies and Tong Ren Tang Ltd., which have direct shareholdings of 38.38% and 33.91% of the issued share capital of the Company respectively. The 27.71% remaining proportion of the shares are held by institutional investors and retail investors.

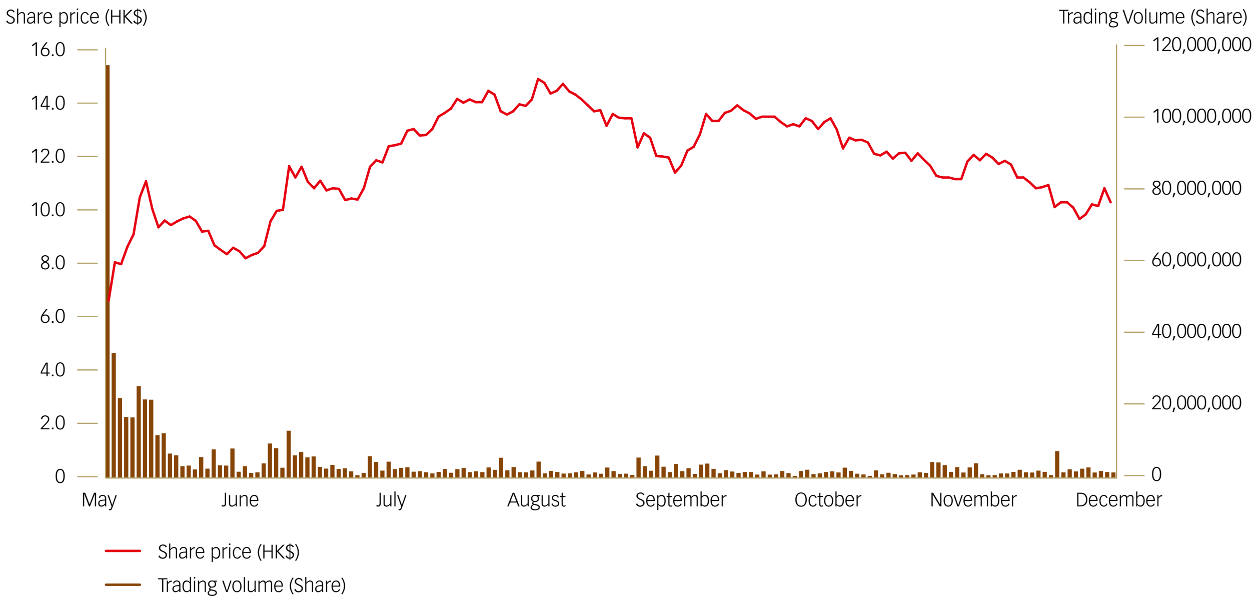
Share Information and Performance

Share Listing	
First listed on the GEM of Stock Exchange	7 May 2013

Stock Information	
Stock code	8138
Board lot	1,000 shares
Number of ordinary share issued as at 31 December 2013	830.0 million shares
Public float as at 31 December 2013	Approximately 27.7%

Share performance	2013
Closing price as at 31 December 2013	HK$10.18 per share
Highest price during the fiscal year	HK$14.90 per share
Lowest price during the fiscal year	HK$4.70 per share
Average daily trading volume	Approximately 4.0 million shares
Average daily trading amount	Approximately HK$39.4 million

Share Performance for the year ended 31 December 2013



Investor Relations Enquiries and Communications

For enquiries regarding investor relations or corporate information, please contact:

Investor Relations Department
Beijing Tong Ren Tang Chinese Medicine Company Limited

Room 1405–09, Convention Plaza Office Tower, 1 Harbour Road, Wanchai, Hong Kong
Tel: (852) 2881 7989
Fax: (852) 2881 7606
Email: ir@tongrentangcm.com
Website: www.tongrentangcm.com

Shareholders Service and Enquiries

For enquiries about your shareholding including change of name or address, transfer of shares, loss of share certificates or dividend cheques, registrations and requests for annual/interim/quarterly report copies, please contact the Company's share registrar and transfer office:

Computershare Hong Kong Investor Services Limited
Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong
Tel: (852) 2862 8555
Fax: (852) 2865 0990/2529 6087
Email: hkinfo@computershare.com.hk
Website: www.computershare.com

Financial Review

Revenue and Gross Profit

Revenue of the Group is primarily derived from retail and wholesale of Chinese medicine products. For the year ended 31 December 2013, the Group's revenue from continuing operations increased by HK$281.0 million or 84.4% to HK$614.0 million from HK$333.0 million for the previous year, mainly benefitting from the higher sales of our self-manufactured products from continuing operations amounting to HK$403.5 million (2012: HK$155.2 million) and the higher retail sales attributable to the increase of 5 retail outlets during the Year. The Group's gross profit from continuing operations for the Year was HK$420.0 million (2012: HK$236.1 million), representing an increase of HK$183.9 million or 77.9%. Gross profit margin decreased by 2.5% from 70.9% for the previous year to 68.4% for the Year. The decrease in gross profit margin was mainly because no agency fee income was recognised for the Year as the agency agreements expired in December 2012, while agency fee income of HK$20.6 million was recognised for the previous year with no associated direct cost.

Other Gains

The Group's other gains for the Year were HK$17.8 million, representing an increase of HK$16.4 million compared to HK$1.4 million for the previous year. The increase was mainly attributable to the gain on remeasurement of existing interest in a then joint venture of HK$2.1 million and the gain on disposal of a subsidiary of HK$13.4 million.

Distribution and Selling Expenses

The Group's distribution and selling expenses for the Year amounted to approximately HK$91.0 million, representing an increase of HK$13.9 million or 18.0% as compared to HK$77.1 million for the previous year. The increase was mainly attributable to (i) an increase of 5 retail outlets in 2013, which led to the increase in rental expenses; and (ii) an increase in the number of our sales staff, which led to the increase in wages and welfare expenses. The ratio of distribution and selling expenses to revenue dropped by 8.4% from 23.2% for the previous year to 14.8% for the Year. The decline in ratio was caused by the Group's economies of scale and stronger cost control measures.

General and Administrative Expenses

The Group's general and administrative expenses for the Year amounted to HK$65.9 million, representing an increase of HK$30.4 million, or 85.6% as compared to HK$35.5 million for the previous year. The increase was mainly attributable to (i) an increase in the number of administrative and management personnel, which led to the increase in wages and welfare expenses; and (ii) an increase in administrative expenses associated with the sole distribution operations which commenced in November 2012. The ratio of general and administrative expenses to revenue remained stable at 10.7% (2012: 10.7%).

Finance Income

The Group's finance income increased by HK$4.2 million from HK$0.7 million for the previous year to HK$4.9 million for the Year. The increase in finance income was mainly attributable to the increase in balances of bank deposits during the Year.

Taxation

The Group's income tax expense increased by HK$18.6 million, or 73.5%, from HK$25.3 million for the previous year to HK$43.9 million for the Year. This increase in income tax expense was mainly due to an increase in taxable income.

Liquidity and financial resources

During the Year, the Group continued to maintain a strong financial position. As at 31 December 2013, the Group's cash and bank balances amounted to HK$923.6 million. The strong cash position was mainly attributable to an operating cash inflow of HK$142.5 million and a net cash inflow in connection with the Listing of approximately HK$647.2 million during the Year. The Board regularly monitors current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash and adequate financial resources to meet its working capital requirements as well as to fund its expansion plans.

At 31 December 2013, the Group had total non-current assets of HK$251.5 million, total current assets of HK$1,158.6 million and net assets of HK$1,309.7 million. During the Year, the Group funded its liquidity by the net proceeds from listing and resources generated internally. The current ratio of the Group, defined as the ratio of current assets to current liabilities, was 12.1 as at 31 December 2013 (2012: 5.3), which reflects the abundance of financial resources of the Group. Management believes that there is no significant liquidity risk as the Group has sufficient financial resources to fund its operations' requirements as well as to fund its expansion plans in future.

Foreign Currency Risk

The Group's main business operations are conducted in Hong Kong and other overseas countries/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 Year, 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 year ended 31 December 2013.

Major Investment, Acquisitions and Disposals

On 4 March 2013, the Company entered into a sales and purchase agreement to dispose of all its interests in a subsidiary, Beijing Tong Ren Tang (Tang Shan) Nutrition and Healthcare Co., Ltd. ("TRT (Tang Shan)"), to a fellow subsidiary at a cash consideration of RMB84.6 million (equivalent to HK$105.5 million). The Company received the consideration in full on 16 April 2013. The equity transfer of TRT (Tang Shan) was approved by the relevant PRC authority on 26 April 2013. A gain of HK$13.4 million was recognised in the consolidated income statement for the year ended 31 December 2013.

Charges over Assets of the Group

As at 31 December 2013, the Group did not pledge any assets of the Group.

Contingent Liabilities

As at 31 December 2013, the Group did not have any significant contingent liabilities.

Capital Expenditure

For the year ended 31 December 2013, the Group's capital expenditure was approximately HK$116.6 million (2012: HK$13.6 million), which was mainly used in acquisition of property, plant and equipment.

Human Resources

As at 31 December 2013, the Group had a total of 438 employees. The Group's staff costs for the year ended 31 December 2013 were HK$101.4 million (2012: HK$64.3 million). To ensure that the Group is able to attract and retain capable staff, remuneration packages are reviewed on a regular basis. In addition, discretionary bonus is offered to eligible employees with reference to the Group's results and individual performance.

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 of the Company dated 25 April 2013 (the "Prospectus") and the actual business progress up to 31 December 2013.

Business objectives for the year ended 31 December 2013	Actual business progress up to 31 December 2013
Continue the promotion of Chinese medicine products in Non-PRC markets	
• Hold seminars and training program to broadcast Chinese regimen culture and Chinese medicine products	• From 29 January to 2 February 2013, the Company held seminars and trainings for management of all the Group's entities to promote Chinese regimen culture and Chinese medicine products and communicate the business strategies and future development of the Group. • On 9 December 2013, the Company and the School of Continuing and Professional Studies of the Chinese University of Hong Kong jointly held a seminar with the theme of Chinese Medicine and Stroke Prevention and Treatment (中醫藥與中風之預防與治療) to promote Chinese medicine therapy and the culture of Chinese medicines of Tong Ren Tang to the public. On 10 December 2013, the Group also jointly held a seminar with the same theme with Hong Kong Federation of Women.
• Establish educational centre of Chinese regimen and start operation in Poland	• The educational centre of Chinese regimen in Poland was established and commenced its operation during the year.

Business objectives for the year ended 31 December 2013	Actual business progress up to 31 December 2013
Increase geographical coverage and retail stores	
• Open five retail stores in Hong Kong	• The Group opened four retail stores in Hong Kong, which are located at Tsuen Wan, Kowloon City, Kwun Tong and Tsing Yi.
• Open one new retail store in each of United Arab Emirates ("UAE"), the United Kingdom (the "UK"), Singapore, Thailand and Toronto	• The Group incorporated a new subsidiary in the UK and the establishment of retail store in the UK was in progress.
	• The establishment of retail stores in Vancouver, Toronto and Macao was in progress during 2013. The operation of retail store in Toronto commenced in January 2014.
Broaden our registered products and service offerings	
• Commence the registration of 12 kinds of "Tong Ren Tang" branded products	• The Group commenced the registration of 20 kinds of "Tong Ren Tang" branded products in Singapore, Malaysia, Cambodia, Indonesia and UAE, of which the registration of 8 kinds of "Tong Ren Tang" branded products were completed in Singapore, Cambodia and UAE.
• Continue our research and development of the ganoderma lucidum series product	• The Group completed a research on a ganoderma lucidum product and the registration of this product was in progress.
• Establish a Chinese medical healthcare centre in Hong Kong	• The Group commenced the preparatory work of establishment of the Chinese medical healthcare centre in Hong Kong.

Business objectives for the year ended 31 December 2013	Actual business progress up to 31 December 2013
Upgrade and expand the production facilities for Angong Niuhuang Pills	
• Continue to expand our production capacity of Angong Niuhuang Pills	• The production capacity of Angong Niuhuang Pills was increased to about 1 million units as at 31 December 2013.
• Start the project of improving the cleanliness class of our manufacturing facilities	• The improvement of the cleanliness class of manufacturing facilities was completed.
• Continue to expand our production team	• The Group expanded the production team by increasing 17 manufacturing staff.
Continue to enhance the distribution of self-manufactured products	
• Commence registration or filing of our Angong Niuhuang Pills in Macao, Indonesia, Vietnam, Cambodia and Canada, and our GLSPC in Canada, Thailand, Indonesia, UAE and South Korea	• The Group completed the filing requirement of our Angong Niuhuang Pills in Macao and the registration of our GLSPC in Canada. • The Group commenced the preparation of registration or filing of our Angong Niuhuang Pills in Indonesia, Vietnam, Cambodia and Canada, and our GLSPC in Thailand, Indonesia, UAE and South Korea.
Build up effective logistics and financial information system to improve cost and operating efficiencies	
• Continue to build logistic and financial information system	• The ERP system in Hong Kong and Beijing was implemented during the Year.

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 were 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.

For the year ended 31 December 2013, the net proceeds from the Listing were applied as follows:

(i) HK$10.8 million on expanding retail network in Hong Kong;

(ii) HK$3.1 million on expanding our distribution into a new market;

(iii) HK$1.2 million on upgrading the production facilities and capacities for Angong Niuhuang Pills;

(iv) HK$0.9 million on building up ERP system.

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 of the Company was required.

Directors and Senior Management

Non-executive Director

Yin Shun Hai (殷順海), aged 60, is the chairman and a non-executive Director of the Company. He was appointed as a Director on 28 September 2004. Mr. Yin is a qualified senior economist as conferred by the Beijing Senior Professional Technical Titles Evaluation Committee in October 1997. He served as the chairman of Tong Ren Tang Holdings, the chairman of Tong Ren Tang Ltd. and the chairman of Tong Ren Tang Technologies. Currently, Mr. Yin is the vice president of the Beijing Federation of Industry Economics, the president of Beijing Pharmacist Association, the president of Beijing Tong Ren Tang Society of Cultural Studies and a delegate to the Twelfth Beijing Municipal Committee of the Chinese People's Political Consultative Conference (中國人民政治協商會議北京市第十二屆委員會委員). Mr. Yin graduated from the Graduate School of Chinese Academy of Social Science in July 1997 with a diploma in commerce and economics.

Executive Directors

Ding Yong Ling (丁永玲), aged 50, is an executive Director and the general manager of the Company. She is mainly responsible for our day-to-day operation and management. Ms. Ding has been appointed as a Director and the general manager of the Company since September 2004. Ms. Ding joined the Tong Ren Tang Group in 1984. From 1995 to 2003, she held various positions including head of the foreign trade division of Tong Ren Tang Holdings, manager of the import and export branches and the deputy general manager of Tong Ren Tang Technologies. Ms. Ding has been the deputy general manager of Tong Ren Tang Holdings and the managing director of Beijing Tong Ren Tang International Co., Ltd. since 2003, and has been a director and deputy general manager of Tong Ren Tang Holdings since 2012. Ms. Ding graduated from the Party School of the central committee of the CPC in August 1997 with a bachelor's degree in major of economic management. Further, she completed a course for research student under employment in international business administration at Business School of the University of International Business and Economics in April 2002.

Zhang Huan Ping (張煥平), aged 53, is a deputy general manager and an executive Director of the Company. He joined the Company as a deputy general manager in October 2010 and was appointed as a Director on 1 February 2011. He is mainly responsible for production. Mr. Zhang is a pharmacist conferred by Beijing Intermediate Professional Technical Titles Evaluation Committee in November 2002. Mr. Zhang joined the Tong Ren Tang Group in 1979, and served as the deputy manager of Beijing Tong Ren Tang Chinese Medicine Factory from 1999 to 2002 and the deputy manager of Beijing Tong Ren Tang Medicine Wine Factory from 2002 to 2008. He was also an executive director of Tong Ren Tang Technologies from June 2009 to April 2010. Mr. Zhang graduated in major of economic management from the Correspondence Institute of Party School of the Central Committee of the CPC in December 2000.

Lin Man (林曼), aged 38, is the chief financial officer, the company secretary and an executive Director of the Company. Ms. Lin is mainly responsible for our finance. Ms. Lin joined the Company in 2004 and was appointed as the company secretary in 2005 and our chief financial officer in 2008. She was appointed as a Director on 1 February 2011. Ms. Lin is a member of the Hong Kong Institute of Certified Public Accountants. Ms. Lin obtained a bachelor's degree in arts in Polish from Beijing Foreign Studies University in July 1999 and a bachelor's degree in arts in accounting and finance from the University of Lancaster in July 2004.

Independent non-executive Directors

Leung, Oi Sie Elsie (梁愛詩), aged 74, has been appointed as an independent non-executive Director of the Company with effect from 7 May 2013. Ms. Leung was the Secretary for Justice of Hong Kong as well as a member of the Executive Council of Hong Kong from July 1997 to October 2005. She was admitted as a solicitor of the Supreme Court of Hong Kong in 1968 and she is also a qualified solicitor in England and Wales. She is currently a consultant of Iu, Lai & Li Solicitors & Notaries and she is also a Notary Public and China-Appointed Attesting Officer. Ms. Leung also serves as an independent non-executive director of each of UC Rusal Plc and China Resources Power Holdings Company Limited, both are companies listed on the Stock Exchange. Ms. Leung served as a member of several government boards and committees, including the Independent Police Complaints Council, Equal Opportunities Commission, Social Welfare Advisory Committee and Inland Revenue Board of Review. Ms. Leung served as a delegate of the Seventh Guangdong Provincial People's Congress from 1988 to 1993, and a delegate of the Eighth NPC from 1993 to 1997. She has been the deputy director of the Hong Kong Basic Law Committee of the Standing Committee of the NPC since 2006. Ms. Leung obtained from the University of Hong Kong in November 1988 a master's degree in law.

Chan Ngai Chi (陳毅馳), aged 42, was appointed as an independent non-executive Director of the Company on 15 April 2013. Prior to joining the Company, Mr. Chan had more than 18 years of financial management, compliance and auditing experience. Mr. Chan worked in the audit division of PricewaterhouseCoopers Hong Kong from August 1994 to July 1999. He has also worked at various listed companies in Hong Kong and the U.S. Mr. Chan worked in Tong Ren Tang Technologies as the financial controller and company secretary from 2004 to 2007. Mr. Chan worked as the principal financial officer of Gushan Environmental Energy Company Limited, which was a company listed on the New York Stock Exchange since December 2007 and privatized in October 2012. Mr. Chan is currently the principal financial officer of China Metal Resources Utilization Limited, which was listed on the Main Board of the Stock Exchange in February 2014. Mr. Chan has been a fellow member of the Hong Kong Institute of Certified Public Accountants since December 2005 and the Association of Chartered Certified Accountants since October 2002. Mr. Chan graduated from the Hong Kong University of Science and Technology with a bachelor's degree in business administration in accounting in November 1994 and also obtained a master's degree in science from the Chinese University of Hong Kong in December 2003.

Zhao Zhong Zhen (趙中振), aged 57, has been appointed as an independent non-executive Director of the Company on 15 April 2013. Mr. Zhao is currently a professor and an associate dean of the School of Chinese Medicine of Hong Kong Baptist University. He has been an associate professor of Hong Kong Baptist University since April 1999. Mr. Zhao is currently a member of the Chinese Pharmacopoeia Commission, a member of the Chinese Medicines Board of Chinese Medicine Council of Hong Kong and a member of Chinese Medicine Development Committee. From 1984 to 1987, he was a research assistant of China Academy of Traditional Chinese Medicine. From 1987 to 1988 and 1991 to 1992, he was a visiting scholar of Tokyo University of Pharmacy and Life Science. Mr. Zhao was a research director of a laboratory for Chinese medicines in Japan during the period from October 1992 to April 1999. From July 2009 to January 2010, he was a visiting scholar of Osher Research Center of Harvard Medical School. Mr. Zhao obtained a bachelor's degree and a master's degree, both in Chinese medicine, from Beijing University of Chinese Medicine in March 1982, and from China Academy of Traditional Chinese Medicine in December 1985, respectively. He obtained his doctorate degree in pharmacy in Tokyo University of Pharmacy and Life Science in March 1992.

Senior Management

Hua Ji Hong (花季紅), aged 39, is a deputy general manager of the Company, and is mainly responsible for the foreign investment and import and export business of the Company. Ms. Hua joined Tong Ren Tang Group in 2000 and is mainly responsible for quality control. Ms. Hua obtained a bachelor's degree and a master's degree, both in Chinese medicine, from Beijing University of Chinese Medicine in June 1997 and July 2000, respectively.

Lam Wai Yi (林慧儀), aged 42, is a deputy general manager of the Company. Ms. Lam is mainly responsible for the sales and marketing of the Company. She joined the Company in 2006. Prior to joining us, she served as a media assistant and a media executive of an advertising agency company from 1996 to 1999, an advertising officer of a jewellery company from 1999 to 2001 and an assistant marketing manager of a furniture retail company from 2005 to 2006. She served as a marketing supervisor of Beijing Tong Ren Tang Hong Kong Medicine Management Limited from 2002 to 2005. Ms. Lam obtained a higher diploma in business studies from City University of Hong Kong in December 1996 and a bachelor's degree in commerce marketing from Curtin University of Technology in February 2004.

