Tong Ren Tang Technologies Co. Ltd.
北京同仁堂科技發展股份有限公司

(a joint stock limited company incorporated in the People's Republic of China with limited liability)
(Stock Code: 1666)

ANNUAL REPORT 2013


同修仁德
濟世養生
趙樸初書

Contents

同仁堂

Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mei Qun *(Chairman)*
Xie Zhan Zhong *(Vice-chairman)*
Yin Shun Hai
Wang Yu Wei
Fang Jia Zhi

Independent Non-Executive Directors

Tam Wai Chu, Maria
Ting Leung Huel, Stephen
Jin Shi Yuan

SUPERVISORS

Zhang Xi Jie *(Chairman)*
Wu Yi Gang
Bai Jian

SENIOR MANAGEMENT

Yang De Chun
Liu Cun Ying
Guo Gui Qin
Chen Jia Fu
Zhang Jing Yan

COMPANY SECRETARY

Zhang Jing Yan

AUDIT COMMITTEE

Ting Leung Huel, Stephen *(Chairman)*
Tam Wai Chu, Maria
Jin Shi Yuan

REMUNERATION COMMITTEE

Jin Shi Yuan *(Chairman)*
Mei Qun
Ting Leung Huel, Stephen

NOMINATION COMMITTEE

Mei Qun *(Chairman)*
Tam Wai Chu, Maria
Jin Shi Yuan

AUTHORIZED REPRESENTATIVES

Mei Qun
Zhang Jing Yan

AUTHORIZED PERSON TO ACCEPT SERVICE OF PROCESS AND NOTICE

Zhang Jing Yan

INDEPENDENT AUDITOR

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

LEGAL ADVISOR AS TO HONG KONG LAWS

DLA Piper Hong Kong
17/F, Edinburgh Tower,
15 Queen's Road,
Central, Hong Kong

PRINCIPAL BANKS

Industrial and Commercial Bank of China, Beijing Branch
Bank of China, Beijing Branch and Hong Kong Branch
Shanghai Pudong Development Bank, Beijing Branch
Bank of Communications, Beijing Branch

H SHARE REGISTRAR

Hong Kong Registrars Limited
Shops 1712-1716,
17th Floor, Hopewell Centre,
183 Queen's Road East,
Wanchai, Hong Kong

REGISTERED ADDRESS

No. 16 Tongji Beilu,
Beijing Economic and Technology Development Zone,
Beijing, the PRC

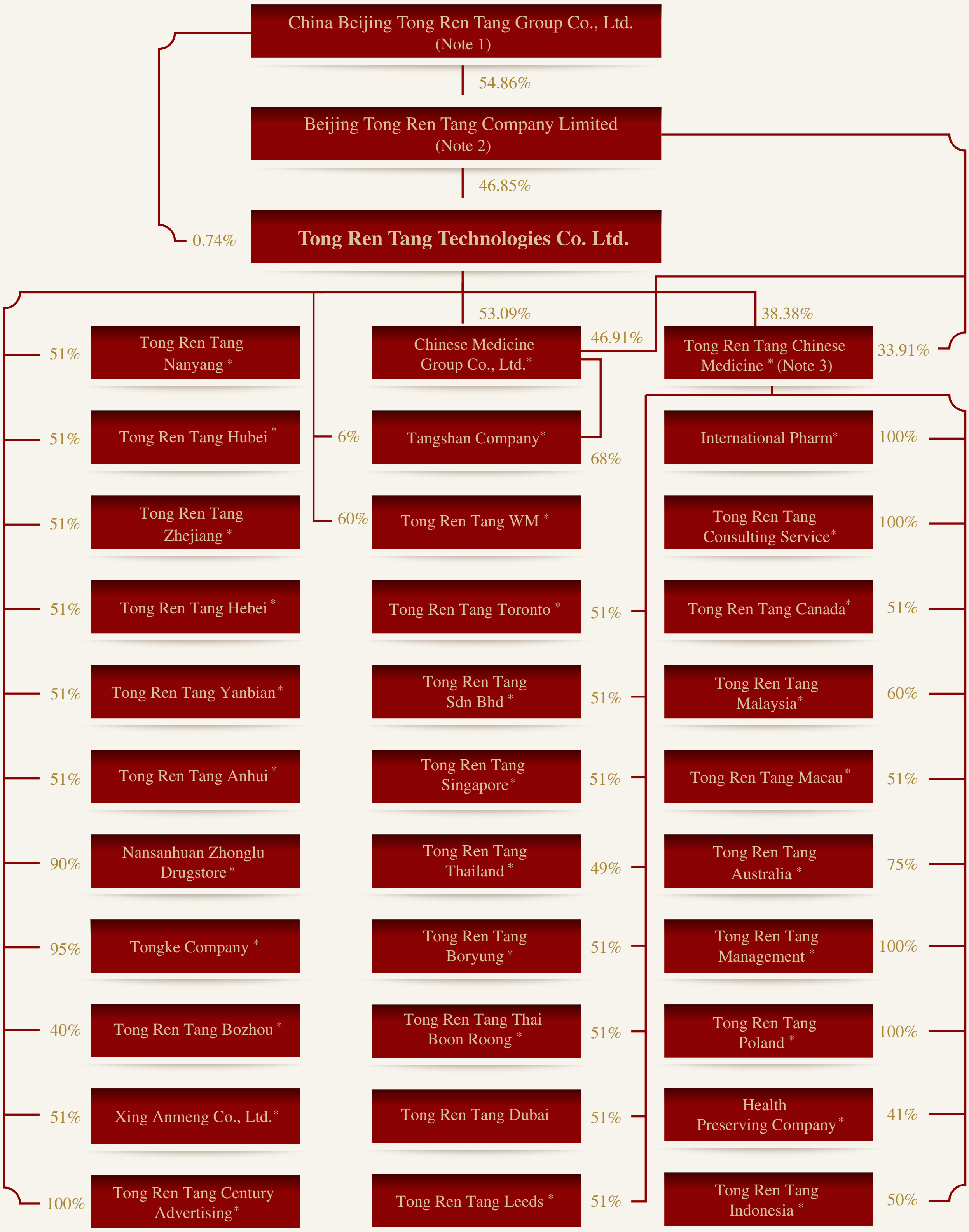
OFFICE AND MAILING ADDRESS

No 20. Nansanhuan Zhonglu,
Fengtai District,
Beijing, the PRC

STOCK CODE

1666

Corporate Structure



Corporate Structure

*Note 1: China Beijing Tong Ren Tang Group Co., Ltd.（中國北京同仁堂(集團)有限責任公司）(“**Tong Ren Tang Holdings**”) is the ultimate holding company of Tong Ren Tang Technologies Co. Ltd.（北京同仁堂科技發展股份有限公司）(“**Tong Ren Tang Technologies**” or the “**Company**”).*

*Note 2: Beijing Tong Ren Tang Company Limited（北京同仁堂股份有限公司）(“**Tong Ren Tang Ltd.**”) (stock code: 600085.SH) was incorporated in the PRC in 1997 and listed on the Shanghai Stock Exchange in June of the same year. Tong Ren Tang Ltd. is the intermediate holding company of Tong Ren Tang Technologies.*

