



Beijing Tong Ren Tang
Chinese Medicine Company Limited

北京同仁堂國藥有限公司

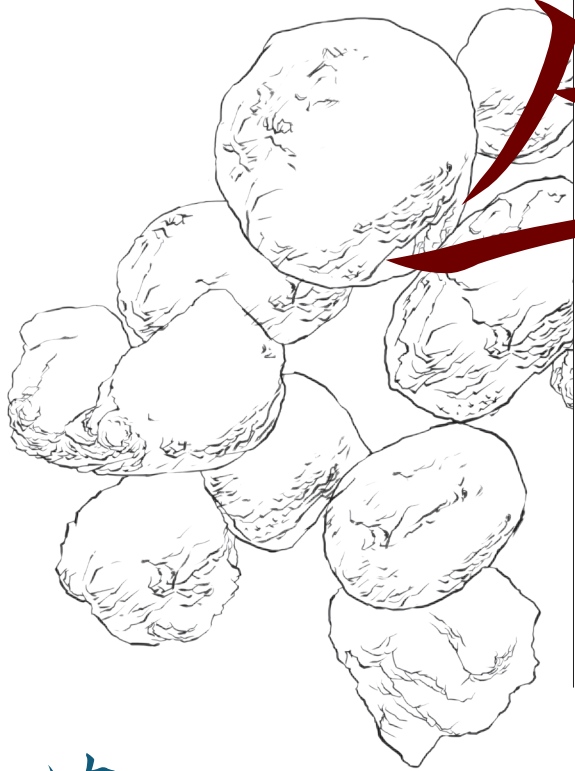
(incorporated in Hong Kong with limited liability)

(於香港註冊成立之有限公司)

Stock code 股份代號：8138



ANNUAL REPORT 2014 年報



CALCULUS
BOVIS

牛黃

牛黃：牛科動物的膽囊結石，可清熱消痰。

Calculus bovis are dried gallstones of cattle used in Chinese herbology, where they are claimed to remove toxins from the body.

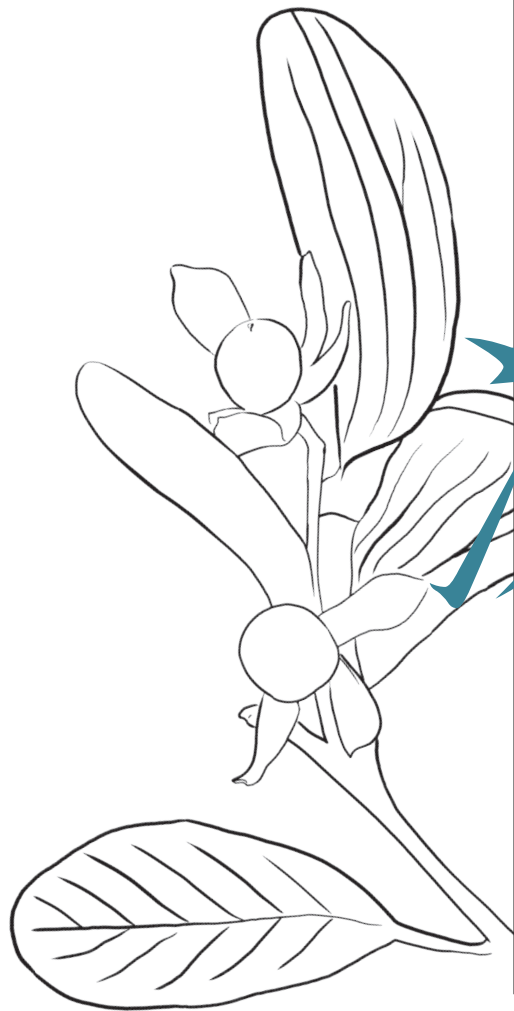
黃芩

SCUTELLARIAE
RADIX



黃芩：黃芩的根可入中藥，味苦、性寒，能清熱燥濕、瀉火解毒、止血、安胎。

Dried root of **Scutellariae Radix** is a fundamental herbs. It is bitter in nature and helps detoxification and hemostatic and provide strength for pregnancy.



冰片

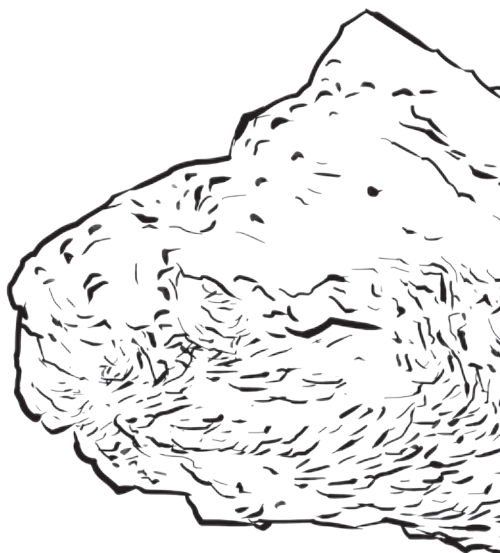
BORNEOLUM
SYNTHETICUM

冰片：為無色透明片狀結晶，用於開竅醒神，清熱止痛。

Borneolum Syntheticum is a colourless and transparent plate crystal, used to restore consciousness, remove heat and relieve pain.

雄黃

REALGAR



雄黃：為硫化物類礦物，用於解毒殺蟲，燥濕祛痰，截瘧。

Realgar is a mineral of sulfides of realgar group, used to counteract toxicity, to kill parasites and cure malarial.

黃連

COPTIDIS
RHIZOMA



黃連：其根莖是一種入口極苦的常用中藥之一，用於清熱燥濕，瀉火解毒。

Coptidis Rhizoma is a rhizome that is one of the bitterest herbs used in Chinese medicine, used to clear heat, drain damp, and eliminate toxicity.

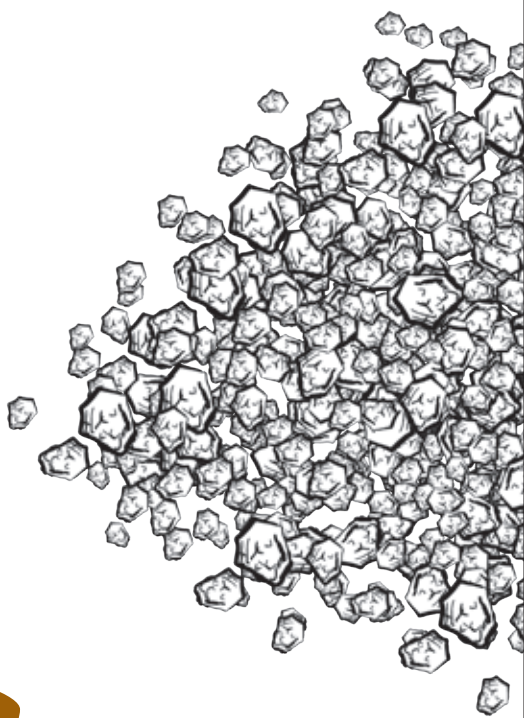
【郁金：為薑科植物的乾燥塊根，用於活血止痛，行氣解鬱。】

Curcumae Radix is the dried root tuber, used to promote the flow of qi, eliminate blood stagnation, remove depression by qi's regulation.

郁金

CURCUMAE
RADIX





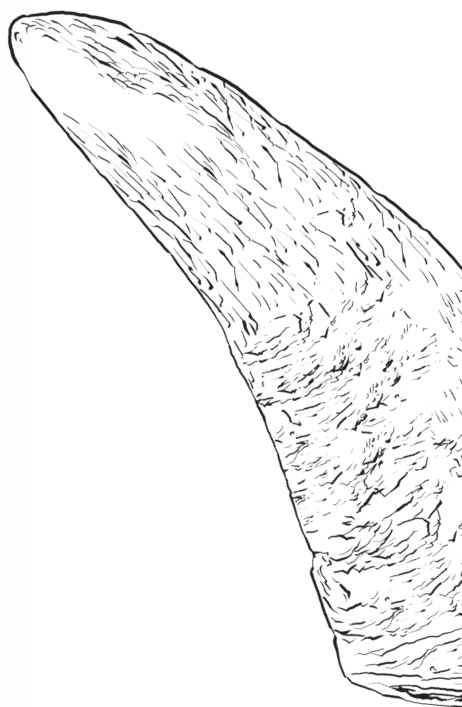
朱砂 CINNABARIS

朱砂：為硫化物類礦物辰砂族辰砂，
用於清心鎮驚，安神，明目，解毒。

Cinnabaris is mineral of sulfides of cinnabar group, used to cause sedation and counteract toxicity.

水牛角

CORNU
BUBALI

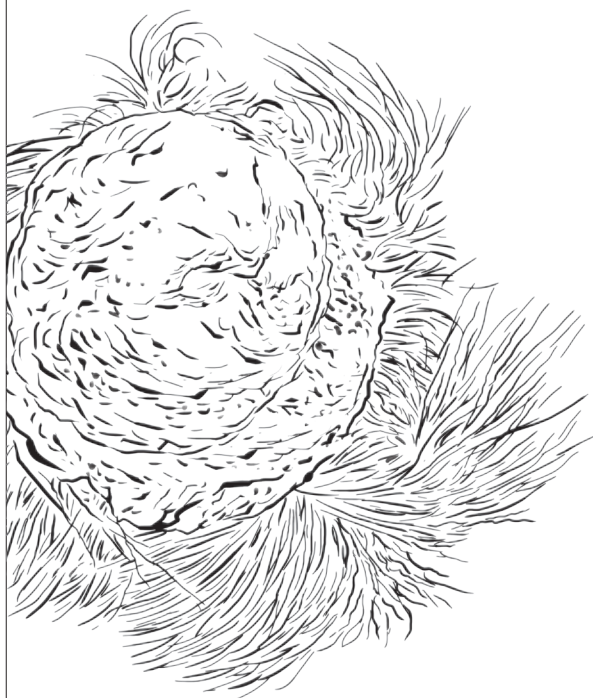


水牛角：水牛之角，功能有清熱，涼血，定驚，解毒。

Cornu Bubali is the horn of water buffalo. It can eliminate the pathogenic heat from blood, dispel heat and relieve convulsions.

麝香

MOSCHUS



麝香：為鹿科動物林麝、馬麝或原麝成熟雄體香囊中的乾燥分泌物。用於開竅醒神，活血通經，消腫止痛。

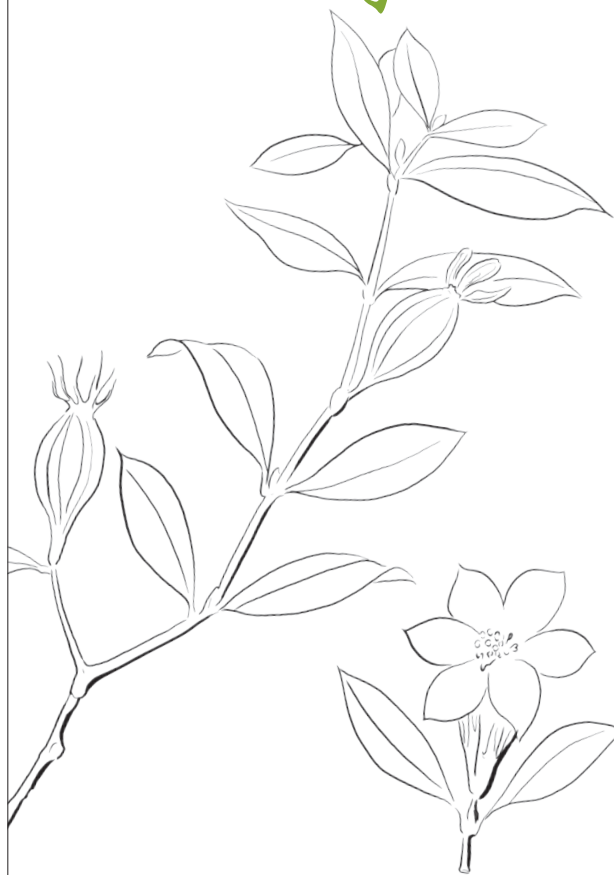
Moschus is the dried secretion of the musk sac of adult male *Moschus berezovskii* Flerov, *Moschus sifanicus* Przewalski or *Moschus moschiferus* Linnaeus, used to restore consciousness, activate blood circulation and stimulate menstruation, and relieve pain.

【
植物，可清熱瀉火。
】
梔子：屬茜草科梔子屬

Gardeniae Fructus is an evergreen flowering plant of the family Rubiaceae. It can be used to treat certain febrile conditions.

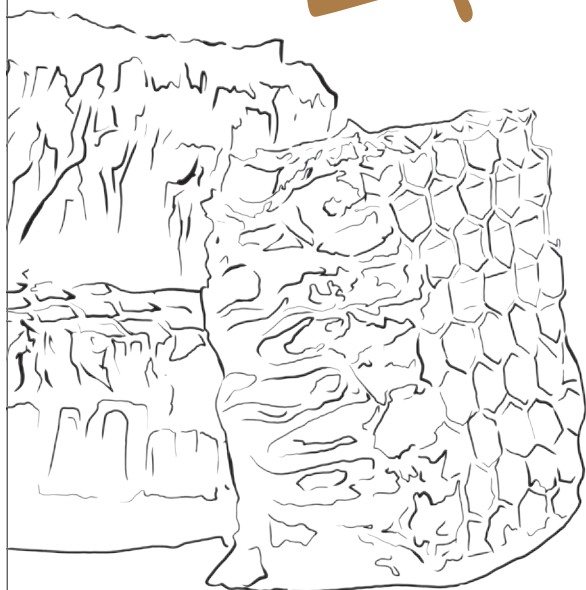
GARDENIAE
FRUCTUS

梔子



蜂蜜

MEL



【**蜂蜜**：蜜蜂採集的花蜜，植物分泌物，有潤燥通便的療效。作為外用藥，蜂蜜可以促進傷口癒合，治療潰瘍。

】

Mel is a sweet food made by bees using nectar from flowers, has a laxative effect. For external use, honey can facilitate wound healing and treatment of ulcers.

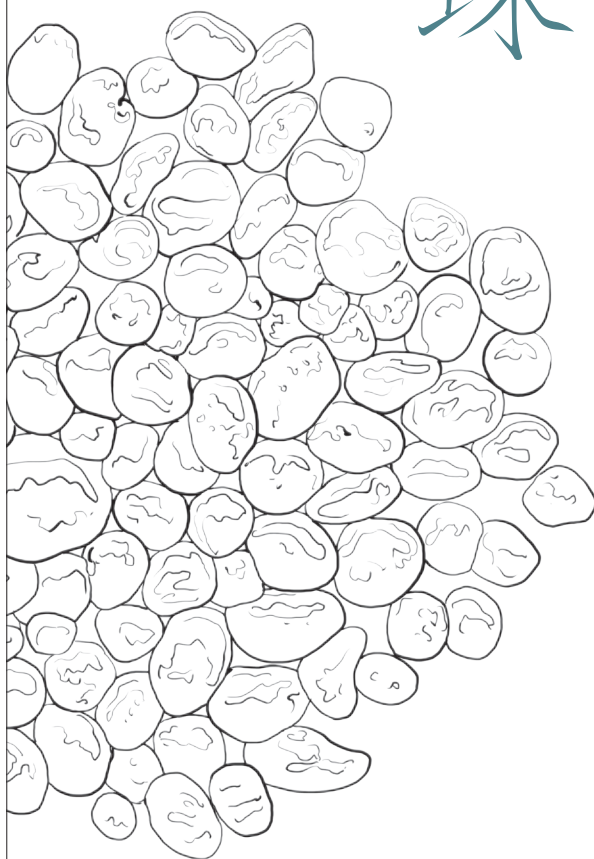
【**珍珠**：為珍珠科雙殼類動物受刺激形成的，用於安神定驚，明目消翳，解毒生肌。

】

Margarita is the pearl formed in such bivalve, used to anchor the mind, eliminate corneal opacity, counteract toxicity and promote the growth of new tissue.

珍珠

MARGARITA



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.

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



《CORPORATE PROFILE》

Founded in 1669 (Eighth year on the throne of Emperor Kangxi, Qing Dynasty), Beijing Tong Ren Tang was the only one serving the royal families with Chinese medicine for 188 years over the reign of eight emperors since 1723. Beijing Tong Ren Tang was renowned in the traditional Chinese medicine ("TCM") industry nationally. Inheriting the Tong Ren Tang's corporate motto of "Complexity and quality are not to be forfeited by costs" over 345 years, we are self-disciplined to offer products and services with quality. We are cautious in our manufacturing process and look for excellence, our products are famous and hereditary with its unique formulas, superior raw materials, superb technical skills and distinguished efficacy.

"From commitment since its establishment to being the sole Chinese medicine provider to royal families; from recession to recovery, and to the invasion of the enemies; and from the rebirth as the People's Republic of China to forge reform and be innovative. Tong Ren Tang, an enduring national brand that overcame vicissitude, is the symbol of quality and credibility."

*Quote from "Tong Ren Tang: Inheritance and Development" by Bian Dong Zi
(邊東子《同仁堂：傳承與發展》)*

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TONG REN TANG AT A GLANCE IN 2014

JANUARY

First new retail outlet of the Company in the United Kingdom

New retail outlet in each of Macao and Toronto

MAY

Commenced business operation in New Zealand

JUNE

Completed acquisition of Beijing Tong Ren Tang Fook Ming Tong Chinese Medical Centre ("BJTRTFMT")





OCTOBER

Entered into an agreement with Western Sydney University in Australia to commence the scientific research on the safety of TCM

NOVEMBER

Grand opening of flagship Chinese medicine health and wellness centre (the "Centre") in Hong Kong

Entered into a framework agreement with Maori with the intention to establish a touring health and cultural centre in New Zealand

DECEMBER

Grand opening of new retail outlet in each of Poland, Vancouver and Melbourne on the same day

DISTRIBUTION NETWORK

GLOBAL EXPANSION

Canada





United Kingdom

Poland

CHINA

South Korea

Hong Kong

The United Arab Emirates
(UAE)

Macao

Thailand

Cambodia

Malaysia

Singapore

Brunei

Indonesia

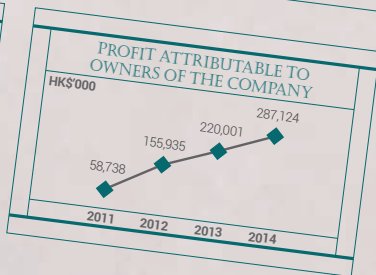
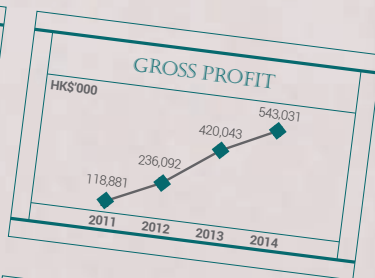
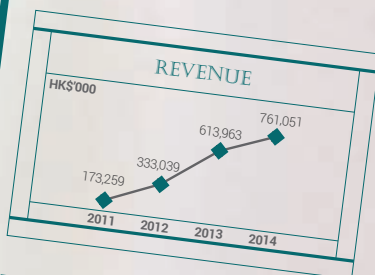
Australia

New Zealand

FINANCIAL HIGHLIGHTS

OUR GROWTH IN 2014

REVENUE	24.0%
GROSS PROFIT	29.3%
PROFIT FOR THE YEAR	29.5%
PROFIT ATTRIBUTABLE TO OWNERS OF THE COMPANY	30.5%



既汗則心舒，仍思董腥。丸方胸後，某豆乾薑。
 武夷茶，商正松萝茶更妙。天麻，狀似瓜，麻黃，
 珠砂，八分，甘草，八分，雄雞精，八分，石葉，擇其精良者。
 寧為丸，每丸重三〇，磁瓶收貯，勿令洩氣。先師
 附刊於後。時述元，丙午年閏正月廿一日。先師云：此名普濟，自宋迄明，普濟
 生民，不知數千萬矣。矣。而日

The following is a summary of the published results and assets and liabilities of the Group for the past four financial years.