Li Da Ming (李大鳴), aged 56, is a deputy general manager of the Company. He joined the Company in 2012. Mr. Li is qualified as a senior engineer as conferred by the Beijing Senior Professional Technical Titles Evaluation Committee in September 1999. He obtained a qualification from a course for research student under employment in business administration at the Beijing Administrative College in July 2002. Mr. Li joined the Tong Ren Tang Group in 1980 and was a secretary of the party committee of Beijing Tong Ren Tang Pharmacy from July 1997 to March 1998, a factory manager of Beijing Tong Ren Tang Pharmaceutical Factory No. 3 from March 1998 to March 2000, a manager of the Beijing Tong Ren Tang Medicinal Herbal Wine Branch from March 2000 to April 2002 and a factory manager of the North Branch of Tong Ren Tang Ltd. from June 2002 to March 2004. Mr. Li was appointed as the deputy general manager of Tong Ren Tang Ltd. and worked as an assistant to the general manager and the manager of the technical installation department of Tong Ren Tang Ltd from March 2004 to November 2006. He was also the deputy general manager of Tong Ren Tang Technologies from November 2006 to February 2012. Mr. Li is currently the general manager of Beijing Tong Ren Tang International Natural-Pharm Co., Ltd..

Li Xia (李霞), aged 47, is the chief engineer of the Company. She joined the Company in 2008. Ms. Li has been in Tong Ren Tang Group since 1990 and is mainly responsible for research and development of Chinese Medicines and Healthcare Products. Ms. Li obtained a bachelor's degree in Chinese medicine from Beijing University of Chinese Medicine in July 1989.

Report of the Directors

The Directors are pleased to present their report and the audited consolidated financial statements of the Group for the year ended 31 December 2013.

Principal Activities

The principal activities of the Company are manufacturing, retail and wholesale of Chinese medicine products. The principal activities and other particulars of the Company's subsidiaries are set out in note 32 to the consolidated financial statements.

Results and dividends

The results of the Group for the year ended 31 December 2013 are set out in the consolidated income statement on pages 98 to 99 of this annual report.

The Directors recommend the payment of a final dividend of HK$0.08 per ordinary share for the year ended 31 December 2013 (2012: Nil). Such final dividend will be proposed for approval by shareholders at the annual general meeting to be held on Wednesday, 7 May 2014 and if approved, are payable to shareholders whose names appear on the Register of Members of the Company on 15 May 2014. Details of the dividend for the year ended 31 December 2013 are set out in note 17 to the consolidated financial statements.

Segment Information

Details of the segment information of the Group are set out in note 5 to the consolidated financial statements.

Financial Summary

A summary of the published results and assets and liabilities of the Group for the past three financial years, as extracted from the consolidated financial statements in the Prospectus and this annual report respectively set out on pages 177 to 178 of this annual report.

Interests of the Compliance Adviser

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 7 May 2013, the date of the Listing, neither the Compliance Adviser nor its directors, employees or associates had any interests in relation to the Company as at 31 December 2013 which is required to be notified to the Company pursuant to Rule 6A.32 of the GEM Listing Rules.

Property, Plant and Equipment

Details of movements in the property, plant and equipment of the Group are set out in note 19 to the consolidated financial statements.

Property Interest

For the purpose of the Listing, a valuation was conducted on the property interests held by the Group. However, those property interests were still carried at historical costs less accumulated depreciation and impairment, if any, on the Group's financial statements. With reference to the property valuation set out in Appendix III to the Prospectus, the market value of our property interest as at 28 February 2013 for the purpose of incorporation into the Prospectus was HK$220.0 million. Were the property stated at that valuation, the depreciation charge per year would have increased by approximately HK$0.9 million.

Bank Borrowing

The Group did not have bank borrowings as at 31 December 2013.

Share Capital

Details of movements in the Company's share capital during the year ended 31 December 2013 are set out in note 25 to the consolidated financial statements.

Reserves

Details of movements in the reserves of the Company and the Group during the year ended 31 December 2013 are set out in note 26 to the consolidated financial statements and in the consolidated statement of changes in equity, respectively.

Distributable Reserves

As at 31 December 2013, the reserves of the Company available for distribution amounted to HK$413.8 million (2012: HK$279.7 million).

Donations

Charitable donations made by the Group during the Year amounted to HK$1.2 million (2012: Nil).

Major Customers and Suppliers

During the year ended 31 December 2013, income received/receivable from the top five customers in aggregate accounted for approximately 56.2% (2012: 49.6%) of the Group's total revenue from continuing and discontinued operations. During the same period, revenue received/receivable from the single largest customer accounted for approximately 25.0% (2012: 19.2%) of the Group's total revenue from continuing and discontinued operations.

During the year ended 31 December 2013, the purchases paid/payable to the top five suppliers in aggregate constituted approximately 49.4% (2012: 70.4%) of the Group's total purchases from continuing and discontinued operations. During the same period, fees paid/payable to the largest supplier constituted approximately 22.5% (2012: 28.8%) of the Group's total purchases from continuing and discontinued operations.

None of the Directors, their associates or any shareholder of the Company (which to the knowledge of the Directors own more than 5% of the share capital of the Company) has any interest in any of the top five customers and suppliers.

Directors

The Directors during the Year and up to the date of this report were:

Non-executive Director
Mr. Yin Shun Hai (Chairman)

Executive Director
Ms. Ding Yong Ling
Mr. Zhang Huan Ping
Ms. Lin Man

Independent non-executive Directors
Ms. Leung, Oi Sie Elsie
Mr. Chan Ngai Chi
Mr. Zhao Zhong Zhen

Pursuant to Article 97 of the Memorandum of Association and New Articles of Association of the Company (the "Articles of Association"), at each annual general meeting one-third of the Directors for the time being, or, if their number is not three or a multiple of three, then the number nearest to but not less than one-third, shall retire from office by rotation and shall be eligible for re-election. The Directors to retire by rotation will be those Directors who have been Directors longest in office since their last re-election or appointment.

By virtue of Article 97 of the Articles of Association, Mr. Yin Shun Hai, Ms. Ding Yong Ling and Ms. Lin Man will retire at the forthcoming annual general meeting and being eligible, would offer themselves for re-election, save for Mr. Yin Shun Hai will not offer himself for re-election at the forthcoming annual general meeting and will retire upon the conclusion of the annual general meeting.

Biographies of Directors and Senior Management

The biographical details of Directors and senior management of the Group are disclosed in the section headed "Directors and Senior Management" on pages 56 to 59 of this annual report.

Directors' Service Agreements

The non-executive Director, Mr. Yin Shun Hai, and all the executive Directors, Ms. Ding Yong Ling, Mr. Zhang Huan Ping and Ms. Lin Man have entered into service contracts with the Company for a fixed term of three years commencing from 15 April 2013. Each of Ms. Leung, Oi Sie Elsie, Mr. Chan Ngai Chi, Mr. Zhao Zhong Zhen, being all our independent non-executive Directors, has entered into a letter of appointment with the Company for a fixed term of three years commencing from 7 May 2013, 15 April 2013 and 15 April 2013, respectively unless terminated by either party giving at least two months' notice in writing.

None of the Directors has entered or proposed to enter into any service contracts with the Company which is not determinable by the Company within one year without payment of compensation other than statutory compensation.

Confirmation of Independence

The Company has received annual confirmations of independence from all three independent non-executive Directors pursuant to Rule 5.09 of the GEM Listing Rules and the Company considers all the independent non-executive Directors are independent.

Emolument Policy

The remuneration of the employees of the Group is determined with reference to market terms and the performance, qualifications and experience of the individual employee.

The emoluments of the Directors are recommended by the remuneration committee of the Company after considering the factors such as the Company's operating results, individual performance, salaries paid by comparable companies, time commitment and responsibilities and employment conditions elsewhere in the Group. Details of the fee and emolument of the Directors are set out in note 8 to the consolidated financial statements.

The Group operates various pension schemes which are defined contribution plans and are generally funded through payments to insurance companies or trustee-administered funds. The Group has adopted a provident fund scheme for its employees in Hong Kong as required under the Mandatory Provident Fund Schemes Ordinance. Contributions to the provident fund scheme by the Group and employees are calculated at a percentage of employees' salaries or a fixed sum for each employee where appropriate. The Group has also participated in employee pension schemes organised and governed by the relevant local authorities for its employees in the PRC and overseas countries/regions. Details of employer's pension costs are set out in note 7 to the consolidated financial statements.

Directors' Interests in Contracts of Significance

Details of Directors' interest in contracts of significance in relation to the Group's business are set out in the section headed "Continuing Connected Transactions" in this report.

Other than as disclosed above, there was no contract of significance to which the Company or its subsidiaries, or its holding companies or any of its fellow subsidiaries was a party, and in which a Director was materially interested, whether directly or indirectly, subsisting during the year ended or as at 31 December 2013.

Directors' and Chief Executives' Interests in Shares

As at 31 December 2013, 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 Futures Ordinance (the "SFO")) of the Directors and chief executives 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
The Company				
Ding Yong Ling	Personal	Beneficial owner	120,000	0.014%
Lin Man	Personal	Beneficial owner	110,000	0.013%
Tong Ren Tang Technologies				
Yin Shun Hai	Personal	Beneficial owner	1,500,000 (1)	0.234%
Tong Ren Tang Ltd.				
Yin Shun Hai	Personal	Beneficial owner	116,550 (2)	0.009%

Notes:

(1) The shares represent 0.46% of domestic shares of Tong Ren Tang Technologies.

(2) These shares are A shares.

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.

Rights to Acquire Shares or Debentures

Other than as disclosed under the section "Directors' and Chief Executives' Interests in Shares" above, at no time during the year ended 31 December 2013 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.

Directors' Interests in Competing Businesses

None of the Directors or their respective associates has any competing interests which need to be disclosed pursuant to Rule 11.04 of the GEM Listing Rules.

Interests in Competing Businesses

To ensure that the business classifications 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 and development, manufacture and sales of any Chinese medicine 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 and development, manufacture and sale of any products with "Tong Ren Tang" brand 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 Niuhuang Pills in Non-PRC markets;

(iv) engage in the distribution of any Chinese medicine products in Non-PRC Markets, except for certain existing arrangements as disclosed in the Prospectus; 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 GLSPC manufactured by the Group) is sold in Non-PRC Markets; and

(b) conduct quarterly communications with representatives of the Parent Group to confirm whether their research and development portfolio has any healthcare products which contain ganoderma lucidum or ganoderma lucidum spores as raw materials.

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

(a) meet quarterly and review the quarterly inspection record and daily communication records by the Competition Executive Committee; and

(b) report findings during its review of the records provided by the Competition Executive Committee to the Board which will be published in the Company's annual report.

To the best knowledge of the Competition Executive Committee, they are not aware of the distribution channels of the Parent Group selling any healthcare product containing ganoderma lucidum or ganoderma lucidum spores as raw materials (other than GLSPC manufactured by the Group) that competes with GLSPC is sold in Non-PRC Markets in the Year.

Substantial Shareholders

As at 31 December 2013, 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	38.38%
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.

Related Party Transactions

Details of related party transactions of the Group during the year ended 31 December 2013 are set out in note 31 to the consolidated financial statements. Those related party transactions constitute continuing connected transactions exempted from the reporting, announcement and independent shareholders's approval requirements under Chapter 20 of the GEM Listing Rules. The Company confirmed that it has complied with the disclosure requirements in accordance with Chapter 20 of the GEM Listing Rules.

Continuing Connected Transactions

During the year ended 31 December 2013, the Group entered into a number of transactions with entities which had become connected persons (as defined in the GEM Listing Rules) of the Company upon the Listing. Following the Listing, these transactions continue in the ordinary and usual course of business and constitute continuing connected transactions under the GEM Listing Rules, which are subject to the reporting, annual review, announcement and/or independent shareholders' approval requirements. The Company has applied to the Stock Exchange for, and the Stock Exchange has granted, a waiver from strict compliance with the announcement and/or independent shareholders' approval requirements relating to these continuing connected transactions under the GEM Listing Rules. In addition, the Directors confirm that the Company will comply with the applicable provisions under Chapter 20 of the GEM Listing Rules.

Details of the non-exempted continuing connected transactions of the Group are as follows:

(1) PRC Distribution Framework Agreement

On 3 October 2013, the Company and Tong Ren Tang Holdings entered into a PRC distribution framework agreement (the "PRC Distribution Framework Agreement") that the Tong Ren Tang Group (refers to Tong Ren Tang Holdings, its subsidiaries, its joint ventures and its associates, other than Tong Ren Tang Technologies and its subsidiaries) would act as a non-exclusive distributor of the Group and would purchase Chinese medicine products containing ganoderma lucidum or ganoderma lucidum spore as raw materials manufactured by the Company (including GLSPC) from the Group and then distribute the same to retailers or end users in the PRC for a period from 1 October 2013 to 31 December 2015. Tong Ren Tang Holdings is the ultimate controlling shareholder of the Company and is therefore a connected person of the Company under the GEM Listing Rules. The annual caps for the transactions contemplated under the PRC Distribution Framework Agreement shall be HK$30,000,000 (exclusive of valued-added tax in the PRC), HK$110,000,000 (exclusive of valued-added tax in the PRC) and HK$150,000,000 (exclusive of valued-added tax in the PRC) for the three months ended 31 December 2013 and years ending 31 December 2014 and 2015, respectively. As one or more of the applicable percentage ratios (other than the profits ratio) of the annual caps exceed 5% and the annual caps are more than HK$10,000,000, the PRC Distribution Framework Agreement and the transactions contemplated thereunder are subject to reporting, announcement and annual review requirements as well as the requirement of independent shareholders' approval under the GEM Listing Rules. This continuing connected transaction was announced on 3 October 2013 and was approved by the independent shareholders of the Company at the extraordinary general meeting held on 23 October 2013.

(2) Lease of premises from the Parent Group

The Group has entered into the following lease agreements (the "Lease Agreements") with the Parent Group:

(i) Beijing Tong Ren Tang International Natural-Pharm Co., Ltd. ("TRT International Natural-Pharm"), a wholly-owned subsidiary of the Company, entered into two lease agreements (as supplemented by their respective agreements dated 3 April 2013) on 1 January 2011 and a lease agreement on 31 December 2012 with Tong Ren Tang Holdings whereby Tong Ren Tang Holdings would lease to TRT International Natural-Pharm (1) a warehouse located in Beijing, the PRC for storage purpose at a rental of RMB18,000 per year; (2) an office located in Beijing, the PRC at a rental of RMB10,000 per year; and (3) a storage room located in Beijing, the PRC at a rental of RMB500 per year, respectively, each for the period from 1 January 2013 to 31 December 2015;

(ii) Beijing Tong Ren Tang Consulting Services Co., Ltd. ("TRT Consulting Services"), an indirect wholly-owned subsidiary of the Company, entered into a lease agreement (as supplemented by an agreement dated 31 December 2012) with Tong Ren Tang Holdings on 31 December 2010 whereby Tong Ren Tang Holdings would lease to TRT Consulting Services a property located in Beijing, the PRC for office purpose at a rental of RMB3,600 per year for the period from 1 January 2013 to 31 December 2015; and

(iii) the Company entered into a lease agreement (as supplemented by an agreement dated 9 April 2013) with Beijing Tong Ren Tang International Co., Ltd. ("TRT International") on 1 October 2012 whereby TRT International would lease to the Company a property located in Hong Kong for office purpose at a rental of HK$150,000 per month for the period from 1 October 2012 to 31 December 2015.

Tong Ren Tang Holdings is a controlling shareholder of the Company and TRT International is owned as to 100% by Tong Ren Tang Holdings, hence they are connected persons of the Company under the GEM Listing Rules. The transactions under the Lease Agreements therefore constitute continuing connected transactions of the Company under Chapter 20 of the GEM Listing Rules.

(3) Procurement of Angong Niuhuang Powder from Tong Ren Tang Ltd.

On 30 September 2012, the Company entered into a master purchase agreement with Tong Ren Tang Ltd. (the "Angong Niuhuang Powder Master Purchase Agreement") whereby the Group would purchase Angong Niuhuang Powder, being the raw materials for production of Angong Niuhuang Pills, from Tong Ren Tang Ltd. for a period from 1 January 2013 to 31 December 2015.

Tong Ren Tang Ltd. is a controlling shareholder of the Company and is therefore a connected person of the Company under the GEM Listing Rules.

(4) Exclusive Distributorship Framework Agreements with Tong Ren Tang Technologies and Tong Ren Tang Ltd.

On 29 October 2012, the Company entered into an exclusive distributorship framework agreement (the "Exclusive Distributorship Framework Agreements") with each of Tong Ren Tang Technologies and Tong Ren Tang Ltd. whereby TRT International Natural-Pharm, a wholly-owned subsidiary of the Company, was appointed by each of Tong Ren Tang Technologies and Tong Ren Tang Ltd. as the sole distributor of "Tong Ren Tang" branded products of each of Tong Ren Tang Technologies and Tong Ren Tang Ltd. in Non-PRC Markets and TRT International Natural-Pharm would purchase "Tong Ren Tang" branded products from Tong Ren Tang Technologies and Tong Ren Tang Ltd. for the period from 1 November 2012 to 31 December 2014.

Tong Ren Tang Technologies and Tong Ren Tang Ltd. are both controlling shareholders of the Company and are therefore connected persons of the Company under the GEM Listing Rules.

Details of the above continuing connected transactions are further summarised as follows:

	Name of connected person	Nature of transaction	Transaction amount for the year ended 31 December 2013 HK$'000	Annual cap for the year ended 31 December 2013 HK$'000
(1)	Tong Ren Tang Holdings	Income received/receivable for the sales of Chinese medicine products containing ganoderma lucidum or ganoderma lucidum spore as raw materials manufactured by the Company (including GLSPC)	29,041	30,000
(2)	Tong Ren Tang Holdings	Expense paid/payable for leases of properties	–[1]	38
	TRT International	Expense paid/payable for lease of a property	1,800	1,800
(3)	Tong Ren Tang Ltd.	Purchase of Angong Niuhuang Powder	7,907	10,000
(4)	Tong Ren Tang Technologies	Purchase of Tong Ren Tang branded products for distribution	11,299	12,000
	Tong Ren Tang Ltd.	Purchase of Tong Ren Tang branded products for distribution	28,961	48,000

[1] Tong Ren Tang Holdings waived all the rental charges for the year ended 31 December 2013 in respect of leases stated in note 2(i) and (ii) on page 73.

Confirmation of independent non-executive Directors:

The independent non-executive Directors have reviewed the above continuing connected transactions and confirmed that these continuing connected transactions were entered into by the Group:

(1) in the ordinary and usual course of business of the Group;

(2) either on normal commercial terms or on terms no less favourable to the Group than terms available to or from (as appropriate) independent third parties; and

(3) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

Confirmation of auditor of the Company:

PricewaterhouseCoopers, the Company's auditor, was engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The Company's auditor has issued his unqualified letter containing his findings and conclusions in respect of the continuing connected transactions disclosed above by the Group in accordance with paragraph 20.38 of the GEM Listing Rules. A copy of the auditor's letter has been provided by the Company to the Stock Exchange.

Contracts of Significance

Saved as disclosed above, there is no contract of significance between the Company or any of its subsidiaries, and the Controlling Shareholders (as defined below) or any of its subsidiaries. There is no contract of significance for the provision of services to the Company or any of its subsidiaries by the Controlling Shareholders or any of its subsidiaries.

Purchase, Sale or Redemption of the Listed Securities of the Company

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the listed securities of the Company during the year ended 31 December 2013.

Sufficiency of Public Float

As at the date of this report, based on information that is publicly available to the Company and within the knowledge of the Directors, the Directors confirm that the Company maintained the amount of public float as required under the GEM Listing Rules.