*Note 3: Beijing Tong Ren Tang Chinese Medicine Company Limited（北京同仁堂國藥有限公司）(“**Tong Ren Tang Chinese Medicine**”) (stock code: 8138.HK) was incorporated in Hong Kong in 2004 and was listed on the Growth Enterprise Market (the “**GEM**”) of The Stock Exchange of Hong Kong Limited (the “**Hong Kong Stock Exchange**”) in May 2013. Tong Ren Tang Chinese Medicine is a subsidiary of Tong Ren Tang Technologies.*

* *For full names of the subsidiaries and joint ventures, please refer to Note 1 to the Consolidated Financial Statements.*

Financial Highlights

RESULTS

A summary of the consolidated results of the Company and its subsidiaries (hereafter collectively referred to as the "**Group**") for each of five years ended 31 December 2013, as extracted from the audited financial statements of the Group, is set out below:

	Year ended 31 December				
	2013	2012	2011	2010	2009
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
		(Restated)	(Restated)	(Previously stated)	(Previously stated)
Revenue	**2,910,749**	2,439,002	1,899,551	1,578,914	1,352,202
Profit before income tax	**595,111**	480,474	333,975	266,794	227,252
Income tax expense	**(91,948)**	(80,926)	(52,481)	(42,068)	(37,133)
Profit for the year	**503,163**	399,548	281,494	224,726	190,119
Profit attributable to:					
Owners of the Company	**390,093**	330,180	254,707	197,978	176,369
Non-controlling interests	**113,070**	69,368	26,787	26,748	13,750

ASSETS AND LIABILITIES

A summary of the consolidated balance sheet of the Group for each of five years ended 31 December 2013, as extracted from the audited financial statements of the Group, is set out below:

	As of 31 December				
	2013	2012	2011	2010	2009
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
		(Restated)	(Restated)	(Previously stated)	(Previously stated)
Non-current assets	**835,854**	696,020	615,101	479,950	467,049
Current assets	**4,312,338**	2,483,651	2,214,272	1,699,132	1,463,918
TOTAL ASSETS	**5,148,192**	3,179,671	2,829,373	2,179,082	1,930,967
Non-current liabilities	**118,217**	57,332	57,284	30,288	16,104
Current liabilities	**1,021,358**	895,014	829,960	408,367	293,666
TOTAL LIABILITIES	**1,139,575**	952,346	887,244	438,655	309,770
Equity attributable to					
Owners of the Company	**3,257,277**	1,937,607	1,720,448	1,562,927	1,476,795
Non-controlling interests	**751,340**	289,718	221,681	177,500	144,402
TOTAL EQUITY	**4,008,617**	2,227,325	1,942,129	1,740,427	1,621,197

Chairman's Statement

I am pleased to present the annual report of the Group for the year ended 31 December 2013 for shareholders' review.

RESULTS OF THE YEAR

For the year ended 31 December 2013 (the "**Reporting Period**"), the Group's revenue amounted to RMB2,910,749,000, representing an increase of 19.34% from RMB2,439,002,000 (Restated) for the corresponding period of last year; the Group's net profit amounted to RMB503,163,000, representing an increase of 25.93% from RMB399,548,000 (Restated) for the corresponding period of last year; net profit attributable to the owners of the Company amounted to RMB390,093,000, representing an increase of 18.15% from RMB330,180,000 (Restated) for the corresponding period of last year.

REVIEW OF THE YEAR

The traditional Chinese medicine industry maintained a continuous growth momentum in 2013, benefiting from continuous government supports to the pharmaceutical industry, especially the traditional Chinese medicine sector, as well as the increasingly strengthened healthcare awareness and recognition of the unique effects of traditional Chinese medicines in respect of body adaptation and disease prevention. However, global economy showed imbalances in the aftermath of the international financial crisis, characterized by slow recovery in developed economies as well as differentiated paces of development in emerging economies. China is calling for transformation and reforms, as its original economic growth model could hardly sustain. In addition, the Chinese pharmaceutical industry has stepped into a fast-changing and risky era, featuring an industry-wide reshuffling as a result of the uncompromising stringent implementation of the GMP (the "Good Manufacturing Practice") and the GSP (the "Good Supplying Practice") among other domestic pharmaceutical policies with increasing impact on the industry, as well as the continuous high prices of traditional Chinese medicinal raw materials coupled with the continuous increase in labor and transportation costs.

Looking back to the past year, we have taken an even-handed approach focusing on both short-term and long-term development of the Group and made prudent and decisive choices. During the year, the Company completed the placing of 52,392,000 new H shares successfully and further expanded the shareholder base of the Company, so as to bolster and fuel its future business development; and Tong Ren Tang Chinese Medicine, a subsidiary of the Company was listed on the GEM of the Hong Kong Stock Exchange, marking a milestone to extend its footprint from Hong Kong to the overseas and set sights on the globe. In addition, we listen to the voice of shareholders with an open mind and dedicate ourselves to operate with progressive reforms and pragmatic improvements, so as to carry forward structural changes and steer the Group into a full-fledged and steady stage. The Group is marching with a more reasonable product mix, increasing scale of product portfolio and healthy growth of subsidiaries.

OUTLOOK AND PROSPECTS

Looking forward, given the potentially greater volatility and uncertainty in global and Chinese economies and the domestic pharmaceutical policy environment, we must acknowledge that the Chinese pharmaceutical industry will be facing with unprecedented challenges. Nevertheless, we are fearless since a change usually implies new opportunities and hope. We shall push forward improvements, proactively cultivate and retain talents, and continue the construction of production bases if necessary, so as to further pursue the upgrades in business quality and core competitiveness. The Company will also exert itself together with its vibrant subsidiaries to explore the broader development space of the Group. We will also fulfill our social responsibility through energy conservation and carbon reduction practices, with a priority to environmental protection while pursuing growths. We will adhere to the core value that has been a hallmark of Tong Ren Tang, carrying forward the heritage of ancestors to contribute to the wellbeing of posterities as a precursor continuously leading in the Chinese medicine culture.

I hereby would like to express my sincere gratitude to the colleagues in the board of directors of the Company (the "**Board**") and all the staff of the Group for their tireless efforts and excellent performance; and to all the shareholders for their continuous support to and understanding of the Company. Just as in the past, we will continue to satisfy the shareholders by good results.

Mei Qun
Chairman

Beijing, the PRC
20 March 2014

板藍根顆粒

【功能】

清熱解毒，涼血利咽。

【主治】

用於肺胃熱盛所致的咽喉腫痛，口咽乾燥，急性扁桃體炎見上述證候者。

Ban Lan Gen Granules

Indications:

Heat clearance, detoxification, blood cooling and relief of sore throat
It treats the sore throat, thirsty mouth and throat caused by excessive heat from lung and stomach and the above symptoms caused by acute tonsillitis.

西黃丸

【功能】

清熱解毒
和營消腫

【主治】

用於癰疽疔毒，瘰癧，
流注，癌腫等。

Xi Huang Pills

Indications:

Heat clearance and detoxification, "YING" mediation and swelling reduction
It treats carbuncle, furunculosis, scrofula, deep multiple abscess and malignant lump, etc.