Financial Summary

	For the year ended 31 December			
	2014 HK\$'000	2013 HK\$'000	2012 HK\$'000	2011 HK\$'000
Continuing Operation	761,051	613,963	333,039	173,259
Revenue	543,031	420,043	236,092	118,881
Gross profit	294,698	227,548	92,161	4,690
Profit for the year				
Discontinued Operation	—	—	66,953	55,463
Profit for the year	294,698	227,548	159,114	60,153
Profit for the year	287,124	220,001	155,935	58,738
Profit attributable to owners of the Company				

	At 31 December			
	2014 HK\$'000	2013 HK\$'000	2012 HK\$'000	2011 HK\$'000
Total assets	1,632,541	1,410,115	668,859	479,441
Total liabilities	95,680	100,396	101,171	69,676
Net assets	1,536,861	1,309,719	567,688	409,765
Financial Metrics				
Gross profit margin	71.4%	68.4%	70.9%	68.6%
Net profit margin	38.7%	37.1%	27.7%	2.7%
Current ratio	14.5	12.1	5.3	5.3
Return on equity	19.2%	17.4%	28.0%	14.7%
Return on assets	18.1%	16.1%	23.8%	12.5%
Earnings per share (HK\$)				
— from continuing operations	0.35	0.29	0.15	0.01
— from discontinued operations	—	—	0.11	0.09
	0.35	0.29	0.26	0.10
Dividend per share (HK\$)	0.10	0.08	0.25	—



望：觀氣色

INSPECTION

Collect information about the sickness of the patient through observation. Inspection mainly refers to observation of the mental state, physical condition, facial expressions and tongue manifestations. To understand the physiological functions and pathological changes of the body via external observation.



CHAIRMAN'S STATEMENT

“EVOLVING OVER COUPLE OF THOUSANDS YEARS, THE PROFOUND PHILOSOPHY OF CHINESE MEDICINE, HEALTH AND WELLNESS OF THE CHINESE NATION IS THE TREASURE OF ANCIENT CHINESE SCIENCE. BEING THE KEY TO THE TREASURE OF CHINESE CIVILISATION, IT IS ALSO THE CORE VALUE FOR PROPAGATION AND DEVELOPMENT OF CHINESE CULTURE GLOBALLY.”

The Board is pleased to propose a final dividend of 10 HK cents per share for the year ended 31 December 2014.

The Group is missioned to global expansion on the legacy of Chinese culture with the core value of TCM culture. Rooted in Hong Kong and mirrored globally, we are to strengthen the impact of the brand of “Tong Ren Tang” and realise modernisation and internationalisation of the Group.

Adhere to Tradition, Be Innovative

The Group has been adhering to tradition and continues to be the honest and trustworthy partner in sharing the benefits. We adhere to ‘Nurturing kindness and virtue, preserving tranquility and wellness’.

2014 was a challenging year with exciting opportunities. The Group overcame challenges and seized the opportunities even in the global downturn. In accordance with the characteristics of each of the overseas markets, we deployed strategies to business expansion and targeted investment. As the overseas development platform of Tong Ren Tang, we are the overseas representative of Tong Ren Tang and gateway to propagation of TCM culture. The Group has been actively developing new markets, expanding investment channels and being innovative on business models. We aim to become a global integrated Chinese medicine Group.



MEI QUN
Chairman

According to the characteristics of each of the overseas markets, the Group makes diversified investments with flexibility. During 2014, the Group completed acquisition of BJTRTFMT and commenced business operation in New Zealand, leveraging on their Chinese medical talents and distribution channels, and further enhanced the penetration of the brand of "Tong Ren Tang".

Propelling our diversified strategies, located in the heart of financial centre of Hong Kong, Central, we have established our business to the first-of-its-kind, preventive treatment focus, flagship Chinese medical health and wellness centre. Adhering to the professional and comprehensive Chinese medical consultation services of Tong Ren Tang, and introducing the element of modern wellness, individuals are guided to follow a healthy diet and lifestyle to preserve their health via restoration of balance both spiritually and physically according to the natural rules of four seasons in a year to enjoy engineering new wellness customer experience.

With ever-changing generation of mobile internet, new expenditure pattern of consumers is established. Matching consultation with medication via physical contact is no longer the only direction for Tong Ren Tang's global expansion, we must move on to construct a mobile platform offering professional healthcare e-services. By creating an internet platform via large data analysis that is knowledgeable and informative, we offer products and services driven by consumers' demand, to achieve the full-services healthcare service chain in the healthcare industry.

Culture-led and Globalisation

Looking forward, with further development of economic globalisation, international competition not only covers a broader scope, but also becomes more intense. "Culture" has become the crucial criterion in measuring a country's integrated competitiveness. Taking into consideration of the acceleration of cultural development in the PRC, while gradually extending our reach to the European mainstream, the Group is actively localising its strategies. We continue to enhance our strategies in terms of innovation, brand and global marketing, in order to strengthen the penetration of

Chinese medicine culture, enhance the international impact and competitiveness, and position of the Group, and to achieve modernisation of TCM.

Prolonged Ambition, Creating Shareholder Value

The Group is committed to continuously generating sustained and consistent returns for our shareholders via steady development.

To be innovative and globalise our overall strategic expansion, the Group will make investment decisions based on the long-term best interests of our shareholders. In determining the scale of our businesses in the various regions or countries in which we operate, we take into consideration the prevailing economic, political and operating environment, and tune our operations accordingly.

Our prestige and inherited brand advantage, financial strength, resilience and flexibility, our full range expansion strategies and prudent cost controls will ensure that we can meet any challenge that the future may bring to enhance long-term interest of our shareholders and our overall business prospects shall continue to be optimistic.

Appreciation

On behalf of the board of Directors of the Company (the "Board"), I would like to take this opportunity to express my heartfelt appreciation for the tireless efforts of our diligent employees worldwide for their dedication and loyalty; our shareholders, customers and business partners for their trust and support; as well as the communities in which we operate and to which we gladly give back.

Mei Qun
Chairman

Hong Kong, 13 March 2015





聞

LISTEN & SMELL

Listen to the voices and breath as well as to smell the odors of the patient. Collection of information for diagnosis and use of drugs.

聞：聽聲息



MANAGEMENT DISCUSSION AND ANALYSIS

《SUSTAINABLE DEVELOPMENT STRATEGY AND FUTURE PROSPECTS》

As the overseas platform of the Tong Ren Tang Group, with TCM culture of Tong Ren Tang being the core value, the Group has been consolidating the Chinese traditions, TCM health and wellness philosophy together with our diversified global strategies, to strengthen the establishment of our overseas retail network to complement our global business development. At 31 December 2014, the Group has expanded its global sales network to 56 retail outlets in 15 countries and regions outside Mainland China, actively developing our business model and products, creating new growth drivers.

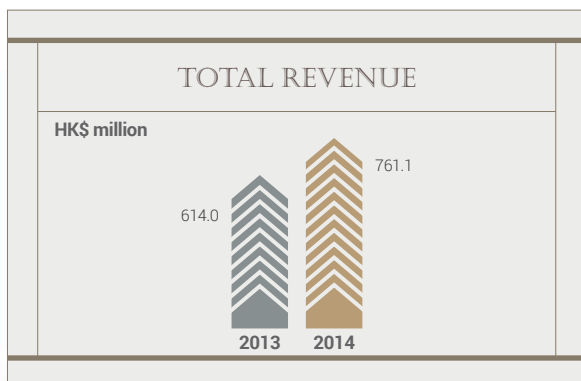
The establishment of the Centre in 2014 is a critical strategy for the Tong Ren Tang brand merging into the new business segment, offering tailor-made and one-stop medical health and wellness experience for customers. The Group shall replicate the business model of the Centre globally, and our centuries of history shall continue to shine.

The Group will also leverage on local premium resources, talents and advanced technology in overseas markets, adhering to the balancing of righteous and benefits while being able to stringently control the quality of our products, we are to achieve modernisation and internationalisation of TCM.

It has been the core strategic objective of the Group to maximise the shareholders' value by realising our competitiveness in the markets with our existence and value of investment in the new markets. Looking forward, our strategy shall continue to be guided by culture when we tap into new markets dominated by Westerners. Immersing the ancient traditional Chinese culture while breaking through the overseas Chinese community, Westerners shall eventually understand the oriental medicine through the use of TCM products and services, and getting used to the services and products of Tong Ren Tang, making Tong Ren Tang an eternal global brand.



《BUSINESS REVIEW》



Overview

Over 345 years, since the establishment of Beijing Tong Ren Tang, the long brand heritage and reputation for delivering high quality and authentic Chinese medicines are reasons for our continued success. We unleash the unique competitive advantages of the brand culture and by innovative development, Tong Ren Tang becomes a worldwide Tong Ren Tang.

Despite the slow global economic recovery, through effective implementation of business strategies to capture the greatest growth potential, we have established new retail outlets in Hong Kong, Macao, Toronto, Vancouver, Melbourne, New Zealand and Poland in 2014, where our coverage has increased from 39 retail outlets in 2013 to 56 retail outlets by the end of 2014 across 15 countries and regions outside Mainland China.

For the year ended 31 December 2014 (the "Year"), the Group continued to be a global leader in Chinese medicine. Revenue increased by 24.0% to HK\$761.1 million (2013: HK\$614.0 million), net profit for the Year increased by 29.5% to HK\$294.7 million (2013: HK\$227.5 million), profit attributable to owners of the Company increased by 30.5% to HK\$287.1 million (2013: HK\$220.0 million) and earnings per share increased by 20.7% to 35 HK cents (2013: 29 HK cents). The Directors recommend the payment of a final dividend of 10 HK cents per share for the Year (2013: 8 HK cents).

Hong Kong

Growth in local consumption demand and tourist spending has lost steam in 2014, the nominal value of retail sales experienced a slight decline of 0.2% in 2014 after an increase of 11% in 2013. As foundation of the Group's global development, contributions from Hong Kong market continues to be majority. The revenue from Hong Kong for the Year amounted to HK\$378.7 million (2013: HK\$392.1 million), representing a slight decrease of 3.4%. In order to stabilise the development of our owned products, the Group has been attempting to tighten on the marketing strategy for wholesaling of our owned products, resulting in the decrease of 8.8% in our wholesale business in Hong Kong as compared to last year. The Group achieved the growth of 13.4% in Hong Kong retail sales which outperformed the growth of overall Hong Kong retail market and demonstrated the effectiveness of the above strategy, which should facilitate the improvement of our overall performance in the long run.

In line with our key direction to match consultation and medication with a focus in healthcare services, we strive to extend and enhance our customer services. During the Year, we completed the acquisition of BJTRTFMT. In addition to the provision of integrated Chinese medical consultation and healthcare services, it also drives the sales of Tong Ren Tang branded products. Moreover, leveraging on the sophisticated operation model of BJTRTFMT together with the Group's operational experience in TCM, we aim to improve the effectiveness and efficiency of the chain operation model to strengthen the development of Tong Ren Tang.

As the sub-health status and chronic disease problems have become increasingly prominent, the awareness of health and demand in health and wellness increases, individuals switch from curing to preventive treatment, we are to broaden our business scope and create new growth drivers. "Tong Xin Tong Le Tong Ren Tang" (同心同樂·同仁堂), our flagship store, the Centre located in Central, Hong Kong was officially opened on 28 November 2014.

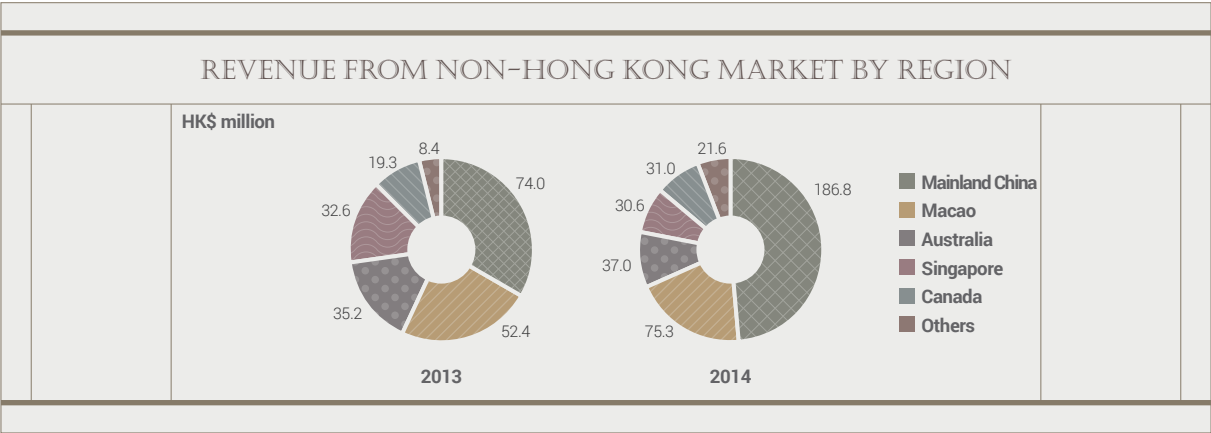


As a pilot for expansion into the market of health and wellness, the Centre marks a new initiative for the Group, aiming to promote the “preventive treatment”. Situated in the prime location with more than 10,000 sq.ft., the Centre targets to serve mid to high-end consumers. It offers Chinese wellness services such as healthcare consultancy, tui-na, acupuncture and beauty care, etc, with Chinese medicine as a foundation, guided by the following key fundamental preventive concept:



The Centre offers comprehensive and integrated services, targeting to maintain and restore the health from poor diet, anxiety and lifestyle, as well as stress from work. It mainly provides Chinese health and wellness services, such as tui-na, acupuncture, scrape therapy, suction cup, pedicure, Chinese diet therapy and herbal decoction, etc. It is recommended that individual should follow a healthy diet and lifestyle to preserve the health via restoration of balance both spiritually and physically in accordance with the natural rules of four seasons in a year. Leading the industry in Hong Kong, the Centre has also introduced the Japanese enzyme bath for detoxification.





Non-Hong Kong

The growth in the Group's sales shall be driven by leveraging on the local premium resources and pursuing investment opportunities in accordance with the characteristics of each of the overseas markets, whereby the contribution from the overseas markets shall then be improved.

The Group has extended its reach to the United Kingdom and New Zealand during the Year, expanding the business scope in the existing markets and increasing our market share to cover 15 countries and regions out of Hong Kong. During the Year, our revenue from non-Hong Kong markets was HK\$382.3 million (2013: HK\$221.9 million), representing an increase of 72.3%, and retail revenue from non-Hong Kong markets demonstrated an impressive increase of 22.4% from last year.

REVENUE FROM NON-HONG KONG MARKETS INCREASED BY 72.3% TO HK\$382.3 MILLION

Blessed with the unique natural resources, New Zealand is filled with opportunities in tourism. The Group commenced business operation in New Zealand during the Year. Complementing to the comprehensive global development of Tong Ren Tang, leveraging on the advantages on local resources and tourism habits while combining the philosophy of Tong Ren Tang's health and wellness in Chinese medicine together with tourism, we entered into a framework agreement with Maori, the indigenous people of New Zealand, with the intention to establish a touring health and cultural centre in New Zealand.

RETAIL NETWORK

Australia	5	Canada	5	Macao	4	Poland	2	The United Arab Emirates	1
Brunei	1	Hong Kong	22	Malaysia	3	Singapore	5	United Kingdom	1
Cambodia	1	Indonesia	1	New Zealand	4	Thailand	1		





修合無人見，存心有天知

WE ARE SELF-DISCIPLINED
TO OFFER PRODUCTS AND
SERVICES WITH QUALITY

Production, Research and Development

There has been an increasing concern on the safety of drugs and food. Adhering to the prestige culture over 345 years, production and operation of the Group abides to related regulatory requirements in the industry as a foundation, we formulate even more stringent policies from procurement to manufacturing, from storage to sales, to ensure that the entire value chain from raw materials to finished products, and to sales is being monitored. We constantly refine our management system in terms of quality control, enhancing products satisfaction and the trust from our customers.



The production plant of the Group in Tai Po Industrial Estate, Hong Kong has continuously obtained the Good Manufacturing Practice for proprietary Chinese Medicines certification of the Chinese Medicine Council of Hong Kong, and our production plant has also been accredited with the globally recognised ISO22000:2005 (Food safety management system) and Hazard Analysis Critical Control Points (HACCP) during the Year. The strengthening of food safety control has led to enhancing of the Group's competitiveness and its corporate image. We are now prepared for global sales of our owned products.

The Group has placed great emphasis on the research and development of new products, consolidating the philosophy of TCM together with the advanced technology of modern research, and we focused on the research and development of health and wellness products for anti-sub-health. The Group is actively collaborating with renowned universities and research institutions to strengthen the research and development capabilities, well preparing TCM going global.

During the Year, the Group work with The University of Hong Kong on the toxic and mechanism research on Angong Niu Huang Wan with international standard, while we also work with a research institution in the United States on the safety and mechanism research on Ganoderma Lucidum Spores Powder Capsule (GLSPC), the Group has entered into an agreement with Western Sydney University in Australia to commence the scientific research on the safety on TCM, to enhance the recognition of TCM globally.

炮制雖繁必不敢省人工
品味雖貴必不敢減物力

COMPLEXITY AND
QUALITY ARE NOT TO BE
FORFEITED BY COSTS



BROIL

Excipients such as wine, salt, vinegar, ginger, honey, and oil must be add on with specific dosage for broiling. In order to maximize the efficacy of the herbs, the level of heat during the broil, the type of fragrance and color of the end products are all specified.



炙

藥用輔料的酒、鹽、醋、薑、蜜、油等必須按量投料。炙法中火力的大小、炙制的色澤、氣味的香濃與否都是質量的要求，從而最大限度地發揮療效。

CALCINED

Processed under high temperature 300 ~ 700°C, physical state of the drugs is then changed to the form of calcined powder, while the physicochemical properties of the herbs are changed at the same time, to reduce or eliminate the side effects, thereby enhancing efficacy. In order to meet the standard for medical usage, the herbs should be heated evenly during calcination.

煅

藥物須經高溫 300-700°C 煅燒，改變其物理狀態至粉狀，同時改變了藥物的理化性質，減少或消除副作用，從而提高療效。在煅燒中，藥物受熱須均勻，嚴格掌握煅至「存性」的質量要求。



STEAM

Cook via evaporated water. For certain types of herbs to qualify for medical use, it has to be processed with excipients to activate its efficacy when it is steamed till fully cooked.



蒸

用水及火，有些藥物還必須加入輔料進行炮製，使藥物由生變熟，改變某些性能，以符合用藥要求。

PARCH

Herbs are dried through intense heat, it can be categorised as simple parch or processed parch (fry with excipients). Balance between the skill to parch, dosage of excipients, method to fry and color of the end products are important to release the efficacy of the herbs.

炒

炒法分為清炒法和加輔料炒法，其工藝、輔料投量、炒法和炒製的色澤均要到位。



安

宮

牛

黃

丸

ANGONG
NIUHUANG
WAN





FUNCTION

The pathogenic heat intervening the interior, accumulation of phlegm, sustained high fever lockjaw, convulsions and coma.

MAJOR INGREDIENTS

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

破
壁
靈
芝
孢
子
粉
膠
囊

SPORODERM-
BROKEN
GANODERMA
LUCIDUM
SPORES
POWDER
CAPSULES





FUNCTION

To enhance immunity. For the elderly and the frail or the people with low immune function, and for patients after surgery or medication.

MAJOR INGREDIENTS

Ganoderma lucidum spores

In addition to our two star products, Angong Niu Huang Wan and GLSPC, the Group has completed research and development of five series of 22 new products under the “Tong Ren Tang” brand during the Year. The broadening of our product portfolio on both Chinese medicine and health and wellness products resulting in the increase in core competitiveness of the Tong Ren Tang brand can also lead to the increase in market share of the Group.

RHODIOLA

- Rhodiola Rosea Capsule
- Blueberry & Rhodiola Rosea Capsul

Rhodiola generally grows in high and cold areas. It helps enhance immunity, anti-hypoxic, anti-fatigue and enhance memory.



CAMPHORATA

- Ginseng-Antrodia Camphorata Capsule
- Schisandra-Abtrodia Camphorata Capsule

Antrodia camphorata plays an important role in protecting liver and improving metabolism, reducing the rate of acute liver injury caused by alcohol, as well as regulating immune function.



GINSENG

- Korean Red Ginseng
- Red Ginseng Granule Tea

Sourcing from Geumsan in Korea, the origination of Ginseng, our Ginseng products are being processed, steamed, moisturised, pressurised and packed in the traditional metal case where the health stimulants are being well preserved.