Corporate Governance

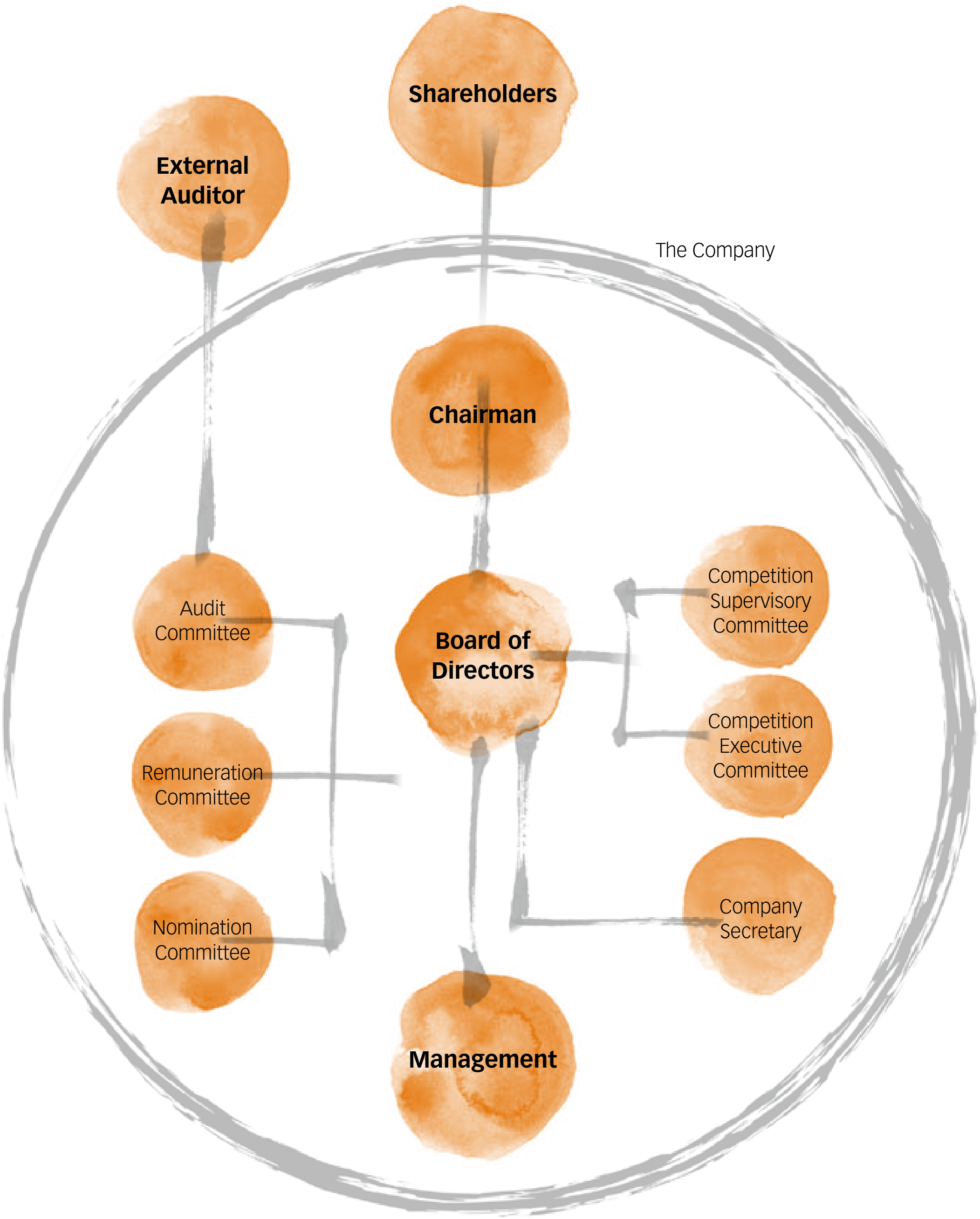
The Company is committed to maintaining the highest standard of corporate governance practices. Information on the corporate governance practices adopted by the Company is set out in the Corporate Governance Report on pages 78 to 95 of this annual report.

Auditor

PricewaterhouseCoopers will retire, and being eligible, offer themselves for re-appointment at the forthcoming annual general meeting. A resolution for their re-appointment as auditor of the Company will be proposed at the forthcoming annual general meeting. The Company has not changed in its auditor in any of the preceding three years.

Corporate Governance Report

Corporate Governance Structure



Corporate Governance Practices

The Group is committed to the principles of good corporate governance. The board of directors of the Company (the "Board") believes that good corporate governance practices are important to promote investors' confidence and protect the interests of the shareholders. Accordingly, the Group attaches great importance to the high standard of the management and adopts a stringent strategy for operation and development. The Group endeavours to contribute to the sustainable development of the Group, with particular focus on the accountability to the shareholders.

The Group firmly believes that strict corporate governance can enhance the Group's credibility and transparency, thus strengthening the confidence of the shareholders and the public in the Group. During the period from the commencement of trading in shares of the Company on GEM on 7 May 2013 to 31 December 2013 (the "Relevant Period"), the Group has applied the principles and complied with all provisions of the Corporate Governance Code (the "Code") as set out in Appendix 15 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 of all the Directors, all the Directors confirmed that they had complied with the required standard of dealings and the code of conduct regarding securities transactions by Directors adopted by the Company during the Relevant Period. The Company has also adopted a similar policy for certain relevant employees who, because of their office or employment, are likely to be in possession of unpublished inside information in relation to the Company or its shares. On commencement of his or her employment, relevant employees are required to acknowledge their understanding of this policy and the list of relevant employees is updated at regular intervals.

The Board

The Board Composition

The Board currently comprises seven Directors, including the Chairman (Mr. Yin Shun Hai, being a non-executive Director), three executive Directors (Ms. Ding Yong Ling, Mr. Zhang Huan Ping and Ms. Lin Man) and three independent non-executive Directors (Ms. Leung, Oi Sie Elsie, Mr. Chan Ngai Chi and Mr. Zhao Zhong Zhen). The composition of the Board is well balanced. All Directors come from different business and professional backgrounds and are equipped with various qualifications and experience. Our non-executive Director and independent non-executive Directors exercise their independent judgment on a wide range of strategic issues and monitor the Group's performance closely. They have made a constructive and positive contribution to the development of the Group's strategy and policies through providing independent and positive comments and feedbacks. Their voices and opinions have been adequately reflected in the meeting minutes. The independent non-executive Directors have the knowledge and understanding of our business to make contribution effectively, and are kept well informed and abreast of significant new developments in the business. A list of Directors and the biography of each Director have been published on the Company's website and are set out on pages 56 to 58 of this annual report.

Chairman of the Board and the General Manager of the Company

The role of the Chairman of the Board is separate from that of the general manager. The Board believes that this segregation of duties helps to supervise and balance the power and authority of the Board and enhances the independence and accountability of the Board.

Our Chairman, Mr. Yin Shun Hai, has non-executive functions in the Company and leads the Board in terms of formulating policies and business strategies of the Group.

Our general manager, Ms. Ding Yong Ling, has executive functions in the Company and is responsible for managing the day-to-day business operations of the Group.

Roles and Responsibilities of the Board

The Board is accountable to the shareholders for the sustainable development of the Group. The Board is responsible for formulating the overall strategies as well as monitoring and evaluating the operation and financial performance of the Group. The Board reserved for its decision or consideration matters covering overall Group strategy, major acquisitions and disposals, annual budgets, annual, interim and quarterly results, recommendations on Directors' appointment or reappointment, approval of major capital transactions and other significant operational and financial matters. All the Directors carry out their duties in good faith and in compliance with applicable laws and regulations and is dedicated to pursuing the best interests of the shareholders at all times.

Our non-executive Director together with our independent non-executive Directors offer diverse industry expertise, serve the important function of advising the management on strategies and ensuring that the Board fulfils high standards of financial and other mandatory reporting requirements as well as providing adequate checks and balances for safeguarding the interests of the shareholders and the Company as a whole.

Under the supervision and guidance of the Chairman, the Board takes a leading and prominent role in establishing a clear corporate governance framework and ensuring its full application. Our Chairman provides leadership for the Board and ensures that the Board works effectively and discharges its responsibilities, ensuring that good corporate governance practices and procedures are established, and ensuring that there are effective communications between the Board and the shareholders.

All Directors have full and timely access to all relevant information as well as the advice and services of the company secretary (the "Company Secretary") and senior management of the Company, with a view to ensuring compliance with the Board procedures and all applicable laws and regulations. Any Director may request independent professional advice in appropriate circumstances at the Company's expense, upon reasonable request being made to the Board. The day-to-day management, administration and operations of the Company are delegated to the executive Directors and senior management of the Company. The Board has delegated a schedule of responsibilities to the senior management for the implementation of the Board decisions. The Board periodically reviews the delegated functions and work tasks. Prior to entering into any significant transactions, the aforesaid officers have to obtain the Board's approval.

No corporate governance committee has been established by the Company and the Board is responsible for performing the corporate governance duties according to the Code Provision D.3.1, which includes:

(1) developing and reviewing the policies and practices on corporate governance of the Group;

(2) reviewing and monitoring the training and continuous professional development of Directors and senior management;

(3) reviewing and monitoring the Group's policies and practices on compliance with legal and regulatory requirements;

(4) developing, reviewing and monitoring the code of conduct and compliance manual (if any) applicable to Directors and employees; and

(5) reviewing the Company's compliance with the Code and disclosure in the corporate governance report of the Company.

Delegation to Senior Management

Day-to-day operational responsibilities are specifically delegated by the Board to senior management. Major matters include:

- the preparation of annual, interim and quarterly reports for Board approval before public reporting;
- the execution of business strategies and initiatives adopted by the Board;
- monitoring of operating budgets adopted by the Board;
- implementation of adequate systems of risk management and internal control procedures; and
- compliance with relevant statutory requirements, rules and regulations.

Independence of the Independent Non-executive Directors

During the Relevant Period, the Company has complied with Rules 5.05(1) and (2) and 5.05A of the GEM Listing Rules relating to the appointment of at least three independent non-executive Directors representing more than one-third of the Board and the independent non-executive Directors possess professional qualification and experience in the three areas of financial accounting, law and Chinese medicine industry, respectively. All independent non-executive Directors also meet the guidelines for assessment of their independence pursuant to Rule 5.09 of the GEM Listing Rules. The Board has received an annual confirmation of independence from each of the independent non-executive Directors. The Company considers all the independent non-executive Directors are independent. Each independent non-executive Director is required to inform the Company as soon as practicable if there is any change in their own personal particulars that may affect their independence.

Conflict of Interest

All Directors are required to avoid actual and potential conflicts of interest and duty at all times, and to declare to the Company any such conflicting interest so that the Company can, if appropriate, request them to terminate the business relationship that creates the conflict.

It is acknowledged that non-executive Directors may have business interests other than those of the Company and they are required to declare any conflicts that are apparent upon appointment. In the event that they become aware of any potential conflicts of interest, these should be disclosed to the Chairman and Company Secretary immediately.

Furthermore, all Directors are required to declare their interest in the matters to be considered at each Board meeting and Board committee meeting. If a Director or any of his/her associates has a material interest in the matter to be considered, the Director will not be counted in the quorum or be allowed to vote at the meeting. He or she may also be required to withdraw from the meeting during discussion of the matter.

Appointment and Re-election

The procedures for appointing and re-electing directors are set out in the Articles of Association. The appointment of a new director must be approved by the Board. The Nomination Committee is responsible for making recommendations to the Board on the selection of individuals nominated for directorship taking into account factors such as appropriate professional knowledge, industry experience, personal ethics, integrity, personal skills, gender, age, cultural and educational background.

Under the Articles of Association, one-third of the Directors at each annual general meeting shall retire but shall be eligible for re-election at each annual general meeting of the Company. The Directors to retire every year shall be those who have been longest in office since their last re-election or appointment.

The Company has entered into service agreements with non-executive Director and all executive Directors and appointment letters with independent non-executive Directors. The tenure of all Directors is 3 years from either 15 April 2013 or 7 May 2013.

Directors' Liability Insurance and Indemnity

The Company has arranged for appropriate liability insurance to indemnify its Directors for their liabilities arising out of corporate activities undertaken for the Company. During the year ended 31 December 2013, no claim was made against the Directors.

Continuous Professional Development of the Directors

All the Directors receive comprehensive information on appointment, so as to ensure the understanding of the business and operations of the Group and Directors' responsibilities and obligations under the GEM Listing Rules and relevant regulatory requirements.

The Company also provided information such as updated statutory and regulatory regime and the business and market changes to all Directors to facilitate the discharge of their responsibilities and obligations under the GEM Listing Rules and relevant statutory requirements.

During the Relevant Period, all the Directors, namely Mr. Yin Shun Hai, Ms. Ding Yong Ling, Mr. Zhang Huan Ping, Ms. Lin Man, Ms. Leung Oi Sie Elsie, Mr. Chan Ngai Chi and Mr. Zhao Zhong Zhen actively participated in continuous professional development, by attending external training or seminars, attending in-house training or reading materials on the various topics covering regulations, corporate governance, finance and business, to develop and refresh their knowledge and skills, which ensure that their contribution to the Board remains informed and relevant. The Directors have provided a record of training to the Company.

General Meetings

During the year ended 31 December 2013, the Directors actively participated in general meetings in person and have been doing their best to develop a balanced understanding of the views of shareholders. During the Year, the Company held an annual general meeting on 25 March 2013 and an extraordinary general meeting on 23 October 2013. The attendance records of each Director at the general meetings in the following table:

Members of the Board	Attendance/Number of General Meetings
Non-executive Director	
Yin Shun Hai	2/2
Executive Directors	
Ding Yong Ling	2/2
Zhang Huan Ping	2/2
Lin Man	2/2
Independent Non-executive Directors	
Leung, Oi Sie Elsie (appointed on 7 May 2013)	0/2
Chan Ngai Chi (appointed on 15 April 2013)	0/2
Zhao Zhong Zhen (appointed on 15 April 2013)	0/2

Board Meetings

Our Directors actively participate in each Board meeting to provide oversight and strategic direction to the Group on operational, governance, internal control and other matters where issues are debated openly and each Director is free to question or challenge the opinions of the other Directors. Regular Board meetings are held every year. The meeting agenda is set by the Chairman in consultation with members of the Board. The Company will provide all the Directors with at least 14 working days' formal notice in respect of holding regular Board meetings. Meeting documents will normally be delivered to all Directors 3 working days before meeting date, so as to ensure they are fully informed before the meeting and all Directors are given an opportunity to include additional matters for consideration at such meetings. The meeting minutes of the Board are drafted and kept by the Company Secretary. All meeting minutes will set out in detail the matters considered and decisions made at the meetings, including, among others, any queries made or views expressed by the Directors and will be sent to all directors for their comment and records within a reasonable time after the Board meeting is held.

When compiling Board papers, the Chairman works closely with the Company Secretary to ensure that comprehensive, adequate, complete, reliable and timely information are presented to the Board to enable them to set strategy, monitor progress towards meeting the Group's objectives and conduct regular reviews of financial performance, risk management and other business issues.

All Directors also work closely with the Company Secretary to ensure that information necessary to keep Directors updated of the latest situation of the Company and for them to make informed decisions is presented to the Board in a timely manner.

During the year ended 31 December 2013, the Board held six meetings. The attendance records of each Director at the meetings are set out in the following table:

Members of the Board	Attendance/ Number of Meetings
Non-executive Director	
Yin Shun Hai	6/6
Executive Directors	
Ding Yong Ling	6/6
Zhang Huan Ping	6/6
Lin Man	
Independent Non-executive Directors	
Leung, Oi Sie Elsie	5/6[(1)]
Chan Ngai Chi	5/6[(1)]
Zhao Zhong Zhen	5/6[(1)]

(1) One of the Board meetings was held before the appointment of all independent non-executive Directors.

Board Committees

The Board established an audit committee (the "Audit Committee"), a remuneration committee (the "Remuneration Committee") and a nomination committee (the "Nomination Committee") on 28 March 2013 with written terms of reference which are available for viewing on the websites of the Company and the Stock Exchange. Details and reports of the committees are set out below.

Audit Committee

The Board established the Audit Committee with written terms of reference in compliance with Rules 5.28 to 5.33 of the GEM Listing Rules and the Code. The primary duties of the Audit Committee are to communicate with external auditor; to review the remuneration, terms of engagement, independence and objectivity of the external auditor; to review the accounting policy, financial position and financial reporting procedures of the Company; and to assess the financial reporting system, internal control procedures and risk management function of the Company and making recommendations thereof.

The Audit Committee has three members (all of them are the independent non-executive Directors) comprising Chan Ngai Chi (Chairman), Leung, Oi Sie Elsie and Zhao Zhong Zhen. During the Relevant Period, the Audit Committee had reviewed the interim results and report of the Company for the period ended 30 June 2013 and first and third quarterly results and reports of the Company for the periods ended 31 March 2013 and 30 September 2013, respectively. All issues raised by the Audit Committee are addressed and/or dealt with by the relevant member of the management team and the work, findings and recommendations of the Audit Committee are reported regularly to the Board. During the year ended 31 December 2013, there was no disagreement between the Board and the Audit Committee regarding the external auditor and there was no issue of significant importance requiring disclosure in this annual report under the GEM Listing Rules. The Group's annual results for the year ended 31 December 2013 had been reviewed by the Audit Committee prior to the submission to the Board for approval. Members of the Audit Committee were of the opinion that the preparation of such results complied with the applicable accounting standards, the GEM Listing Rules and that adequate disclosure have been made.

During the Relevant Period, the attendance of each member of the Audit Committee is set out in the following table:

Members of the Committee	Attendance/ Number of Meetings
Chan Ngai Chi (Chairman)	3/3
Leung, Oi Sie Elsie	3/3
Zhao Zhong Zhen	3/3

Remuneration Committee

The Company established the Remuneration Committee with written terms of reference in compliance with Rules 5.34 to 5.35 of the GEM Listing Rules and the Code. The primary duties of the Remuneration Committee are to make recommendations to the Board and review the terms of the remuneration package of each Director and member of senior management and making recommendations to the Board regarding any adjustment thereof in accordance with the Group's corporate goals and objectives; and to review and evaluate the performance of individual Directors. No Director shall participate in any discussion about his or her own remuneration.

The Remuneration Committee has three members comprising Zhao Zhong Zhen (Chairman, the independent non-executive Director), Chan Ngai Chi (the independent non-executive Director) and Ding Yong Ling (the executive Director). The remuneration of the Directors was determined with reference to their respective experiences, responsibilities with the Group and general market conditions. During the Relevant Period, one meeting of the Remuneration Committee was held to review the remuneration package of the key management of the Company. All members of the Remuneration Committee attended the meeting.

Nomination Committee

The Company established the Nomination Committee with written terms of reference in compliance with the Code Provisions A.5.1 and A.5.2 as set out in the Code. The primary duties of the Nomination Committee are to review the structure, size and composition (including the skills, knowledge, experience and diversity of perspectives) of the Board at least annually and to make recommendations on any proposed changes to the Board to complement the Company's corporate strategy; to identify individuals suitably qualified to become the Board members and select or make recommendations to the Board on the selection of individuals nominated for directorships of the Company and to assess the independence of independent non-executive Directors. In reviewing and recommending the appointment of new directors, the Nomination Committee would seek to identify the competencies required to enable the Board to fulfill its responsibilities. The resume or documents of the nominee or candidate will be given to the Nomination Committee for consideration.

During the Relevant Period, the Board adopted a Board Diversity Policy setting out the approach to diversity of members of the Board. The Company recognises and embraces the benefits of diversity of Board members. It endeavors to ensure that the Board has a balance of skills, experience and diversity of perspectives appropriate to the requirements of the Company's business. All the appointments for the Board members will continue to be made on a merit basis with due regard for the benefits of diversity of the Board members.

Selection and appointment of new directors will be based on a arrange of diversity perspectives, including but not limited to gender, age, cultural, educational background, qualifications, skills, knowledge, business and related experience, commitment, ability to contribute to the Board process and such qualities and attributes that may be required by the Board. The ultimate decision will be made upon the merits and contribution that the selected candidates will bring to the Board.

The Nomination Committee shall review the Board Diversity Policy established for implementing diversity on the Board periodically.

The Nomination Committee has three member comprising Leung, Oi Sie Elsie (Chairman, the independent non-executive Director), Chan Ngai Chi (the independent non-executive Director) and Ding Yong Ling (the executive Director). On 3 March 2014, a meeting of the Nomination Committee was held and all members of the Nomination Committee attended the meeting.

Directors' Interests in Shares

Details of Directors' interests in the shares of the Company are set out in the section headed "Report of Directors" on pages 60 to 77 of this annual report.

Directors' Responsibility for the Consolidated Financial Statements

The Directors acknowledge their responsibility to prepare consolidated financial statements and to ensure that the consolidated financial statements are prepared in accordance with statutory requirements and applicable accounting standards. The Directors are not aware of any material uncertainties relating to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern.

The independent auditor's report on pages 96 to 97 of this annual report sets out the responsibilities of PricewaterhouseCoopers, the external auditor of the Company.

Auditors' Remuneration

The remuneration paid/payable to the auditors of the Group for the year ended 31 December 2013 is set out as follows:

Service rendered	**Amount** HK$'000
Audit services	2,264
Audit-related services	708
Professional fees incurred in connection with the Company's listing	3,382
Total	6,354

Communications with Shareholders

The Board fully understand the importance that there must be good communications with the shareholders in order to help shareholders and investors to have a better understanding of the businesses of the Group. Accordingly, the Board adopted a Shareholder's Communication Policy during the Year which provides that the Board should endeavour to maintain an ongoing dialogue with the shareholders and in particular, use annual general meetings or other general meetings to communicate with the shareholders and encourage their participation.

Apart from the annual report, interim report, quarterly reports, announcements, and circulars to Shareholders, the Company's website (www.tongrentangcm.com) also facilitates effective communications with the shareholders, investors and other stakeholders of the Company by making available electronically and on timely basis up-to-date information relating to the Group's business developments, operations, financial information, corporate governance practices and other information.

Details of the communication platforms that the Company uses to maintain an ongoing dialogue with Shareholders and investors are set out in our Investor Relations Report on pages 42 to 47 of this annual report.

Shareholders' Rights

The general meetings of the Company provide an opportunity for communication between the shareholders and the Board. An annual general meeting of the Company shall be held in each year and at the place as may be determined by the Board. Any general meeting other than an annual general meeting shall be referred to as an extraordinary general meeting.