Management Discussion and Analysis

BUSINESS REVIEW

Amidst the complicated and uncertain market environment in 2013, the Company continued its efforts in "specialization, scale operation and integration" and maintained a stable growth momentum. For the year ended 31 December 2013, the sales revenue of the Group amounted to RMB2,910,749,000, representing an increase of 19.34% as compared with RMB2,439,002,000 (Restated) for the corresponding period of last year; the Group's net profit amounted to RMB 503,163,000, representing an increase of 25.93% as compared with RMB 399,548,000(Restated) for the corresponding period of last year; net profit attributable to the owners of the Company amounted to RMB390,093,000, representing an increase of 18.15% as compared with RMB330,180,000 (Restated) for the corresponding period of last year.

Sales

In 2013, the Company launched large-scale series promotional campaigns integrating brand culture communication, government public welfare, channel development and product marketing, leveraging upon multi-channel and multi-form publicity activities to enhance the strength and frequency of product promotions. Meanwhile, the Company continued to publicize its products through all-dimension channels including traditional media such as television, radio and newspapers as well as new online media including microblogs and WeChat, supplemented by other activities such as traditional Chinese medicine forums. As a result, market awareness of the brand of Tong Ren Tang and the Company's products was effectively enhanced.

Drawing upon the comprehensive strengths in its product portfolio covering a dozen of categories including nutritional supplements, cold remedies and gynecological and pediatric medicines, the Company continued to expand the scale of its second-tier and potential products. Hence, a product portfolio with various categories, dosage forms and specifications has been established to cater for medication needs of different consumer groups, laying a solid foundation for the Company's healthy growth in the long run. To explore new marketing models for its food series, the Company leveraged on the advantages of online platforms to carry out online promotions so as to prepare a sound market ground for progressive penetration into food market in the future.

During the year, the Company produced and sold more than one hundred kinds of products, of which 32 kinds of products achieved total sales of more than RMB10 million; and 18 kinds of products achieved total sales in the range from RMB5 million to RMB10 million. The scale of the Company's product portfolio was further enlarged. Among the major products of the Company, as compared with the corresponding period of last year, except that the sales of Niuhuang Jiedu Tablets (牛黃解毒片) series decreased, the sales of Liuwei Dihuang Pills (六味地黃丸) series increased by 21.73% and the sales of Ganmao Qingre Granules (感冒清熱顆粒) series increased by 39.94%. Other products, the sales of which increased by more than 20% over the corresponding period of last year, include Ejiao (阿膠) series, Jiawei Xiaoyao Pills (加味逍遙丸) series, Qiju Dihuang Pills series(杞菊地黃丸) and Ban Lan Gen Granules (板藍根顆粒) series.

Production

In 2013, the Company produced nearly twenty forms of products including pills, tablets, granules, capsules and liquid. During the year, the Company upgraded production equipment including buckling machines, and further achieved coherent and systematic operations by linking the waxing and printing procedures of the product line for pills. Furthermore, the Company continued to attach great importance to improve the product quality management system. Through strengthened management and control on raw materials, packaging materials, technological processes and operating procedures, product quality was ensured under a specialized production model which has been gradually optimized. As at the end of 2013, more than 10 dosage forms of the Company have successfully passed certification under the new edition of GMP.

As the workshop for extracting traditional Chinese medicinal materials, Beijing Tong Ren Tang Tongke Pharmaceutical Company Limited (北京同仁堂通科藥業有限責任公司) ("**Tongke Company**"), which is located at Tongzhou District, Beijing, has produced semi-finished goods for the production of different forms of medicines of the Company since 2007. In 2013, the semi-finished goods produced by Tongke Company effectively satisfied the production needs and the quality of semi-finished goods of the Company.

Management and Research and Development

In 2013, the Group further rationalized its internal control system through strengthened fundamentals, gradual improvements in internal control rules and optimizations of internal audit system, leading to the enhanced management over business process. During the year, in accordance with the management goal of "specialization", the Company continued to amend and supplement nearly 100 internal regulations more comprehensive covering of the corporate management areas to build up the institutional framework. During the Reporting Period, the Group timely adjusted its risk countermeasures and enhanced its risk resistance capacity through internal control assessment across the management areas, identification and analysis of risks based on the promptly collected information relevant to changes in internal control risks. In addition, capturing the opportunities from implementation of the new edition of GSP, the Company made great effort in the establishment of a pharmaceutical operation quality management system tailored to its condition. The management system is designed to strengthen controls over sales of medicines, delivery and collection of receivables, and enhance expertise of the key aspects to speed up the specialized development. The Company successfully passed the certification under the new edition of GSP during the year.

On research and development, the Company continued to focus on cross-disciplinary studies and strengthened the research on quality control approaches for raw materials in light of the philosophy of balancing fundamental research and development on the existing products. The Company also conducted the in-depth analysis of consumer market dynamics, segmented the market needs, and formed positive interaction with the consumer market, so as to continue to do the directional research for the improvement of the existing product specifications and dosage forms.

Beijing Tong Ren Tang Nansanhuan Zhonglu Drugstore Co., Limited (北京同仁堂南三環中路藥店有限公司) ("Nansanhuan Zhonglu Drugstore")

Nansanhuan Zhonglu Drugstore is located at Nansanhuan Zhonglu, Fengtai District, Beijing, is the only retail drugstore invested and established by the Company in Mainland China. Adhering to the operating direction of "establishing itself as a top-notch drugstore selling quality medicines" and the philosophy of "quality first and customer foremost" and leveraging on the brand of Tong Ren Tang, Nansanhuan Zhonglu Drugstore gave full play to its featured operations in 2013 and achieved a powerful increase in its sales revenue. In 2013, Nansanhuan Zhonglu Drugstore realized sales revenue of RMB84,121,000, representing an increase of 22.34% as compared with the corresponding period of last year.

Chinese Medicinal Raw Materials Production Bases

Currently, the Company has established six subsidiaries in Hebei Province, Henan Province, Hubei Province, Zhejiang Province, Anhui Province and Jilin Province, respectively, which can provide the Company with major traditional Chinese medicinal raw materials such as cornel (山茱萸), Tuckahoe (茯苓) and catnip (荊芥). Theses production bases played a key role in securing the supply and quality of Chinese medicinal raw materials required for the Company's products.

During the year of 2013, while conducting raw material collection and processing, the Chinese medical raw material production bases under the Company further upgraded their management and lowered their operational risks. During the year, the Company's several Chinese medicinal raw materials including cornel (山茱萸), Tuckahoe (茯苓), catnip (荊芥) which was planted in the four production bases situated in Hebei, Zhejiang, Hubei and Nanyang successfully passed the on-site inspection for certification under the Good Agricultural Practice ("**GAP**"), which ensure the safety and quality of medicinal raw materials and the realization of the Group sustainable development of economy, environment and society. In 2013, all of the Company's production bases for traditional Chinese medicinal raw materials achieved a sales revenue of RMB138,048,000, representing an increase of 19.43% as compared with the corresponding period of last year in total.