HEALTH & WELLNESS TEA



Brown Rice Tea



Brown Rice and Green Tea



Corn Tea Complex



Solomon's Seal Tea



Semen Cassiae Tea



Fagopyrum Esculentum Tea

GINGER TEA AND BIG RED DATE TEA



MARINE COLLAGEN PEPTIDE



Brand Management and Promotion of TCM Culture

The Group is missioned to overseas expansion on the legacy of Chinese culture with the core value of TCM culture, passing it onto the new generation to embrace the philosophy of holistic Chinese health and wellness. We are both an economic entity and culture disseminator. During the Year, in addition to protecting the brand and trademarks, the Group also launched various promotional campaigns and held series of events and seminars globally, including but not limited to:

- enhancement and maintenance of trademarks and patents globally
- handling of counterfeit brand companies and products of Tong Ren Tang
- alignment of brand image in Brunei, Indonesia, Macao, Singapore and Thailand
- presentation in the Thailand Chinese medicine conference on behalf of the PRC
- organising exhibitions and seminars on health and wellness, and Chinese medicinal culture globally

In respect of brand protection, the Group continues to strengthen the protection, development and enhancement of the impact of its brand by establishing and improving the policies of overseas brand management, crisis management and contingency planning.

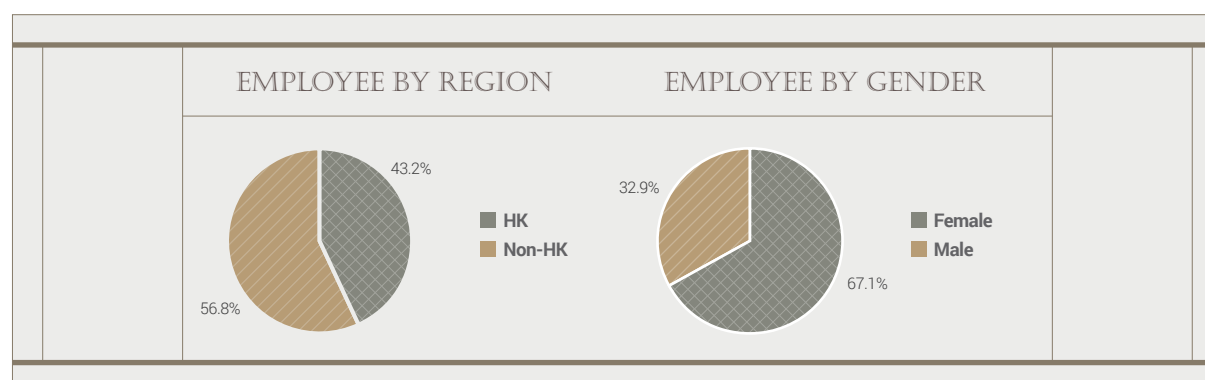




Human Resources Management

At 31 December 2014, we have a total of 602 employees (2013: 438 employees).

The Group's staff costs for the Year were HK\$117.3 million (2013: HK\$101.4 million), representing an increase of 15.7% from the last year was primarily due to the increase in number of employees for the Centre and professional to cater for our expansion needs. 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.



《 FINANCIAL REVIEW 》

Revenue

The Group's 2014 revenue reached HK\$761.1 million (2013: HK\$614.0 million), representing an encouraging increase of 24.0% from last year. The increase was mainly driven by the strong demand of our owned products and expansion of our sales network globally.

Gross Profit

Our gross profit increased by HK\$123.0 million, or 29.3% to HK\$543.0 million (2013: HK\$420.0 million), while the gross profit margin was 71.4% (2013: 68.4%). The increase in gross profit and its margin was mainly due to the increase in sale of our owned products.

Distribution and Selling Expenses

The Group's distribution and selling expenses increased by HK\$31.6 million or 34.7% to HK\$122.6 million (2013: HK\$91.0 million). The increase was mainly attributable to (i) increase of rental expenses due to establishment of the Centre and new retail outlets during the Year; (ii) increase of staff costs due to increase in number of new hired staffs for the Centre and new retail outlets, and salary increment; and (iii) increase in promotion and advertising expenses of our brand and products throughout the Year. Distribution and selling expenses as a percentage to revenue increased slightly from 14.8% in 2013 to 16.1% in 2014, which was mainly due to the additional advertising effort throughout the Year globally.

General and Administrative Expenses

The Group's general and administrative expenses increased by HK\$12.5 million, or 19.0% to HK\$78.4 million (2013: HK\$65.9 million). 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 the research and development associated with our owned products, and (iii) an increase in legal and professional fee due to meeting of annual compliance requirement as a listed company, an increase in number of the merger and acquisition transactions and feasibility studies in the new markets. General and administrative expenses as a percentage to revenue has a slight decrease to 10.3% (2013: 10.7%).

Finance Income

The Group's finance income increased by HK\$6.6 million, or 134.7% to HK\$11.5 million (2013: HK\$4.9 million), such increase was mainly attributable to the increase in average short-term bank deposits from last year.

Taxation

The Group's income tax expense increased by HK\$16.6 million, or 37.8%, to HK\$60.5 million (2013: HK\$43.9 million), such increase was mainly due to an increase in taxable income for the Year. The effective tax rate for the Year has slightly increased from 16.2% to 17.0%, which was caused by the change in proportion of contribution of taxable profit.

Net profit, profit attributable to owners of the Company, basic earnings per share and dividend

Our profit for the Year increased by HK\$67.2 million or 29.5%, to HK\$294.7 million (2013: HK\$227.5 million), with a net profit margin of 38.7% in 2014 (2013: 37.1%).

Profit attributable to shareholders of the Company amounted to HK\$287.1 million (2013: HK\$220.0 million), increased by 30.5% from last year.

For the Year, the basic earnings per share were 35 HK cents (2013: 29 HK cents). The Directors recommend the payment of a final dividend of 10 HK cents per share for the Year (2013: 8 HK cents).

Financial Resources and Liquidity

During the Year, the Group funded its liquidity by the net proceeds from the Listing (as defined below) and resources generated internally. Based on the Group's steady cash inflow from operations, coupled with sufficient cash and bank balances, the Group has adequate liquidity and financial resources to meet the daily operations and working capital requirements as well as to fund its expansion plans.

The Group continued to be in a strong financial position and its cash and bank balances were mainly denominated in Hong Kong dollars, Renminbi, Macao pataca, Singapore dollar, Australian dollar and Canadian dollar and were deposited in reputable financial institutions with maturity dates falling within one year. The table below sets out the information regarding cash and bank balances, working capital, total equity, current ratio and net gearing ratio as at 31 December 2013 and 2014 and net cash generated from operating activities for the year ended 31 December 2013 and 2014:

	At 31 December	
	2014 HK\$'000	2013 HK\$'000
Cash and bank balances	1,033,912	923,597
Working Capital ⁽¹⁾	1,228,646	1,062,474
Total Equity	1,536,861	1,309,719
Current Ratio ⁽²⁾	14.5	12.1
Gearing ratio ⁽³⁾	N/A	N/A

	For the year ended 31 December	
	2014 HK\$'000	2013 HK\$'000
Net cash generated from operating activities	244,734	142,528

(1) Being net current assets

(2) Being current assets divided by current liabilities

(3) The Group had no interest-bearing borrowings at 31 December 2013 and 2014, and therefore gearing ratio is not applicable

Capital Expenditure

The Group's capital expenditure incurred during the Year amounted to HK\$71.2 million (2013: HK\$116.6 million), and was primarily used for the establishment of the Centre and new retail outlets.

Capital Commitment

Details of the Group's capital commitments as at 31 December 2013 and 2014 are set out in note 27 to the consolidated financial statements.

Major Investment, Acquisitions and Disposals

The Group completed the acquisition of 50% of the issued share capital of Union Health International Limited (with a business name as Fook Ming Tong Chinese Medical Center), the business name of Union Health has been changed to "Beijing Tong Ren Tang Fook Ming Tong Chinese Medical Centre". It is a Chinese medical center principally providing acupuncture, bone setting, massage services and etc. in Hong Kong, and is accounted for as a joint venture of the Group.

The Group also commenced the business operation of retail and wholesale of Chinese medicine and services in New Zealand, which is accounted for as a subsidiary of the Group.

Charges over Assets of the Group

At 31 December 2014, the Group did not pledge any assets of the Group.

Contingent Liabilities

At 31 December 2014, the Group did not have any significant contingent liabilities.

Foreign Currency Risk

The Group's main business operations are conducted in Hong Kong and other overseas counties/regions. The transactions, monetary assets and liabilities of the Group are mainly denominated in Hong Kong dollar, Renminbi, Macao pataca, Singapore dollar, Australian dollar, Canadian dollar and United States dollar. During the 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.



Use of Proceeds from the Listing

The Company was listed on GEM of the Stock Exchange on 7 May 2013 (the "Listing") and issued 230,000,000 new shares at HK\$3.04 per share. The net proceeds from the Listing received by the Company are HK\$636.7 million. These proceeds are intended to be applied in accordance with the business plan set out in the prospectus of the Company dated 25 April 2013 (the "Prospectus"). The business plan and schedule of use of proceeds disclosed in the Prospectus were based on the best estimation of future market conditions made by the Group at the time of preparing the Prospectus, while the proceeds were applied in accordance with the actual development of the market.

During the year ended 31 December 2014, the net proceeds from the Listing were applied as follows:

- (i) HK\$26.9 million on expanding our distribution network in existing overseas countries or regions (as defined at Listing);

- (ii) HK\$9.0 million on expanding our distribution network into new overseas markets (as defined at Listing);
- (iii) HK\$40.0 million on establishing a Chinese medical healthcare centre in Hong Kong;
- (iv) HK\$20.0 million on merger and acquisitions;
- (v) HK\$5.8 million on upgrading of the production facilities and capacities for our owned products; and
- (vi) HK\$3.5 million for product development and registration of our owned products and non self-manufactured "Tong Ren Tang" branded products globally.

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



Comparison with Listing Business Plan

	Business Objectives for the year ended 31 December 2014	Actual business progress up to 31 December 2014
Continue the promotion of Chinese Medicine Products in Non-PRC Markets	<ul style="list-style-type: none"> • Hold seminars and training program to broadcast Chinese regimen culture and Chinese medicine products 	<ul style="list-style-type: none"> • Set up the overseas Chinese medicine practitioner workshop to enhance the knowledge of our Chinese medical practitioners overseas • Held various seminars and workshop on health and wellness
Increase geographical coverage and retail outlets	<ul style="list-style-type: none"> • Establish first new retail outlet in Russia, Vietnam, Germany, Hungary, New Zealand and Sweden • Establish one retail outlet in each of Hong Kong, Indonesia and Australia • Evaluate and explore acquisition opportunities • Expand our overseas sales team and increase the number of our Chinese Medicine Practitioners 	<ul style="list-style-type: none"> • Completion of the acquisition of Fook Ming Tong • Commenced business operation in New Zealand with four retail outlets • A new retail outlet was opened in each of Australia, Canada, Macao, Poland and the United Kingdom • Site visit mainly in Germany, Italy, Netherlands, the United States, Switzerland and Vietnam and commenced preliminary studies of business expansion • New recruit of overseas sales team and Chinese medicine practitioners
Broaden our products and service offerings	<ul style="list-style-type: none"> • Commence discussion with the manufacturers of non-"Tong Ren Tang" branded products which we have short listed • Test and evaluate commercialisation of ganoderma lucidum series products • Commence registration of 9 "Tong Ren Tang" branded products • Launch of the Chinese medical healthcare centre in Hong Kong 	<ul style="list-style-type: none"> • Completed registration of 5 "Tong Ren Tang" branded products in the UAE • Commenced registration of 5 "Tong Ren Tang" branded products in Russia • The Centre was officially opened in Hong Kong



	Business Objectives for the year ended 31 December 2014	Actual business progress up to 31 December 2014
Upgrade and expand the production facilities	<ul style="list-style-type: none"> • Continue to evaluate our manufacturing facilities and capacities to determine any further improvements required • Acquire equipment to expand the capacity of our capsule production line • Improvement in the cleanliness zone • Continue to expand the production team 	<ul style="list-style-type: none"> • Evaluated on the production facilities and capacities • Acquired equipment to enhance production capacity • Completed cleanliness zone and freezer improvement • New recruits in the production team
Continue to enhance the distribution of owned products	<ul style="list-style-type: none"> • Register new ganoderma lucidum series product in Hong Kong 	<ul style="list-style-type: none"> • Completed research and development of camphorata, Rhodiola, Marine Collagen Peptide, Ginseng series and health & wellness tea products • Commenced registration of a Chinese medicine product and a ganoderma lucidum series product in Hong Kong • Commenced registration of Angong Niu Huang Wan, GLSPC and Marine Collagen Peptide in Vietnam and GLSPC in Poland • Commenced preparation of registration of GLSPC in Malaysia and Russia • Commenced preparation of registration of two Chinese medicine products in Hong Kong
Build up effective logistics and financial information system to improve cost and operating efficiencies	<ul style="list-style-type: none"> • Complete implementation of our logistic and financial information system 	<ul style="list-style-type: none"> • Completed implementation of our logistic and financial information system



ORGANISATION CHART





問：問症狀

INQUIRY

To understand the subjective feeling, living habit and anamnesis of the patient as well as the duration of disease through inquiry via direct conversation.



MAJOR AWARDS



ARC AWARDS 2014

- Gold
Interior Design – Health & Life Sciences
- Gold
Interior Design – Pharmaceuticals – General
- Gold
Interior Design – Health & Well-Being Products
- Bronze
Interior Design – Retail Pharmacy Industry
- Honors
Non Traditional AR – Health & Life Sciences

LACP AWARDS 2014

- Bronze Winner
Annual Report Competition



The Company was named the "Most Favourable Chinese Brand by Korean Consumers in 2014" by Korean Marketing Association



GALAXY AWARDS 2014

- Gold
Design — Annual Reports
— Non-Traditional — Asia Pacific
- Silver
Annual Reports
— Overall Presentation
— Pharmaceuticals



MOST FAVOURABLE CHINESE BRAND BY KOREAN CONSUMERS IN 2014

- Award by Korean Marketing Association



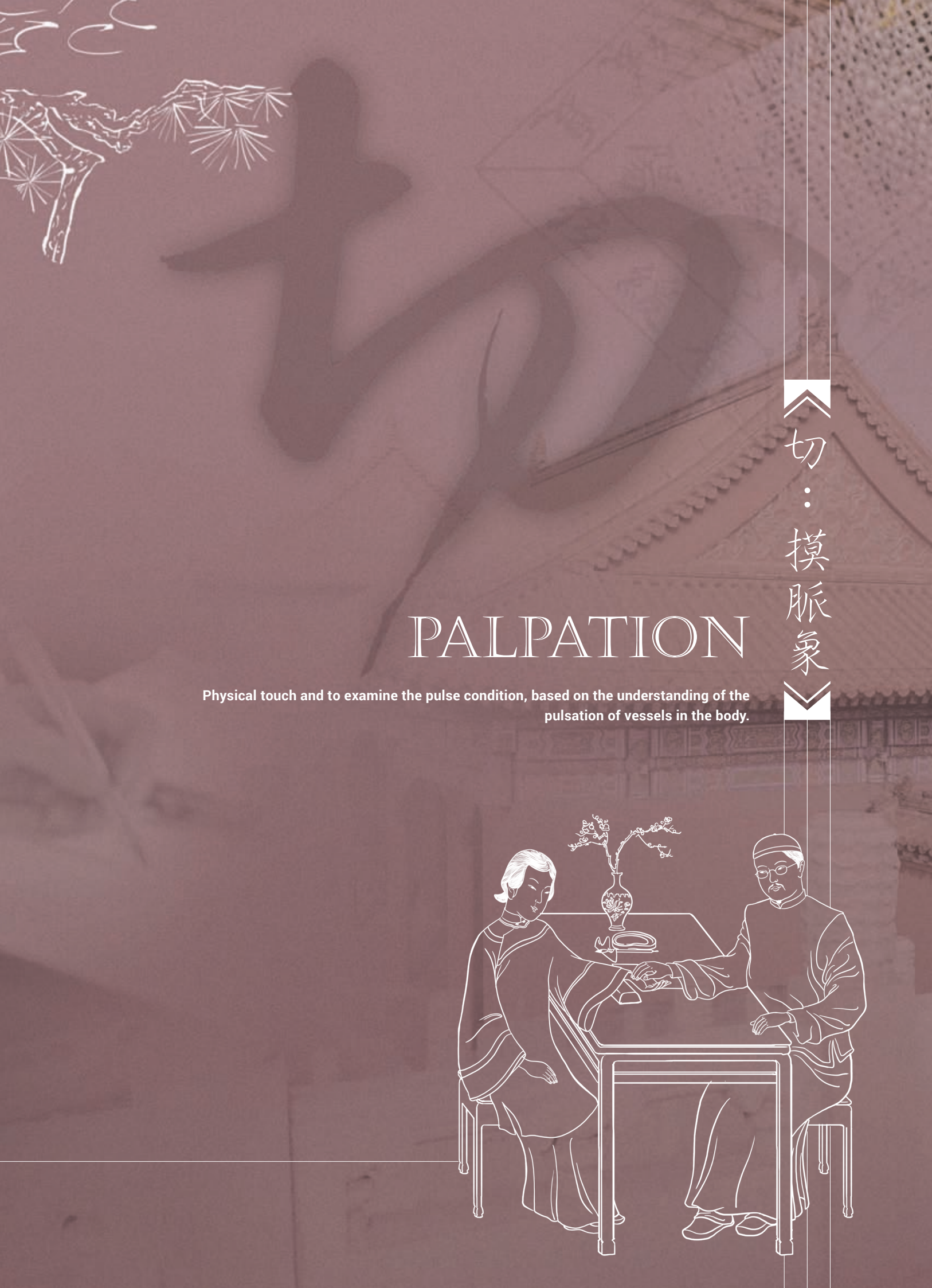
RELIABLE TRAVEL PARTNER IN 2014

- Award by Chinese Media Network



The Company was awarded the "Reliable Travel Partner in 2014" organised by Chinese Media Network





切：摸脈象

PALPATION

Physical touch and to examine the pulse condition, based on the understanding of the pulsation of vessels in the body.



CORPORATE SOCIAL RESPONSIBILITY REPORT

NURTURING KINDNESS AND VIRTUE,
PRESERVING TRANQUILITY AND WELLNESS

同修 仁德 養生 濟世

Tong Ren Tang is a pharmaceutical player missioned to enhance the quality of health and improve the quality of the mankind. While adhering to the tradition, we develop via innovation. We are committed to 'Nurturing kindness and virtue, Preserving tranquility and wellness'. We are actively propagating the TCM culture globally, bringing benefits to all mankind.

In 2014, the Group endeavored to fulfil its corporate social responsibility and create a harmonic society by actively nurturing Chinese medicine talents, participating in community services and ensuring quality workplaces.

Going forward, the Group will continue to identify new opportunities in promoting sustainability through its business operations, as well as to strengthen our partnership with charities and to nurture a culture of giving within the community.



Business Practice

With a strong emphasis on business ethics, the Group has leveraged on the sound reputation of Tong Ren Tang for the integrity of our business operations over the years. During procurement the Group has been persistently conducting stringent inspection of the sources of our raw materials to ensure their quality is up to standard.

BE ETHICAL TO SOCIETY,
EMPLOYEES, PARTNERS
AND INVESTORS.



Nurturing Our Talents

Taking into account the interests of individuals when formulating our staff policy, we abide by labour laws of the countries and regions where we operate, and provide comprehensive salary package and staff welfare for our employees. The remuneration packages are reviewed on a regular basis, and staff with outstanding performance may receive discretionary rewards. In addition, our staff and their families enjoy unlimited free consultation with our Chinese practitioners, together with special offers to enjoying products and services of the Group.

We emphasise on the holistic development and personal growth of our employees. By organizing staff training with various focuses, our personnel will benefit from self-enhancement, competency improvement and professional development, as well as career growth. Our human resources department has been coordinating and organizing trainings, in occasions together with Employees Retraining Board, Hong Kong College of Technology and the Spare Time Study Centre of Hong Kong Federation of Trade Union, relating to the Group's business development and skills of our employees or potential employees, such as courses on Chinese medicine, product knowledge, sales and management skills.

Tong Ren Tang overseas Chinese medicine practitioner workshop was established in 2014 to enhance and secure a team of qualified Chinese medicine practitioners with combination of academic knowledge and clinical experience to meet the demand of our overseas development. The workshop is mainly for the recruitment, selection and training of the right candidate going overseas.



We held a factory all-rounder competition to strengthen and integrate the co-ordination throughout the manufacturing plant.

We held annual meetings with all of our overseas managers, not only can share the experience among different regions, but also emphasise on the brand management, quality control and profitability of each region.

Through a number of team building and leisure events, the Group has celebrated as a family what we have achieved and embraced what is ahead of us.



Health and Safety

July 2014

We held a seminar presented by the Fire Services Department on fire safety. There were demonstrations on proper usage of fire alarm, fire extinguisher and fire blanket. Employees in our Taipo factory learnt how to react in case of fire.