Subject to applicable laws and regulations, including the GEM Listing Rules and the Articles of Association, an extraordinary general meeting can be convened to consider proposals in accordance with the following provisions:

The Board may, whenever it thinks fit, convene an extraordinary general meeting, and extraordinary general meetings shall also be convened on such requisition, or in default may be convened by such requisitionists, as provided by sections 566 to 568 of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong). If at any time there are not sufficient Directors capable of acting to form a quorum, any Director or any 2 shareholders who are entitled to attend and vote at a general meeting may convene an extraordinary general meeting in the same manner as nearly as possible as that in which a meeting may be convened by the Directors.

The requirements and procedures as set out in sections 566 to 568 of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) are summarised as follows:

- The requisition must state the objects of the meeting, and must be signed by the requisitionists and deposited at the registered office of the Company, and may consist of several documents in like form, each signed by one or more requisitionists.

- If the Directors do not within 21 days from the date of the deposit of the requisition proceed duly to convene a meeting for a day not more than 28 days after the date on which the notice convening the meeting is given, the requisitionists, or any of them representing more than one-half of the total voting rights of all of them, may themselves convene a meeting, but any meeting so convened shall not be held after the expiration of 3 months from the said date.

- Any reasonable expenses incurred by the requisitionists by reason of the failure of the Directors duly to convene a meeting shall be repaid to the requisitionists by the Company.

In addition, shareholders are requested to follow sections 615 and 616 of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) for including a resolution at an annual general meeting. The requirements and procedures are set out below:

(i) Any number of shareholders representing not less than one-fortieth of the total voting rights of all shareholders having at the date of the requisition a right to vote at the an annual general meeting to which the requisition relates, or not less than 50 shareholders holding shares in the Company on which there has been paid up an average sum, per shareholder, of not less than HK$2,000, may submit a requisition in writing to put forward a resolution which may properly be moved and is intended to be moved at an annual general meeting.

(ii) The Company shall not be bound by the Companies Ordinance to give notice of the proposed resolution or to circulate a statement of not more than 1,000 words with respect to the matter referred to in the proposed resolution to shareholders of the Company entitled to receive notice of an annual general meeting unless (a) a copy of the requisition signed by the shareholders concerned (or 2 or more copies which between them contain the signatures of all the shareholders concerned) is deposited at the registered office of the Company for the attention of the Company secretary not less than 6 weeks before an annual general meeting in the case of a requisition requiring notice of a resolution and not less than 1 week before an annual general meeting in the case of any other requisition; and (b) the concerned shareholders have deposited with the requisition a sum reasonably sufficient to meet the Company's expenses in giving effect thereto.

(iii) However if, after a copy of a requisition requiring notice of a resolution has been deposited at the registered office of the Company, an annual general meeting is called for a date 6 weeks or less after the copy has been deposited, the copy though not deposited within the time required as referred to in the above shall be deemed to have been properly deposited.

Internal Control and Risk Management

The Board is responsible for formulating proper internal control and risk management system for the Group, and reviewing its effectiveness regularly through the Audit Committee. The internal audit department of the Group reports and presents directly to the audit committee, responsible for constantly supervising the work flow and risk assessment of each department of the Group, to assist the Board and senior management complying with the applicable supervising requirements and guidelines in risk control and supervision, so as to improve the efficiency of internal control system. Through continuous internal audit and reporting from time to time, the internal audit department will ensure the effective operation of the internal control system.

During the Year, the Audit Committee held a meeting with the internal audit department. The Audit Committee reviewed and discussed the works done and planning reports submitted by the internal audit department and reported the results of review and discussion to the Board. During the Year, the audit committee and the Board considered that the internal control system of the Group be effective and adequate. For risk management, the Board will regularly review the Group's finance, operation and compliance, and risk management corresponding to the changes in its business and to cope with by discussing and formulating strategies or measures, taking into account the adequacy of resources, staff qualifications and experience, training programmes and budget of the Group's accounting and financial reporting function.

Amendments Made to the Articles of Association

Pursuant to a special resolution of the shareholders of the Company passed on 28 March 2013, the Articles of Association was adopted with effect from the date of listing on 7 May 2013. Save as disclosed above, during the year ended 31 December 2013, there was no significant change in the Articles of Association.

The Articles of Association was available on the website of the Stock Exchange(www.hkexnews.hk) and the website of the Company (www.tongrentangcm.com).

Independent Auditor's Report

羅兵咸永道

To the shareholders of Beijing Tong Ren Tang Chinese Medicine Company Limited
(incorporated in Hong Kong with limited liability)

We have audited the consolidated financial statements of Beijing Tong Ren Tang Chinese Medicine Company Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 98 to 176, which comprise the consolidated and company balance sheets as at 31 December 2013, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Consolidated Financial Statements

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants, and the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with section 141 of the Hong Kong Companies Ordinance and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2013, and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 14 March 2014

Consolidated Income Statement

For the year ended 31 December 2013

	Note	2013 HK$'000	2012 HK$'000 (Restated)
Continuing operations			
Revenue	5	613,963	333,039
Cost of sales	6	(193,920)	(96,947)
Gross profit		420,043	236,092
Distribution and selling expenses	6	(91,013)	(77,129)
General and administrative expenses	6	(65,941)	(35,532)
Professional expenses incurred in connection with the Company's listing		(12,630)	(11,180)
Other gains	9	17,797	1,420
Operating profit		268,256	113,671
Finance income	10	4,853	663
Share of (losses)/profits of joint ventures	12	(942)	4,108
Share of loss of an associated company	13	(701)	(992)
Profit before income tax		271,466	117,450
Income tax expense	14	(43,918)	(25,289)
Profit for the year from continuing operations		227,548	92,161
Discontinued operations			
Profit for the year from discontinued operations	24(b)	–	66,953
Profit for the year		227,548	159,114
Profit attributable to:			
Owners of the Company		220,001	155,935
Non-controlling interests		7,547	3,179
		227,548	159,114

	Note	2013 HK$'000	2012 HK$'000 (Restated)
Profit attributable to owners of the Company arises from:			
Continuing operations		220,001	88,982
Discontinued operations		–	66,953
		220,001	155,935
Earnings per share from continuing and discontinued operations attributable to owners of the Company for the year (expressed in HK$ per share)			
Basic and diluted earnings per share	15		
From continuing operations		0.29	0.15
From discontinued operations		–	0.11
From profit for the year		0.29	0.26

The notes on pages 108 to 176 are an integral part of these consolidated financial statements.

	Note	2013 HK$'000	2012 HK$'000
Dividends	17	66,400	100,000

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2013

	Note	2013 HK$'000	2012 HK$'000 (Restated)
Profit for the year		**227,548**	159,114
Other comprehensive income:			
Item that is reclassified to profit or loss			
Release of exchange reserve upon disposal of a subsidiary		**(7,510)**	–
Item that may be subsequently reclassified to profit or loss			
Currency translation differences		**(4,606)**	3,010
Other comprehensive income for the year		**(12,116)**	3,010
Total comprehensive income for the year		**215,432**	162,124
Attributable to:			
Owners of the Company		**211,685**	158,287
Non-controlling interests		**3,747**	3,837
		215,432	162,124
Total comprehensive income attributable to owners of the Company arises from:			
Continuing operations		**211,685**	91,300
Discontinued operations	24(b)	**–**	66,987
		211,685	158,287

The notes on pages 108 to 176 are an integral part of these consolidated financial statements.

Consolidated Balance Sheet

As at 31 December 2013

	Note	As at 31 December 2013 HK$'000	2012 HK$'000 (Restated)	As at 1 January 2012 HK$'000 (Restated)
Assets				
Non-current assets				
Leasehold land	18	18,180	18,723	49,293
Property, plant and equipment	19	210,073	103,743	160,402
Interests in joint ventures	12	14,432	23,393	19,222
Interest in an associated company	13	–	928	1,918
Deposits paid for purchase of property, plant and equipment		2,485	6,872	–
Deferred income tax assets	20	6,323	2,068	9,922
		251,493	155,727	240,757
Current assets				
Inventories	21	102,157	79,907	56,304
Trade receivables and other current assets	22	132,868	34,795	34,655
Short-term bank deposits	23	469,333	7,372	8,425
Cash and cash equivalents	23	454,264	228,073	139,300
		1,158,622	350,147	238,684
Assets of disposal group classified as held-for-sale	24(a)	–	162,985	–
		1,158,622	513,132	238,684
Total assets		1,410,115	668,859	479,441
Equity and liabilities				
Equity attributable to owners of the Company				
Share capital	25	415,000	201,430	201,430
Share premium	25	452,363	3,913	3,913
Reserves	26			
— Proposed final dividend	17	66,400	100,000	–
— Others		406,352	189,540	136,380
		1,273,715	494,883	341,723
Non-controlling interests		36,004	72,805	68,042
Total equity		1,309,719	567,688	409,765

Consolidated Balance Sheet

As at 31 December 2013

	Note	As at 31 December 2013 HK$'000	2012 HK$'000 (Restated)	As at 1 January 2012 HK$'000 (Restated)
Liabilities				
Non-current liabilities				
Deferred income tax liabilities	20	4,248	3,816	4,616
Deferred income — government grant		–	–	20,245
		4,248	3,816	24,861
Current liabilities				
Trade and other payables	27	69,255	65,765	33,383
Current income tax liabilities		26,893	9,674	11,432
		96,148	75,439	44,815
Liabilities of disposal group classified as held-for-sale	24(a)	–	21,916	–
		96,148	97,355	44,815
Total liabilities		100,396	101,171	69,676
Total equity and liabilities		1,410,115	668,859	479,441
Net current assets		1,062,474	415,777	193,869
Total assets less current liabilities		1,313,967	571,504	434,626

The notes on pages 108 to 176 are an integral part of these consolidated financial statements.

The financial statements on pages 98 to 176 were approved by the Board of Directors on 14 March 2014 and were signed on its behalf.

Ding Yong Ling
Director

Lin Man
Director

Balance Sheet

As at 31 December 2013

	Note	2013 HK$'000	2012 HK$'000
Assets			
Non-current assets			
Leasehold land	18	**18,180**	18,723
Property, plant and equipment	19	**199,702**	95,202
Investments in subsidiaries	11	**49,334**	39,005
Investments in joint ventures	12	**19,307**	25,439
Deposits paid for purchase of property, plant and equipment		**1,528**	5,228
		288,051	183,597
Current assets			
Inventories	21	**54,210**	38,013
Trade receivables and other current assets	22	**159,866**	84,158
Short-term bank deposits	23	**450,594**	592
Cash and cash equivalents	23	**388,519**	125,334
		1,053,189	248,097
Assets held-for-sale	24(a)	**–**	98,027
		1,053,189	346,124
Total assets		**1,341,240**	529,721
Equity and liabilities			
Equity attributable to owners of the Company			
Share capital	25	**415,000**	201,430
Share premium	25	**452,363**	3,913
Reserves	26		
— Proposed final dividend	17	**66,400**	100,000
— Others		**413,827**	179,731
Total equity		**1,281,190**	485,074

Balance Sheet

As at 31 December 2013

	Note	2013 HK$'000	2012 HK$'000
Liabilities			
Non-current liabilities			
Deferred income tax liabilities	20	**3,446**	3,669
Current liabilities			
Trade and other payables	27	**32,208**	33,525
Current income tax liabilities		**24,396**	7,453
		56,604	40,978
Total liabilities		**60,050**	44,647
Total equity and liabilities		**1,341,240**	529,721
Net current assets		**996,585**	305,146
Total assets less current liabilities		**1,284,636**	488,743

The notes on pages 108 to 176 are an integral part of these financial statements.

The financial statements on pages 98 to 176 were approved by the Board of Directors on 14 March 2014 and were signed on its behalf.

Ding Yong Ling
Director

Lin Man
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2013

	Note	Attributable to owners of the Company									
		Share capital HK$'000	Share premium HK$'000	Merger reserve HK$'000	Other reserve HK$'000	Statutory Reserve HK$'000	Exchange reserve HK$'000	Retained earnings HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
At 1 January 2012		201,430	3,913	(13,124)	742	1,352	12,105	135,305	341,723	68,042	409,765
Comprehensive income											
Profit for the year		–	–	–	–	–	–	155,935	155,935	3,179	159,114
Other comprehensive income											
Currency translation differences											
— Group		–	–	–	–	–	2,287	–	2,287	658	2,945
— Joint ventures and an associated company		–	–	–	–	–	65	–	65	–	65
Total comprehensive income		–	–	–	–	–	2,352	155,935	158,287	3,837	162,124
Professional expenses incurred in connection with the Company's listing	26	–	–	–	(4,747)	–	–	–	(4,747)	–	(4,747)
Dividends		–	–	–	–	–	–	–	–	(3,639)	(3,639)
Total contributions by and distributions to owners of the Company		–	–	–	(4,747)	–	–	–	(4,747)	(3,639)	(8,386)
Capital injection		–	–	–	–	–	–	–	–	4,185	4,185
Acquisition of additional interest in a subsidiary		–	–	–	(380)	–	–	–	(380)	380	–
Total changes in ownership interests in subsidiaries		–	–	–	(380)	–	–	–	(380)	4,565	4,185
Total transactions with owners		–	–	–	(5,127)	–	–	–	(5,127)	926	(4,201)
At 31 December 2012		201,430	3,913	(13,124)	(4,385)	1,352	14,457	291,240	494,883	72,805	567,688

Consolidated Statement of Changes in Equity

For the year ended 31 December 2013

		Attributable to owners of the Company									
	Note	Share capital HK$'000	Share premium HK$'000	Merger reserve HK$'000	Other reserve HK$'000	Statutory Reserve HK$'000	Exchange reserve HK$'000	Retained earnings HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
At 1 January 2013		201,430	3,913	(13,124)	(4,385)	1,352	14,457	291,240	494,883	72,805	567,688
Comprehensive income											
Profit for the year		–	–	–	–	–	–	220,001	220,001	7,547	227,548
Other comprehensive income											
Release of exchange reserve upon disposal of a subsidiary	28(d)	–	–	–	–	–	(4,593)	–	(4,593)	(2,917)	(7,510)
Currency translation differences											
— Group		–	–	–	–	–	(1,506)	–	(1,506)	(883)	(2,389)
— Joint ventures and an associated company		–	–	–	–	–	(2,217)	–	(2,217)	–	(2,217)
Total comprehensive income		–	–	–	–	–	(8,316)	220,001	211,685	3,747	215,432
Issuance of new shares upon the capitalisation of share premium	25	98,570	(98,570)	–	–	–	–	–	–	–	–
Issuance of new shares	25	115,000	584,200	–	–	–	–	–	699,200	–	699,200
Professional expenses incurred in connection with the Company's listing	25	–	(32,433)	–	–	–	–	–	(32,433)	–	(32,433)
Transfer of professional expenses previously capitalised	25	–	(4,747)	–	4,747	–	–	–	–	–	–
Transfer of statutory reserve to retained earnings		–	–	–	–	282	–	(282)	–	–	–
Dividends		–	–	–	–	–	–	(100,000)	(100,000)	(6,526)	(106,526)
Total contributions by and distributions to owners of the Company		213,570	448,450	–	4,747	282	–	(100,282)	566,767	(6,526)	560,241
Disposal of a subsidiary	28(d)	–	–	–	380	–	–	–	380	(41,807)	(41,427)
Deemed acquisition of a subsidiary	30	–	–	–	–	–	–	–	–	7,779	7,779
Capital contribution to a newly formed subsidiary		–	–	–	–	–	–	–	–	6	6
Total changes in ownership interests in subsidiaries		–	–	–	380	–	–	–	380	(34,022)	(33,642)
Total transactions with owners		213,570	448,450	–	5,127	282	–	(100,282)	567,147	(40,548)	526,599
At 31 December 2013		415,000	452,363	(13,124)	742	1,634	6,141	410,959	1,273,715	36,004	1,309,719

The notes on pages 108 to 176 are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 December 2013

	Note	2013 HK$'000	2012 HK$'000 (Restated)
Cash flows from operating activities			
Cash generated from operations	28(a)	175,556	218,844
Income tax paid		(33,028)	(33,748)
Net cash generated from operating activities		142,528	185,096
Cash flows from investing activities			
Deemed acquisition of a subsidiary	28(c)	9,541	–
Interest received		4,853	882
(Increase)/decrease in short-term bank deposits with original maturities exceeding three months		(461,209)	1,053
Purchase of property, plant and equipment		(123,485)	(58,073)
Proceeds from disposal of property, plant and machinery	28(b)	102	17
Net proceeds from disposal of a subsidiary	28(d)	97,566	–
Deposit paid for purchase of property, plant and machinery		(2,921)	(6,872)
Net cash used in investing activities		(475,553)	(62,993)
Cash flows from financing activities			
Capital injection by non-controlling interests		–	4,185
Proceeds from issuance of new shares		699,200	–
Professional expenses paid in connection with the Company's listing		(51,955)	(15,099)
Dividends paid to the Company's shareholders	17	(100,000)	–
Dividends paid to non-controlling interests		(6,526)	(3,639)
Net cash generated from/(used in) financing activities		540,719	(14,553)
Net increase in cash and cash equivalents		207,694	107,550
Cash and cash equivalents at beginning of year		249,301	139,300
Exchange (losses)/gains on cash and cash equivalents		(2,731)	2,451
Cash and cash equivalents at end of year		454,264	249,301

The notes on pages 108 to 176 are an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

1 General information

Beijing Tong Ren Tang Chinese Medicine Company Limited (the "Company") and its subsidiaries (together the "Group") are 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 of Hong Kong Limited. 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 3 Dai King Street, Tai Po Industrial Estate, Tai Po, New Territories, Hong Kong.

The Company is listed on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited.

These consolidated financial statements are presented in thousands of units of Hong Kong dollars (HK$'000), unless otherwise stated. These consolidated financial statements have been approved for issue by the Board of Directors on 14 March 2014.

2 Summary of significant accounting policies

(a) Basis of preparation

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS") issued by the Hong Kong Institute of Certified Public Accountants. The consolidated financial statements have been prepared under the historical cost convention.

The preparation of the financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

2 Summary of significant accounting policies *(Continued)*

(a) Basis of preparation *(Continued)*

(i) Adoption of new and revised standards and amendments to standards

The Group has adopted the following new and revised standards and amendments to standards which are relevant to the Group's operations and are mandatory for the financial year beginning on or after 1 January 2013:

HKAS 1 (Amendment)	Presentation of Items of Other Comprehensive Income
HKAS 19 (Revised 2011)	Employee Benefits
HKAS 27 (Revised 2011)	Separate Financial Statements
HKAS 28 (Revised 2011)	Investments in Associates and Joint Ventures
HKFRS 1 (Amendment)	Government Loans
HKFRS 7 (Amendment)	Financial Instruments: Disclosures — Offsetting Financial Assets and Financial Liabilities
HKFRS 10	Consolidated Financial Statements
HKFRS 11	Joint Arrangements
HKFRS 12	Disclosure of Interests in Other Entities
HKFRS 13	Fair Value Measurement
HKFRS 10, HKFRS 11 and HKFRS 12 (Amendment)	Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance
Annual Improvements Project	Annual Improvements 2009–2011 cycle

Other than as further explained below regarding the impact of HKAS 28 (Revised 2011), the adoption of the new and revised standards and amendments to standards does not have any significant financial effect on these consolidated financial statements.

Notes to the Consolidated Financial Statements

2 Summary of significant accounting policies *(Continued)*

(a) Basis of preparation *(Continued)*

(i) Adoption of new and revised standards and amendments to standards *(Continued)*

The Group has adopted HKAS 28 (revised 2011) "Investments in Associates and Joint Ventures" since 1 January 2013. The accounting of the Group's investments in joint ventures has been changed from proportionate consolidation to equity method of accounting. The Group has adopted this amendment retrospectively and the consolidated balance sheet at 1 January 2012 and 31 December 2012 and the consolidated income statement for the year ended 31 December 2012 have been restated to reflect the effects of adoption of this amendment. The effects of adoption are disclosed as follows.