Beijing Tong Ren Tang WM Dianorm Biotech Co., Limited (北京同仁堂麥爾海生物技術有限公司 ("Tong Ren Tang WM ")

Tong Ren Tang WM was jointly established by the Company and WM Dianorm Biotech Co., Limited with a total investment of US$3 million, of which 60% was contributed by the Company. Since its establishment, Tong Ren Tang WM is committed to introducing liposome technology into modern Chinese medicine and promoting its application in pharmaceuticals, cosmetics and daily health products. Its major products include lotion, cream, facial and eye masks and liposome skincare products. During the year of 2013, Tong Ren Tang WM continued its efforts in expanding the market and established a multi-channel development model through the progressive development of supermarket channel as well as the preliminary establishment of the Dianorm exclusive counters and in-depth collaboration with Tong Ren Tang drug stores. During the Reporting Period, Tong Ren Tang WM launched more than 10 new facial mask products including Tong Ren Tang Pearl Brightening Facial Mask and Tong Ren Tang Silk Hydrating Facial Mask, leading to a diversifying product portfolio and the improving market recognition. In 2013, Tong Ren Tang WM generated a total sales revenue of RMB 85,562,000, representing an increase of 61.43% as compared with last year.

Tong Ren Tang Xing An Meng Chinese Medicinal Materials Co., Ltd. (北京同仁堂興安盟中藥材有限責任公司) ("Xing An Meng Co., Ltd.")

The registered capital of Xing An Meng Co., Ltd. is RMB3 million. The equity transfer transaction as disclosed in the announcement of the Company dated 27 June 2013 had been completed before the end of 2013. Hence, Xing An Meng Co., Ltd. has become a subsidiary of the Company (which was owned as to 51% by the Company and as to 49% by Xing An Meng Jingmeng Chinese Medicinal Materials Technology Development Co., Ltd. (興安盟京蒙中藥材科技開發有限公司), respectively). During the Reporting Period, the herbal tea products named "TongRenYijian Tea" manufactured and saled by Xing An Meng Company received sound responses from market. For the year of 2013, Xing An Meng Co., Ltd. generated a total revenue of RMB 13,049,000, representing an increase of 2.51% as compared with last year.

Beijing Tong Ren Tang (Tangshan) Nutrition and Healthcare Co., Ltd. (北京同仁堂(唐山)營養保健品有限公司) ("Tangshan Company")

The registered capital of Tangshan Company, which is located in Tangshan, Hebei Province, is RMB120 million. As disclosed in the announcement of the Company dated 11 December 2013, upon completion of the equity transfer transaction, Tangshan Company will become a non wholly-owned subsidiary directly held by the Company, which is owned as to 65%, 9%, 20% and 6% by the Company, Tong Ren Tang Chinese Medicine, Tangshan Jiayi Packaging Industries Co., Ltd. (唐山佳藝包裝工業有限公司) and Bozhou Jingqiao Medicine Co. Ltd. (亳州市京譙醫藥有限責任公司), respectively. The glue workshop of Tangshan Company successfully passed certification under the new edition of GMP in 2013, and is scheduled to commence pilot production in 2014. After commencing production, it expects to expand production capacity of its glue product series, and progressively develop a glue product portfolio to further diversify the Group's product lines.

Tong Ren Tang Chinese Medicine

Tong Ren Tang Chinese Medicine, which is a subsidiary of the Company and is located in the Hong Kong Special Administrative Region ("**Hong Kong**"), was jointly invested and established by the Company and Tong Ren Tang Ltd.. Tong Ren Tang Chinese Medicine completed the share offer and was successfully listed on the GEM of the Hong Kong Stock Exchange on 7 May 2013. Upon completion of the aforesaid listing and as at the date of publication of this annual report, the total issued shares of Tong Ren Tang Chinese Medicine were increased to 830,000,000 shares, which are owned as to 38.38% by the Company, as to 33.91% by Tong Ren Tang Ltd. and the rest by public shareholders. Tong Ren Tang Chinese Medicine is principally engaged in construction of overseas distribution network and distribution of products of TRT brand and other Chinese medicine health products, and development, production and sales of its own products.

THE DRUG STORE IN CENTRAL, HONG KONG

During 2013, Tong Ren Tang Chinese Medicine has been devoted to further expand its overseas business. New overseas distribution channels are established to increase its market share and improve the awareness of Tong Ren Tang brand in overseas markets. As at 31 December 2013, Tong Ren Tang Chinese Medicine had established 39 retail outlets in fourteen countries and regions outside Mainland China (Hong Kong, Macau, Malaysia, Canada, Indonesia, Korea, Thailand, Australia, Singapore, Brunei, Cambodia, United Arab Emirates, Poland and United Kingdom) to sell Chinese medicine and offer Chinese medicine healthcare services, and at the same time, to organise healthcare lectures and activities featuring traditional Chinese culture, with a view to cultivating local awareness of healthy life and promoting the culture of traditional Chinese medicine.

In 2013, Tong Ren Tang Chinese Medicine and its subsidiaries generated a total sales revenue of RMB491,772,000, representing an increase of 34.43% as compared with RMB365,818,000 (Restated) for the corresponding period of last year, and the net profit of RMB181,561,000 representing an increase of 38.78% over the corresponding period last year with RMB130,823,000.

FINANCIAL REVIEW

Liquidity and Financial Resources

The Group has maintained a sound financial position. During the year of 2013, the Group's primary source of funds was cash generated from operating activities, bank loans, the proceeds of the placing of new H shares of the Company and the proceeds of the share offer of Tong Ren Tang Chinese Medicine(a subsidiary of the Company). During the year, the aggregate amount of the net proceeds of the aforesaid issue of new shares by members of the Group amounted to approximately RMB1,462,479,000 (2012:Nil).

As at 31 December 2013, the Group's cash and cash equivalents amounted to RMB1,967,919,000 (31 December 2012: RMB835,183,000 (Restated)), plus short-term bank borrowings of RMB155,000,000 (31 December 2012: RMB125,000,000), carrying an interest rate of 5.603% (2012: 6.321%) per annum, plus Non-current borrowings of RMB39,310,000 (31 December 2012: Nil), carrying an interest rate of 1.590% (2012: Nil) per annum.

As at 31 December 2013, the total assets of the Group amounted to RMB 5,148,192,000 (31 December 2012: RMB3,179,671,000 (Restated)). The funds comprised non-current liabilities of RMB118,217,000 (31 December 2012: RMB57,332,000 (Restated)), current liabilities of RMB1,021,358,000 (31 December 2012: RMB895,014,000(Restated)), equity attributable to owners of the Company of RMB3,257,277,000 (31 December 2012: RMB1,937,607,000 (Restated)) and non-controlling interests of RMB751,340,000 (31 December 2012: RMB289,718,000 (Restated)).

Capital Structure

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

During the year of 2013, the Group's funds were mainly used for production and operation activities, purchase of non-current assets and repayment of bank loans and loan interest and payment of cash dividends, etc.

The Group mainly uses Renminbi to make borrowings and loans and to hold cash and cash equivalents.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends to be paid to shareholders, issue new shares or repay borrowings. During the year of 2013, the Company and its subsidiary, Tong Ren Tang Chinese Medicine, issued, by way of placing/share offer, 52,392,000 and 230,000,000 new shares, respectively. The Group monitors its capital on the basis of the gearing ratio.

Gearing and Liquidity Ratios

As at 31 December 2013, the Group's gearing ratio (the ratio between total borrowings and equity attributable to owners of the Company) was 0.06 (31 December 2012: 0.06 (Restated)). The Group's liquidity ratio (the ratio between current assets over current liabilities) was 4.22 (31 December 2012: 2.77 (Restated)), reflecting that the Group had sufficient financial resources.

Charges over Assets of the Group

As at 31 December 2013, none of the Group's assets was pledged as security for liabilities (31 December 2012: Nil (Restated)).