August 2014

We held a seminar presented by the Labour Department on occupational safety and health. Raising cautiousness of the employees and to identify the cause of unhealthy environment. Increasing the employees' efficiency by preventing them from getting hurt or suffering from occupational diseases.

December 2014

Seminar on a healthy vertebra was presented to employees in office by Doctor Diao from Beijing.



Environmental Protection

We place a strong emphasis on environmental protection and respective policies have been introduced to assess if there is any impact on the environment in the course of our business operation and to adopt measures to minimize the damages that may be caused.

We are especially concerned with the environmental impact of our production processes.

We engaged contractors to clear our grease trap regularly and our factory is being inspected by the Environmental Protection Department regularly to ensure that we are up to standard at all times.

Contributing to the Society

In line with localisation and giving back to society, we provide employment opportunities to the communities where we operate by hiring local people, and render our full support for charitable activities.

BJTRTFMT offers free consultation by Chinese medicine practitioners from time to time since the last decade, so does Tong Ren Tang (Singapore). In order to celebrate our wellness culture week, we also offered free consultation services by our Chinese medicine practitioners in our retail outlets in Hong Kong in early December 2014.

The Group has also been supporting various charity and non-profit organisations to promote the corporate culture, including but not limited to the Community Chest of Hong Kong, Baptist University and the Hong Kong Federation of Women.

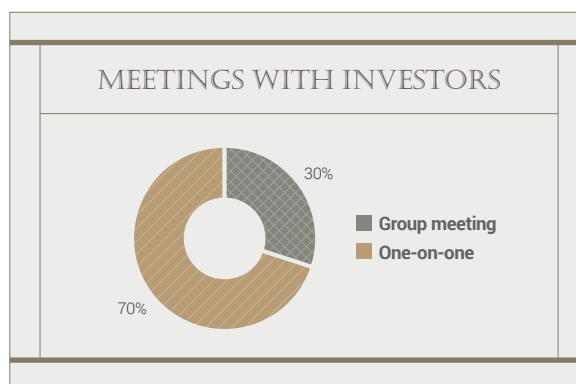
We also held seminars regularly to propagate Chinese Medicines. Please refer to the paragraph headed "Brand Management and Promotion of TCM Culture" on page 24 for further details.



INVESTOR RELATIONS REPORT

Investor relations Event Calendar

We are committed to promoting open and constructive conversations with our shareholders, the analysts, media and potential investors. Our investor relations department and the executive Directors, host active dialogue with institutional shareholders and the public through investor conferences, non-deal road shows, investor meetings, annual general meeting as well as media interviews and press releases. In the year of 2014, we attended over 100 one-on-one and group meetings. We also participated in over 10 investor conferences and non-deal roadshows in Hong Kong, Singapore, Beijing and Shenzhen, meeting up with over 500 investors. Further, we maintain regular dialogue with analysts from various research institutions.



Major investor conferences that we participated in 2014 are set out below:

2014	Event	Location
April	Macquarie Greater China Healthcare Corporate Day	Hong Kong
April	Citibank Recent HK/China IPOs Corporate Day	Hong Kong
May	Macquarie Greater China Healthcare Conference	Hong Kong
June	Credit Suisse China healthcare C-Level Conference	Hong Kong
July	Citibank HK and China Healthcare Corporate Day	Hong Kong
July	Guotai Junan Summer Investor Conference	Beijing
November	Standard Chartered Double in 3/Triple in 5 Asia Pacific Emerging Conference 2014	Hong Kong
November	Morgan Stanley 2014 Asia Pacific Summit	Singapore
November	Goldman Sachs Greater China CEO Summit 2014	Hong Kong
November	Daiwa Investment Conference 2014	Hong Kong





We held non-deal roadshows at least semi-annually following the release of our results announcements to answer questions regarding the performance of the Group. The Company website contains an investor relations section to reach out to the investment community and public with the latest information on the Company.

Factory Visits

August 2014

Factory visits by China International Capital Corporation Limited

September 2014

Factory visits by foreign affairs department, marketing department and information centre of Tong Ren Tang to enhance the communication with the Parent Group.

September 2014

Factory visits by potential collaboration partners from Italy to understand our manufacturing procedures and the standard of our quality control.

November 2014

Factory visits by Beijing Science & Technology Cooperation Center, Hong Kong Innovation and Technology Commission and Hong Kong Science & Technology Parks to exchange ideas on the future development on Hong Kong research and development with Chinese medicine.

We also promote proactive communication through direct contact with our investor relations team via email at ir@tongrentangcm.com.



DIRECTORS AND SENIOR MANAGEMENT

Non-executive Director

Mei Qun, aged 58, is a deputy chief pharmacist with a postgraduate qualification. He was formerly the assistant to the general manager and deputy general manager of China Beijing Tong Ren Tang (Holdings) Corporation ("Tong Ren Tang Holdings"), the general manager of Beijing Tong Ren Tang Co., Ltd. ("Tong Ren Tang Ltd."), the vice-chairman of Tong Ren Tang Technologies Co., Ltd. ("Tong Ren Tang Technologies"). He is currently the secretary to the Party Committee, the chairman and general manager of Tong Ren Tang Holdings; the chairman of Tong Ren Tang Ltd., the chairman and an executive director of Tong Ren Tang Technologies, the chairman of Beijing Tong Ren Tang Health Pharmaceutical Co., Ltd., the chairman of Beijing Tong Ren Tang Pharmaceutical Co., Ltd., the chairman of Beijing Tong Ren Tang Chinese Medicine (Hong Kong) Group Company Limited, the chairman of Beijing Tong Ren Tang International Co., Ltd.. He is the vice president of Chinese Society of Traditional Chinese Medicine, a standing director of Beijing Pharmaceutical Association, the vice president of Beijing Enterprise Confederation, a standing director of China Association of Trade in Services, the vice president of Beijing Brand Association, and the vice president of Beijing Pharmaceutical Profession Association. He was also the member of the Education Technology Culture Health and Sports Committee of Beijing's 14th National People's Congress ("NPC"), and the representative of the 15th NPC of Beijing Dongcheng.

Executive Directors

Ding Yong Ling, aged 51, 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, aged 54, 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, aged 39, is the chief financial officer, the company secretary and an executive Director of the Company. Ms. Lin is mainly responsible for our finance management. 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 accounting and finance from the University of Lancaster in July 2004.

Independent Non-executive Directors

Leung, Oi Sie Elsie, aged 75, 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 Lu, 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 (Stock code: 486) and China Resources Power Holdings Company Limited (Stock code: 836). 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.

Zhao Zhong Zhen, aged 58, 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 and a member of Chinese Medicine Development Committee. From 1984 to 1987, he was a research assistant of China Academy of Chinese Medical Sciences. 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 Chinese Medical Sciences in December 1985, respectively. He obtained his doctorate degree in pharmacy in Tokyo University of Pharmacy and Life Science in March 1992.

Chan Ngai Chi, aged 43, 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 20 years of financial management, compliance and auditing experience. Mr. Chan worked in the audit division of PricewaterhouseCoopers Hong Kong from 1994 to 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 (Stock code: 1636). Mr. Chan is a fellow member of the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants. Mr. Chan graduated from the Hong Kong University of Science and Technology with a bachelor's degree in business administration in accounting in 1994 and also obtained a master's degree in Economics from the Chinese University of Hong Kong in 2003.

Senior Management

Hua Ji Hong, aged 40, 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, aged 43, 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 Xia, aged 48, 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.

DIRECTORS' REPORT

The Directors are pleased to present their report and the audited consolidated financial statements of the Group for the year ended 31 December 2014.

Principal Activities

The principal activities of the Company are manufacturing, retail and wholesales of Chinese medicine products and healthcare products and provision of Chinese medical consultation and treatments. The principal activities and other particulars of the Company's subsidiaries are set out in note 31 to the consolidated financial statements.

Results and dividends

The results of the Group for the year ended 31 December 2014 are set out in the consolidated income statement on page 65 of this annual report.

The Directors recommend the payment of a final dividend of 10 HK cents per ordinary share for the year ended 31 December 2014 (2013: 8 HK cents). Such final dividend will be proposed for approval by shareholders at the annual general meeting to be held on Thursday, 7 May 2015 and if approved, are payable to shareholders whose names appear on the Register of Members of the Company on 15 May 2015. Details of the dividend for the year ended 31 December 2014 are set out in note 16 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.

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 2014 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 18 to the consolidated financial statements.

Bank Borrowing

The Group did not have any bank borrowing as at 31 December 2014.

Share Capital

Details of movements in the Company's share capital during the year ended 31 December 2014 are set out in note 23 to the consolidated financial statements.

Reserves

Details of movements in the reserves of the Company and the Group during the year ended 31 December 2014 are set out in note 24 to the consolidated financial statements and in the consolidated statement of changes in equity respectively.

Distributable Reserves

As at 31 December 2014, the reserves of the Company available for distribution amounted to HK\$621.9 million (2013: HK\$413.8 million).

Major Customers and Suppliers

During the year ended 31 December 2014, income received/receivable from the top five customers in aggregate and the single largest customer accounted for approximately 57.5% (2013: 56.2%) and 17.9% (2013: 25.0%) of the Group's revenue, respectively.

During the year ended 31 December 2014, the purchases paid/payable to the top five suppliers in aggregate and the largest supplier constituted approximately 45.5% (2013: 49.4%), and 25.0% (2013: 22.5%) of the Group's total purchases, respectively.

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

Directors' Service Agreements

The non-executive Director, Mr. Mei Qun entered into a service contract with the Company for a fixed term of three years commencing from 7 May 2014, 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.

Directors' and Chief Executive's Interests in Shares

As at 31 December 2014, the interest and short positions in the shares and underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) of the Directors and chief executive of the Company which would have to be notified to the Company pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests which they are taken or deemed to have under such provisions of the SFO) and required to be entered in the register maintained by the Company pursuant to Section 352 of the SFO or which were required, pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange, were as follows:

Long position in shares

	Types of interests	Capacity	Number of shares	Approximate percentage of issued share capital	Number of convertible bonds
The Company					
Ding Yong Ling	Personal	Beneficial owner	200,000	0.024%	—
Lin Man	Personal	Beneficial owner	190,000	0.023%	—
Tong Ren Tang Technologies					
Mei Qun	Personal	Beneficial owner	3,000,000 ⁽¹⁾	0.234%	—
Tong Ren Tang Ltd.					
Mei Qun	Personal	Beneficial owner	93,242 ⁽²⁾	0.007%	86,000 ⁽³⁾

Notes:

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

(2) All represent A shares of Tong Ren Tang Ltd.

(3) All represent A share convertible corporate bonds of Tong Ren Tang Ltd.

Save as disclosed above, none of the Directors and chief executive 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 Executive's Interests in Shares" above, at no time during the year ended 31 December 2014 was the Company or any of its subsidiaries, or any of its fellow subsidiaries, a party to any arrangement to enable the Directors or chief executive 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 classification between the Company, Tong Ren Tang Ltd., Tong Ren Tang Technologies and Tong Ren Tang Holdings (collectively the "Controlling Shareholders") are properly documented and established, each of the Controlling Shareholders entered into a deed of non-competition in favour of the Company on 18 April 2013 ("Deed of Non-competition"), details of which are set out in the Prospectus, mainly to the effect that at any time until their collective beneficial interest in the equity interest in the Company is less than 30%, each of them shall not, and shall procure their respective subsidiaries (except through its interests in the Group) not to, without prior written consent of the Company, directly or indirectly:

- (i) engage in the research, development, manufacture and sales of any 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, development, manufacture and sale of any products with "Tong Ren Tang" brands in Non-PRC Markets, except for the manufacture of the Chinese medicine products for the two independent third parties in Japan; for the avoidance of doubt and without prejudice to the generality of the Deed of Non-competition, except for the current excluded business in Japan, engage in arrangement with any other parties in the Non-PRC Markets similar to the excluded business in Japan;
- (iii) carry out any sales or registration (new or renewal) for Angong Niu Huang Wan in Non-PRC markets;
- (iv) engage in the distribution of any Chinese medicine products in Non-PRC Markets, except for certain existing arrangements as disclosed in the prospectus of the Company; and
- (v) carry out any new overseas registration of "Tong Ren Tang" branded products, ((i) to (v) are collectively known as "Restricted Business").

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

The Directors (including the independent non-executive Directors) will review the New Business Opportunity and decide whether to invest in the New Business Opportunity within thirty (30) business days of receipt of notice from Controlling Shareholders.

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

Substantial Shareholders

At 31 December 2014, the interest of the persons, other than Directors or chief executive of the Company, in the shares and underlying shares of the Company which were notified to the Company and the Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO and entered in the register maintained by the Company pursuant to Section 336 of the SFO, or otherwise notified to the Company were as follows:

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 2014 are set out in note 29 to the consolidated financial statements, certain of these transactions (as set out below) also constitute connected transactions/ continuing connected transactions 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.

Connected Transactions

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

On 31 July 2014, the Board announced that Beijing Tong Ren Tang Management Pty Ltd. as the purchaser (a wholly-owned subsidiary of the Company) (the "Purchaser") and The Quay Haymarket Pty Ltd as the vendor (the "Vendor") entered into the Property Acquisition Agreement, pursuant to which the Purchaser has agreed to purchase and the Vendor has agreed to sell the premises at Shop 18 and 1 car space at Upper Ground Floor of The Quay Haymarket at 61-79 Quay Street, Haymarket NSW 2000, Australia at the consideration of AUD3,488,900 (the "Property Acquisition"). The Group opted to switch from renting to owning its retail shop in Australia, seeking to control the relevant rental expenses of Beijing Tong Ren Tang Australia Pty. Ltd.

The Vendor is an indirectly wholly-owned subsidiary of Beijing Capital Development (Holding) Group Co., Ltd., which holds 100% equity interest in BMI Trading Company Limited, which is holding 44% equity interest in Beijing Tong Ren Tang (Macau) Company Limited, a 51%-owned subsidiary of the Company, thus the Vendor is a connected person at the subsidiary level of the Company under Chapter 20 of the GEM Listing Rules.

As the applicable percentage ratios (other than the profits ratio) of the Property Acquisition are more than 0.1% and less than 5%, the Property Acquisition is subject to reporting and announcement, and is exempted from the independent shareholders' approval requirement under the GEM Listing Rules.

Continuing Connected Transactions

The Group has entered into a number of transactions with entities which have become connected persons (as defined in the GEM Listing Rules) of the Company upon the Listing. Following the Listing, these transactions have continued in the ordinary and usual course of business and have constituted 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' requirements relating to these continuing connected transactions under the GEM Listing Rules. In addition, the Directors confirm the Company will comply with the applicable provisions under Chapter 20 of the GEM Listing Rules. During the year ended 31 December 2014, the Group also entered into certain non continuing transactions with connected persons of the Company in accordance with the GEM Listing Rules.

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

(1) PRC Distribution Framework Agreement

On 10 April 2014, the Company and Tong Ren Tang Holdings entered into a supplemental agreement to the PRC distribution framework agreement dated 3 October 2013 (the "PRC Distribution Framework Agreement") that the Tong Ren Tang Group (collectively refer 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 the Owned Products (as defined in the announcement of the Company dated 10 April 2014) from the Group and then distribute the same to retailer or end users in the PRC for a period from 1 January 2014 to 31 December 2016.

The sale of the Owned Products (as defined in the announcement of the Company dated 10 April 2014) to the members of the Tong Ren Tang Group would be beneficial to the development of the Group's business, whose sales network is operating under the brand of "Tong Ren Tang" which is targeted to gain dominant position in respect of sales of Chinese medicine and healthcare products in the PRC.

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\$185,000,000 (exclusive of valued-added tax in the PRC), HK\$220,000,000 (exclusive of VAT in the PRC) and HK\$260,000,000 (exclusive of VAT in the PRC) for the three years ending 31 December 2016, 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 is 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 approved by the independent shareholders of the Company in the extraordinary general meeting held on 7 May 2014.

(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. (the "TRT International Natural-Pharm"), a directly 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 leased to TRT International Natural-Pharm (1) a warehouse located at Beijing, the PRC for storage purpose at a rental of RMB18,000 per year; (2) an office located at Beijing, the PRC at a rental of RMB10,000 per year; and (3) a storage room located at 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. (the "TRT Consulting Services"), an indirectly 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 leased to TRT Consulting Services a property located at 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. (the "TRT International") on 1 October 2012 whereby TRT International leased to the Company a property located at 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.

The annual rental payable to the Parent Group for each of the year ended 31 December 2013 and 2014 and the year ending 31 December 2015 pursuant to the Lease Agreements is HK\$1,838,000. For the Year, Tong Ren Tang Holdings waived all the rental charges payable by the Group with details stated in the table on page 52.

Tong Ren Tang Holdings is the 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 for purpose of 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 Niu Huang 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 Niu Huang Powder Master Purchase Agreement") whereby the Company would purchase Angong Niu Huang Powder, being the raw materials for production of Angong Niu Huang Wan, from Tong Ren Tang Ltd. for the period from 1 January 2013 to 31 December 2015.

The annual caps in respect of the transactions under the Angong Niu Huang Powder Master Purchase Agreement for the years ended 31 December 2013 and 2014 and the year ending 31 December 2015 are HK\$10 million, HK\$12 million and HK\$13 million, respectively.

Tong Ren Tang Ltd. is our controlling shareholder of the Company and hence a connected person of the Company for the purpose of 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 the 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.

The Group is the primary overseas distribution platform of the Parent Group and is the member of the Parent Group solely distributing PRC manufactured "Tong Ren Tang" branded Chinese medicine products outside PRC. The Exclusive Distributorship Framework Agreements are to ensure the continuity of the exclusive distributorship arrangement outside PRC, which is of utmost importance to the Parent Group as well as the Group.

Tong Ren Tang Technologies and Tong Ren Tang Ltd. are both the controlling shareholders of the Company and hence are connected persons of the Company for the purpose of the GEM Listing Rules.

The annual caps in respect of the transactions under the new exclusive distributorship framework agreements for the years ending 31 December 2015, 2016 and 2017 are HK\$90.3 million, HK\$106.4 million and HK\$125.2 million, respectively.

As the existing Exclusive Distributorship Framework Agreements expired on 31 December 2014, on 28 October 2014, the Company entered into the new exclusive distributorship framework agreements with each of Tong Ren Tang Technologies and Tong Ren Tang Ltd. for renewal of the continuing connected transactions thereunder for the period from 1 January 2015 to 31 December 2017. As one or more of the applicable percentage ratios (other than the profits ratio) of the annual caps exceed 5% and the annual caps is more than HK\$10,000,000, the new exclusive distributorship framework agreements 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.

The new exclusive distributorship framework agreements were approved by the independent shareholders of the Company in the extraordinary general meeting held on 27 November 2014.

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

Name of connected party	Nature of transaction	Transaction amount for the year ended 31 December 2014	Annual cap for the year ended 31 December 2014
		HK\$'000	HK\$'000
(1) Tong Ren Tang Holdings	Income received/receivable for the sales of the Owned Products (as defined in the announcement of the Company dated 10 April 2014)	126,100	185,000
(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 Niu Huang Powder	5,620	12,000
(4) Tong Ren Tang Technologies	Purchase of Tong Ren Tang branded products for distribution	13,652	14,400
Tong Ren Tang Ltd.	Purchase of Tong Ren Tang branded products for distribution	33,330	54,600

(1) Tong Ren Tang Holdings waived all the rental charges for the year ended 31 December 2014 in respect of leases stated on page 50.

The price and the terms of the above transactions have been determined in accordance with the pricing policies and guideline set out in the relevant announcements and the Prospectus.

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 have been entered into by the Group:

- (1) in the ordinary and usual course of business of the Group;
- (2) on normal commercial terms or better; 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.

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 their unqualified letter containing their findings and conclusions in respect of the continuing connected transactions disclosed above by the Group on pages 50 to 52 of this annual report in accordance with Rule 20.54 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 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.

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 annual 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 or at the end of the year ended 31 December 2014.

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 2014.

Donations

Cash charitable donations made by the Group during the year ended 31 December 2014 amounted to HK\$0.5 million (2013: HK\$1.2 million).

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. Details of the fee and emolument of the Directors are set out in note 8 to the consolidated financial statements.

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.

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 its auditor in any of the preceding three years.