Effect on consolidated balance sheet

Increase/(decrease)	2013 HK$'000	2012 HK$'000	2011 HK$'000
Assets			
Properties, plant and equipment	(10,458)	(11,794)	(2,989)
Investments in joint ventures	14,432	23,393	19,222
Deferred income tax assets	–	(90)	(180)
Inventories	(4,946)	(7,246)	(5,799)
Trade receivables and other current assets	178	(2,931)	(343)
Short-term bank deposits	(3,065)	(3,434)	(3,178)
Cash and cash equivalents	(4,443)	(9,499)	(12,350)
Tax recoverable	(269)	(178)	(937)
Total assets	(8,571)	(11,779)	(6,554)
Liabilities			
Deferred income tax liabilities	(178)	(181)	(50)
Bank borrowing	(4,020)	(4,536)	–
Trade and other payables	(3,274)	(6,122)	(4,561)
Current income tax liabilities	(1,099)	(940)	(1,943)
Total liabilities	(8,571)	(11,779)	(6,554)

2 Summary of significant accounting policies *(Continued)*

(a) Basis of preparation *(Continued)*

(i) Adoption of new and revised standards and amendments to standards *(Continued)*

Effect on consolidated income statement

Increase/(decrease)	2013 HK$'000	2012 HK$'000
Continuing operations		
Revenue	**(17,451)**	(25,881)
Cost of sales	**(8,932)**	(11,185)
Other gains	**(37)**	(2,786)
Distribution and selling expenses	**(4,597)**	(8,792)
General and administrative expenses	**(3,550)**	(3,940)
Finance income, net	**4**	(142)
Share of losses/profits of joint ventures	**942**	4,108
Income tax expense	**(1,347)**	(784)
Profit for the year	**–**	–

Effect on consolidated statement of cash flows

Increase/(decrease)	2013 HK$'000	2012 HK$'000
Operating activities cash flows	**(1,441)**	(2,642)
Investing activities cash flows	**4,980**	9,354
Financing activities cash flows	**701**	(4,511)
Net increase in cash and cash equivalents	**4,240**	2,201
Cash and cash equivalents at the beginning of year	**(9,499)**	(12,350)
Net exchange gain on cash and cash equivalents	**816**	650
Cash and cash equivalents at the end of year	**(4,443)**	(9,499)

Notes to the Consolidated Financial Statements

2 Summary of significant accounting policies *(Continued)*

(a) Basis of preparation *(Continued)*

(ii) Standards and amendments which are not yet effective

The following are new/revised standards and amendments to existing standards that have been published and are relevant and mandatory for the Group's accounting periods beginning on or after 1 January 2014 or later periods, but have not been early adopted by the Group.

Effective for the accounting periods beginning on or after 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

Effective for the accounting periods beginning on or after 1 January 2015

HKFRS 7 and HKFRS 9 (Amendments)	Mandatory Effective Date of HKFRS 9 and Transition Disclosures
HKFRS 9	Financial Instruments

The Group will apply the above new/revised 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/revised standards and amendments to standards and does not expect that the adoption of these new/revised standards and amendments to standards will result in any material impact on the Group's results and financial position.

(b) Subsidiaries

(i) Consolidation

A subsidiary is an entity (including a structured entity) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

Business combinations

Except for business combination under common control, the Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets.

Acquisition-related costs are expensed as incurred.

2 Summary of significant accounting policies *(Continued)*

(b) Subsidiaries *(Continued)*

(i) Consolidation *(Continued)*

Business combinations (Continued)

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

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

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

Changes in ownership interests in subsidiaries without change of control

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

Disposal of subsidiaries

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognised in the profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint ventures or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

(ii) Separate financial statements

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

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

2 Summary of significant accounting policies *(Continued)*

(c) Associates

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

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

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

The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount adjacent to 'share of profit/loss of an associated company, in the income statement.

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

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

(d) Joint ventures

The Group has applied HKFRS 11 to all joint arrangements as of 1 January 2012. Under HKFRS 11 investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations of each investor. The Group has assessed the nature of its joint arrangements and determined them to be joint ventures. Joint ventures are accounted for using the equity method.

Under the equity method of accounting, interests in joint ventures are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses and movements in other comprehensive income. When the Group's share of losses in joint ventures equals or exceeds its interests in the joint ventures (which includes any long-term interests that, in substance, form part of the Group's net investment in the joint ventures), the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint ventures.

2 Summary of significant accounting policies *(Continued)*

(d) Joint ventures *(Continued)*

Unrealised gains on transactions between the Group and its joint ventures are eliminated to the extent of the Group's interests in the joint ventures. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of the joint ventures have been changed where necessary to ensure consistency with the policies adopted by the Group. The change in accounting policy has been applied as from 1 January 2012.

The effects of the change in accounting policies on the Group's financial position at 1 January 2012 and 31 December 2012 and 2013 as well as the Group's comprehensive income and cash flows for the years ended 31 December 2012 and 2013 are shown in Note 2(a)(i). The change in accounting policy has had no impact on earnings per share.

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

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

(e) Segment reporting

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

(f) Foreign currency translation

(i) Functional and presentation currency

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

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

(iii) Group companies

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

— assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

Notes to the Consolidated Financial Statements

2 Summary of significant accounting policies *(Continued)*

(f) Foreign currency translation *(Continued)*

(iii) Group companies *(Continued)*

— income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and

— all resulting currency translation differences are recognised in other comprehensive income.

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

(iv) Disposal of foreign operation

On the disposal of a foreign operation (that is, a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, a disposal involving loss of joint control over a joint venture that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the currency translation differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

(g) Property, plant and equipment

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

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

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

— Leasehold land held under finance lease	Over the lease term of 34 to 47 years
— Buildings	33 to 50 years
— Leasehold improvement	Over the lease term
— Plant and machinery	3 to 12 years
— Motor vehicles	5 to 8 years
— Furniture and equipment	2.5 to 12 years

2 Summary of significant accounting policies *(Continued)*

(g) Property, plant and equipment *(Continued)*

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2(h)).

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

(h) Impairment of non-financial assets

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

(i) Assets and liabilities of the disposal group classified as held-for-sale

Assets and liabilities of the disposal groups are classified as held-for-sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. The non-current assets, except for certain assets as explained below, or disposal groups, are stated at the lower of carrying amount and fair value less costs to sell. Deferred tax assets, assets arising from employee benefits, financial assets other than investments in subsidiaries and associates and investment properties, even if held for sale, would continue to be measured in accordance with the policies set out elsewhere in Note 2.

(j) Discontinued operations

A discontinued operation is a component of the Group's business, the operations and cash flows of which can be clearly distinguished from the rest of the Group and which represents a separate major line of business or geographic area of operations, or is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations, or is a subsidiary acquired exclusively with a view to resale. If the disposal group to be abandoned meets the above criteria, the Group shall present the results and cash flows of the disposal group as discontinued operations at the date on which it ceases to be used.

When an operation is classified as discontinued, a single amount is presented in the income statement, which comprises the post-tax profit or loss of the discontinued operation and the post-tax gain or loss recognised on the measurement to fair value less costs to sell, or on the disposal, of the assets or disposal group(s) constituting the discontinued operation.

Notes to the Consolidated Financial Statements

2 Summary of significant accounting policies *(Continued)*

(k) Financial assets

(i) Classification

The Group classifies its financial assets as loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for the amounts that are settled or expected to be settled more than 12 months after the end of the reporting period. These are classified as non-current assets. The Group's loans and receivables comprise "trade receivables and other current assets" and "cash and cash equivalents" in the balance sheet (Notes 2(n) and 2(o)).

(ii) Recognition and measurement

Loans and receivables are subsequently carried at amortised cost using the effective interest method.

(iii) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

(l) Impairment of financial assets

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

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

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

(m) Inventories

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

2 Summary of significant accounting policies *(Continued)*

(n) Trade receivables and other current assets

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

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

(o) Cash and cash equivalents

In the consolidated statement of cash flows, cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less and bank overdrafts. In the consolidated and entity balance sheet, bank overdrafts are shown within borrowings in current liabilities.

(p) Share capital

Ordinary shares are classified as equity.

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

(q) Trade and other payables

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

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

(r) Current and deferred income tax

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

(i) Current income tax

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

Notes to the Consolidated Financial Statements

2 Summary of significant accounting policies *(Continued)*

(r) Current and deferred income tax *(Continued)*

(ii) Deferred income tax

Inside basis differences

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

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

Outside basis differences

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

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

(iii) Offsetting

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

(s) Employee benefits

The Group operates various pension schemes which are defined contribution plans and are generally funded through payments to insurance companies or trustee-administered funds.

(i) Pension obligations

A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

2 Summary of significant accounting policies *(Continued)*

(s) Employee benefits *(Continued)*

(ii) Bonus plans

The Group recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

(t) Provisions

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

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

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

(u) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods and services supplied, stated net of discounts, returns, rebates and value added taxes and after eliminating sales within the Group.

The Group recognises revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of the Group's activities, as described below. The Group bases its estimates of return on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

(i) Sales of goods

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

For wholesales, the wholesaler has full discretion over the channel and price to sell the products, and there is no unfulfilled obligation that could affect the wholesaler's acceptance of the products. Delivery does not occur until the products have been shipped to the specified location, the risks of obsolescence and loss have been transferred to the wholesaler, and either the wholesaler has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or the Group has objective evidence that all criteria for acceptance have been satisfied. Sales are recorded based on the price specified in the sales contracts.

For retail sales, the group operates a chain of retail outlets for selling products. Sales of goods are recognised when a group entity sells a product to the customer. Retail sales are usually in cash or by credit card.

Notes to the Consolidated Financial Statements

2 Summary of significant accounting policies *(Continued)*

(u) Revenue recognition *(Continued)*

(ii) Service income

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

(iii) Agency fee income

The Company acts as an agent of the immediate holding company and the intermediate holding company of the Company for "Tong Ren Tang" branded products outside the PRC and finds overseas customers for them. Agency fee income is based on specified rates on the total overseas sales of "Tong Ren Tang" branded products made by the immediate holding company and the intermediate holding company to the customers. Agency fee income is recognised when the immediate holding company and the intermediate holding company have received the settlements from these overseas customers.

(iv) Royalty fee income

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

(v) Interest income

Interest income is recognised using the effective interest method.

(v) Operating leases

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

(w) Dividend distribution

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

3 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 Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. Risk management is carried out by management of each individual entity within the Group.

(i) Foreign exchange risk

Each individual group entity has its own functional currency. Foreign exchange risk to each individual group entity arises when future commercial transactions or recognised assets or liabilities are denominated in a currency that is not the entity's functional currency. The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to Hong Kong dollar and the United States dollar.

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

If the respective functional currency of the Group's entities had strengthened/weakened by 5% against the relevant foreign currencies, with all other variables held constant, the profit before income tax for the year ended 31 December 2013 and 2012 would have increased/decreased as follows:

	2013 Increase/(decrease) in profit before income tax if exchange rates change by		2012 Increase/(decrease) in profit before income tax if exchange rates change by	
	+5% HK$'000	**-5% HK$'000**	+5% HK$'000 (Restated)	-5% HK$'000 (Restated)
The Group				
Hong Kong dollar	**(2,428)**	**2,428**	(1,144)	1,144
United States dollar	**236**	**(236)**	175	(175)
	(2,192)	**2,192**	(969)	969

Notes to the Consolidated Financial Statements

3 Financial risk management *(Continued)*

(a) Financial risk factors *(Continued)*

(ii) Interest rate risk

Other than short-term bank deposits and bank balances, the Group does not have significant interest-bearing assets or liabilities. The Group's exposure to interest rate risk associated with the effects of fluctuations in the prevailing levels of the market interest rates on its cash flows are not deemed to be substantial in the view of the Directors based on the nature of the assets and liabilities.

At 31 December 2013, if the interest rates on bank deposits had been 50 basis-points higher/lower with all other variables held constant, profit before income tax for the years would have been HK$4,612,000 (2012: HK$1,173,000, restated) higher/lower, respectively, mainly as a result of higher/lower interest income on bank deposits.

(iii) Credit risk

Credit risk arises from bank deposits and trade receivables and other current assets (including trade receivables from group companies).

All the bank deposits are placed with banks with good credit ratings to mitigate the risk. For trade receivables and other current assets (including trade receivables from group companies), the Group assesses the credit quality of the counter parties by taking into account their financial position, credit history and other factors. Management also regularly reviews the recoverability of these receivables and follows up on the disputes or amounts overdue, if any. The management is of the opinion that the risk of default by counterparties is low. The Group does not hold any collateral as security.

Majority of the Group's trade receivables are due within 90 days from the date of billings. As at 31 December 2013, 99.5% of the Group's trade receivables were due within 90 days (2012: 99.96%). The maximum exposure to credit risk is represented by the carrying amount of trade receivables in the consolidated balance sheet. Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade receivables are set out in Note 22.

(iv) Liquidity risk

The Group's policy is to maintain sufficient cash and cash equivalents to meet its working capital requirements. The Group has steady cash inflow from operations and has adequate financial resources to fund its operations and future expansions. As at 31 December 2013, the Group's financial liabilities were mainly trade and other payables amounting to HK$69,255,000 (2012: HK$65,765,000, restated), which were due within 12 months and equal their carrying balance as the impact of discounting is not significant.

(b) Capital risk management

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

Total capital is calculated as 'equity' as shown in the balance sheet. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

3 Financial risk management *(Continued)*

(c) Fair value estimation

The Group's financial assets are classified as loans and receivables and are measured at amortised cost. The carrying amounts of the Group's financial assets, including short-term bank deposits, cash and cash equivalents and trade receivables and other current assets, approximate their fair values due to their short maturities.

The carrying amounts of the Group's financial liabilities, including trade and other payables are measured at amortised cost.

4 Critical accounting estimates and judgments

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

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

(a) Inventories

(i) Net realisable value

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

(ii) Impairment assessment

Provisions are made against slow-moving, obsolete and damaged inventories for which the net realisable value is estimated to be less than the cost. Inventories which are damaged or obsolete are written down as identified. The risk of obsolescence of slow-moving inventory is assessed by comparing the level of inventory held to future sales projected on the basis of historical experience. The actual realisable value of inventory may differ materially from the estimated value on which the provision is based.

(b) Income taxes

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

Notes to the Consolidated Financial Statements

4 Critical accounting estimates and judgments *(Continued)*

(c) Property, plant and equipment

(i) Useful lives

The Group's management determines the estimated useful lives and related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of these assets of similar nature and functions. It could change significantly as a result of technical innovations and competitor actions in response to changes in market conditions. Management will increase the depreciation charge where useful lives are less than previously estimated lives, or it will write off or write down technically obsolete or non-strategic assets that have been abandoned or sold.

Management considers that the determination of useful lives of certain plant and machinery held in Hong Kong involves critical estimate and judgement. If the useful lives of these plant and machinery were shortened by 2 years, the profit before income tax for the year ended 31 December 2013 would have been decreased by HK$1,056,000 (2012: HK$1,054,000, restated).

(ii) Impairment assessment

Property, plant and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The recoverable amounts have been determined based on the higher of value-in-use and fair value less costs to sell, taking into account the latest market information, past experience and current business performance. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

(d) Impairment of trade receivables and other current assets

The Group assesses whether there is objective evidence that trade receivables and other current assets are impaired. It recognises impairment loss based on estimates of the extent and timing of future cash flows using applicable discount rates. The final outcome of the recoverability and cash flows of these receivables will impact the amount of impairment loss required.

5 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 self-manufactured products in Hong Kong. In addition, it includes the royalty fee income received from overseas entities for using "Tong Ren Tang" brand name. In 2012, it included the agency fee income for acting as the sales agent of the immediate holding company and the intermediate holding company of the Company for their "Tong Ren Tang" branded products sold outside the PRC until the expiry of the agency agreements in December 2012. Thereafter, the "Tong Ren Tang" branded products of the immediate holding company and the intermediate holding company are distributed to non-PRC markets through a PRC subsidiary of the Company.

(ii) PRC (excludes Hong Kong and Macao)

(a) wholesale of Chinese medicine and healthcare products (including self-manufactured products) in the PRC — The wholesale in the PRC was ceased after October 2012. From management perspective, the wholesale business in the PRC is not considered as a reportable operating segment; therefore the wholesale business in the PRC was presented as discontinued operations in the segment information in 2012 to reflect the result of the discontinued operation. In October 2013, the Company entered into a PRC distribution framework agreement with its ultimate holding company. A subsidiary of the Company in the PRC sells the self-manufactured products to the group entities of the ultimate holding company.

(b) the operations of TRT (Tang Shan) — In 2012, the Company decided to dispose of TRT (Tang Shan) to a fellow subsidiary. Assets and liabilities of TRT (Tang Shan) were presented as assets held-for-sale in the segment information as at 31 December 2012.

(c) the sole distributor operation — Since November 2012, a subsidiary of the Company in the PRC becomes the sole distributor for the immediate holding company and the intermediate holding company of the Company for "Tong Ren Tang" branded products in non-PRC markets.

(iii) Overseas — sale of Chinese medicine products and provision of Chinese medical consultation services in other overseas countries, including Macao.

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.

Notes to the Consolidated Financial Statements

5 Segment information *(Continued)*

Segment assets include leasehold land, property, plant and equipment, interests in joint ventures, interest in an associated company, deferred tax assets, deposits paid for purchase of leasehold land and 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.

(a) Analysis of consolidated income statement

	Hong Kong HK$'000	PRC HK$'000	Overseas HK$'000	Continuing operations HK$'000	Discontinued operations HK$'000	Total HK$'000
Year ended 31 December 2013						
Segment revenue	458,290	124,961	147,860	731,111	–	731,111
Inter-segment revenue	(66,231)	(50,917)	–	(117,148)	–	(117,148)
Revenue from external customers	392,059	74,044	147,860	613,963	–	613,963
Contribution to segment results	283,328	13,393	24,968	321,689	–	321,689
Depreciation and amortisation	(11,918)	(451)	(3,027)	(15,396)	–	(15,396)
Write-off of inventories	(425)	–	–	(425)	–	(425)
Segment results	270,985	12,942	21,941	305,868	–	305,868
Inter-segment elimination						(24,982)
Professional expenses incurred in connection with the Company's listing						(12,630)
Operating profit						268,256
Finance income	4,119	190	544	4,853	–	4,853
Share of losses of joint ventures						(942)
Share of loss of an associated company						(701)
Profit before income tax						271,466
Income tax (expense)/credit	(44,326)	3,073	(2,665)	(43,918)	–	(43,918)
Profit for the year						227,548

5 Segment information *(Continued)*

(a) Analysis of consolidated income statement *(Continued)*

	Hong Kong HK$'000	PRC HK$'000	Overseas HK$'000	Continuing operations HK$'000	Discontinued operations HK$'000	Total HK$'000
Year ended 31 December 2012 (Restated)						
Segment revenue	269,575	10,663	127,842	408,080	115,031	523,111
Inter-segment revenue	(64,378)	(10,663)	–	(75,041)	–	(75,041)
Revenue from external customers	205,197	–	127,842	333,039	115,031	448,070
Contribution to segment results	78,803	(7,308)	21,926	93,421	88,715	182,136
Depreciation and amortisation	(5,612)	(693)	(2,695)	(9,000)	(2,466)	(11,466)
Impairment of inventories	–	–	–	–	(6,084)	(6,084)
Write-back of impairment of inventories	–	–	–	–	316	316
Segment results	73,191	(8,001)	19,231	84,421	80,481	164,902
Inter-segment elimination						40,429
Professional expenses incurred in connection with the Company's listing						(11,180)
Operating profit						194,151
Finance income	16	256	391	663	219	882
Share of profits of joint ventures						4,108
Share of loss of an associated company						(992)
Profit before income tax (Note)						198,149
Income tax (expense)/credit	(22,447)	456	(3,298)	(25,289)	(13,746)	(39,035)
Profit for the year						159,114

Notes to the Consolidated Financial Statements

5 Segment information *(Continued)*

(a) Analysis of consolidated income statement *(Continued)*

Note:

	HK$'000
Profit before income tax arises from:	
Continuing operations	117,450
Discontinued operations (Note 24(b))	80,699
	198,149

(b) Analysis of consolidated balance sheet

	Hong Kong HK$'000	PRC HK$'000	Overseas HK$'000	Total HK$'000
At 31 December 2013				
Segment assets and liabilities				
Total assets	1,198,523	80,073	131,519	1,410,115
Interests in joint ventures	–	–	14,432	14,432
Interest in an associated company	–	–	–	–
Additions to non-current assets[1]	112,175	166	4,271	116,612
Total liabilities	(53,282)	(30,260)	(16,854)	(100,396)

5 Segment information *(Continued)*

(b) Analysis of consolidated balance sheet *(Continued)*

	Hong Kong HK$'000	PRC HK$'000	Overseas HK$'000	Total HK$'000
At 31 December 2012				
Segment assets and liabilities (Restated)				
Total assets	309,895	247,589	111,375	668,859
Interests in joint ventures	–	–	23,393	23,393
Interest in an associated company	–	928	–	928
Assets of disposal group classified as held-for-sale	–	162,985	–	162,985
Additions to non-current assets[1]	9,286	26	4,277	13,589
Total liabilities	(31,367)	(56,788)	(13,016)	(101,171)
Liabilities of disposal group classified as held-for-sale	–	(21,916)	–	(21,916)

[1] In this analysis, the total of non-current assets excludes financial instruments (which include interests in joint ventures and an associated company) and deferred tax assets.

(c) Revenue

Turnover of the Group represents sales of Chinese medicine products and provision of services. The analysis of revenue by category is as follows:

	2013 HK$'000	2012 HK$'000 (Restated)
Sales of Chinese medicine products	**588,019**	287,146
Chinese medical consultation	**25,071**	23,887
Agency fee income	**–**	20,645
Royalty fee income	**873**	1,361
	613,963	333,039

Notes to the Consolidated Financial Statements

5 Segment information *(Continued)*

(d) Information about major customers

For the year ended 31 December 2013, revenue from two (2012: two) customers each accounted for more than ten per cent of the Group's total revenue. These revenues are attributable to the Hong Kong segment and the PRC segment. The revenues from these customers are summarised below:

	2013 **HK$'000**
Revenue from:	
— Customer A	**153,733**
— Customer B	**147,680**
	301,413

	2012 HK$'000
Revenue from:	
— the ultimate holding company and certain entities under its control (Note)	128,004
— Customer A	49,256
	177,260

Note: It represents a group of entities under common control considered as a single customer.