Contingent Liabilities

The Group had no contingent liabilities as at 31 December 2013 (31 December 2012: Nil).

Foreign Currency Risk

Each individual group entity has its own functional currency. Foreign exchange risk to each individual group entity arises when future commercial transactions or recognised assets or liabilities are denominated in a currency that is not the entity's functional currency. The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the Hong Kong dollar ("**HKD**"). 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. Please refer to Note 3.1(a)(i) to the Consolidated Financial Statements for details.

Capital Commitments

As at 31 December 2013, the capital commitments of the Group relating to the constructions of production facilities, which had been contracted for but had not been reflected in the consolidated financial statements of the Group, amounted to approximately RMB38,749,000 (31 December 2012: RMB 170,426,000).

Significant Investment and Material Acquisition/Disposal of Assets

During the year of 2013, the Group did not have any significant investment or material acquisition or disposal of assets.

FUTURE INVESTMENT PLAN

As at the end of 2013, the Company had bought a total of approximately 108,700 square meters of industrial level in Da Xing Bio-Pharm Industrial Base at Zhongguancun Technology Park District, Beijing, for the construction of Da Xing Production Base ("**Da Xing Base**"). The total investment of Da Xing Base is expected to be approximately RMB 1,088 million, which will be paid by internal funds, bank borrowings or others. As at the end of 2013, RMB 77,190,000 had been invested in the base. At present, the submission of applications is in progress and certain approvals have been obtained, while certain tendering works have been started or completed, and civil construction of Da Xing Base is expected to be commenced in the year of 2014. Upon the completion of the construction, Da Xing Base will become an integrated industrial base with functions of both production and technology research for all forms of Chinese medicines such as solid dosage form and liquid formulation.

The Company also had bought a total industrial land of approximately 55,000 square meters in Qiaocheng District, Bo Zhou City, An Hui province for the construction of Bo Zhou Base for pre-processing and logistics of Chinese medicine materials ("**Bo Zhou Base**").The total investment of Bo Zhou Base is expected to be approximately RMB 185 million, which will be paid by internal funds, bank borrowings or others. As at the end of 2013, RMB 82,090,000 had been invested in the base. During the Reporting Period, construction and acceptance inspection for the main warehouse of the Chinese medicinal raw materials have been completed. Upon the completion of the construction, Bo Zhou Base will provide the Company with the traditional Chinese medicinal raw materials after pure selection and pharmaceutical processing, which aims at enhancing the production capacity of the Company and improving its supply chain.

FUTURE PROSPECTS

Looking into 2014, we will continue to rely on the development of the industry, absorb the insights from peers to forge ahead, and to build up Tong Ren Tang with longer, stronger and larger business lines on a healthy and steady development basis.

1. Focusing on major products and channels to explore new direction of marketing model

We will give full play to comprehensive advantages of the existing product coverage, tap on product potential to better cater for regional and seasonal characteristics and consumer medication preferences. As such, the Group expects to ensure market shares of its major products while seeking continuous breakthroughs in second-tier and potential products and regional penetration. Meanwhile, the Group will take full use of various terminals to showcase its strengths in product mix and resources of the brand for a steady growth in overall sales.

2. Putting emphasis on structure and organic development to achieve new breakthroughs in diversified products

Through organic development of the Company and its subsidiaries, we expect to gradually establish an umbrella of business segments led by traditional Chinese medicine products and covering a range of sectors including healthcare products, health foods and natural herb cosmetics. The Group will also explore the new sales model based on online platforms, taking foods and cosmetics as key entry points to further expand the breadth and depth of its product family.

3. Laying stress on individual competency and comprehensive development to promote new production and management models

The Group will strive to enhance self-management competency of its branch factories on a results-oriented and scientific basis, focusing on improving their capabilities of forecasting, analyzing and processing capabilities for production, scheduling and quality inspection data to constantly upgrade their production and management levels. We aim to establish an integrated production chain system each link from procurement of raw materials and packaging materials, production process monitoring, quality inspection, in-warehouse product maintenance and delivery up to product distribution.

Report of the Board of Directors

The Board is pleased to present the 2013 annual report together with the audited financial statements of the Group for the year ended 31 December 2013.

PRINCIPAL ACTIVITIES

The Group is principally engaged in the manufacturing and sale of Chinese medicine products.

The breakdown of the Group's revenue is as follows:

	2013 RMB'000	2012 RMB'000 (Restated)
Sales of Chinese medicine products		
– Mainland China	**2,442,149**	2,122,782
– Outside Mainland China	**447,900**	282,884
	2,890,049	2,405,666
Chinese medical consultation		
– Outside Mainland China	**20,004**	19,434
Royalty fee income		
– Outside Mainland China	**696**	1,107
Agency fee income for distribution services		
– Outside Mainland China	**–**	12,795
	2,910,749	2,439,002

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2013, sales to the five largest customers of the Group accounted for less than 30% (2012: less than 30%) of the total sales of the Group.

For the year ended 31 December 2013, purchases from the five largest suppliers of the Group accounted for less than 30% (2012: less than 30%) of the total purchases of the Group.

For the year ended 31 December 2013, none of the directors of the Company (the "**Director(s)**"), their respective associates, or to the knowledge of the Board, shareholders who are interested in more than 5% of the share capital of the Company, has any material interest in the five largest customers or the five largest suppliers of the Group.

RESULTS

The results and financial position of the Group for the year ended 31 December 2013 are set out on pages 73 to 152 of this annual report.

FINAL DIVIDEND AND TAX

The Board proposes a final dividend for the year ended 31 December 2013 (the "**Final Dividend**") of RMB0.25 (including tax) per share (2012: RMB0.25 (including tax) per share) based on the total number of the Company's issued and fully paid-up shares of 640,392,000 (2012: 588,000,000 shares) as at the end of 2013, totaling RMB160,098,000 (2012: RMB147,000,000). The profit distribution proposal is subject to the approval by the shareholders at the 2013 annual general meeting of the Company (the "**AGM**").

As stipulated by the Notice on Issues relating to Enterprise Income Tax Withholding over Dividends Distributable to Their H-Share Holders Who are Overseas Non-resident Enterprises by Chinese Resident Enterprises published by the State Administration of Taxation (Guoshuihan [2008] No.897), when Chinese resident enterprises distribute annual dividends for the year 2008 and years thereafter to the shareholders of H shares who are overseas non-resident enterprises, enterprise income tax shall be withheld at a uniform rate of 10%. According to this, the Company is required to withhold corporate income tax at the rate of 10% before distributing the Final Dividend to non-resident enterprise shareholders as appeared on the H share register of members of the Company. Any shares registered in the name of the non-individual registered shareholders, including HKSCC Nominees Limited, other nominees, trustees or other groups and organizations, will be treated as being held by non-resident enterprise shareholders and therefore their dividends receivables will be subject to the withholding of the corporate income tax.

Pursuant to Notice on the Issues on Levy of Individual Income Tax after the Abolishment of Guo Shui Fa [1993] No. 045 Document issued by the State Administration of Taxation on 28 June 2011, the dividend to be distributed by the PRC non-foreign invested enterprises whose shares have been issued in Hong Kong to the overseas resident individual shareholders is subject to individual income tax with a tax rate of 10% in general. However, the tax rates for respective overseas resident individual shareholders may vary depending on the relevant tax agreements between the countries where they are residing and Mainland China. Pursuant to the aforesaid Notice, when the Final Dividend is distributed to the individual shareholders of H shares whose names appear on the H share register of members of the Company, the Company will withhold 10% of the Final Dividend as individual income tax unless otherwise specified by the relevant tax regulations, tax agreements or the aforesaid Notice.