Mei Qun

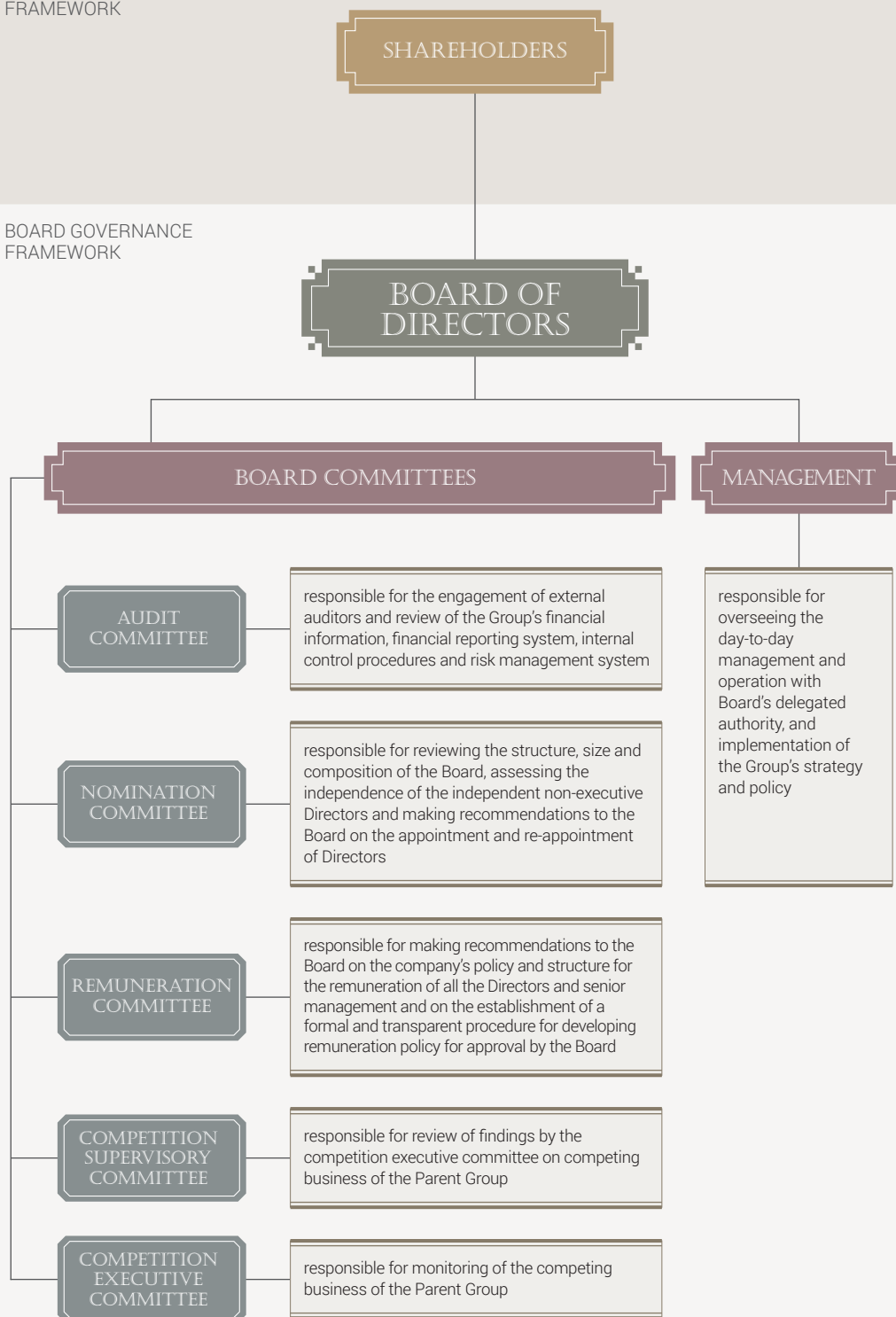
Chairman

Hong Kong, 13 March 2015

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE FRAMEWORK

BOARD GOVERNANCE FRAMEWORK



Corporate Governance Practices

The board of directors of the Company (the "Board") as a whole and the management of the Company are committed to the maintenance of good corporate governance practices and procedures. The Group firmly believes that strict corporate governance can enhance the Group's credibility and transparency, thus strengthening the confidence of the shareholders and investors in the Group.

For the year ended 31 December 2014, the Group had complied with all applicable provisions of the Corporate Governance Code (the "Code") as set out in Appendix 15 of the GEM Listing rules. The Group is committed to the principles of good corporate governance as set out in the Code.

Board Governance and Independence

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 enquiries 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.

Directors

Board composition

Details of the composition of the Board and the Directors' biographical information are set out on pages 44 to 45, respectively. The Board consists of seven Directors, comprising one non-executive Director, three executive Directors and three independent non-executive Directors. One-third of the Board are independent non-executive Directors of which more than one have appropriate professional qualifications, or accounting or related financial management expertise. The structure, size, composition and diversity of the Board are reviewed from time to time to ensure that it has a balance of expertise, skills and experience appropriate for the requirements of the business of the Company. The independence of the independent non-executive Directors is assessed according to the relevant rules and requirements under the GEM Listing Rules.

On 7 May 2014, Mr. Yin Shun Hai resigned and Mr. Mei Qun was elected as the non-executive Director. Mr. Mei Qun was appointed as the Chairman of the Board on the same date.

The composition of the Board, by category and position of Directors including the names of the Chairman, the executive Directors, the non-executive Directors and the independent non-executive Directors, is disclosed in all corporate communications. The Company maintains on its website and on the website of the Stock Exchange, (i) an updated list of its Directors identifying their respective roles and functions together with their biographical information and whether they are independent non-executive Directors; and (ii) the Terms of Reference of the Board committees to enable the shareholders to understand the roles played by those independent non-executive Directors who serve on the relevant Board committee.

Board and Committee Meetings

Regular board meetings are usually scheduled towards the end of the immediately preceding year to give all Directors adequate time to plan their schedules to attend the meetings. At least 14 days formal notice would be given before each regular meeting. Board papers including supporting analysis and related background information are normally sent to the Directors at least three days before Board meetings. According to the Articles of Association of the Company (the "Articles of Association") a Director may waive notice of any meeting.



The Board meets regularly and held meetings in March, April, June, August and October during the Year. In consultation with members of the Board, the company secretary of the Company ("Company Secretary") assists the Chairman in preparing the meeting agenda, where applicable, matters proposed by other Directors are included in the agenda. The senior management members are usually invited to join Board meetings to enhance the Board and management communication. During the year ended 31 December 2014, the Directors actively participated in meetings and a summary of the Directors' attendance records in 2014 are as follows:

Members of the Board	Attendance/Number of Meetings				Annual/ Extraordinary General Meeting
	Board	Audit Committee	Remuneration Committee	Nomination Committee	
Non-Executive Director					
Mei Qun (appointed on 7 May 2014)	2/3*	—	—	—	3/3
Yin Shun Hai (resigned on 7 May 2014)	2/3*	—	—	—	—
Executive Directors					
Ding Yong Ling	6/6	—	1/1	1/1	3/3
Zhang Huan Ping	6/6	—	—	—	3/3
Lin Man	6/6	4/4	1/1	1/1	3/3
Independent Non-executive Directors					
Chan Ngai Chi	6/6	4/4	1/1	1/1	3/3
Leung, Oi Sie Elsie	6/6	4/4	—	1/1	3/3
Zhao Zhong Zhen	5/6	3/4	1/1	—	0/3

* Represents the number of meetings during his appointment as Director

The Company Secretary prepares written resolutions or minutes and keeps records of substantive matters discussed and decisions resolved at all Board and Board committee meetings. These meetings minutes/resolutions:

- contain sufficient detail the matters considered by the Board/Board committees and decisions reached;
- are sent to the Directors for their comment;
- are sent to all Directors/Board committee members within a reasonable time (generally within 14 days) after such meeting; and
- are available for inspection by Directors/Board committee members.

Important matters are dealt with by a physical board meeting. If a Director has a conflict of interest in a matter to be considered by the Board which the Board has determined to be material, the matter will be dealt with in accordance with applicable rules and regulations and, if appropriate, an independent Board committee will be set up to deal with the matter. Directors must declare his/her interest in the matters to be passed in the resolution, if applicable.

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 2014, no claim was made against the Directors.

Chairman and Chief Executive

Our Chairman, Mr. Mei Qun, has non-executive functions in the Company and leads the Board in terms of formulating policies. The Chairman of the Board determines the broad strategic direction of the Group in consultation with the Board and is responsible for the high-level oversight of the management. With the support of the executive Directors and the Company Secretary, the Chairman ensures that all Directors are properly briefed on all key and appropriate issues in a timely manner. The Chairman promotes a culture of openness and encourages Directors with different views to voice their opinion and be fully engaged in the Board's affairs so as to contribute to the Board's functions, and he did meet and/or communicate with the independent non-executive Directors without the presence of the Executive Directors.

While our chief executive officer, Ms. Ding Yong Ling, is responsible for business strategic planning and day-to-day management and operation of the Group. The Board believes 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.

Appointment, Re-election and Removal

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.

Pursuant to Article 97 of 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. Zhang Huan Ping, Mr. Chan Ngai Chi and Mr. Zhao Zhong Zhen will retire at the forthcoming annual general meeting, and being eligible, would offer themselves for re-election at the annual general meeting.

The Company has entered into service agreements with non-executive Director and each executive Director, and appointment letters with independent non-executive Directors. The tenure of all Directors is 3 years.

Roles and Responsibilities of the Board

The Board is accountable to the shareholders for 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 pursue excellence in the 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.

The non-executive Directors not only exercise their independent judgment and advise on the future business direction and strategic plans of the Company, they also review the financial information and operational performance of the Company on a regular basis.

Every executive Director has hands-on knowledge and expertise in the areas and operation in which he/she is charged with. Appropriate attention to the affairs of the Company is measured in terms of time as well as the quality of such attention and the ability of the Directors to contribute with reference to his/her area of knowledge and expertise, and his/her global perspective. There is satisfactory attendance at Board meetings during the Year.

The Directors have disclosed to the Company at the time of their appointment and from time to time thereafter the number and nature of offices held in public companies or organisations and other significant commitments, identifying the public companies or organisations involved.

Continuous Professional Development of the Directors

All Directors of the Company receive comprehensive information on appointment, so as to ensure 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 updates the Directors on the latest developments and changes of the GEM Listing Rules and the applicable legal and regulatory requirements in the discharge of their duties.

During the Year, all the Directors, namely Mr. Mei Qun, 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 and/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 records of training to the Company.

Independence of the independent non-executive Directors

During the Year, 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 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. Each of the independent non-executive Directors makes an annual confirmation of independence pursuant to the requirements of the GEM Listing Rules. The Company is of that view that all the independent non-executive Directors meet the independence guidelines set out in the relevant requirements of the GEM Listing Rules and are independent in accordance with the terms of the guidelines.

Supply of and access to information

Board/Board committee papers with adequate and reliable information are circulated not less than three days before the regular Board/Board committee meetings to enable the Directors/Board committee members in making informed decisions on matters to be raised at the Board/Board committee meetings.

All Directors have full and timely access to all relevant information as well as the advice and services of 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.

The Company Secretary acts as the bridge between the Directors and business units of the Group to ensure that queries raised and clarification sought by the Directors are dealt with and that further supporting information is provided, as appropriate. Directors have been advised that the Company Secretary can arrange independent professional advice at the expense of the Company should such advice be considered necessary by any Director or any Board committee.

Delegation to Management

Executive Directors are in charge of different businesses and functional divisions in accordance with their respective areas of expertise.

For matters or transactions of a material nature, the same will be referred to the Board for approval. For matters or transactions of a magnitude requiring disclosure under the GEM Listing Rules or other applicable rules or regulations appropriate disclosure will be made and where necessary, circular will be prepared and shareholders' approval will be obtained in accordance with the requirements of the applicable rules and regulations. Specially, the Board has had in place Guidelines for Investments stating the authority approval limits and procedures.

The Board led by the Chairman, is responsible for the Group's future development directions; overall strategies and policies; evaluation of the performance of the Group and the management and approval of matters that are of a material or substantial nature. Under the leadership of the CEO, management is responsible for the day-to-day operations of the Group.

Corporate Governance Duties

The Board has delegated the responsibility of performing the corporate governance duties to the audit committee (the "Audit Committee"). Such function 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.

Board Committees

The Board established an 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. Board committees report to the Board of their decisions and recommendations at the Board meetings.

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 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.

The primary duties of the Audit Committee are mainly 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.

Minutes drafted by the Company Secretary are circulated to members of the Audit Committee within a reasonable time after each meeting. Audit Committee meetings were held in March, April, August and October of 2014.

The following is a summary of the work of the Audit Committee during 2014:

1. Review the financial reports for 2013 annual results, 2014 first quarterly results, 2014 interim results and 2014 third quarterly results;
2. Review the findings and recommendations of the Internal Audit department on the work of various departments and related companies;
3. Review the effectiveness of the internal control system;
4. Review the external auditor's audit findings;
5. Review the auditor's remuneration;
6. Review the control mechanisms for the risks of different business units and advising on action plans for improvement of the situations;
7. Perform the corporate governance functions and review the corporate governance policies and practices; and
8. Review the connected transactions with the Parent Group.

On 5 March 2015, the Audit Committee met to review the Group's 2014 consolidated financial statements, including the accounting principles and practices adopted by the Group, in conjunction with the Company's external auditor. After review and discussions with the management, internal auditor and external auditor, the Audit Committee endorsed the accounting treatment adopted by the Company, and the Audit Committee had to the best of its ability assured itself that the disclosure of the financial information in the Annual Report 2014 complied with the applicable accounting standards and the GEM Listing Rules.

The Group's annual report for the year ended 31 December 2014 has been reviewed by the Audited Committee. The Audit Committee therefore resolved to recommend for the Board's approval the consolidated financial statements for the year ended 31 December 2014. The Audit Committee also recommended to the Board the re-appointment of PricewaterhouseCoopers as the Company's external auditor for 2015 and that the related resolution shall be put forth for shareholders' consideration and approval at the 2015 annual general meeting.

No member of the Audit Committee is a former partner of the existing auditing firm of the Company during the one year after he/she ceased to be a partner of the auditing firm.

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 Remuneration Committee has three members comprising Mr. Zhao Zhong Zhen (Chairman, the independent non-executive Director), Mr. Chan Ngai Chi (the independent non-executive Director) and Ms. Ding Yong Ling (the executive Director).

The primary duties of the Remuneration Committee are mainly 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 did consult the Chairman and/or the executive Director about proposals relating to the remuneration packages and other human resources issues of the Directors and senior management, including but not limited to, succession plan and key personnel movements as well as policies for recruiting and retaining qualified personnel. The human resources department provides administrative support and implements the approved remuneration packages and other human resources related decisions approved by the Remuneration Committee.

The remuneration of the Directors was determined with reference to their respective experiences, responsibilities with the Group and general market conditions. During the year, one meeting of the Remuneration Committee was held to review the remuneration package of the Directors and senior management of the Company. All members of the Remuneration Committee attended the meeting.

Details of the remuneration payable to the Directors are set out in note 8 to the consolidated financial statements.

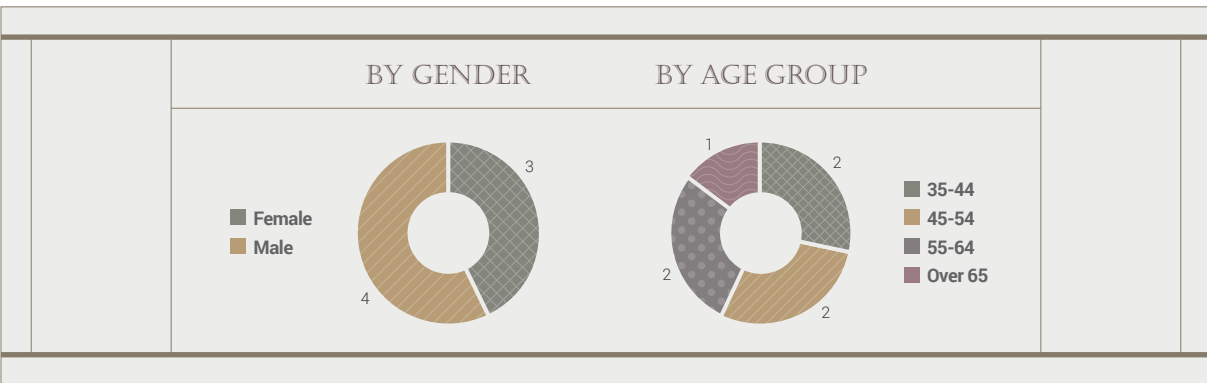
Nomination Committee

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 Nomination Committee has three member comprising Ms. Leung, Oi Sie Elsie (Chairman, the independent non-executive Director), Mr. Chan Ngai Chi (the independent non-executive Director) and Ms. Ding Yong Ling (the executive Director). During the year, the Nomination Committee had reviewed the structure of the Board.

The primary duties of the Nomination Committee are mainly 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 document of the nominee or candidate will be given to the Nomination Committee for consideration.

The Board adopted a Board Diversity Policy setting out the approach to diversity of members of the Board and the Nomination Committee shall review such policy periodically. 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 Board appointments will continue to be made on a merit basis with due regard for the benefits of diversity of the Board members.

Board Diversity



Selection and appointment of new directors will be based on a range 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.

Accountability and Audit

Directors are provided with a review of the Group's major business activities and key financial information on a quarterly basis and Management provide all members of the Board with monthly updates of the Company's performance.

The Board has included the separate statement containing a discussion and analysis of the Group's sustainable development strategy in the section headed "Management Discussion and Analysis" of this annual report.

Company Secretary

The appointment and removal of the Company Secretary is subject to Board approval in accordance with the Articles of Association. The Company Secretary reports to the Board through the Chairman whilst all members of the Board have access to the advice of the Company Secretary. The Company has appointed an employee of the Company to be the Company Secretary of the Company since 2005. The Company Secretary also:

- ensures the effective conduct of Board meetings and that Board procedures are fully followed;
- prepares written resolutions or minutes and keeps records of substantive matters discussed and decisions resolved at all Board and board Committee meetings; and
- advises on compliance with all applicable laws, rules and regulations in relation to the investments of the Group and keeps the Board fully abreast of all legislative, regulatory and corporate governance developments.

Communications with Shareholders

The Board aims to present a clear, balanced and understandable assessment of the Group's performance and position in all shareholder communications. The Board is aware of and updated with the requirements under the applicable rules and regulations about timely disclosure of inside information or matters regarding the Company and will authorise the publication of such announcements as and when the occasion arises. The Company Secretary and investor relations department work closely and in consultation with legal advisers and compliance adviser to review the materiality and sensitivity of transactions and proposed transactions and advise the Board accordingly.

Effective Communications

The Board adopted a Shareholder's Communication Policy on 8 March 2013 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. Such policy is being reviewed from time to time to ensure its effectiveness.

The Company establishes different communication channels with shareholders and investors, including (i) printed copies of corporate communications (including but not limited to financial reports, notices of meetings, circulars and proxy forms) required under the GEM Listing Rules; (ii) the annual general meeting and other shareholders meetings provides a forum for shareholders to raise comments and exchange views with the Board; (iii) updated and key information on the Group is available on the website of the Company; (iv) the Company's website offers a communication channel between the Company and its shareholders and stakeholders; (v) press conferences and briefing meetings with analysts are arranged from time to time to update on the performance of the Group; (vi) the Company's Registrar deals with shareholders for share registration and related matters; and (vii) the investor relations department of the Company handles enquires from shareholders and investors generally.

In 2014, the Chairman of the Board, the Board committees members and the Company's external auditor attended the annual general meeting and our other general meetings, and were available to answer questions. The Company's notice to shareholders for the 2013 annual general meeting of the Company was sent at least 20 clear business days before the meeting.

Voting by Poll

At the 2013 annual general meeting, the Chairman of the meeting (i) explained the detailed procedures for conducting a poll, and answered questions from shareholders; (ii) exercised his power under the Company's Articles of Association to put each resolution set out in the notice to be voted by way of a poll.

Representatives of the Share Registrar of the Company were appointed as scrutineers to monitor and count the poll votes cast at the 2013 annual general meeting and other general meetings. Poll results were then posted on the websites of the Company and the Stock Exchange.

Directors' Responsibility for the Consolidated Financial Statements

The Board, supported by the finance department, is responsible for the preparation of the financial statements of the Company and the Group. The Board has prepared the financial statements in accordance with the Hong Kong Financial Reporting Standards ("HKFRS") issued by the Hong Kong Institute of Certified Public Accountants. Appropriate accounting policies have also been used and applied consistently. The Directors were not aware of any material uncertainties relating to events or conditions which may cast significant doubt upon the Group's ability to continue as a going concern.

The statement by the auditors of the Company and the Group is set out in the Independent Auditor's Report on pages 63 to 118 of this annual report.