There are no customers of other segments individually accounted for ten percent or more of the Group's total revenue for the year ended 31 December 2013 (2012: nil).

5 Segment information *(Continued)*

(e) Information about geographical areas

The Company is domiciled in Hong Kong. An analysis of revenue from external customers and non-current assets of the Group by geographical areas is set out below:

(i) Revenue

	2013 HK$'000	2012 HK$'000 (Restated)
Hong Kong	**392,059**	205,197
The PRC	**74,044**	–
Macao	**52,434**	43,995
Australia	**35,152**	36,213
Singapore	**32,586**	30,099
Canada	**19,256**	9,389
Other countries[1]	**8,432**	8,146
	613,963	333,039

The geographical location of revenue is analysed based on the location at which goods are sold and services are provided.

[1] Other countries include entities located in Brunei, United Arab Emirates and Poland.

(ii) Non-current assets[2]

	2013 HK$'000	2012 HK$'000 (Restated)
Hong Kong	**219,410**	118,456
The PRC	**488**	2,125
Macao	**2,303**	332
Australia	**1,978**	3,231
Singapore	**326**	575
Canada	**3,126**	1,835
Other countries[1]	**3,107**	2,784
	230,738	129,338

[1] Other countries include entities located in Brunei, United Arab Emirates and Poland.

[2] Non-current assets are located based on where the entity holds assets. In this analysis, the total of non-current assets excludes financial instruments (which include interests in joint ventures and an associated company) and deferred tax assets.

Notes to the Consolidated Financial Statements

6 Expenses by nature

	2013 HK$'000	2012 HK$'000 (Restated)
Cost of inventories sold (Note 21)	**152,723**	80,565
Employee benefit expenses (Note 7)	**101,445**	64,325
Operating lease payments	**39,872**	29,082
Amortisation of leasehold land	**749**	1,152
Loss on disposal of property, plant and equipment	**25**	295
Write-off of inventories (Note 21)	**425**	–
Depreciation of property, plant and equipment (Note 19)	**14,647**	7,848
Auditors' remuneration		
— Audit services	**2,264**	109
— Audit-related services	**4,090**	3,625
Less: Professional fees incurred in connection with the Company's listing	**(3,382)**	(3,625)
	708	–
Utilities	**3,850**	4,495
Repair and maintenance	**2,256**	1,793
Net exchange loss/(gain)	**91**	(277)
Amortisation of government grant	**(138)**	(411)
Promotion and advertising expenses	**3,128**	2,586
Legal and professional expenses	**1,280**	1,111
Transportation expenses	**2,655**	695
Bank charges	**2,851**	1,867
Store supplies	**3,812**	2,029
Other taxes and levies	**2,587**	2,492
Other expenses	**15,644**	9,852
Total cost of sales, distribution and selling expenses and general and administrative expenses	**350,874**	209,608

7 Employee benefit expenses, including directors' remuneration

	2013 HK$'000	2012 HK$'000 (Restated)
Salaries, wages and bonuses	88,967	56,898
Pension costs — defined contribution plans	5,228	2,300
Other benefits	7,250	5,127
	101,445	64,325

8 Directors' and senior management's emoluments

(a) Directors' emoluments

The remuneration of every director of the Company for the years ended 31 December 2012 and 2013 are set out below:

	Fees HK$'000	Salary HK$'000	Discretionary bonuses HK$'000	Employer's contribution to pension scheme HK$'000	Total HK$'000
Year ended 31 December 2013					
Non-executive Director:					
Mr. Yin Shun Hai	–	–	–	–	–
Executive Directors:					
Ms. Ding Yong Ling	–	1,127	1,144	15	2,286
Mr. Zhang Huan Ping	–	659	503	15	1,177
Ms. Lin Man	–	650	924	15	1,589
Independent Non-executive Directors:					
Ms. Leung, Oi Sie Elsie[1]	120	–	–	–	120
Mr. Chan Ngai Chi[2]	135	–	–	–	135
Mr. Zhao Zhong Zhen[2]	135	–	–	–	135
	390	2,436	2,571	45	5,442

1 Director was appointed by the Company on 7 May 2013.
2 Directors were appointed by the Company on 15 April 2013.

Notes to the Consolidated Financial Statements

8 Directors' and senior management's emoluments *(Continued)*

(a) Directors' emoluments *(Continued)*

	Fees HK$'000	Salary HK$'000	Discretionary bonuses HK$'000	Employer's contribution to pension scheme HK$'000	Total HK$'000
Year ended 31 December 2012					
Non-executive Director:					
Mr. Yin Shun Hai	–	–	–	–	–
Executive Directors:					
Ms. Ding Yong Ling	–	780	820	14	1,614
Mr. Zhang Huan Ping	–	416	215	14	645
Ms. Lin Man	–	416	345	14	775
	–	1,612	1,380	42	3,034

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

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include three (2012: one) directors whose emoluments are reflected in the analysis presented above. The emoluments paid or payable to the remaining two (2012: four) individuals during the year are as follows:

	2013 HK$'000	2012 HK$'000
Basic salaries	**2,390**	2,825
Bonuses	**635**	1,585
Pension costs — defined contribution plans	**30**	154
Other benefits	**–**	176
	3,055	4,740

8 Directors' and senior management's emoluments *(Continued)*

(b) Five highest paid individuals *(Continued)*

The emoluments fell within the following bands:

	Number of individuals 2013	2012
Emolument bands		
HK$0–HK$1,000,000	–	2
HK$1,000,001–HK$1,500,000	1	1
HK$1,500,001–HK$2,000,000	1	1

(c) Senior management's emoluments

The emoluments paid or payable to senior management for the year ended 31 December 2013 fell within the following bands:

	Number of individuals 2013	2012
Emolument bands		
HK$0–HK$1,000,000	2	4
HK$1,000,001–HK$1,500,000	2	–

(d) For the year ended 31 December 2013, no emoluments (2012: nil) were paid by the Group to any of the directors, or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office, and no arrangement under which a director or a supervisor or the highest paid individuals waived or agreed to waive any of the emoluments.

9 Other gains

	2013 HK$'000	2012 HK$'000 (Restated)
Gain on remeasurement of existing interest in the then joint venture which became a subsidiary (Note 30)	2,067	–
Gain on disposal of a subsidiary (Note 24(a))	13,360	–
Others	2,370	1,420
	17,797	1,420

Notes to the Consolidated Financial Statements

10 Finance income

	2013 HK$'000	2012 HK$'000 (Restated)
Interest income on bank deposits	4,853	663

11 Investments in subsidiaries

The Company

	2013 HK$'000	2012 HK$'000
Unlisted investments at cost		
At 1 January	39,005	77,098
Additions (Note (a))	6,256	59,934
Deemed acquisition of a subsidiary (Note 12)	4,073	–
Transfer to asset held-for-sale (Note 24(a))	–	(98,027)
At 31 December	49,334	39,005

Notes:

(a) The additions in 2012 represent further capital injection in Beijing Tong Ren Tang (Tang Shan) Nutrition and Healthcare Co., Ltd. ("TRT (Tang Shan)") and the establishment of a subsidiary, Beijing Tong Ren Tang Poland sp.zo.o. ("TRT (Poland)"). The additions in 2013 represent further capital injection in TRT (Poland) and establishment of two subsidiaries, Beijing Tong Ren Tang Management Pty. Ltd. and Beijing Tong Ren Tang (Leeds) Company Limited.

(b) Details of subsidiaries are set out in Note 32.

12 Interests in joint ventures

The Group

The Group has interests in a number of individually immaterial joint ventures. The following table analyses, in aggregate, the movement of the carrying amount of the Group's interests in these joint ventures, and its share of results, other comprehensive income and commitments of these joint ventures.

	2013 HK$'000	2012 HK$'000
Unlisted investments		
At 1 January	23,393	19,222
Share of (losses)/profits for the year	(942)	4,108
Share of other comprehensive income		
— Currency translation differences	(1,990)	63
Deemed acquisition of a subsidiary (Note 30)	(6,029)	–
At 31 December	14,432	23,393
The Group's share of joint ventures' commitments	3,627	6,864

The Company

	2013 HK$'000	2012 HK$'000
Unlisted investments at cost		
At 1 January	25,439	25,439
Impairment	(2,059)	–
Deemed acquisition of a subsidiary (Note 11)	(4,073)	–
At 31 December	19,307	25,439

Notes:

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

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

(c) Details of the joint ventures are set out in Note 32.

Notes to the Consolidated Financial Statements

13 Interest in an associated company

The Group

	2013 HK$'000	2012 HK$'000
Unlisted investment		
Carrying amount of interest at 31 December (Note a)	**–**	928

The Group has interest in an associated company which is individually immaterial. The following table analyses the Group's share of loss and other comprehensive income of this associated company.

	2013 HK$'000	2012 HK$'000
Share of loss for the year	**(701)**	(992)
Share of other comprehensive income		
— Currency translation differences	**(227)**	2
Share of total comprehensive income	**(928)**	(990)

Notes:

(a) The Group has fully impaired its investment in the associated company.

(b) The associated company is a private company and there is no quoted market price available for its shares.

(c) There are no contingent liabilities relating to the Group's interest in the associated company.

(d) Details of the associated company are set out in Note 32.

14 Income tax expense

Hong Kong profits tax has been provided for at the rate of 16.5% (2012: 16.5%) on the estimated assessable profit for the year. Taxation on overseas profits has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the countries in which the Group operates.

	2013 HK$'000	2012 HK$'000 (Restated)
Current income tax		
Hong Kong	45,103	22,779
The PRC	257	(456)
Overseas	3,434	3,878
	48,794	26,201
Deferred income tax (Note 20)	(4,876)	(912)
Income tax expense	43,918	25,289

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

	2013 HK$'000	2012 HK$'000 (Restated)
Profit before income tax	271,466	117,450
Tax calculated at domestic tax rates applicable to profits in the respective countries	44,832	22,233
Tax effects of:		
— Income not subject to tax	(4,241)	(753)
— Expenses not deductible for tax purposes	2,372	1,979
— Tax losses for which no deferred income tax asset was recognised	1,141	1,638
— Withholding income tax on royalty from overseas entities	368	369
— Over provision in prior years	(392)	(308)
— Others	(162)	131
Tax charge	43,918	25,289

The weighted average applicable tax rate was 16.5% (2012: 18.9%). The decrease is caused by a change in the proportion of profit of entities comprising the Group.

Notes to the Consolidated Financial Statements

15 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 share in issue during the year.

	2013 HK$'000	2012 HK$'000 (Restated)
Profit attributable to owners of the Company	**220,001**	88,982
Profit from discontinued operation attributable to owners of the Company	**–**	66,953
	220,001	155,935
Weighted average number of ordinary shares in issue (thousands)	**749,288**	600,000
Earnings per share (HK$)		
— Continuing operations	**0.29**	0.15
— Discontinued operations	**–**	0.11
	0.29	0.26

The Company had no potential dilutive shares for the year ended 31 December 2013 (2012: nil).

16 Profit attributable to owners of the Company

The profit attributable to owners of the Company is dealt with in the financial statements of the Company to the extent of HK$229,349,000 (2012: HK$133,519,000) (Note 26).

17 Dividends

A special dividend of HK$100,000,000 (HK$0.25 per share) was declared and paid in April 2013 (2012: nil). Final dividend in respect of the year ended 31 December 2013 of HK$0.08 per share, amounting to a total dividend of HK$66.4 million, is to be proposed at the annual general meeting on 7 May 2014. These financial statements do not reflect this dividend payable.

	2013 HK$'000	2012 HK$'000
Interim dividend paid of HK$nil (2012: HK$nil) per ordinary share	**–**	–
Proposed final dividend of HK$0.08 (2012:HK$nil) per ordinary share	**66,400**	–
Special dividend of HK$nil (2012: HK$0.25) per ordinary share	**–**	100,000
	66,400	100,000

The aggregate amounts of the dividends paid and proposed during 2012 and 2013 have been disclosed in the consolidated income statement in accordance with the Hong Kong Companies Ordinance.

18 Leasehold land

The Group's interest in leasehold land represents prepaid operating lease payments and its net book value is analysed as follows:

The Group

	2013 HK$'000	2012 HK$'000
In Hong Kong, held on:		
Lease of between 10 to 50 years	18,180	18,723
Outside Hong Kong, held on:		
Lease of between 10 to 50 years	–	29,648
Transfer to assets of disposal group classified as held-for-sale	–	(29,648)
	–	–
Total	18,180	18,723
Net book value		
At 1 January	18,723	49,293
Amortisation	(543)	(1,152)
Currency translation differences	–	230
Transfer to assets of disposal group classified as held-for-sale	–	(29,648)
At 31 December	18,180	18,723

The Company

	2013 HK$'000	2012 HK$'000
In Hong Kong, held on:		
Lease of between 10 to 50 years	18,180	18,723
Net book value		
At 1 January	18,723	19,265
Amortisation	(543)	(542)
At 31 December	18,180	18,723

Notes to the Consolidated Financial Statements

19 Property, plant and equipment

The Group

	Leasehold land held under finance lease HK$'000	Buildings HK$'000	Leasehold improvement HK$'000	Plant and machinery HK$'000	Furniture and equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
Cost								
At 1 January 2012, as previously reported	3,954	80,250	20,361	44,696	12,056	1,771	53,137	216,225
Effect of adoption of amendment in HKAS 28	(1,104)	(1,118)	(1,743)	–	(4,434)	(537)	–	(8,936)
At 1 January 2012, as restated	2,850	79,132	18,618	44,696	7,622	1,234	53,137	207,289
Additions	–	–	5,767	143	1,107	352	50,994	58,363
Disposals (Note 28(b))	–	–	(1,285)	–	(198)	–	(274)	(1,757)
Currency translation differences	–	–	247	–	167	21	1,003	1,438
Transfer to assets of disposal group classified as held-for-sale (Note 24(a))	–	–	–	–	(407)	(356)	(104,860)	(105,623)
At 31 December 2012	2,850	79,132	23,347	44,839	8,291	1,251	–	159,710
Additions	95,650	11,410	10,080	222	2,559	1,078	–	120,999
Deemed acquisition of a subsidiary (Note 30)	–	–	421	–	92	79	–	592
Disposals (Note 28(b))	–	–	(788)	(1,362)	(226)	–	–	(2,376)
Currency translation differences	–	–	(687)	–	(300)	(70)	–	(1,057)
At 31 December 2013	**98,500**	**90,542**	**32,373**	**43,699**	**10,416**	**2,338**	**–**	**277,868**

19 Property, plant and equipment *(Continued)*

The Group *(Continued)*

	Leasehold land held under finance lease HK$'000	Buildings HK$'000	Leasehold improvement HK$'000	Plant and machinery HK$'000	Furniture and equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
Accumulated depreciation and impairment								
At 1 January 2012, as previously reported	500	10,798	8,653	24,841	7,003	1,039	–	52,834
Effect of adoption of amendment in HKAS 28	–	(293)	(1,670)	–	(3,544)	(440)	–	(5,947)
At 1 January 2012, as restated	500	10,505	6,983	24,841	3,459	599	–	46,887
Depreciation charge	71	1,801	3,837	2,952	1,385	268	–	10,314
Disposals (Note 28(b))	–	–	(1,281)	–	(164)	–	–	(1,445)
Currency translation differences	–	–	174	–	95	7	–	276
Transfer to assets of disposal group classified as held-for-sale (Note 24(a))	–	–	–	–	(45)	(20)	–	(65)
At 31 December 2012	571	12,306	9,713	27,793	4,730	854	–	55,967
Depreciation charge	1,956	2,140	5,623	2,974	1,552	350	–	14,595
Disposals (Note 28(b))	–	–	(704)	(1,362)	(183)	–	–	(2,249)
Currency translation differences	–	–	(285)	–	(175)	(58)	–	(518)
At 31 December 2013	**2,527**	**14,446**	**14,347**	**29,405**	**5,924**	**1,146**	**–**	**67,795**
Net book amount								
At 31 December 2013	**95,973**	**76,096**	**18,026**	**14,294**	**4,492**	**1,192**	**–**	**210,073**
At 31 December 2012	2,279	66,826	13,634	17,046	3,561	397	–	103,743

Notes to the Consolidated Financial Statements

19 Property, plant and equipment *(Continued)*

The Company

	Leasehold land held under finance lease HK$'000	Buildings HK$'000	Leasehold improvement HK$'000	Plant and machinery HK$'000	Furniture and equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
Cost							
At 1 January 2012	2,850	79,132	9,676	44,696	2,030	235	138,619
Additions	–	–	3,805	143	109	–	4,057
At 31 December 2012	2,850	79,132	13,481	44,839	2,139	235	142,676
Additions	95,650	11,410	5,837	222	1,677	1,078	115,874
Disposal	–	–	–	(1,362)	–	–	(1,362)
At 31 December 2013	98,500	90,542	19,318	43,699	3,816	1,313	257,188
Accumulated depreciation and impairment							
At 1 January 2012	500	10,505	2,877	24,841	1,135	235	40,093
Depreciation charge	71	1,801	2,309	2,952	248	–	7,381
At 31 December 2012	571	12,306	5,186	27,793	1,383	235	47,474
Depreciation charge	1,956	2,140	3,836	2,974	325	143	11,374
Disposal	–	–	–	(1,362)	–	–	(1,362)
At 31 December 2013	**2,527**	**14,446**	**9,022**	**29,405**	**1,708**	**378**	**57,486**
Net book amount							
At 31 December 2013	**95,973**	**76,096**	**10,296**	**14,294**	**2,108**	**935**	**199,702**
At 31 December 2012	2,279	66,826	8,295	17,046	756	–	95,202

19 Property, plant and equipment *(Continued)*

The net book value of the interests in leasehold land classified as finance lease are analysed as follows:

The Group and the Company

	2013 HK$'000	2012 HK$'000
In Hong Kong, held on:		
Leases of between 10 to 50 years	95,973	2,279

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

	The Group 2013 HK$'000	 2012 HK$'000 (Restated)
Cost of sales	5,842	3,130
Distribution and selling expenses	6,353	4,456
General and administrative expenses	2,452	262
	14,647	7,848

Notes to the Consolidated Financial Statements

20 Deferred income tax

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

	The Group		The Company	
	2013	2012	**2013**	2012
	HK$'000	HK$'000 (Restated)	**HK$'000**	HK$'000
Deferred income tax assets				
— to be recovered after more than 12 months	**–**	–	**–**	–
— to be recovered within 12 months	**6,323**	2,068	**–**	–
	6,323	2,068	**–**	–
Deferred income tax liabilities				
— to be settled after more than 12 months	**(3,003)**	(3,045)	**(3,003)**	(3,045)
— to be settled within 12 months	**(1,245)**	(771)	**(443)**	(624)
	(4,248)	(3,816)	**(3,446)**	(3,669)
Deferred income tax assets/(liabilities), net	**2,075**	(1,748)	**(3,446)**	(3,669)

The gross movement on the deferred income tax account is as follows:

	The Group		The Company	
	2013	2012	**2013**	2012
	HK$'000	HK$'000 (Restated)	**HK$'000**	HK$'000
At 1 January, as previously reported	**(1,839)**	5,437	**(3,669)**	(3,894)
Effect of adoption of HKAS 28 amendment	**91**	(131)	**–**	–
At 1 January, as restated	**(1,748)**	5,306	**(3,669)**	(3,894)
Deemed acquisition of a subsidiary (Note 30)	**(1,119)**	–	**–**	–
Credited to the consolidated income statement under continuing operations (Note 14)	**4,876**	912	**–**	–
Charged to the consolidated income statement under discontinued operations	**–**	(7,983)	**–**	–
Credited to the income statement	**–**	–	**223**	225
Currency translation differences	**66**	17	**–**	–
At 31 December	**2,075**	(1,748)	**(3,446)**	(3,669)

20 Deferred income tax *(Continued)*

The movements in deferred income tax assets and liabilities, without taking into consideration the offsetting of balances within the same tax jurisdiction, are as follows:

	The Group					The Company
	Tax losses	Accelerated accounting depreciation	Unrealised profit	Provision	Total	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Deferred income tax assets						
At 1 January 2012, as previously reported	78	103	9,688	234	10,103	–
Effect of adoption of HKAS 28 amendment	(78)	(103)	–	–	(181)	–
At 1 January 2012, as restated	–	–	9,688	234	9,922	–
Credited to the consolidated income statement under continuing operations	–	–	107	–	107	–
(Charged)/credited to the consolidated income statement under discontinued operations	–	–	(9,688)	1,705	(7,983)	–
Currency translation differences	–	–	–	22	22	–
At 31 December 2012	**–**	**–**	**107**	**1,961**	**2,068**	**–**
At 1 January 2013, as previously reported	**–**	**90**	**107**	**1,961**	**2,158**	**–**
Effect of adoption of HKAS 28 amendment	**–**	**(90)**	**–**	**–**	**(90)**	**–**
At 1 January 2013, as restated	**–**	**–**	**107**	**1,961**	**2,068**	**–**
Deemed acquisition of a subsidiary (Note 30)	**–**	**91**	**–**	**–**	**91**	**–**
Credited to the consolidated income statement under continuing operations	**–**	**–**	**4,102**	**–**	**4,102**	**–**
Currency translation differences	**–**	**(3)**	**–**	**65**	**62**	**–**
At 31 December 2013	**–**	**88**	**4,209**	**2,026**	**6,323**	**–**

Notes to the Consolidated Financial Statements

20 Deferred income tax *(Continued)*

	The Group			The Company
	Accelerated tax depreciation HK$'000	Others HK$'000	Total HK$'000	Accelerated tax depreciation HK$'000
Deferred income tax liabilities				
At 1 January 2012, as previously reported	(4,020)	(646)	(4,666)	(3,894)
Effect of adoption of HKAS 28 amendment	50	–	50	–
At 1 January 2012, as restated	(3,970)	(646)	(4,616)	(3,894)
Credited to the consolidated income statement under continuing operations	225	580	805	–
Credited to the income statement	–	–	–	225
Currency translation differences	(5)	–	(5)	–
At 31 December 2012	**(3,750)**	**(66)**	**(3,816)**	**(3,669)**
At 1 January 2013, as previously reported	**(3,931)**	**(66)**	**(3,997)**	**(3,669)**
Effect of adoption of HKAS 28 amendment	**181**	**–**	**181**	**–**
At 1 January 2013, as restated	**(3,750)**	**(66)**	**(3,816)**	**(3,669)**
Deemed acquisition of a subsidiary (Note 30)	**–**	**(1,210)**	**(1,210)**	**–**
Credited to the consolidated income statement under continuing operations	**209**	**565**	**774**	**–**
Credited to the income statement	**–**	**–**	**–**	**223**
Currency translation differences	**4**	**–**	**4**	**–**
At 31 December 2013	**(3,537)**	**(711)**	**(4,248)**	**(3,446)**

Deferred income tax assets are recognised for tax loss carry-forwards to the extent that the realisation of the related tax benefit through future taxable profits is probable.