SHARE CAPITAL

The Company completed the placing of 52,392,000 new H shares with a nominal value of RMB 1.00 each at the price of HKD23.00 per share on 6 September 2013. The number of total issued ordinary shares of the company has increased to 640,392,000.

Details of the movement in the share capital of the Company during the year of 2013 are set out in Note 15 to the Consolidated Financial Statements.

PUBLIC FLOAT

During the year of 2013 and as at the date of this report, based on the public information available to the Company and as far as the Directors are aware, the Company has satisfied the public float requirement under Rule 8.08 of the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange (the "**Listing Rules**").

DISTRIBUTABLE RESERVES

Details of movement in reserves of the Group during the year are set out in the Consolidated Statement of Changes in Equity. As at 31 December 2013, the retained earnings attributable to owners of the Company were approximately RMB1,042,396,000 (31 December 2012 : approximately RMB835,516,000 (Restated)).

PROPERTY, PLANT AND EQUIPMENT

Details of movement in property, plant and equipment of the Group for the year are set out in Note 7 to the Consolidated Financial Statements.

STAFF RETIREMENT SCHEME

Details of staff retirement scheme of the Group are set out in Notes 2.20, 24 and 29 to the Consolidated Financial Statements.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2013, the Group had a total of 3,155 employees (31 December 2012: 2,931 employees), of which 2,025 are employees of the Company (31 December 2012: 1,921 employees). Remunerations of the employees of the Company are determined with reference to the prevailing market level as well as the performance, qualifications and experience of individual employee. Discretionary bonuses based on individual performance will be paid to the employees as recognition of and a reward for their contributions to the Company. Other benefits include contributions by the Company to the endowment insurance, medical insurance, unemployment insurance, industrial accident insurance, maternity insurance and housing fund. The Company also set up the senior management incentive plan (the "**Incentive Plan**"). Based on the growth rate of the audited net profit attributable to owners of the Company as compared with that for last year, the Board may appropriate certain funds within the pre-set percentage range to distribute to the members of the senior management. For details of the Incentive Plan, please refer to the circular of the Company dated 21 April 2011. In 2013, as approved by the Board, the Company paid a total of RMB2,967,000 incentive fund for the year of 2012 to the members of the senior management according to the Incentive Plan.

STAFF QUARTERS

For the year ended 31 December 2013:

1. the Company did not provide quarters to any of its staff (2012: Nil);

2. the Company made annual contributions to the housing fund based on certain percentages of the employees salaries for full-time employees; and

3. the Company also provided housing allowance to its staff at an average of RMB 80 per person per month (2012: RMB 80 per person per month).

DIRECTORS' AND SUPERVISORS' SERVICE CONTRACTS

Each of the Directors and supervisors of the Company (the "**Supervisor(s)**") has entered into a service contract with the Company for a term commencing on their respective appointment date to the conclusion of the annual general meeting to be convened in 2015.

None of the Directors or Supervisors has entered into any service contract with the Company that cannot be terminated by the Company within one year without payment of compensation other than statutory compensation.

DIRECTORS' AND SUPERVISORS' INTERESTS IN CONTRACTS

During the year of 2013, none of the Directors and Supervisors had a material interest, either directly or indirectly, in any contract of significance relating to the business of the Group, to which the Company or any of its subsidiaries was a party, and which was subsisting on the balance sheet date of the year or at any time during the year.

MANAGEMENT CONTRACT

During the year of 2013, the Company had not entered into nor was there any contract relating to the overall business or the management of material part of the business of the Company.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Profiles of the Directors, Supervisors and members of the Senior Management are set out on pages 49 to 52 of this annual report.

EMOLUMENTS OF DIRECTORS AND SUPERVISORS

All Directors and Supervisors of the Company are elected at the general meeting or the employee representatives' general meetings. Upon the appointment of Directors and Supervisors being approved at the general meeting, the Board is also authorized by the shareholders to fix the remuneration of every Director or Supervisor. The remuneration of Directors or Supervisors includes director's or supervisor's fees, basic salaries and allowance, employer's contribution to pension scheme and bonuses. Except for the independent non-executive Directors and the external Supervisors, the Directors or Supervisors who do not hold any management position in the Group will not receive any remuneration from the Group. The Directors or Supervisors who also hold management positions in the Group will receive salaries corresponding to such management functions. In accordance with the Listing Rules, the independent non-executive directors shall not be financially dependent on any listed company. Therefore, the Independent Non-executive Directors and external Supervisors are paid director's or supervisor's fees in line with the prevailing local market rate.

In 2013, Mr. Mei Qun, Mr. Xie Zhan Zhong, Mr. Yin Shun Hai, Mr. Wang Yu Wei and Ms. Fang Jia Zhi (each an executive Director), in their capacity as Directors, did not receive any remuneration from the Group. Mr. Zhang Xi Jie and Mr. Bai Jian in their capacity as Supervisors did not receive any remuneration from the Company. Mr. Wang Yu Wei (executive Director), Ms. Fang Jia Zhi (executive Director) and Mr. Bai Jian (employee representative Supervisor) received salaries from the Group corresponding to their respective management positions in the Group. Details of the Directors' and Supervisors' fees or salaries received corresponding to their management positions in the Group for the year of 2013 and 2012 are set out in Note 28 to the Consolidated Financial Statements.

EMOLUMENTS OF SENIOR MANAGEMENT

The emoluments before tax paid to the senior management of the Company whose names are listed in this annual report (except for those also serving as Directors or Supervisors) are set out by band as follows:

	number of senior management	
	2013	2012
RMB 0-500,000	**–**	1
RMB 500,001-1,000,000	**3**	3
RMB 1,000,001-1,500,000	**2**	1

DIRECTORS', SUPERVISORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2013, the interests and short positions of the Directors, Supervisors and chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong, 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 Hong Kong Stock Exchange pursuant to the requirements in the Model Code for Securities Transactions by Directors of Listed Companies (the "**Model Code**") as set out in Appendix 10 to the Listing Rules, were as follows:

Long positions in shares

The Company

Name	Type of interests	Capacity	Number of shares (Note)	Percentage of domestic shares	Percentage of total share capital
Mr. Yin Shun Hai	Personal	Beneficial owner	1,500,000	0.460%	0.234%
Mr. Mei Qun	Personal	Beneficial owner	1,500,000	0.460%	0.234%

Note: All represented domestic shares.

Tong Ren Tang Ltd.

Name	Type of interests	Capacity	Number of shares (Note)	Percentage of total share capital	Number of convertible bonds
Mr. Yin Shun Hai	Personal	Beneficial owner	116,550	0.009%	–
Mr. Mei Qun	Personal	Beneficial owner	93,242	0.007%	–
	Personal	Beneficial owner	–	–	86,000

Note: All represented A shares.