Directors' Interests in Shares

Details of Directors' interests in the shares of the Company are set out in the section headed "Directors' Report" on page 47 of this annual report.

Auditor's Remuneration

The remuneration paid/payable to the Company's external auditor, PricewaterhouseCoopers for the year ended 31 December 2014 is set out as follows:

Service rendered	Amount HK\$'000
Audit services	1,980
Non-audit services	20
Total	2,000

Fees paid to other auditors were approximately HK\$724,000.

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 on a regular basis, 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 four meetings 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 worked effectively. 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.

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 requisitionist(s), holding at least 5% of the total voting rights of all the members having a right to vote at general meetings. 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 569 of the Companies Ordinance are summarised as follows:

- The requisition must state the general nature of the business to be dealt with at the meeting, and may include the text of a resolution that may properly be moved and is intended to be moved at 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 section 615 of the Companies Ordinance 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 25% of the total voting rights of all shareholders having at the date of the requisition a right to vote at the annual general meeting to which the requisition relates, or not less than 50 shareholders who have a right to vote on the resolution at the annual general meeting to which the requests relate, 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 to shareholders of the Company entitled to receive notice of an annual general meeting unless a request (a) is sent to the company in hard copy form or in electronic form; (b) the resolution of which notice is to be given is identified; (c) is authenticated by the person or persons making it; and (d) is received by the Company not later than (i) 6 weeks before the annual general meeting to which the requests relate; or (ii) if later, the time at which notice is given of that meeting.

Articles of Association

During the year under review, no change has been made to the Articles of Association.

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 65 to 118, which comprise the consolidated and company balance sheets as at 31 December 2014, 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 80 of Schedule 11 to 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.

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 2014, 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, 13 March 2015

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2014

		2014	2013
	Note	HK\$'000	HK\$'000
Revenue	5	761,051	613,963
Cost of sales	6	(218,020)	(193,920)
Gross profit		543,031	420,043
Distribution and selling expenses	6	(122,639)	(91,013)
General and administrative expenses	6	(78,369)	(65,941)
Professional expenses incurred in connection with the Company's listing		–	(12,630)
Other gains	9	1,496	17,797
Operating profit		343,519	268,256
Finance income	10	11,451	4,853
Share of profit/(loss) of investments accounted for using the equity method	12	249	(1,643)
Profit before income tax		355,219	271,466
Income tax expense	13	(60,521)	(43,918)
Profit for the year		294,698	227,548
Profit attributable to:			
Owners of the Company		287,124	220,001
Non-controlling interests		7,574	7,547
		294,698	227,548
Earnings per share attributable to owners of the Company for the year (expressed in HK\$ per share)			
Basic and diluted earnings per share	14	0.35	0.29

The notes on pages 72 to 118 are an integral part of these consolidated financial statements.

		2014	2013
	Note	HK\$'000	HK\$'000
Dividends	16	83,710	66,400

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2014

	2014	2013
	HK\$'000	HK\$'000
Profit for the year	294,698	227,548
Other comprehensive income:		
<i>Item that is reclassified to profit or loss</i>		
Release of exchange reserve upon disposal of a subsidiary	–	(7,510)
<i>Item that may be subsequently reclassified to profit or loss</i>		
Currency translation differences	(11,446)	(4,606)
Other comprehensive income for the year	(11,446)	(12,116)
Total comprehensive income for the year	283,252	215,432
Attributable to:		
Owners of the Company	278,434	211,685
Non-controlling interests	4,818	3,747
Total comprehensive income for the year	283,252	215,432

The notes on pages 72 to 118 are an integral part of these consolidated financial statements.

CONSOLIDATED BALANCE SHEET

As at 31 December 2014

		2014	2013
	Note	HK\$'000	HK\$'000
Assets			
Non-current assets			
Leasehold land	17	17,637	18,180
Property, plant and equipment	18	260,363	210,073
Investments accounted for using the equity method	12	25,858	14,432
Deposits paid for purchase of property, plant and equipment		2,175	2,485
Deferred income tax assets	19	6,857	6,323
		312,890	251,493
Current assets			
Inventories	20	121,025	102,157
Trade receivables and other current assets	21	164,714	132,868
Short-term bank deposits	22	470,529	469,333
Cash and cash equivalents	22	563,383	454,264
		1,319,651	1,158,622
Total assets		1,632,541	1,410,115
Equity and liabilities			
Equity attributable to owners of the Company			
Share capital: nominal value	23	–	415,000
Share premium	23	–	452,363
Share capital/and share premium	23	867,363	867,363
Reserves	24		
– Proposed final dividend	16	83,710	66,400
– Others		534,676	339,952
		1,485,749	1,273,715
Non-controlling interests		51,112	36,004
Total equity		1,536,861	1,309,719
Liabilities			
Non-current liabilities			
Deferred income tax liabilities	19	4,675	4,248
Current liabilities			
Trade and other payables	25	70,873	69,255
Current income tax liabilities		20,132	26,893
		91,005	96,148
Total liabilities		95,680	100,396
Total equity and liabilities		1,632,541	1,410,115
Net current assets		1,228,646	1,062,474
Total assets less current liabilities		1,541,536	1,313,967

The notes on pages 72 to 118 are an integral part of these consolidated financial statements.

The financial statements on pages 65 to 118 were approved by the Board of Directors on 13 March 2015 and were signed on its behalf.

Ding Yong Ling
Director

Lin Man
Director

BALANCE SHEET

As at 31 December 2014

		2014	2013
	Note	HK\$'000	HK\$'000
Assets			
Non-current assets			
Leasehold land	17	17,637	18,180
Property, plant and equipment	18	193,843	199,702
Investments in subsidiaries	11	133,208	49,334
Investments in joint ventures	12	31,307	19,307
Deposits paid for purchase of property, plant and equipment		902	1,528
		376,897	288,051
Current assets			
Inventories	20	63,681	54,210
Trade receivables and other current assets	21	180,815	159,866
Short-term bank deposits	22	456,142	450,594
Cash and cash equivalents	22	450,884	388,519
		1,151,522	1,053,189
Total assets		1,528,419	1,341,240
Equity and liabilities			
Equity attributable to owners of the Company			
Share capital: nominal value	23	–	415,000
Share premium	23	–	452,363
Share capital/and share premium	23	867,363	867,363
Reserves	24		
– Proposed final dividend	16	83,710	66,400
– Others		538,186	347,427
Total equity		1,489,259	1,281,190
Liabilities			
Non-current liabilities			
Deferred income tax liabilities	19	3,628	3,446
Current liabilities			
Trade and other payables	25	17,767	32,208
Current income tax liabilities		17,765	24,396
		35,532	56,604
Total liabilities		39,160	60,050
Total equity and liabilities		1,528,419	1,341,240
Net current assets		1,115,990	996,585
Total assets less current liabilities		1,492,887	1,284,636

The notes on pages 72 to 118 are an integral part of these financial statements.

The financial statements on pages 65 to 118 were approved by the Board of Directors on 13 March 2015 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 2014

	Note	Attributable to owners of the Company							Non-controlling interests	Total equity
		Share capital	Share premium	Merger reserve	Other reserves	Statutory reserve	Exchange reserve	Retained earnings		
		HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2013		201,430	3,913	(13,124)	(4,385)	1,352	14,457	291,240	494,883	567,688
Comprehensive income										
Profit for the year		–	–	–	–	–	–	220,001	220,001	227,548
Other comprehensive income										
Release of exchange reserve upon disposal of a subsidiary		–	–	–	–	–	(4,593)	–	(4,593)	(7,510)
Currency translation differences										
– Group		–	–	–	–	–	(1,506)	–	(1,506)	(2,389)
– Joint ventures and an associate		–	–	–	–	–	(2,217)	–	(2,217)	(2,217)
Total comprehensive income		–	–	–	–	–	(8,316)	220,001	211,685	215,432
Issue of new shares upon the capitalisation of share premium	23	98,570	(98,570)	–	–	–	–	–	–	–
Issue of new shares	23	115,000	584,200	–	–	–	–	–	699,200	699,200
Professional expenses incurred in connection with the Company's issue of new shares	23	–	(32,433)	–	–	–	–	–	(32,433)	(32,433)
Transfer of professional expenses previously capitalised	23	–	(4,747)	–	4,747	–	–	–	–	–
Transfer of retained earnings to statutory reserve		–	–	–	–	282	–	(282)	–	–
Dividends relating to 2012		–	–	–	–	–	–	(100,000)	(100,000)	(106,526)
Disposal of a subsidiary		–	–	–	380	–	–	–	380	(41,427)
Deemed acquisition of a subsidiary		–	–	–	–	–	–	–	–	7,779
Capital contribution to a newly formed subsidiary		–	–	–	–	–	–	–	–	6
Total transactions with owners, recognised directly in equity		213,570	448,450	–	5,127	282	–	(100,282)	567,147	526,599
At 31 December 2013		415,000	452,363	(13,124)	742	1,634	6,141	410,959	1,273,715	1,309,719

The notes on pages 72 to 118 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

For the year ended 31 December 2014

	Note	Attributable to owners of the Company							Non-controlling interests	Total equity
		Share capital	Share premium	Merger reserve	Other reserves	Statutory reserve	Exchange reserve	Retained earnings	Total	
		HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2014		415,000	452,363	(13,124)	742	1,634	6,141	410,959	1,273,715	1,309,719
Comprehensive income										
Profit for the year		-	-	-	-	-	-	287,124	287,124	294,698
Other comprehensive income										
Currency translation differences										
– Group		-	-	-	-	-	(8,143)	-	(8,143)	(10,899)
– Joint ventures and an associate		-	-	-	-	-	(547)	-	(547)	(547)
Total comprehensive income		-	-	-	-	-	(8,690)	287,124	278,434	283,252
Transfer of retained earnings to statutory reserve		-	-	-	-	1,293	-	(1,293)	-	-
Dividends relating to 2013		-	-	-	-	-	-	(66,400)	(66,400)	(69,291)
Transition to no-par value regime on 3 March 2014	23	452,363	(452,363)	-	-	-	-	-	-	-
Capital injections to subsidiaries		-	-	-	-	-	-	-	13,181	13,181
Total transactions with owners, recognised directly in equity		452,363	(452,363)	-	-	1,293	-	(67,693)	(66,400)	(56,110)
At 31 December 2014		867,363	-	(13,124)	742	2,927	(2,549)	630,390	1,485,749	1,536,861

The notes on pages 72 to 118 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2014

		2014	2013
	Note	HK\$'000	HK\$'000
Cash flows from operating activities			
Cash generated from operations	26(a)	312,051	175,556
Income tax paid		(67,317)	(33,028)
Net cash generated from operating activities		244,734	142,528
Cash flows from investing activities			
Deemed acquisition of a subsidiary	26(b)	–	9,541
Interest received		11,451	4,853
Dividends received from a joint venture		276	–
Increase in short-term bank deposits with original maturities exceeding three months		(1,196)	(461,209)
Investment in a joint venture	12(c)	(12,000)	–
Purchase of property, plant and equipment		(69,113)	(123,485)
Proceeds from disposal of property, plant and equipment	26(a)	–	102
Net proceeds from disposal of a subsidiary	26(c)	–	97,566
Deposits paid for purchase of property, plant and equipment		(2,301)	(2,921)
Net cash used in investing activities		(72,883)	(475,553)
Cash flows from financing activities			
Capital injection by non-controlling interests		13,181	–
Proceeds from issue of new shares		–	699,200
Professional expenses paid in connection with the Company's issue of new shares		–	(51,955)
Dividends paid to the Company's shareholders	16	(66,400)	(100,000)
Dividends paid to non-controlling interests		(2,891)	(6,526)
Net cash (used in)/generated from financing activities		(56,110)	540,719
Net increase in cash and cash equivalents		115,741	207,694
Cash and cash equivalents at beginning of year		454,264	249,301
Exchange losses on cash and cash equivalents		(6,622)	(2,731)
Cash and cash equivalents at end of year		563,383	454,264

The notes on pages 72 to 118 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 and healthcare products and provision of Chinese medical consultation and treatments. The immediate holding company of the Company is Tong Ren Tang Technologies Co., Ltd. (“Tong Ren Tang Technologies”) which is a limited liability company incorporated 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 Room 1405-1409, Office Tower, Convention Plaza, 1 Harbour Road, Wanchai, 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 Hong Kong dollars (HK\$), unless otherwise stated. These consolidated financial statements have been approved for issue by the Board of Directors on 13 March 2015.

2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

(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.

In accordance with the transitional and saving arrangements for Part 9 of the Hong Kong Companies Ordinance (Cap. 622), “Accounts and Audit” as set out in sections 76 to 87 of Schedule 11 to the Hong Kong Companies Ordinance (Cap. 622), the consolidated financial statements are prepared in accordance with the applicable requirements of the predecessor Companies Ordinance (Cap. 32) for this financial year and the comparative period.

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.

(i) Adoption of new standards and amendments to standards

The Group has adopted the following new 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 2014:

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

The adoption of above new standards and amendments to standards does not have any significant financial effect on these 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 July 2014 or later periods, but have not been early adopted by the Group.

Annual Improvements Project	Annual Improvements 2010-2012 Cycle, 2011-2013 Cycle and 2012-2014 Cycle ⁽¹⁾
HKAS 16 and HKAS 38 (Amendment)	Clarification of Acceptable Methods of Depreciation and Amortisation ⁽²⁾
HKFRS 15	Revenue from Contracts with Customers ⁽³⁾
HKFRS 9	Financial Instruments ⁽⁴⁾

⁽¹⁾ Effective for the accounting period beginning on 1 July 2014

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

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

⁽⁴⁾ Effective for the accounting period beginning on 1 January 2018

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. Non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation are measured at either fair value or the present ownership interests' proportionate share in the recognised amounts of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by HKFRS.

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 a 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 directly 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 investments in associates include goodwill identified on acquisition. Upon the acquisition of the ownership interest in an associate, any difference between the cost of the associate and the group's share of the net fair value of the associate's identifiable assets and liabilities is accounted for as goodwill.

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 associate", 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 associates. 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. 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. The Group's investments in joint ventures include goodwill identified on acquisition. Upon the acquisition of the ownership interest in a joint venture, any difference between the cost of the joint venture and the group's share of the net fair value of the joint venture's identifiable assets and liabilities is accounted for as goodwill. 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.

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.

2 Summary of significant accounting policies (Continued)

(d) Joint ventures (Continued)

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 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;
- 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.

2 Summary of significant accounting policies (Continued)

(f) Foreign currency translation (Continued)

(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, offices and retail shops. 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.

Freehold land is not depreciated. 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

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)).

(h) Impairment of non-financial assets

Assets that have an indefinite useful life 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.

2 Summary of significant accounting policies (Continued)**(i) 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" (Note 2(l)), "cash and cash equivalents" (Note 2(m)) and "short-term bank deposits" in the balance sheet.

(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. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the company or the counterparty.

(j) 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.

(k) 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)

(l) 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.

(m) 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.

(n) 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.

(o) 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.

(p) Current and deferred income tax

The tax expense for the period comprises current and deferred income 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 and associates 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.

2 Summary of significant accounting policies (Continued)

(p) 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 income 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 when there is an agreement in place that gives the Group the ability to control the reversal of the temporary difference in the foreseeable future, deferred income tax liability in relation to taxable temporary differences arising from the associate's undistributed profits is 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.

(q) Employee benefits

The Group operates various post-employment 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.

(ii) Bonus plans

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

2 Summary of significant accounting policies (Continued)

(r) 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.

(s) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods supplied and services rendered, 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.

(ii) Service income

The Group provides Chinese medical consultation and treatments in retail outlets. Service 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) 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.

2 Summary of significant accounting policies (Continued)

(s) Revenue recognition (Continued)

(iv) Interest income

Interest income is recognised using the effective interest method.

(t) 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.

(u) 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.

(v) Research and development costs

Research expenditure is recognised as an expense as incurred. Costs incurred in development projects (relating to the design and testing of new or improved products) are recognised as intangible assets when it is probable that the project will be successful considering its commercial and technical feasibility and its costs can be measured reliably. Other development expenditures that do not meet these criteria are expensed as incurred. Development costs previously recognised as expenses are not recognised as assets in subsequent periods. Capitalised development costs are recorded as intangible assets and amortised from the point at which the asset is ready for use on a straight-line basis over its useful life, not exceeding five years; and tested for impairment according to Note 2(h).

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 Group entity's functional currency.

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to Renminbi. 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.

At 31 December 2014, if Renminbi had strengthened/weakened by 5% against Hong Kong dollar, with all other variables held constant, the profit before income tax for the year ended 31 December 2014 would have been HK\$3,886,000 (2013: HK\$2,331,000) higher/lower, mainly as a result of foreign exchange gains/losses on translation of Hong Kong dollar-denominated trade receivables held by a PRC subsidiary whose functional currency is Renminbi. The management considers exposures arising from other foreign currencies are not significant to the Group.

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 2014, 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\$5,144,000 (2013: HK\$4,612,000) 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 (including trade receivables from group companies) and other current assets.

All the bank deposits are placed with banks with good credit ratings to mitigate the risk. For trade receivables (including trade receivables from group companies) and other current assets, 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. At 31 December 2014, 89.3% of the Group's trade receivables were due within 90 days (2013: 99.5%). The maximum exposure to credit risk is represented by the carrying amount of trade receivables in the consolidated balance sheet.

(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. At 31 December 2014, the Group's financial liabilities were mainly trade and other payables amounting to HK\$70,873,000 (2013: HK\$69,255,000), which were due within 12 months and equal their carrying balance as the impact of discounting is not significant.

(b) Capital 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.

(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 judgements

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

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal 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.

(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.

(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.

4 Critical accounting estimates and judgements (Continued)

(c) **Property, plant and equipment (continued)**

(ii) **Impairment assessment (continued)**

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

Unallocated items comprise mainly corporate expenses.

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

Segment information provided to the Executive Directors and Non-executive Director for decision-making is measured in a manner consistent with that in the financial statements. The Executive Directors and Non-executive Director assess the performance of the operating segments based on revenue and segment results of each segment. Management has determined the operating segments based on the location of the entities and the information reviewed by the Group's chief operating decision maker for the purposes of allocating resources and assessing performance.

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

5 Segment information (Continued)**(a) Analysis of consolidated income statements**

	Hong Kong	Mainland China	Overseas	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Year ended 31 December 2014				
Segment revenue	529,059	230,691	195,522	955,272
Inter-segment revenue	(150,322)	(43,899)	–	(194,221)
Revenue from external customers	378,737	186,792	195,522	761,051
Contribution to segment results	317,358	18,807	21,240	357,405
Depreciation and amortisation	(14,122)	(259)	(3,758)	(18,139)
Write-off of inventories	(573)	–	–	(573)
Segment results	302,663	18,548	17,482	338,693
Inter-segment elimination				4,826
Operating profit				343,519
Finance income	10,568	117	766	11,451
Share of profit of investments accounted for using the equity method				249
Profit before income tax				355,219
Income tax expense	(51,181)	(5,699)	(3,641)	(60,521)
Profit for the year				294,698
Year ended 31 December 2013				
Segment revenue	458,290	124,961	147,860	731,111
Inter-segment revenue	(66,231)	(50,917)	–	(117,148)
Revenue from external customers	392,059	74,044	147,860	613,963
Contribution to segment results	283,328	13,393	24,968	321,689
Depreciation and amortisation	(11,918)	(451)	(3,027)	(15,396)
Write-off of inventories	(425)	–	–	(425)
Segment results	270,985	12,942	21,941	305,868
Inter-segment elimination				(24,982)
Professional expenses in connection with the Company's listing				(12,630)
Operating profit				268,256
Finance income	4,119	190	544	4,853
Share of loss of investments accounted for using the equity method				(1,643)
Profit before income tax				271,466
Income tax (expense)/credit	(44,326)	3,073	(2,665)	(43,918)
Profit for the year				227,548

5 Segment information (Continued)

(b) Analysis of consolidated balance sheets

	Hong Kong	Mainland China	Overseas	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 31 December 2014				
Segment assets and liabilities				
Total assets	1,295,220	134,047	203,274	1,632,541
Investments accounted for using the equity method	–	–	25,858	25,858
Additions to non-current assets ⁽¹⁾	21,686	1,391	48,128	71,205
Total liabilities	(40,933)	(35,649)	(19,098)	(95,680)
At 31 December 2013				
Segment assets and liabilities				
Total assets	1,198,523	80,073	131,519	1,410,115
Investments accounted for using the equity method	–	–	14,432	14,432
Additions to non-current assets ⁽¹⁾	112,175	166	4,271	116,612
Total liabilities	(53,282)	(30,260)	(16,854)	(100,396)

⁽¹⁾ In this analysis, additions to non-current assets exclude investments accounted for using the equity method and deferred income tax assets.