The Group did not recognise deferred income tax assets of approximately HK$772,000 (2012: HK$2,061,000[1], restated) in respect of tax losses amounting to approximately HK$4,003,000 (2012: HK$8,404,000[1], restated) at 31 December 2013. At 31 December 2013, tax losses will expire between 2013 and 2018.

The Group did not recognise the deferred income tax liabilities of HK$262,000 (2012: HK$42,000) in respect of the withholding tax that would be payable on the unremitted earnings of certain subsidiaries amounting to HK$5,212,000 (2012: HK$726,000) at 31 December 2013, as these unremitted earnings have been reinvested.

(1) Included in the unrecognised deferred income tax assets in respect of tax losses is HK$1,896,000 unrecognised deferred income tax assets arising from HK$7,584,000 tax losses relating to the disposal group classified as held-for-sale at 31 December 2012.

21 Inventories

	The Group		The Company	
	2013	2012	**2013**	2012
	HK$'000	HK$'000 (Restated)	**HK$'000**	HK$'000
Raw materials	**38,574**	37,226	**21,323**	14,640
Work in progress	**2,776**	4,106	**2,776**	4,106
Finished goods and trading merchandise	**60,807**	38,575	**30,111**	19,267
	102,157	79,907	**54,210**	38,013

The cost of inventories recognised as expense and included in "cost of sales" under continuing operations amounted to HK$152,723,000 (2012: HK$80,565,000, restated) and the write-off of inventories included in the "cost of sales" amounted to HK$425,000 (2012: HK$nil) for the year ended 31 December 2013.

22 Trade receivables and other current assets

	The Group		The Company	
	2013	2012	**2013**	2012
	HK$'000	HK$'000 (Restated)	**HK$'000**	HK$'000
Trade receivables				
— subsidiaries	**–**	–	**70,715**	54,569
— fellow subsidiaries	**34,524**	188	**–**	–
— joint ventures	**736**	1,131	**736**	1,131
— third parties	**77,398**	21,509	**75,497**	20,961
Trade receivables	**112,658**	22,828	**146,948**	76,661
Prepayments and other receivables	**10,629**	4,414	**5,314**	1,713
Deposits	**8,467**	6,439	**6,490**	4,670
Amount due from a joint venture (Note b)	**1,114**	1,114	**1,114**	1,114
	132,868	34,795	**159,866**	84,158

Notes:

(a) The fair values of trade receivables and other currents assets approximate their carrying amounts.

(b) The amount is repayable on demand, unsecured in nature and bears no interest.

Notes to the Consolidated Financial Statements

22 Trade receivables and other current assets *(Continued)*

Notes: (Continued)

(c) 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. For agency fee, the Group grants credit period of 30 days to the group companies.

At 31 December 2013 and 2012, the aging analysis of trade receivables based on invoice date (including amounts due from related parties of trading in nature) is as follows:

	The Group		The Company	
	2013	2012	**2013**	2012
	HK$'000	HK$'000 (Restated)	**HK$'000**	HK$'000
Up to 3 months	**112,107**	22,820	**127,563**	25,241
3 to 6 months	**12**	8	**–**	–
6 months to 1 year	**301**	–	**–**	37,565
1 to 2 years	**238**	–	**19,385**	13,855
	112,658	22,828	**146,948**	76,661

(d) At 31 December 2013, the Group's trade receivables of HK$551,000 (2012: HK$588,000, restated) were past due but not impaired. These trade receivables relate to a number of customers, including group companies, for whom there is no recent history of default.

At 31 December 2013, the Company's trade receivables of HK$19,385,000 (2012: HK$52,000,000) were past due but not impaired. These trade receivables mainly relate to the Company's subsidiaries. Based on assessment of the recoverability of these trade receivables, management considers no impairment provision is necessary.

The aging analysis of these trade receivables is as follows:

	The Group		The Company	
	2013	2012	**2013**	2012
	HK$'000	HK$'000 (Restated)	**HK$'000**	HK$'000
Past due less than 3 months	**–**	580	**–**	580
Past due within 3 to 6 months	**12**	8	**–**	–
Past due within 6 months to 1 year	**301**	–	**–**	37,565
Past due within 1 to 2 years	**238**	–	**19,385**	13,855
	551	588	**19,385**	52,000

(e) At 31 December 2013, no trade receivables of the Group and the Company were impaired (2012: nil).

22 Trade receivables and other current assets *(Continued)*

Notes: (Continued)

(f) The carrying amounts of the Group's trade receivables and other current assets are denominated in the following currencies:

	The Group 2013 HK$'000	2012 HK$'000 (Restated)
Hong Kong dollar	**88,336**	28,445
Renminbi	**37,716**	801
Australian dollar	**596**	882
Singapore dollar	**1,142**	1,232
United States dollar	**774**	–
Canadian dollar	**536**	624
Macao pataca	**815**	78
Thai baht	**1,114**	1,114
Arab Emirates dirham	**1,204**	1,117
Other currencies[1]	**635**	502
	132,868	34,795

[1] Other currencies mainly include Brunei dollar, Poland zloty and Pound sterling.

(g) The carrying amounts of the Company's trade receivables and other current assets are mainly denominated in Hong Kong dollars.

(h) At 31 December 2013, the Group does not hold any collateral as security (2012: nil).

23 Cash and bank balances

	The Group		The Company	
	2013 HK$'000	2012 HK$'000 (Restated)	**2013 HK$'000**	2012 HK$'000
Cash and cash equivalents				
— Cash at bank and on hand	**197,197**	218,771	**137,975**	125,334
— Short-term bank deposits with original maturities within three months	**257,067**	9,302	**250,544**	–
	454,264	228,073	**388,519**	125,334
Short-term bank deposits with original maturities exceeding three months	**469,333**	7,372	**450,594**	592
Total	**923,597**	235,445	**839,113**	125,926

Notes to the Consolidated Financial Statements

23 Cash and bank balances *(Continued)*

Cash and cash equivalents include the following for the purposes of the statement of cash flows:

	2013 HK$'000	2012 HK$'000 (Restated)
Cash at bank and on hand and deposits with banks with original maturities within three months	**454,264**	228,073
Cash and cash equivalents classified as held-for-sale (Note 24(a))	**–**	21,228
	454,264	249,301

As at 31 December 2013, the Group has no bank overdraft (2012: nil).

At 31 December 2013, the Group's cash and cash equivalents and short-term bank deposits included balances of HK$12,336,000 (2012: HK$56,459,000), which were deposits with banks in the PRC. The remittance of such balances out of the PRC is subject to the rules and regulations of foreign exchange control promulgated by the PRC government.

The carrying amounts of the Group's and the Company's cash and cash equivalents and short-term bank deposits are denominated in the following currencies:

	The Group		**The Company**	
	2013 HK$'000	2012 HK$'000 (Restated)	**2013 HK$'000**	2012 HK$'000
Hong Kong dollar	**836,022**	123,388	**833,325**	121,757
Singapore dollar	**18,693**	17,812	**3,745**	2,169
United States dollar	**3,943**	3,499	**202**	1,387
Australian dollar	**16,130**	15,403	**511**	–
Macao pataca	**17,440**	10,205	**–**	–
Renminbi	**12,644**	56,505	**139**	10
Arab Emirates dirham	**2,586**	2,424	**–**	–
Canadian dollar	**10,153**	2,254	**858**	281
Brunei dollar	**2,440**	3,057	**–**	–
Poland zloty	**78**	576	**–**	–
Euro	**3,468**	322	**333**	322
	923,597	235,445	**839,113**	125,926

24 Assets and liabilities of disposal group classified as held-for-sale and discontinued operations

(a) Disposal of Beijing Tong Ren Tang (Tang Shan) Nutrition and Healthcare Co., Ltd.

In February 2012, the Company's board of directors decided and approved to dispose of a 68% owned subsidiary, Beijing Tong Ren Tang (Tang Shan) Nutrition and Healthcare Co., Ltd. ("TRT (Tang Shan)"), to a fellow subsidiary. Accordingly, the assets and liabilities of TRT (Tang Shan) were classified as held-for-sale at 31 December 2012. The Company entered into the sale and purchase agreement in 2013 and received the consideration of RMB84,600,000 (equivalent to HK$105,479,000) in full on 16 April 2013. A gain of HK$13,360,000 was recognised in the consolidated income statement for the year ended 31 December 2013.

The details of the assets and liabilities of the disposal group classified as held-for-sale in the balance sheets as at 31 December 2012 are as follows:

	The Group HK$'000	The Company HK$'000
Assets held-for-sale		
Leasehold land	**29,648**	–
Property, plant and equipment	**105,558**	–
Investment in a subsidiary	**–**	98,027
Inventory	**333**	–
Other current assets	**6,218**	–
Cash and cash equivalents	**21,228**	–
	162,985	98,027
Liabilities held-for-sale		
Other payables	**1,927**	–
Deferred income — government grant	**19,989**	–
	21,916	–

24 Assets and liabilities of disposal group classified as held-for-sale and discontinued operations *(Continued)*

(b) Discontinued operations of a PRC distribution

During 2012, the Group had a PRC distribution operation substantially distributing its self-manufactured products to the Parent Group and independent third parties in the PRC market. Since 1 November 2012, the Group has terminated this PRC distribution operation. Accordingly, the PRC distribution operation is presented as discontinued operations in the consolidated financial statements for the year ended 31 December 2012.

(i) Analysis of the results of discontinued operations

	Note	2013 HK$'000	2012 HK$'000
Revenue	5	–	115,031
Cost of sales		–	(24,285)
Gross profit		–	90,746
Depreciation of property, plant and equipment		–	(2,466)
Other expenses		–	(7,800)
Finance income		–	219
Profit before income tax from discontinued operations		–	80,699
Income tax		–	(13,746)
Profit for the year from discontinued operations		–	66,953
Profit for the year from discontinued operations attributable to:			
— Owners of the Company		–	66,953
— Non-controlling interests		–	–
		–	66,953

The cost of inventories recognised as "cost of sales" amounted to HK$13,926,000. The impairment of inventories and write-back of impairment of inventories included in "cost of sales" amounted to HK$6,084,000 and HK$316,000 respectively for the year ended 31 December 2012.

24 Assets and liabilities of disposal group classified as held-for-sale and discontinued operations *(Continued)*

(b) Discontinued operations of a PRC distribution *(Continued)*

(ii) Analysis of the cash flows of discontinued operations

	2013 HK$'000	2012 HK$'000
Operating cash flows	–	105,495
Investing cash flows	–	(26)
Total cash flows	–	105,469

Note: There were no financing cash inflows/outflows generated from discontinued operations.

(iii) Cumulative income or expense recognised in other comprehensive income relating to the discontinued operations

	2013 HK$'000	2012 HK$'000
Currency translation differences	–	34

25 Share capital and premium

The Group and the Company

	Number of shares	HK$'000
Authorised ordinary shares:		
At 1 January 2012 and 2013 (HK$1 per share)	1,000,000,000	1,000,000
Share subdivision (Note a)	1,000,000,000	–
At 31 December 2013 (HK$0.5 per share)	**2,000,000,000**	**1,000,000**

Notes to the Consolidated Financial Statements

25 Share capital and premium *(Continued)*

The Group and the Company *(Continued)*

	Number of shares	Share capital HK$'000	Share Premium HK$'000	Total HK$'000
Issued and fully paid:				
At 1 January 2012 and 2013	201,430,473	201,430	3,913	205,343
Share subdivision (Note a)	201,430,473	–	–	–
Issuance of new shares upon capitalisation of share premium (Note b)	197,139,054	98,570	(98,570)	–
Share offer (Note c)	200,000,000	100,000	508,000	608,000
Over-allotment (Note d)	30,000,000	15,000	76,200	91,200
Professional expenses incurred in connection with the Company's listing (Note 26(c))	–	–	(32,433)	(32,433)
Transfer of professional expenses previously capitalised (Note 26(c))	–	–	(4,747)	(4,747)
At 31 December 2013	**830,000,000**	**415,000**	**452,363**	**867,363**

Notes:

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

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

(c) On 7 May 2013, the Company was listed on GEM by way of share offer of 200,000,000 new shares at HK$3.04 per share (par value of HK$0.5). The proceeds received from the share offer credited to share capital and share premium were HK$100,000,000 and HK$508,000,000 respectively.

(d) On 23 May 2013, 30,000,000 new shares were further issued by the Company at HK$3.04 per share (par value of HK$0.5) after the over-allotment option was fully exercised. The proceeds received from the over-allottment credited to share capital and share premium were HK$15,000,000 and HK$76,200,000 respectively.

(e) The new Hong Kong Companies Ordinance (Cap. 622), which became effective on 3 March 2014 ("effective date"), has adopted a mandatory no-par value regime for Hong Kong incorporated companies having a share capital. As a result, relevant concepts such as par value, share premium and requirement for authorised share capital have been abolished. On or after the effective date, the amount in the Company's share premium account will be transferred to the share capital account. Such transfer is prospective and will be reflected in the Company's financial statements for the year ending 31 December 2014.

26 Reserves

The Group

	Merger reserve (Note a) HK$'000	Other reserve HK$'000	Statutory reserve (Note b) HK$'000	Exchange reserve HK$'000	Retained earnings HK$'000	Total HK$'000
At 1 January 2012	(13,124)	742	1,352	12,105	135,305	136,380
Comprehensive income						
Profit for the year	–	–	–	–	155,935	155,935
Other comprehensive income						
Currency translation differences						
— Group	–	–	–	2,287	–	2,287
— Joint ventures and an associated company	–	–	–	65	–	65
Total comprehensive income	–	–	–	2,352	155,935	158,287
Professional expenses incurred in connection with the Company's listing (Note c)	–	(4,747)	–	–	–	(4,747)
Total contributions by and distributions to owners of the Company	–	(4,747)	–	–	–	(4,747)
Acquisition of additional interest in a subsidiary	–	(380)	–	–	–	(380)
Change in ownership interest in a subsidiary	–	(380)	–	–	–	(380)
Total transactions with owners	–	(5,127)	–	–	–	(5,127)
At 31 December 2012	(13,124)	(4,385)	1,352	14,457	291,240	289,540

Notes to the Consolidated Financial Statements

26 Reserves *(Continued)*

	Merger reserve (Note a) HK$'000	Other reserve HK$'000	Statutory reserve (Note b) HK$'000	Exchange reserve HK$'000	Retained earnings HK$'000	Total HK$'000
At 1 January 2013	(13,124)	(4,385)	1,352	14,457	291,240	289,540
Comprehensive income						
Profit for the year	–	–	–	–	220,001	220,001
Other comprehensive income						
Release of exchange reserve upon disposal of a subsidiary (Note 28(d))	–	–	–	(4,593)	–	(4,593)
Currency translation differences						
— Group	–	–	–	(1,506)	–	(1,506)
— Joint ventures and an associated company	–	–	–	(2,217)	–	(2,217)
Total comprehensive income	–	–	–	(8,316)	220,001	211,685
Transfer of retained earnings to statutory reserve	–	–	282	–	(282)	–
Transfer of professional expenses previously capitalised (Note c)	–	4,747	–	–	–	4,747
Dividends (Note 17)	–	–	–	–	(100,000)	(100,000)
Total contributions by and distributions to owners of the Company	–	4,747	282	–	(100,282)	(95,253)
Disposal of a subsidiary	–	380	–	–	–	380
Change in ownership interest in a subsidiary	–	380	–	–	–	380
Total transactions with owners	–	5,127	282	–	(100,282)	(94,873)
At 31 December 2013	(13,124)	742	1,634	6,141	410,959	406,352

26 Reserves *(Continued)*

The Company

	Other reserve HK$'000	Retained earnings HK$'000	Total HK$'000
At 1 January 2012	–	150,959	150,959
Profit for the year	–	133,519	133,519
Professional expenses incurred in connection with the Company's listing (Note c)	(4,747)	–	(4,747)
Transaction with owners	(4,747)	–	(4,747)
At 31 December 2012	(4,747)	284,478	279,731
At 1 January 2013	**(4,747)**	**284,478**	**279,731**
Profit for the year	**–**	**229,349**	**229,349**
Transfer of professional expenses previously capitalised	**4,747**	**–**	**4,747**
Dividends (Note 17)	**–**	**(100,000)**	**(100,000)**
Total transactions with owners	**4,747**	**(100,000)**	**(95,253)**
At 31 December 2013	**–**	**413,827**	**413,827**

Notes to the Consolidated Financial Statements

26 Reserves *(Continued)*

Notes:

(a) Merger reserve of the Group represents the difference between the net book value of the entities that had been acquired and the investment consideration paid by the Company to effect a reorganisation that took place in 2010.

(b) The PRC laws and regulations require companies registered in the PRC to provide for certain statutory reserves, which are to be appropriated from the net profit (after offsetting accumulated losses from prior years) as reported in their respective statutory financial statements, before profit distributions to equity holders. All statutory reserves are created for specific purposes. PRC company is required to appropriate 10% of statutory net profits to statutory surplus reserves, upon distribution of its post-tax profits of the current year. A company may discontinue the contribution when the aggregate sum of the statutory surplus reserve is more than 50% of its registered capital. The statutory surplus reserves shall only be used to make up losses of the companies, to expand the companies' production operations, or to increase the capital of the companies. In addition, a company may make further contribution to the statutory surplus reserve using its post-tax profits in accordance with resolutions of the board of directors.

(c) The amount represented professional expense incurred in connection with the Company's listing. For the year ended 31 December 2012, the Company incurred professional expenses of HK$17,487,000, of which HK$4,747,000 was included in other reserves as at 31 December 2012 and was subsequently transferred out and offset against the share premium upon the completion of issuance of new shares in 2013. For the year ended 31 December 2013, the Company incurred professional expenses of HK$45,063,000, of which HK$32,433,000 was recognised against the share premium.

27 Trade and other payables

	The Group		The Company	
	2013	2012	**2013**	2012
	HK$'000	HK$'000 (Restated)	**HK$'000**	HK$'000
Trade payables				
— a subsidiary	**–**	–	**6,760**	12,594
— intermediate holding company	**9,536**	–	**–**	–
— immediate holding company	**1,608**	–	**–**	–
— third parties	**35,644**	44,034	**13,030**	7,663
Trade payables	**46,788**	44,034	**19,790**	20,257
Accruals, deposits and other payables	**22,317**	11,514	**12,268**	1,732
Accruals for professional expenses in connection with the listing	**–**	7,104	**–**	8,270
Amount due to a fellow subsidiary (Note (a))	**150**	2,100	**150**	2,100
Amounts due to subsidiaries (Note (a))	**–**	–	**–**	153
Amounts due to joint ventures (Note (a))	**–**	1,013	**–**	1,013
	69,255	65,765	**32,208**	33,525

27 Trade and other payables *(Continued)*

Notes:

(a) The amounts payable are repayable on demand, unsecured in nature and bear no interest.