Save as disclosed above, as at 31 December 2013, none of the Directors, Supervisors and chief executive of the Company had any interests or 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 Hong Kong Stock Exchange pursuant to the requirements in the Model Code.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2013, the following persons (other than the Directors, Supervisors and the chief executive of the Company) had interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO:

Name of shareholder	Capacity	Number of shares	Percentage of domestic shares	Percentage of H shares	Percentage of total share capital
Tong Ren Tang Ltd.	Beneficial owner	300,000,000	92.013%	–	46.846%
Tong Ren Tang Holdings [2]	Interest of controlled corporation by the substantial shareholder	300,000,000	92.013%	–	46.846%
	Beneficial owner	4,740,000	1.454%	–	0.740%
Yuan Sai Nan [3]	Beneficial owner	18,360,000(L) [1]	–	5.841%	2.867%
Commonwealth Bank of Australia [4]	Interest of controlled corporation by the substantial shareholder	19,780,000(L) [1]	–	6.292%	3.089%
Hillhouse Capital Management, Ltd. [5]	investment manager	23,868,000(L) [1]	–	7.593%	3.727%
Gaoling Fund, L.P.	investment manager	23,091,000(L) [1]	–	7.346%	3.606%

Notes:

Information disclosed above is based on the data published on the HKExnews website of the Hong Kong Stock Exchange (www.hkexnews.hk) unless otherwise stated in the notes below.

(1) *(L) – Long position*

(2) *Such shares were held through Tong Ren Tang Ltd. As at 31 December 2013, Tong Ren Tang Ltd. was owned as to 54.86% by Tong Ren Tang Holdings. According to Part XV of the SFO, Tong Ren Tang Holdings was deemed to be interested in the 300,000,000 shares held by Tong Ren Tang Ltd.*

(3) *As known to the Directors, on 13 May 2011, this shareholder held 6,120,000 H shares of the Company. Upon completion of the bonus issue of shares of the Company on 20 May 2011 and as of 31 December 2013, he held 18,360,000 H shares of the Company.*

(4) *As at 31 December 2013, Commonwealth Bank of Australia indirectly held 19,780,000 H shares of the Company in long position through a series of entities under its control.*

(5) *As at 31 December 2013, Hillhouse Capital Management, Ltd., as investment manager, was indirectly interested in 23,091,000 H shares of the Company in long position held by Gaoling Fund, L.P. and 777,000 H shares of the Company in long position held by YHG Investment, L.P..*

Save as disclosed above, as at 31 December 2013, the Directors were not aware of any other person (other than the Directors, Supervisors and the chief executive of the Company) who had any interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO.

COMPETING INTERESTS

Competition with Tong Ren Tang Ltd. and Tong Ren Tang Holdings

Both the Company and Tong Ren Tang Ltd. engage in the production and sale of Chinese patent medicines, but the principal products of each of them are different. Tong Ren Tang Ltd. mainly produces Chinese patent medicines in traditional Chinese medicine forms such as honeyed pills, powder, ointment and medicinal wines. Tong Ren Tang Ltd.'s main products include Kunbao Pills (坤寶丸), Tongren Wuji Baifeng Pills (同仁烏雞白鳳丸), Tongren Dahuoluo Pills (同仁堂大活絡丸), Guogong Wine (國公酒) and Angong Niuhuang Pills (安宮牛黃丸). It also has some minor production lines for the production of granules and honeyed pills. These products do not compete with the Group in terms of their curative effects. The Company focuses on manufacturing products in new medicine forms which are more competitive as compared with western medicine. The Company's main products include Liuwei Dihuang Pills (六味地黃丸), Niuhuang Jiedu Tablets (牛黃解毒片), Ganmao Qingre Granules (感冒清熱顆粒), Jinkui Shenqi Pills (金匱腎氣丸) and Shengmai Liquor (生脈飲), etc.. Tong Ren Tang Holdings is an investment holding company and is not involved in the production of Chinese patent medicines.

To ensure that the business classification between the Company, Tong Ren Tang Holdings and Tong Ren Tang Ltd. is to be properly documented and established, Tong Ren Tang Holdings and Tong Ren Tang Ltd. undertook, pursuant to an undertaking dated 19 October 2000 committed by Tong Ren Tang Holdings and Tong Ren Tang Ltd. in favor of the Company ("**October Undertaking**"), that other than Angong Niuhuang Pills (安宮牛黃丸), Tong Ren Tang Holdings, Tong Ren Tang Ltd. and their respective subsidiaries will not produce in future any products that bear the same names as those pharmaceutical products produced by the Company, and that may compete directly with those pharmaceutical products of the Company.

The Directors consider that as Angong Niuhuang Pills (安宮牛黃丸) only represents a small percentage of the Company's turnover and is not one of the major forms of medicine for development by the Company, the Company will continue to manufacture and sell Angong Niuhuang Pills (安 宮 牛 黃 丸). Save as mentioned herein, the Directors confirm that none of the products of the Company is in competition with Tong Ren Tang Ltd. or Tong Ren Tang Holdings.

Right of First Refusal

To procure that the Company focuses on the development of the four major forms of products (namely granules, water-honeyed pills, tablets and soft capsules), Tong Ren Tang Holdings and Tong Ren Tang Ltd. have granted the Company, pursuant to the October Undertaking, a right of first refusal to manufacture and sell any of the new products which is developed by Tong Ren Tang Holdings, Tong Ren Tang Ltd. or any of their respective subsidiaries and which is one of the four main forms of the Company. Upon exercise of the right of first refusal, both Tong Ren Tang Ltd. and Tong Ren Tang Holdings or their respective subsidiaries are not allowed to manufacture any of such new products. In the event the Company develops any new product based on the existing products of Tong Ren Tang Holdings, Tong Ren Tang Ltd. or their respective subsidiaries, and such new product is one of the major forms of the Company, the Company will be entitled to manufacturing such new product and Tong Ren Tang Holdings, Tong Ren Tang Ltd. and their respective subsidiaries will not be allowed to manufacture such new product. The Directors believe that the above undertaking would clarify that both Tong Ren Tang Ltd. and Tong Ren Tang Holdings would support the Company in its development of the four major forms of products in the future.

To procure that the Company conducts an independent review of the research and development of new products, the Company confirms that the independent non-executive Directors, including a reputable person in the traditional Chinese medicinal sector will determine whether to exercise the right of first refusal granted by Tong Ren Tang Holdings or Tong Ren Tang Ltd. In the event that the Company refuses the right of first refusal offered by Tong Ren Tang Ltd. and/or Tong Ren Tang Holdings, the terms of the option to be offered to an independent third party should not be more favourable than those originally offered to the Company, failing which the Company should be given an opportunity to re-consider the option under the new terms. The above undertaking would no longer be valid in the event that the direct or indirect aggregate shareholdings of Tong Ren Tang Holdings or Tong Ren Tang Ltd. in the Company fall below 30%.

The Company and the independent non-executive Directors have confirmed upon the review: during the year 2013, Tong Ren Tang Ltd. and Tong Ren Tang Holdings have provided all information necessary to the independent non-executive Directors for their annual review and report on their fulfillment on the October Undertaking. Tong Ren Tang Ltd. and Tong Ren Tang Holdings have fulfilled their undertakings on the relevant right of first refusal granted to the Company on their existing or future competing businesses. The details of the annual declarations which have been made by Tong Ren Tang Ltd. and Tong Ren Tang Holdings, are set out below.