(c) Revenue

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

	2014	2013
	HK\$'000	HK\$'000
Sales of Chinese medicine products and healthcare products	732,419	588,019
Service income	27,933	25,071
Royalty fee income	699	873
	761,051	613,963

5 Segment information (Continued)**(d) Information about major customers**

For the year ended 31 December 2014, revenue from three (2013: 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 Mainland China segment. The revenues from these customers are summarised below:

	2014
	HK\$'000
Revenue from:	
– Customer A	136,345
– Entities under the control of the ultimate holding company ⁽¹⁾ (Note 29(a))	126,100
– Customer B	120,089
	382,534
	2013
	HK\$'000
Revenue from:	
– Customer A	153,733
– Customer B	147,680
	301,413

⁽¹⁾ 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 2014 (2013: nil).

(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 area is set out below:

(i) Revenue

	2014	2013
	HK\$'000	HK\$'000
Hong Kong	378,737	392,059
Mainland China	186,792	74,044
Macao	75,341	52,434
Australia	36,988	35,152
Canada	31,025	19,256
Singapore	30,612	32,586
Other countries ⁽¹⁾	21,556	8,432
	761,051	613,963

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

5 Segment information (Continued)

(e) Information about geographical areas (Continued)

(ii) Non-current assets⁽²⁾

	2014	2013
	HK\$'000	HK\$'000
Hong Kong	226,966	219,410
Mainland China	1,623	488
Macao	10,356	2,303
Australia	29,200	1,978
Canada	5,712	3,126
Singapore	318	326
Other countries ⁽¹⁾	6,000	3,107
	280,175	230,738

⁽¹⁾ Other countries include entities located in Brunei, the United Arab Emirates, Poland, the United Kingdom, South Korea and New Zealand.

⁽²⁾ Non-current assets are located based on where the entity holds assets. In this analysis, the total of non-current assets excludes investments accounted for using the equity method and deferred income tax assets.

6 Expenses by nature

	2014	2013
	HK\$'000	HK\$'000
Cost of inventories sold (Note 20)	168,204	152,723
Employee benefit expenses (Note 7)	117,265	101,445
Operating leases payments	49,980	39,872
Amortisation of prepaid operating lease payments	543	749
Depreciation of property, plant and equipment (Note 18)	17,596	14,647
Loss on disposal of property, plant and equipment	39	25
Write-off of inventories (Note 20)	573	425
Auditors' remuneration		
— Audit services	2,704	2,264
— Non-audit services	20	708
Utilities	4,419	3,850
Repair and maintenance	2,970	2,256
Research and development	4,844	1,312
Net exchange (gain)/loss	(165)	91
Amortisation of government grant	—	(138)
Promotion and advertising expenses	8,423	3,128
Legal and professional expenses	4,566	1,280
Transportation expenses	4,866	2,655
Bank charges	2,413	2,851
Store supplies	5,485	3,812
Other taxes and levies	4,357	2,587
Other expenses	19,926	14,332
Total cost of sales, distribution and selling expenses and general and administrative expenses	419,028	350,874

7 Employee benefit expenses, including directors' remuneration

	2014	2013
	HK\$'000	HK\$'000
Salaries, wages and bonuses	104,455	88,967
Pension costs — defined contribution plans	5,600	5,228
Other benefits	7,210	7,250
	117,265	101,445

8 Directors' and senior management's emoluments

(a) Directors' emoluments

The remuneration of every director of the Company for the years ended 31 December 2013 and 2014 are set out below:

	Fees	Salary	Discretionary bonuses	Employer's contribution to pension scheme	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Year ended 31 December 2014					
Non-executive Directors:					
Mr. Yin Shun Hai ⁽¹⁾	–	–	–	–	–
Mr. Mei Qun ⁽²⁾	–	–	–	–	–
Executive Directors:					
Ms. Ding Yong Ling ⁽³⁾	–	1,300	1,323	17	2,640
Mr. Zhang Huan Ping	–	715	811	17	1,543
Ms. Lin Man	–	715	820	17	1,552
Independent Non-executive Directors:					
Ms. Leung, Oi Sie Elsie	180	–	–	–	180
Mr. Chan Ngai Chi	180	–	–	–	180
Mr. Zhao Zhong Zhen	180	–	–	–	180
	540	2,730	2,954	51	6,275
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	120	–	–	–	120
Mr. Chan Ngai Chi	135	–	–	–	135
Mr. Zhao Zhong Zhen	135	–	–	–	135
	390	2,436	2,571	45	5,442

(1) Mr. Yin Shun Hai resigned on 7 May 2014

(2) Mr. Mei Qun was appointed on 7 May 2014

(3) Ms. Ding Yong Ling is also the Chief Executive of the Company.

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.

8 Directors' and senior management's emoluments (Continued)**(b) Five highest paid individuals**

The five individuals whose emoluments were the highest in the Group for the year include three (2013: three) directors whose emoluments are reflected in the analysis presented above. The emoluments paid or payable to the remaining two (2013: two) individuals during the year are as follows:

	2014	2013
	HK\$'000	HK\$'000
Basic salaries and other benefits	241	2,390
Bonuses	2,120	635
Pension costs — defined contribution plans	—	30
	2,361	3,055

The emoluments fell within the following bands:

	Number of individuals	
	2014	2013
Emolument bands		
HK\$1,000,001 — HK\$1,500,000	2	1
HK\$1,500,001 — HK\$2,000,000	—	1

(c) Senior management's emoluments

The emoluments paid or payable to senior management (including the one who resigned in April 2014) for the year ended 31 December 2014 fell within the following bands:

	Number of individuals	
	2014	2013
Emolument bands		
HK\$0 — HK\$1,000,000	1	2
HK\$1,000,001 — HK\$1,500,000	3	2

- (d) For the year ended 31 December 2014, no emoluments (2013: 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

	2014	2013
	HK\$'000	HK\$'000
Gain on remeasurement of existing interest in the then joint venture which became a subsidiary (Note 28)	–	2,067
Gain on disposal of a subsidiary (Note 26(c))	–	13,360
Others	1,496	2,370
	1,496	17,797

10 Finance income

	2014	2013
	HK\$'000	HK\$'000
Interest income on bank deposits	11,451	4,853

11 Investments in subsidiaries

The Company

	2014	2013
	HK\$'000	HK\$'000
Unlisted investments at cost		
At 1 January	49,334	39,005
Additions	83,874	6,256
Deemed acquisition of a subsidiary (Note 12(c))	–	4,073
At 31 December	133,208	49,334

Details of subsidiaries are set out in Note 31.

12 Investments accounted for using the equity method

(a) The amounts recognised in the balance sheet are as follows:

	The Group		The Company	
	2014	2013	2014	2013
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Joint ventures	25,858	14,432	31,307	19,307
An associate	–	–	–	–
At 31 December	25,858	14,432	31,307	19,307

12 Investments accounted for using the equity method (Continued)

(b) The share of profit/(loss) recognised in the income statement are as follows:

	2014	2013
	HK\$'000	HK\$'000
Joint ventures	249	(942)
An associate	–	(701)
For the year ended 31 December	249	(1,643)

(c) Interests in joint ventures

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.

The Group

	2014	2013
	HK\$'000	HK\$'000
Unlisted investments		
At 1 January	14,432	23,393
Additions	12,000	–
Share of profit/(loss) for the year	249	(942)
Share of other comprehensive income		
– Currency translation differences	(547)	(1,990)
Dividends	(276)	–
Deemed acquisition of a subsidiary	–	(6,029)
At 31 December	25,858	14,432
The Group's share of joint ventures' commitments	3,562	3,627

The Company

	2014	2013
	HK\$'000	HK\$'000
Unlisted investments at cost		
At 1 January	19,307	25,439
Addition	12,000	–
Impairment	–	(2,059)
Deemed acquisition of a subsidiary (Note 11)	–	(4,073)
At 31 December	31,307	19,307

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 31.

12 Investments accounted for using the equity method (Continued)

(d) Interest in an associate

The Group

	2014	2013
	HK\$'000	HK\$'000
Unlisted investment		
Carrying amount of interest at 31 December (Note a)	–	–

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

	2014	2013
	HK\$'000	HK\$'000
Share of loss for the year	–	(701)
Share of other comprehensive income		
– Currency translation difference	–	(227)
Share of total comprehensive income	–	(928)

Notes:

- (a) The Group has fully impaired its investment in the associate.
- (b) The associate 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 associate.
- (d) At 31 December 2014, the associate is still under the process of being wound up.
- (e) Details of the associate are set out in Note 31.

13 Income tax expense

Hong Kong profits tax has been provided for at the rate of 16.5% (2013: 16.5%) on the estimated assessable profit for the year. PRC corporate income tax has been provided at the rate of 25% (2013: 25%) on the estimated assessable profits for the year of the subsidiaries operating in the PRC. 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 entity operates.

	2014	2013
	HK\$'000	HK\$'000
Current income tax		
– Current year	60,796	49,186
– Over provision in prior years	(161)	(392)
	60,635	48,794
Deferred income tax (Note 19)	(114)	(4,876)
Income tax expense	60,521	43,918

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:

	2014	2013
	HK\$'000	HK\$'000
Profit before income tax	355,219	271,466
Tax calculated at domestic tax rates applicable to profits in the respective countries	58,496	44,832
Tax effects of:		
– Income not subject to tax	(2,805)	(4,241)
– Expenses not deductible for tax purposes	543	2,372
– Tax losses for which no deferred income tax asset was recognised	3,168	1,141
– Withholding income tax on royalty fee from overseas entities	295	368
– Over provision in prior years	(161)	(392)
– Others	985	(162)
Tax charge	60,521	43,918

The weighted average applicable tax rate was 16.5% (2013: 16.5%).

14 Earnings per share

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

	2014	2013
	HK\$'000	HK\$'000
Profit attributable to owners of the Company	287,124	220,001
Weighted average number of ordinary shares in issue (thousands)	830,000	749,288
Earnings per share (HK\$)	0.35	0.29

For the years ended 31 December 2014 and 2013, diluted earnings per share is the same as basic earnings per share as there were no potential dilutive shares.

15 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\$274,469,000 (2013: HK\$229,349,000) (Note 24).

16 Dividends

The dividends paid in 2014 and 2013 were HK\$66,400,000 (HK\$0.08 per share) and HK\$100,000,000 (HK\$0.25 per share) respectively. A dividend in respect of the year ended 31 December 2014 of HK\$0.10 per share, amounting to a total dividend of HK\$83,710,000, is to be proposed at the annual general meeting of the Company on 7 May 2015. These financial statements do not reflect this dividend payable.

	2014	2013
	HK\$'000	HK\$'000
Interim dividend paid of HK\$nil (2013: HK\$nil) per ordinary share	—	—
Proposed final dividend of HK\$0.10 (2013: HK\$0.08) per ordinary share	83,710	66,400
	83,710	66,400

The aggregate amounts of the dividends paid and proposed during 2013 and 2014 have been disclosed in the consolidated income statement in accordance with the Hong Kong Companies Ordinance.

17 Leasehold land

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

The Group and the Company

	2014	2013
	HK\$'000	HK\$'000
In Hong Kong, held on:		
Lease of between 10 and 50 years	17,637	18,180
At 1 January	18,180	18,723
Amortisation of prepaid operating lease payments	(543)	(543)
At 31 December	17,637	18,180

18 Property, plant and equipment**The Group**

	Freehold land and leasehold land held under finance lease	Buildings	Leasehold improvement	Plant and machinery	Furniture and equipment	Motor vehicles	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2013							
Cost	2,850	79,132	23,347	44,839	8,291	1,251	159,710
Accumulated depreciation and impairment	(571)	(12,306)	(9,713)	(27,793)	(4,730)	(854)	(55,967)
Net book amount	2,279	66,826	13,634	17,046	3,561	397	103,743
Year ended 31 December 2013							
Opening net book amount	2,279	66,826	13,634	17,046	3,561	397	103,743
Additions	95,650	11,410	10,080	222	2,559	1,078	120,999
Deemed acquisition of a subsidiary	–	–	421	–	92	79	592
Disposals	–	–	(84)	–	(43)	–	(127)
Depreciation charge	(1,956)	(2,140)	(5,623)	(2,974)	(1,552)	(350)	(14,595)
Currency translation differences	–	–	(402)	–	(125)	(12)	(539)
Closing net book amount	95,973	76,096	18,026	14,294	4,492	1,192	210,073
At 31 December 2013							
Cost	98,500	90,542	32,373	43,699	10,416	2,338	277,868
Accumulated depreciation and impairment	(2,527)	(14,446)	(14,347)	(29,405)	(5,924)	(1,146)	(67,795)
Net book amount	95,973	76,096	18,026	14,294	4,492	1,192	210,073
Year ended 31 December 2014							
Opening net book amount	95,973	76,096	18,026	14,294	4,492	1,192	210,073
Additions	5,402	27,379	27,820	4,054	6,789	71	71,515
Disposals	–	–	(2)	–	(37)	–	(39)
Depreciation charge (Note 6)	(2,123)	(2,362)	(7,249)	(3,289)	(2,220)	(353)	(17,596)
Currency translation differences	(354)	(1,930)	(987)	–	(310)	(9)	(3,590)
Closing net book amount	98,898	99,183	37,608	15,059	8,714	901	260,363
At 31 December 2014							
Cost	103,548	115,986	59,615	47,753	16,374	2,422	345,698
Accumulated depreciation and impairment	(4,650)	(16,803)	(22,007)	(32,694)	(7,660)	(1,521)	(85,335)
Net book amount	98,898	99,183	37,608	15,059	8,714	901	260,363

18 Property, plant and equipment (Continued)

The Company

	Leasehold land held under finance lease	Buildings	Leasehold improvement	Plant and machinery	Furniture and equipment	Motor vehicles	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2013							
Cost	2,850	79,132	13,481	44,839	2,139	235	142,676
Accumulated depreciation and impairment	(571)	(12,306)	(5,186)	(27,793)	(1,383)	(235)	(47,474)
Net book amount	2,279	66,826	8,295	17,046	756	–	95,202
Year ended 31 December 2013							
Opening net book amount	2,279	66,826	8,295	17,046	756	–	95,202
Additions	95,650	11,410	5,837	222	1,677	1,078	115,874
Depreciation charge	(1,956)	(2,140)	(3,836)	(2,974)	(325)	(143)	(11,374)
Closing net book amount	95,973	76,096	10,296	14,294	2,108	935	199,702
At 31 December 2013							
Cost	98,500	90,542	19,318	43,699	3,816	1,313	257,188
Accumulated depreciation and impairment	(2,527)	(14,446)	(9,022)	(29,405)	(1,708)	(378)	(57,486)
Net book amount	95,973	76,096	10,296	14,294	2,108	935	199,702
Year ended 31 December 2014							
Opening net book amount	95,973	76,096	10,296	14,294	2,108	935	199,702
Additions	–	–	2,145	4,054	1,283	–	7,482
Disposals	–	–	–	–	(10)	–	(10)
Depreciation charge	(2,123)	(2,275)	(4,709)	(3,289)	(719)	(216)	(13,331)
Closing net book amount	93,850	73,821	7,732	15,059	2,662	719	193,843
At 31 December 2014							
Cost	98,500	90,542	21,463	47,753	5,089	1,313	264,660
Accumulated depreciation and impairment	(4,650)	(16,721)	(13,731)	(32,694)	(2,427)	(594)	(70,817)
Net book amount	93,850	73,821	7,732	15,059	2,662	719	193,843

18 Property, plant and equipment (Continued)

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

The Group

	2014	2013
	HK\$'000	HK\$'000
In Hong Kong, held on:		
Leases of between 10 and 50 years	93,850	95,973
Outside Hong Kong, held on:		
Freehold	5,048	—

The Company

	2014	2013
	HK\$'000	HK\$'000
In Hong Kong, held on:		
Leases of between 10 and 50 years	93,850	95,973

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

	The Group	
	2014	2013
	HK\$'000	HK\$'000
Cost of sales	6,704	5,842
Distribution and selling expenses	7,496	6,353
General and administrative expenses	3,396	2,452
	17,596	14,647

19 Deferred income tax

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

	The Group		The Company	
	2014	2013	2014	2013
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Deferred income tax assets				
– to be recovered after more than 12 months	–	–	–	–
– to be recovered within 12 months	6,857	6,323	–	–
	6,857	6,323	–	–
Deferred income tax liabilities				
– to be settled after more than 12 months	(3,109)	(3,003)	(3,109)	(3,003)
– to be settled within 12 months	(1,566)	(1,245)	(519)	(443)
	(4,675)	(4,248)	(3,628)	(3,446)
Deferred income tax assets/(liabilities), net	2,182	2,075	(3,628)	(3,446)

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

	The Group		The Company	
	2014	2013	2014	2013
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January	2,075	(1,748)	(3,446)	(3,669)
Deemed acquisition of a subsidiary	–	(1,119)	–	–
Credited/(charged) to the income statement (Note 13)	114	4,876	(182)	223
Currency translation differences	(7)	66	–	–
At 31 December	2,182	2,075	(3,628)	(3,446)

19 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	
	Accelerated accounting depreciation	Unrealised profit	Provision	Total	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Deferred income tax assets					
At 1 January 2013	–	107	1,961	2,068	–
Deemed acquisition of a subsidiary	91	–	–	91	–
Credited to the income statement	–	4,102	–	4,102	–
Currency translation differences	(3)	–	65	62	–
At 31 December 2013	88	4,209	2,026	6,323	–
At 1 January 2014	88	4,209	2,026	6,323	–
(Charged)/credited to the income statement	(84)	(399)	1,042	559	–
Currency translation differences	(4)	(4)	(17)	(25)	–
At 31 December 2014	–	3,806	3,051	6,857	–

	The Group			The Company	
	Accelerated tax depreciation	Others	Total	Accelerated tax depreciation	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Deferred income tax liabilities					
At 1 January 2013	(3,750)	(66)	(3,816)	(3,669)	
Deemed acquisition of a subsidiary	–	(1,210)	(1,210)	–	
Credited to the income statement	209	565	774	223	
Currency translation differences	4	–	4	–	
At 31 December 2013	(3,537)	(711)	(4,248)	(3,446)	
At 1 January 2014	(3,537)	(711)	(4,248)	(3,446)	
(Charged)/credited to the income statement	(685)	240	(445)	(182)	
Currency translation differences	18	–	18	–	
At 31 December 2014	(4,204)	(471)	(4,675)	(3,628)	

19 Deferred income tax (Continued)

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\$3,919,000 (2013: HK\$772,000) in respect of tax losses amounting to approximately HK\$20,590,000 (2013: HK\$4,003,000) at 31 December 2014. These tax losses have no expiry dates except for the tax losses of HK\$8,245,000 (2013: HK\$4,003,000) which will expire between 2014 and 2019 (2013: expire between 2013 and 2018).

The Group did not recognise the deferred income tax liabilities of HK\$1,305,000 (2013: HK\$262,000) in respect of the withholding tax that would be payable on the unremitted earnings of certain subsidiaries amounting to HK\$19,964,000 (2013: HK\$5,212,000) at 31 December 2014, as these unremitted earnings have been reinvested.

20 Inventories

	The Group		The Company	
	2014	2013	2014	2013
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Raw materials	44,384	38,574	21,936	21,323
Work in progress	2,471	2,776	2,471	2,776
Finished goods and trading merchandise	74,170	60,807	39,274	30,111
	121,025	102,157	63,681	54,210

The cost of inventories recognised as expense and included in "cost of sales" amounted to HK\$168,204,000 (2013: HK\$152,723,000) and the write-off of inventories included in the "cost of sales" amounted to HK\$573,000 (2013: HK\$425,000) for the year ended 31 December 2014.

21 Trade receivables and other current assets

	The Group		The Company	
	2014	2013	2014	2013
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Trade receivables				
– subsidiaries	–	–	102,208	70,715
– fellow subsidiaries	50,507	34,524	18	–
– joint ventures	986	736	606	736
– third parties	75,887	77,398	64,276	75,497
Trade receivables	127,380	112,658	167,108	146,948
Prepayments and other receivables	21,337	10,629	5,585	5,314
Deposits	14,883	8,467	7,008	6,490
Amount due from a joint venture (Note b)	1,114	1,114	1,114	1,114
	164,714	132,868	180,815	159,866

21 Trade receivables and other current assets (Continued)

Notes:

- (a) The fair values of trade receivables and other current assets approximate their carrying amounts.
- (b) The amount is repayable on demand, unsecured in nature and bears no interest.
- (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.