(b) At 31 December 2013, the aging analysis of the trade payables (including amounts due to the related parties of trading in nature) based on invoice date were as follows:

	The Group		The Company	
	2013	2012	**2013**	2012
	HK$'000	HK$'000 (Restated)	**HK$'000**	HK$'000
Up to 3 months	**44,735**	40,882	**19,790**	17,908
3 to 6 months	**1,747**	1,905	**–**	1,172
6 months to 1 year	**306**	1,177	**–**	1,177
1 to 2 years	**–**	68	**–**	–
Over 2 years	**–**	2	**–**	–
	46,788	44,034	**19,790**	20,257

(c) The carrying amounts of the Group's trade and other payables are denominated in the following currencies:

	The Group	
	2013	2012
	HK$'000	HK$'000 (Restated)
Hong Kong dollar	**22,865**	19,485
Singapore dollar	**5,440**	3,179
Australian dollar	**2,098**	3,300
Macao pataca	**2,671**	1,023
Renminbi	**30,309**	35,183
Canadian dollar	**4,776**	2,237
Other currencies[1]	**1,096**	1,358
	69,255	65,765

[1] Other currencies mainly include Brunei dollar, Malaysian ringgit, Arab Emirates dirham and Poland zloty.

(d) The carrying amounts of the Company's trade and other payables are mainly denominated in Hong Kong dollars.

Notes to the Consolidated Financial Statements

28 Note to consolidated statement of cash flows

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

	2013 HK$'000	2012 HK$'000 (Restated)
Profit before income tax including discontinued operations	271,466	198,149
Adjustments for:		
— Amortisation of leasehold land (Note 6)	749	1,152
— Depreciation of property, plant and equipment (Note 19)	14,647	10,314
— Impairment of inventories (Note 24(b))	–	6,084
— Write-off of inventories (Note 21)	425	–
— Write-back of impairment of inventories (Note 24(b))	–	(316)
— Loss on disposal of property, plant and equipment (Note 6)	25	295
— Gain on disposal of a subsidiary (Note 9)	(13,360)	–
— Gain on remeasurement of existing interest in the then joint venture which became a subsidiary (Note 30)	(2,067)	–
— Finance income (Note 10)	(4,853)	(882)
— Share of losses/(profits) of joint ventures (Note 12)	942	(4,108)
— Share of loss of an associated company (Note 13)	701	992
— Professional expenses incurred in connection with the Company's listing	12,630	11,180
— Deferred income — government grant (Note 6)	(138)	(411)
	281,167	222,449
Changes in working capital:		
— Increase in inventories	(15,868)	(30,394)
— Increase in trade receivables and other current assets	(97,407)	(6,549)
— Increase in trade and other payables	7,664	33,338
Cash generated from operations	175,556	218,844

28 Note to consolidated statement of cash flows *(Continued)*

(b) In the statement of cash flows, proceeds from disposal of property, plant and equipment comprise:

	2013 HK$'000	2012 HK$'000 (Restated)
Net book amount (Note 19)	127	312
Loss on disposal of property, plant and equipment (Note 6)	(25)	(295)
Proceeds from disposal of property, plant and equipment	102	17

(c) Deemed acquisition of a subsidiary (Note 30)

	2013 HK$'000	2012 HK$'000
Property, plant and equipment	592	–
Trade receivables and other current assets	2,142	–
Short-term bank deposits	752	–
Cash and cash equivalents	9,541	–
Inventories	7,219	–
Deferred income tax liabilities	(1,119)	–
Trade and other payables	(1,716)	–
Current income tax liabilities	(1,536)	–
Non-controlling interest	(7,779)	–
Fair value of net assets acquired (Note 30)	8,096	–
Carrying amount of interest originally held by the Group as a joint venture	6,029	–
Gain on remeasurement of existing interest in TRT (Canada) on acquisition (Note 9)	2,067	–
Consideration	8,096	–

Notes to the Consolidated Financial Statements

28 Note to consolidated statement of cash flows *(Continued)*

(c) Deemed acquisition of a subsidiary (Note 30) *(Continued)*

The analysis of net cash flow in respect of deemed acquisition of a subsidiary is as follows:

	2013 **HK$'000**	2012 HK$'000
Cash consideration settled in cash	**–**	–
Cash and cash equivalents acquired (Note 30)	**9,541**	–
Total cash inflow from the acquisition	**9,541**	–

(d) Disposal of a subsidiary

	2013 **HK$'000**	2012 HK$'000
Net assets disposed of		
Leasehold land	**29,818**	–
Property, plant and equipment	**117,474**	–
Trade receivables and other current assets	**7,136**	–
Cash and bank balances	**7,484**	–
Inventories	**479**	–
Other payables	**(21,764)**	–
	140,627	–
Non-controlling interests	**(44,724)**	–
Net assets	**95,903**	–
Release of exchange reserves upon disposal	**(4,593)**	–
Release of other reserves upon disposal	**380**	–
Gain on disposal of a subsidiary (Note 9)	**13,360**	–
Consideration, net of direct costs	**105,050**	–

28 Note to consolidated statements of cash flows *(Continued)*

(d) Disposal of a subsidiary *(Continued)*

The analysis of net cash flow in respect of the disposal of a subsidiary is as follows:

	2013 HK$'000	2012 HK$'000
Cash consideration, net of direct costs	105,050	–
Cash and bank balances disposed of	(7,484)	–
Total cash inflow from the disposal	97,566	–

29 Commitments

(a) Capital commitments

	The Group		The Company	
	2013 HK$'000	2012 HK$'000 (Restated)	2013 HK$'000	2012 HK$'000
Contracted but not provided for:				
— property, plant and equipment	4,218	120,784	4,006	97,378
— investment in a subsidiary	–	–	1,948	–
Authorised but not contracted for:				
— property, plant and equipment	293	–	293	–
— investment in a subsidiary	–	–	3,950	–

Notes to the Consolidated Financial Statements

29 Commitments *(Continued)*

(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 to 10 years and certain lease agreements are renewable at the end of the lease period at market rate.

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

	The Group		The Company	
	2013	2012	**2013**	2012
	HK$'000	HK$'000	**HK$'000**	HK$'000
		(Restated)		
No later than 1 year	**37,722**	34,961	**21,339**	21,080
Later than 1 year and not later than 5 years	**49,763**	59,158	**15,500**	26,813
Later than 5 years	**9,913**	68	**1,894**	68
	97,398	94,187	**38,733**	47,961

30 Business combination

The Group has held 51% equity interest in Beijing Tong Ren Tang Canada Co., Ltd. ("TRT (Canada)"). Pursuant to the revised shareholders agreement entered into on 1 June 2013, the other joint venturer of TRT (Canada) has given up the joint control and as a result, the Company has obtained the control over the financial and operating policies of TRT (Canada). TRT (Canada) has changed its status from a joint venture to a subsidiary of the Company. The Group consolidated the results of TRT (Canada) from 1 June 2013 onwards. The Company has obtained control of TRT (Canada) at nil consideration and without any acquisition of further equity interest in TRT (Canada). There was no change in equity interest and profit-sharing ratio. The carrying value of the Group's interest in TRT (Canada) immediately before the deemed acquisition date was HK$6,147,000. The fair value of the identified net assets of TRT (Canada) shared by the Group at the deemed acquisition date was HK$8,214,000. As a result, a gain on business combination arose. The following table summarises the gain on remeasurement of existing interest in TRT (Canada) on deemed acquisition, fair value of the assets and liabilities acquired and non-controlling interest at the deemed acquisition date.

30 Business combination *(Continued)*

Consideration:

At 1 June 2013	HK$'000
Total consideration	
Fair value of equity interest in TRT (Canada) held before the business combination	8,096
Fair value of net assets	
Property, plant and equipment (Note 19)	592
Trade receivables and other current assets	2,142
Short-term bank deposits	752
Cash and cash equivalents	9,541
Inventories	7,219
Deferred income tax liabilities	(1,119)
Trade and other payables	(1,716)
Current income tax liabilities	(1,536)
Total identifiable net assets	15,875
Non-controlling interest	(7,779)
Fair value of net assets acquired	8,096
Carrying amount of interest originally held by the Group as a joint venture	(6,029)
Gain on remeasurement of existing interest in TRT (Canada) on acquisition (Note 9)	2,067

The fair value of the non-controlling interest in TRT (Canada) was estimated at 49% of the net identifiable assets of TRT (Canada) at the deemed acquisition date.

The Group recognised a gain of HK$2,067,000 as a result of measuring at fair value its 51% equity interest in TRT (Canada) held before the business combination. The gain is included in other gain in the Group's income statement for the year ended 31 December 2013.

The revenue, included in the consolidated income statement since 1 June 2013, contributed by TRT (Canada) was HK$9,495,000. TRT (Canada) also contributed a profit of HK$1,001,000 over the same period.

Had TRT (Canada) been consolidated as a subsidiary, rather than being accounted for using equity method as a joint venture from 1 January 2013, the consolidated income statement would show pro-forma revenue of HK$620,609,000 and profit of HK$227,426,000.

Notes to the Consolidated Financial Statements

31 Significant related party transactions

The two subsidiaries of Tong Ren Tang Holdings, Tong Ren Tang Technologies and Tong Ren Tang Co., Ltd. directly own 38.4% and 33.9% of shareholding in the Company respectively. Tong Ren Tang Co., Ltd. is also the controlling shareholder of Tong Ren Tang Technologies. Tong Ren Tang Co., Ltd. effectively owns 72.3% equity interest in the Company. The remaining 27.7% of the shares are widely held.

The Board of Directors of the Company regards Tong Ren Tang Technologies as the immediate holding company, Tong Ren Tang Co., Ltd. as the intermediate holding company and Tong Ren Tang Holdings as the ultimate holding company, all of which are companies incorporated in the PRC.

In addition to those disclosed in other sections of these consolidated financial statements, the following transactions were carried out with related parties:

(a) Sales and purchases of products

	Note	2013 HK$'000	2012 HK$'000 (Restated)
Sales of products to:			
Joint ventures	(i)	2,658	–
Fellow subsidiaries	(i)	29,041	106,497
An associated company	(i)	–	862
		31,699	107,359
Purchases of products from:			
Immediate holding company	(i)	11,299	3,785
Intermediate holding company	(i)	36,868	32,938
		48,167	36,723

31 Significant related party transactions *(Continued)*

(b) Royalty fee income and agency fee income

	Note	**2013 HK$'000**	2012 HK$'000 (Restated)
Royalty fee income from:			
Joint ventures	(ii)	**816**	1,290
Agency fee income from:			
Immediate holding company	(iii)	**–**	4,919
Intermediate holding company	(iii)	**–**	15,726
		–	20,645

(c) Rental expenses

		2013 HK$'000	2012 HK$'000 (Restated)
Rental expense to:			
A fellow subsidiary	(i)	**1,800**	1,800

(d) Key management compensation

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

	2013 HK$'000	2012 HK$'000
Salaries and other short-term employee benefits	**9,260**	4,285
Pension costs — defined contribution plans	**158**	70
	9,418	4,355

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.

(iii) The Company entered into overseas sales agency agreements with Tong Ren Tang Technologies and Tong Ren Tang Ltd. Pursuant to these agreements, the Company was appointed as an agent in distributing the products of the aforementioned companies from 2007 to 2012 and charged them agency fee at rates of 8.5% and 7.5% respectively on sales amount of products sold outside of the PRC. These agreements expired in December 2012.

Notes to the Consolidated Financial Statements

32 Subsidiaries, joint ventures and an associated company

The following is a list of subsidiaries, joint ventures and an associated company as at 31 December 2013:

Name	Place of incorporation and kind of legal entity	Principal activities and place of operation	Particulars of issued share capital	Interest held 2013	Interest held 2012
(a) Subsidiaries					
(i) Directly held by the Company					
Beijing Tong Ren Tang International Natural-Pharm Co., Ltd.[4]	The PRC, limited liability company	Sale and distribution of Chinese medicine and healthcare products Beijing, the PRC	HK$10,000,000	**100%**	100%
Beijing Tong Ren Tang (Australia) Pty. Ltd.	Australia, limited liability company	Wholesale and retail of Chinese medicine and healthcare products and provision of Chinese medical consultation and treatment Sydney, Australia	AUD1,000,000	**75%**	75%
Beijing Tong Ren Tang Management Pty. Ltd.	Australia, limited liability company	Investment holding Sydney, Australia	AUD100	**100%**	–
Beijing Tong Ren Tang Science Arts (Singapore) Co Pte. Ltd.	Singapore, limited liability company	Wholesale and retail of Chinese medicine and healthcare products and provision of Chinese medical consultation and treatment Singapore	SGD857,000	**51%**	51%
Beijing Tong Ren Tang (B) Sdn Bhd	Brunei, limited liability company	Retail of Chinese medicine and healthcare products Bandar Seri Begawan, Brunei	BND100	**51%**	51%

32 Subsidiaries, joint ventures and an associated company *(Continued)*

Name	Place of incorporation and kind of legal entity	Principal activities and place of operation	Particulars of issued share capital	Interest held 2013	Interest held 2012
(a) Subsidiaries *(Continued)*					
(i) Directly held by the Company *(Continued)*					
Beijing Tong Ren Tang (Toronto) Inc.	Canada, limited liability company	Retail of Chinese medicine and healthcare products and provision of Chinese medical consultation and treatment Toronto, Canada	CAD100	**51%**	51%
Beijing Tong Ren Tang Canada Co., Ltd.(2)	Canada, limited liability company	Retail of Chinese medicine and healthcare products and provision of Chinese medical consultation and treatment Vancouver, Canada	CAD100	**51%**	51%
Beijing Tong Ren Tang (Tang Shan) Nutrition and Healthcare Co., Ltd.(3), (4)	The PRC, limited liability company	Production and sale of healthcare products and Chinese medicine Beijing, the PRC	RMB120,000,000	**–**	68%
Beijing Tong Ren Tang Gulf FZLLC	United Arab Emirates, limited liability company	Retail of Chinese medicine and healthcare products and provision of Chinese medical consultation and treatment Dubai, United Arab Emirates	AED2,920,000	**51%**	51%
Beijing Tong Ren Tang (Macau) Company Limited	Macao, limited liability company	Wholesale and retail of Chinese medicine and healthcare products and provision of Chinese medical consultation and treatment Macao	MOP1,000,000	**51%**	51%

Notes to the Consolidated Financial Statements

32 Subsidiaries, joint ventures and an associated company *(Continued)*

Name	Place of incorporation and kind of legal entity	Principal activities and place of operation	Particulars of issued share capital	Interest held 2013	Interest held 2012
(a) Subsidiaries *(Continued)*					
(i) Directly held by the Company *(Continued)*					
Beijing Tong Ren Tang Poland sp.zo.o.	Poland, limited liability company	Retail of healthcare products and provision of Chinese healthcare consultation and treatment Warsaw, Poland	Zloty50,000	**100%**	100%
Beijing Tong Ren Tang (Leeds) Company Limited	The United Kingdom, limited liability company	Retail of Chinese medicine and healthcare products and provision of Chinese medical consultation and treatment Leeds, the United Kingdom	GBP1,000	**51%**	–
(ii) Indirectly held by the Company					
Beijing Tong Ren Tang Consulting Services Co., Ltd. [4]	The PRC, limited liability company	Provision of administrative services to group companies Beijing, the PRC	RMB600,000	**100%**	100%
(b) Joint ventures					
(i) Directly held by the Company					
Peking Tongrentang (M) SDN. BHD[1]	Malaysia, limited liability company	Retail of Chinese medicine and healthcare products and provision of Chinese medical consultation and treatment Kuala Lumpur, Malaysia	MYR1,900,000	**60%**	60%

32 Subsidiaries, joint ventures and an associated company *(Continued)*

Name	Place of incorporation and kind of legal entity	Principal activities and place of operation	Particulars of issued share capital	Interest held 2013	2012
(b) Joint ventures *(Continued)*					
(i) Directly held by the Company *(Continued)*					
PT. Beijing Tong Ren Tang Indo[1]	Indonesia, limited liability company	Investment holding Jakarta, Indonesia	US$1,000,000	**50%**	50%
Beijing Tong Ren Tang (Thailand) Co., Ltd.[1]	Thailand, limited liability company	Wholesale and retail of Chinese medicine and healthcare products and provision of Chinese medical consultation and treatment Bangkok, Thailand	THB38,000,000	**49%**	49%
Beijing Tong Ren Tang (Boryung) Co., Ltd.[1]	South Korea, limited liability company	Wholesale of Chinese medicine and healthcare products Seoul, South Korea	WON1,829,835,000	**51%**	51%
Beijing Tong Ren Tang (Thai Boon Roong) Company Limited[1]	Cambodia, limited liability company	Retail of Chinese medicine and healthcare products Phnom Penh, Cambodia	US$500,000	**51%**	51%
(ii) Indirectly held by the Company					
PT. Klinik Beijing Tongrentang[5]	Indonesia, limited liability company	Retail of Chinese medicine and healthcare products Jakarta, Indonesia	Rp2,600,000,000	**N/A**	N/A

Notes to the Consolidated Financial Statements

32 Subsidiaries, joint ventures and an associated company *(Continued)*

Name	Place of incorporation and kind of legal entity	Principal activities and place of operation	Particulars of issued share capital	Interest held 2013	2012
(c) Associated company					
Indirectly held by the Company					
Beijing Tong Ren Tang Health Preserving and Culture Co., Ltd.[4]	The PRC, limited liability company	Provision of Chinese medical consultation and treatment Beijing, the PRC	RMB8,000,000	**41%**	41%

(1) Although the Company owns more or less than 50% of the equity interests in these entities, the directors of the Company consider that these entities are joint ventures of the Company because their strategic operating, investing and financing activities are jointly controlled by the Company and the joint venture partners in accordance with the joint venture agreements rather than under the unilateral control or significant influence of the Company.

(2) Beijing Tong Ren Tang (Canada) Company Limited, a then joint venture, has become a subsidiary of the Company since 1 June 2013 (Note 30).

(3) Beijing Tong Ren Tang (Tang Shan) Nutrition and Healthcare Co., Ltd. was disposed of to a fellow subsidiary of the Company in 2013 (Note 24(a)).

(4) The English names of the group companies incorporated in the PRC represent the best effort by the management of the Group in translating its Chinese name as they do not have official English names.

(5) On August 2010, PT. Beijing Tong Ren Tang Indo ("TRT (Indonesia)") and each of the then shareholders of PT. KLINIK BEIJING TONGRENTANG entered into a conditional sales and purchase agreement (collectively, the "S&P Agreements") to transfer their respective equity interests in PT. KLINIK BEIJING TONGRENTANG to TRT (Indonesia). Upon the signing of such S&P Agreements, TRT (Indonesia) is entitled to bear all benefits and losses arising from the shares of PT. KLINIK BEIJING TONGRENTANG and exercise all rights and assume all obligations as the owner of shares of PT. KLINIK BEIJING TONGRENTANG TRT (Indonesia) has effective control over this entity. Thus, PT. KLINIK BEIJING TONGRENTANG is deemed as a subsidiary of TRT (Indonesia) pursuant to HKAS 27 (Revised).

33 Event after the balance sheet date

On 11 March 2014, the Group entered into an operating lease agreement with an independent third party for a property located in Hong Kong. The future aggregate minimum lease payment under such non-cancellable operating lease is approximately HK$35,688,000 pursuant to the agreement.

Financial Summary

Year ended 31 December	**2013 HK$'000**	2012 HK$'000 (Restated)	2011 HK$'000 (Restated)
Consolidated income statement			
Continuing operations			
Revenue	**613,963**	333,039	173,259
Gross profit	**420,043**	236,092	118,881
Gross profit margin (%)	**68.4%**	*70.9%*	*68.6%*
Operating profit	**268,256**	113,671	12,705
Profit for the year	**227,548**	92,161	4,690
Net profit margin (%)	**37.1%**	*27.7%*	*2.7%*
Profit attributable to owners of the Company	**220,001**	88,982	3,275
Discontinued operations			
Profit for the year and attributable to owners of the Company	**–**	66,953	55,463
Profit for the year	**227,548**	159,114	60,153
Dividends	**66,400**	100,000	–
Consolidated balance sheet			
Non-current assets	**251,493**	155,727	240,757
Current assets	**1,158,622**	513,132	238,684
Non-current liabilities	**4,248**	3,816	24,861
Current liabilities	**96,148**	97,355	44,815
Net assets	**1,309,719**	567,688	409,765

Financial Summary

Year ended 31 December	2013 HK$'000	2012 HK$'000 (Restated)	2011 HK$'000 (Restated)
Share capital	415,000	201,430	201,430
Share premium	452,363	3,913	3,913
Reserves	406,352	289,540	136,380
Shareholders' equity	1,273,715	494,883	341,723
Non-controlling interests	36,004	72,805	68,042
Total equity	1,309,719	567,688	409,765
Financial data			
Current ratio	12.1	5.3	5.3
Return on equity	17.4%	28.0%	14.7%
Return on total assets	16.1%	23.8%	12.5%
Earnings per share (HK$)			
— from continuing operations	0.29	0.15	0.01
— from discontinued operations	–	0.11	0.09
	0.29	0.26	0.10
Dividend per share (HK$)	0.08	0.25	–

Corporate Information

Directors

Non-executive Director

Yin Shun Hai *(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

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Compliance Adviser

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8138

This annual report is printed on environmentally friendly paper
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Beijing Tong Ren Tang
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北京同仁堂國藥有限公司

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