At 31 December 2013 and 2014, the aging analysis of trade receivables (including amounts due from related parties of trading in nature) based on invoice date is as follows:

	The Group		The Company	
	2014	2013	2014	2013
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Up to 3 months	113,804	112,107	105,275	127,563
3 to 6 months	9,629	12	61,833	—
6 months to 1 year	3,922	301	—	—
Over 1 year	25	238	—	19,385
	127,380	112,658	167,108	146,948

- (d) At 31 December 2014, the Group's trade receivables of HK\$51,956,000 (2013: HK\$551,000) 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 2014, the Company's trade receivables of HK\$74,151,000 (2013: HK\$19,385,000) 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	
	2014	2013	2014	2013
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Past due less than 3 months	40,765	—	74,151	—
Past due within 3 to 6 months	11,166	12	—	—
Past due within 6 months to 1 year	—	301	—	—
Past due over 1 year	25	238	—	19,385
	51,956	551	74,151	19,385

- (e) At 31 December 2014, no trade receivables of the Group and the Company were impaired (2013: nil).

21 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	
	2014	2013
	HK\$'000	HK\$'000
Hong Kong dollar	85,895	88,336
Renminbi	58,120	37,716
South Korea won	7,517	—
United States dollar	4,886	774
New Zealand dollar	2,262	—
Australian dollar	1,534	596
Singapore dollar	1,260	1,142
Other currencies ⁽¹⁾	3,240	4,304
	164,714	132,868

⁽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 dollar.
- (h) The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable mentioned above. The Group does not hold any collateral as security (2013: nil).

22 Cash and bank balances

	The Group		The Company	
	2014	2013	2014	2013
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cash and cash equivalents				
— Cash at bank and on hand	301,584	197,197	196,166	137,975
— Short-term bank deposits with original maturities within three months	261,799	257,067	254,718	250,544
	563,383	454,264	450,884	388,519
Short-term bank deposits with original maturities exceeding three months	470,529	469,333	456,142	450,594
Total	1,033,912	923,597	907,026	839,113

At 31 December 2014, the Group has no bank overdraft (2013: nil).

At 31 December 2014, the Group's cash and cash equivalents and short-term bank deposits included balances of HK\$31,851,000 (2013: HK\$12,336,000), 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.

22 Cash and bank balances (Continued)

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	
	2014	2013	2014	2013
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong dollar	918,802	836,022	898,885	833,325
Renminbi	32,233	12,644	286	139
Singapore dollar	20,361	18,693	4,416	3,745
Australian dollar	20,030	16,130	1,005	511
Macao pataca	18,397	17,440	–	–
Canadian dollar	8,246	10,153	1,067	858
Arab Emirates dirham	4,884	2,586	–	–
United States dollar	3,845	3,943	958	202
Other currencies ⁽¹⁾	7,114	5,986	409	333
	1,033,912	923,597	907,026	839,113

⁽¹⁾ Other currencies mainly include Brunei dollar, Pound sterling and New Zealand dollar.

23 Share capital and share premium**The Group and the Company**

	At 31 December			
	2014		2013	
	Number of shares	HK\$'000	Number of shares	HK\$'000
Authorised (Note e):				
Ordinary shares at HK\$0.5 each (Note e)	–	–	2,000,000,000	1,000,000

23 Share capital and share premium (Continued)

	Number of shares	Share capital	Share premium	Total
		HK\$'000	HK\$'000	HK\$'000
Ordinary shares issued and fully paid:				
At 1 January 2013	201,430,473	201,430	3,913	205,343
Share subdivision (Note a)	201,430,473	–	–	–
Issue 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 issue of new shares (Note 24(c))	–	–	(32,433)	(32,433)
Transfer of professional expenses previously capitalised (Note 24(c))	–	–	(4,747)	(4,747)
At 31 December 2013	830,000,000	415,000	452,363	867,363
Transition to no-par regime on 3 March 2014 (Note e)	–	452,363	(452,363)	–
At 31 December 2014	830,000,000	867,363	–	867,363

Notes:

- (a) Pursuant to the written resolution passed by the shareholders of the Company on 27 March 2013, the authorised ordinary shares of the Company was subdivided from 1,000,000,000 shares with a par value of HK\$1.00 each into 2,000,000,000 shares of HK\$0.50 each while the issued share capital was subdivided from 201,430,473 shares of par value of HK\$1.00 each into 402,860,946 shares of HK\$0.50 each.
- (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 by the stabilisation manager. The proceeds received from the over-allotment credited to share capital and share premium were HK\$15,000,000 and HK\$76,200,000 respectively.
- (e) On 3 March 2014, the new Hong Kong Companies Ordinance (Cap. 622) (new CO) came into effect. The new CO abolishes the concepts of nominal (par) value, share premium and authorised share capital for all shares of Hong Kong incorporated companies. All amounts received for issuing equity shares of a company should be recorded as share capital. Pursuant to the adoption of the new CO, the balance of share premium was transferred to share capital.

24 Reserves**The Group**

	Merger reserve (Note a)	Other reserve	Statutory reserve (Note b)	Exchange reserve	Retained earnings	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	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	–	–	–	(4,593)	–	(4,593)
Currency translation differences						
– Group	–	–	–	(1,506)	–	(1,506)
– Joint ventures and an associate	–	–	–	(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 relating to 2012 (Note 16)	–	–	–	–	(100,000)	(100,000)
Disposal of a subsidiary	–	380	–	–	–	380
Total transactions with owners, recognised directly in equity	–	5,127	282	–	(100,282)	(94,873)
At 31 December 2013	(13,124)	742	1,634	6,141	410,959	406,352
At 1 January 2014	(13,124)	742	1,634	6,141	410,959	406,352
Comprehensive income						
Profit for the year	–	–	–	–	287,124	287,124
Other comprehensive income						
Currency translation differences						
– Group	–	–	–	(8,143)	–	(8,143)
– Joint ventures and an associate	–	–	–	(547)	–	(547)
Total comprehensive income	–	–	–	(8,690)	287,124	278,434
Transfer of retained earnings to statutory reserve	–	–	1,293	–	(1,293)	–
Dividends relating to 2013 (Note 16)	–	–	–	–	(66,400)	(66,400)
Total transactions with owners, recognised directly in equity	–	–	1,293	–	(67,693)	(66,400)
At 31 December 2014	(13,124)	742	2,927	(2,549)	630,390	618,386

24 Reserves (Continued)

The Company

	Other reserve	Retained earnings	Total
	HK\$'000	HK\$'000	HK\$'000
At 1 January 2013	(4,747)	284,478	279,731
Profit for the year	–	229,349	229,349
Transfer of professional expenses previously capitalised (Note c)	4,747	–	4,747
Dividends relating to 2012 (Note 16)	–	(100,000)	(100,000)
Total transactions with owners, recognised directly in equity	4,747	(100,000)	(95,253)
At 31 December 2013	–	413,827	413,827
At 1 January 2014	–	413,827	413,827
Profit for the year	–	274,469	274,469
Dividends relating to 2013 (Note 16)	–	(66,400)	(66,400)
At 31 December 2014	–	621,896	621,896

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 issue of new shares, 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 issue 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.

25 Trade and other payables

	The Group		The Company	
	2014	2013	2014	2013
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Trade payables				
– a subsidiary	–	–	–	6,760
– a fellow subsidiary	955	–	–	–
– intermediate holding company	8,624	9,536	–	–
– immediate holding company	5,287	1,608	–	–
– third parties	23,291	35,644	3,023	13,030
Trade payables	38,157	46,788	3,023	19,790
Accruals and other payables	32,716	22,317	13,465	12,268
Amounts due to subsidiaries (Note b)	–	–	1,279	–
Amount due to a fellow subsidiary (Note b)	–	150	–	150
	70,873	69,255	17,767	32,208

Notes:

- (a) The fair values of trade and other payables approximate their carrying amounts.
- (b) The amounts are repayable on demand, unsecured in nature and bear no interest.
- (c) At 31 December 2014, the aging analysis of the trade payables (including amounts due to the related parties of trading in nature) based on invoice date is as follows:

	The Group		The Company	
	2014	2013	2014	2013
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Up to 3 months	29,392	44,735	3,016	19,790
3 to 6 months	4,456	1,747	7	–
6 months to 1 year	3,749	306	–	–
1 to 2 years	560	–	–	–
	38,157	46,788	3,023	19,790

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

	The Group	
	2014	2013
	HK\$'000	HK\$'000
Renminbi	35,312	30,309
Hong Kong dollar	15,322	22,865
Singapore dollar	5,587	5,440
Australian dollar	4,679	2,098
Canadian dollar	3,566	4,776
United States dollar	1,715	–
New Zealand dollar	1,516	–
Macao pataca	1,316	2,671
Other currencies ⁽¹⁾	1,860	1,096
	70,873	69,255

⁽¹⁾ Other currencies mainly include Brunei dollar, Arab Emirates dirham and Poland zloty.

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

26 Note to consolidated statement of cash flows

(a) Cash generated from operations

	2014	2013
	HK\$'000	HK\$'000
Profit before income tax	355,219	271,466
Adjustments for:		
– Amortisation of prepaid operating lease payments (Note 6)	543	749
– Depreciation on property, plant and equipment (Note 6)	17,596	14,647
– Write-off of inventories (Note 6)	573	425
– Loss on disposal of property, plant and equipment (Note 6)	39	25
– 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 9)	–	(2,067)
– Finance income (Note 10)	(11,451)	(4,853)
– Share of (profit)/loss of investments accounted for using the equity method (Note 12)	(249)	1,643
– Professional expenses incurred in connection with the Company's listing	–	12,630
– Deferred income – government grant (Note 6)	–	(138)
	362,270	281,167
Changes in working capital:		
– Inventories	(21,087)	(15,868)
– Trade receivables and other current assets	(32,378)	(97,407)
– Trade and other payables	3,246	7,664
Cash generated from operations	312,051	175,556

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

	2014	2013
	HK\$'000	HK\$'000
Net book amount (Note 18)	39	127
Loss on disposal of property, plant and equipment (Note 6)	(39)	(25)
Proceeds from disposal of property, plant and equipment	–	102

26 Note to consolidated statement of cash flows (Continued)**(b) Deemed acquisition of a subsidiary**

The analysis of net cash flow in respect of deemed acquisition of a subsidiary as set out in Note 28 is as follows:

	2014	2013
	HK\$'000	HK\$'000
Cash consideration settled in cash	–	–
Cash and cash equivalents acquired	–	9,541
Total cash inflow from the acquisition	–	9,541

(c) Disposal of a subsidiary

The Company disposed of Beijing Tong Ren Tang (Tang Shan) Nutrition and Healthcare Co., Ltd. in 2013 at a consideration of RMB84,600,000 (equivalent to HK\$105,479,000). A gain of HK\$13,360,000 was recognised in the consolidated income statement for the year ended 31 December 2013.

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

	2014	2013
	HK\$'000	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

27 Commitments**(a) Capital commitments**

	The Group		The Company	
	2014	2013	2014	2013
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Contracted but not provided for:				
– property, plant and equipment	12,985	4,218	938	4,006
– investment in a subsidiary	–	–	–	1,948
– investment in an associate	3,993	–	3,993	–
Authorised but not contracted for:				
– property, plant and equipment	–	293	–	293
– investment in a subsidiary	–	–	–	3,950

27 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 and 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	
	2014	2013	2014	2013
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
No later than 1 year	45,478	37,722	19,946	21,339
Later than 1 year and no later than 5 years	72,108	49,763	10,301	15,500
Later than 5 years	10,706	9,913	–	1,894
	128,292	97,398	30,247	38,733

28 Business combination

The Group 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) gave up the joint control and as a result, the Company obtained the control over the financial and operating policies of TRT (Canada). TRT (Canada) changed its status from a joint venture to a subsidiary of the Company on 1 June 2013. The Group has 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 Group recognised a gain of HK\$2,067,000 in the year ended 31 December 2013 as a result of measuring fair value of its 51% equity interest in TRT (Canada) upon the business combination.

29 Significant related party transactions

At 31 December 2014, 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.

29 Significant related party transactions (Continued)

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

		2014	2013
	Note	HK\$'000	HK\$'000
Sales of products to:			
Joint ventures	(i)	3,052	2,658
Fellow subsidiaries	(i)	126,100	29,041
		129,152	31,699
Purchases of products from:			
Immediate holding company	(i)	13,652	11,299
Intermediate holding company	(i)	36,741	36,868
Fellow subsidiaries	(i)	2,747	—
		53,140	48,167

(b) Royalty fee income

		2014	2013
	Note	HK\$'000	HK\$'000
Royalty fee income from joint ventures	(ii)	621	816

(c) Rental expense

		2014	2013
	Note	HK\$'000	HK\$'000
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 emoluments paid or payable to key management for employee services is as follows:

	2014	2013
	HK\$'000	HK\$'000
Salaries and other short-term employee benefits	10,215	9,260
Pension costs — defined contribution plans	132	158
	10,347	9,418

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 1% to 3% on turnover of its joint ventures in accordance with the royalty agreements. Pursuant to these agreements, these joint ventures are allowed to trade under "Tong Ren Tang" brand name.

30 Event after the balance sheet date

On 5 February 2015, the Company and an independent third party (the "Vendor") entered into an agreement, pursuant to which the Company has conditionally agreed to purchase and the Vendor has conditionally agreed to sell 51% of the issued share capital of Honour Essence Trading Limited, a limited company incorporated in Hong Kong which is principally engaged in the distribution of Chinese medicine in Hong Kong, at an initial consideration of HK\$71,426,000, which shall be satisfied by the allotment and issue of 7,100,000 shares at HK\$10.06 each by the Company to the Vendor. The transaction was completed on 27 February 2015 and the number of issued shares of the Company increased from 830,000,000 to 837,100,000 on the same date. The amounts of assets and liabilities arising from the acquisition are to be determined during the year ending 31 December 2015.

31 Subsidiaries, joint ventures and an associate

The following is a list of subsidiaries, joint ventures and an associate at 31 December 2013 and 2014:

Name	Place of incorporation and kind of legal entity	Principal activities and place of operation	Particulars of issued share capital	Effective equity interest held	
				2014	2013
(a) Subsidiaries					
(i) Directly held by the Company					
Beijing Tong Ren Tang International Natural-Pharm Co., Ltd. ⁽¹⁾	PRC, limited liability company	Sale and distribution of Chinese medicine and healthcare products Beijing, PRC	HK\$10,000,000	100%	100%
Beijing Tong Ren Tang (Australia) Pty. Ltd.	Australia, limited liability company	Wholesale and retail of Chinese medicine, 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%	100%
Beijing Tong Ren Tang Science Arts (Singapore) Co Pte. Ltd.	Singapore, limited liability company	Wholesale and retail of Chinese medicine, 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%
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%

31 Subsidiaries, joint ventures and an associate (Continued)

Name	Place of incorporation and kind of legal entity	Principal activities and place of operation	Particulars of issued share capital	Effective equity interest held	
				2014	2013
(a) Subsidiaries (Continued)					
(i) Directly held by the Company (Continued)					
Beijing Tong Ren Tang Canada Co., Ltd. (Note 28)	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 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, PRC, limited liability company	Wholesale and retail of Chinese medicine and healthcare products and provision of Chinese medical consultation and treatment Macao, PRC	MOP1,000,000	51%	51%
Beijing Tong Ren Tang Poland sp.zo.o.	Poland, limited liability company	Retail of healthcare products and provision of Chinese health and wellness services Warsaw, Poland	Zloty50,000	100%	100%
Beijing Tong Ren Tang (Leeds) Company Limited	United Kingdom, limited liability company	Retail of Chinese medicine and healthcare products and provision of Chinese medical consultation and treatment Leeds, United Kingdom	GBP1,000	51%	51%
Beijing Tong Ren Tang (Seoul) Company Limited	South Korea, limited liability company	Wholesale of Chinese medicine and healthcare products Seoul, South Korea	WON 1,052,000,000	51%	—

31 Subsidiaries, joint ventures and an associate (Continued)

Name	Place of incorporation and kind of legal entity	Principal activities and place of operation	Particulars of issued share capital	Effective equity interest held	
				2014	2013
(a)	Subsidiaries (Continued)				
(i)	Directly held by the Company (Continued)				
	Beijing Tong Ren Tang (Auckland) Company Limited	New Zealand, limited liability company	Retail of Chinese medicine and healthcare products and provision of Chinese medical consultation and treatment Auckland, New Zealand	NZD2,000,000	60%
	Beijing Tong Ren Tang Tong Xin Tong Le Company Limited	Hong Kong, limited liability company	Retail of Chinese medicine and healthcare products and provision of Chinese medical health and wellness services Hong Kong, PRC	HK\$10,000	100%
(ii)	Indirectly held by the Company				
	Beijing Tong Ren Tang Consulting Services Co., Ltd. ⁽¹⁾	PRC, limited liability company	Provision of administrative services to group companies Beijing, PRC	RMB600,000	100%
	Beijing Tong Ren Tang (Melbourne) Company Limited	Australia, limited liability company	Retail of Chinese medicine and healthcare products and provision of Chinese medical consultation and treatment Melbourne, Australia	AUD100,000	38%
(b)	Joint ventures				
(i)	Directly held by the Company				
	Peking Tongrentang (M) SDN. BHD ⁽²⁾	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%
	PT. Beijing Tong Ren Tang Indo	Indonesia, limited liability company	Investment holding Jakarta, Indonesia	US\$1,000,000	50%
	Beijing Tong Ren Tang (Thailand) Co., Ltd. ⁽²⁾	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%
	Beijing Tong Ren Tang (Boryung) Co., Ltd. ⁽²⁾	South Korea, limited liability company	Wholesale of Chinese medicine and healthcare products Seoul, South Korea	WON 1,829,835,000	51%

31 Subsidiaries, joint ventures and an associate (Continued)

Name	Place of incorporation and kind of legal entity	Principal activities and place of operation	Particulars of issued share capital	Effective equity interest held	
				2014	2013
(b) Joint ventures (Continued)					
(i) Directly held by the Company (Continued)					
Beijing Tong Ren Tang (Thai Boon Roong) Company Limited ⁽²⁾	Cambodia, limited liability company	Retail of Chinese medicine and healthcare products Phnom Penh, Cambodia	US\$500,000	51%	51%
Union Health International Limited	Hong Kong, limited liability company	Retail of Chinese medicine and healthcare products and provision of Chinese medical consultation and treatment Hong Kong, PRC	HK\$10,000	50%	—
(ii) Indirectly held by the Company					
PT. KLINIK BEIJING TONGRENTANG ⁽³⁾	Indonesia, limited liability company	Retail of Chinese medicine and healthcare products Jakarta, Indonesia	Rp 2,600,000,000	Not applicable	Not applicable
(c) Associate					
Indirectly held by the Company					
Beijing Tong Ren Tang Health Preserving and Culture Co., Ltd. ⁽¹⁾	PRC, limited liability company	Provision of Chinese medical consultation and treatment Beijing, PRC	RMB8,000,000	41%	41%

- (1) The English names of the group companies incorporated in the PRC represent the best effort by the management of the Group in translating their Chinese names as they do not have official English names.
- (2) 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.
- (3) 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).

INFORMATION FOR INVESTORS

Investor Calendar

29 April 2014	2014 first quarterly results announcement
7 August 2014	2014 interim results announcement
28 October 2014	2014 third quarterly results announcement
13 March 2015	2014 annual results announcement
7 May 2015	Annual General Meeting
4 to 7 May 2015 (Both days inclusive)	Closure of Register of Members (for determination of shareholders who are entitled to attend and vote at annual general meeting)
13 to 15 May 2015 (Both days inclusive)	Closure of Register of Members (for determination of shareholders who qualify for the final dividend)
15 May 2015	Record Date (for determination of shareholders who qualify for the final dividend)
29 May 2015	Payment of final dividend

Share Information

Company Name	Beijing Tong Ren Tang Chinese Medicine Company Limited
Listing	The Growth Enterprise Market of The Stock Exchange of Hong Kong Limited
Stock Code	8138
Listing Date	7 May 2013
Board lot Size	1,000 shares
Issued share capital as at 31 December 2014	830,000,000 (changed to 837,100,000 since 27 February 2015)

Investor Relations Department

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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

CORPORATE INFORMATION

Directors

Non-executive Director

Mei Qun (*Chairman*) (appointed on 7 May 2014)

Yin Shun Hai (*Chairman*) (resigned on 7 May 2014)

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

Stock Code

8138

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Computershare Hong Kong Investor

Services Limited

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183 Queen's Road East

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Compliance Adviser

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1 Queen's Road East

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Hong Kong

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