DECLARATION

To: TONG REN TANG TECHNOLOGIES CO. LTD.
No 20. Nansanhuan Zhonglu
Fengtai District, Beijing, the PRC

Dear Sir or Madam,

In order to ensure the interests of Tong Ren Tang Technologies Co. Ltd. (the "**Company**") and its shareholders as a whole, We, China Beijing Tong Ren Tang Group Co., Ltd. and our subsidiaries (excluding the Company and its subsidiaries) make the following confirmations:

1 On 19 October 2000, the Company and Beijing Tong Ren Tang Company Limited entered into an agreement with us to regulate the non-competition undertaking ("**Non-competition Undertaking**"), which include but not limited to the options, pre-emptive rights or first rights of refusal provided by us on our existing or future competing businesses.

2 We have provided to the independent non-executive directors of the Company with all the necessary information in order for them to conduct review on the enforcement of the Non-competition Undertaking.

3 We confirm that we have fully complied with the Non-competition Undertaking for the year ended 31 December 2013.

4 We also agree that this confirmation be disclosed in the Company's 2013 annual report.

We further undertake that if we become aware of any data or information in the future which constitute any doubt on the truthfulness, accuracy or completeness of the data or information so provided by this confirmation, we will notify the Company in writing on such data or information as soon as possible.

China Beijing Tong Ren Tang Group Co., Ltd.
20 March 2014

DECLARATION

To: TONG REN TANG TECHNOLOGIES CO. LTD.
No 20. Nansanhuan Zhonglu
Fengtai District, Beijing, the PRC

Dear Sir or Madam,

In order to ensure the interests of Tong Ren Tang Technologies Co. Ltd. (the "**Company**") and its shareholders as a whole, We, China Beijing Tong Ren Tang Company Limited and our subsidiaries (excluding the Company and its subsidiaries) make the following confirmations::

1 On 19 October 2000, the Company and China Beijing Tong Ren Tang Group Co., Ltd. entered into an agreement with us to regulate the non-competition undertaking ("**Non-competition Undertaking**"), which include but not limited to the options, pre-emptive rights or first rights of refusal provided by us on our existing or future competing businesses.

2 We have provided to the independent non-executive directors of the Company with all the necessary information in order for them to conduct review on the enforcement of the Non-competition Undertaking.

3 We confirm that we have fully complied with the Non-competition Undertaking for the year ended 31 December 2013.

4 We also agree that this confirmation be disclosed in the Company's 2013 annual report.

We further undertake that if we become aware of any data or information in the future which constitute any doubt on the truthfulness, accuracy or completeness of the data or information so provided by this confirmation, we will notify the Company in writing on such data or information as soon as possible.

Beijing Tong Ren Tang Company Limited
20 March 2014

NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

Continuing Connected Transactions with Tong Ren Tang Holdings

(i) Land Use Right Leasing Agreement

On 6 October 2000 and 1 January 2006, the Company entered into the land use right leasing agreement and the supplemental agreement on termination of leasing certain land with Tong Ren Tang Holdings for a term of 20 years from 6 October 2000 to 5 October 2020. Pursuant to the agreements, the Company is entitled to renting a parcel of land located at No. 20 Nan San Huan Zhong Road, Feng Tai District, Beijing, the PRC (area: 43,815.15sq.m.) from Tong Ren Tang Holdings for operating purposes. The rental for leasing is calculated based on the rate of RMB53.95 per sq.m. and is payable in cash on the 20th day of December of each year. On 18 January 2011, the Company applied the annual cap of such agreements for each of the three years ended 31 December 2013. The annual cap of the rental fee for each of the three years ended 31 December 2013 was RMB3,000,000.

For the year ended 31 December 2013, the rental fee paid by the Company to Tong Ren Tang Holdings amounted to RMB2,364,000, which does not exceed the relevant annual cap.

As the above-mentioned annual caps for the continuing connected transactions under the Land Use Right Leasing Agreement have expired on 31 December 2013, the Board resolved on 10 October 2013 to set the new annual caps for such continuing connected transactions for the three years ending 31 December 2016, being RMB2,600,000, RMB2,900,000 and RMB3,200,000, respectively. Please refer to the announcement on 10 October 2013 published by the Company on the websites at HKex and the Company for details.

(ii) Storage and Custody Agreement

On 18 January 2011, the Company entered into the storage and custody agreement with Tong Ren Tang Holdings for a term of three years from 1 January 2011, whereby Tong Ren Tang Holdings agreed to provide storage and custody services to the Company. The annual storage fee is determined by reference to the annual rate of RMB252 per sq.m and the actual leased storage area by the Company and the annual storage fee is payable in cash in two installments. The annual cap of the storage fee for each of the three years ended 31 December 2013 was RMB7,000,000.

For the year ended 31 December 2013, the storage fee paid by the Company to Tong Ren Tang Holdings amounted to RMB2,916,000, which does not exceed the relevant annual cap.

As the above-mentioned Storage and Custody Agreement has expired on 31 December 2013, the Company and Tong Ren Tang Holdings renewed such agreement on the same terms and conditions on 10 October 2013, for a term of three years from 1 January 2014. The annual caps for the continuing connected transactions contemplated under the renewed Storage and Custody Agreement for each of the three years ending 31 December 2016 is RMB7,000,000. Please refer to the announcement on 10 October 2013 published by the Company on the websites at HKex and the Company for details.

(iii) Distribution Framework Agreement

On 18 January 2011, the Company entered into the Distribution Framework Agreement with Tong Ren Tang Holdings for a term of three years from 1 January 2011, whereby the Company may sell its products to Tong Ren Tang Holdings or any of its subsidiaries and its associated companies (excluding the Company) which it directly or indirectly hold interest in (the "**Tong Ren Tang Group**"). The purchase price payable by the Tong Ren Tang Group to the Group shall be no less than that charged by the Group to other independent third parties. The annual caps for the transactions under the Distribution Framework Agreement shall be RMB350,000,000, RMB480,000,000 and RMB650,000,000 for the three years ended 31 December 2013, respectively.

For the year ended 31 December 2013, sales by the Group to the Tong Ren Tang Group amounted to RMB350,218,000, which does not exceed the relevant annual cap.

As the above-mentioned Distribution Framework Agreement has expired on 31 December 2013, the Company and Tong Ren Tang Holdings renewed such agreement on the same terms and conditions on 10 October 2013, for a term of three years from 1 January 2014. The annual caps for the continuing connected transactions contemplated under the renewed Distribution Framework Agreement for the three years ending 31 December 2016 shall be RMB470,000,000, RMB580,000,000 and RMB740,000,000, respectively. The renewal of the Distribution Framework Agreement had been approved by the independent shareholders of the Company on 16 December 2013. Please refer to the announcement on 10 October 2013 published by the Company on the websites at HKex and the Company for details.

(iv) Master Procurement Agreement

On 28 February 2011, the Company entered into the master procurement agreement with Tong Ren Tang Holdings for a term of three years from 1 January 2011, whereby the Group may purchase the Chinese medicine raw materials and semi-finished products and finished products for manufacturing and distribution from the Tong Ren Tang Group. The price for the materials/products procured by the Group from the Tong Ren Tang Group shall be negotiated by the parties on an arm's length basis. Tong Ren Tang Group shall not supply the materials/products to members of the Group (1) at a price higher than that of the materials/products of the same type and quality offered to the Group by independent third parties or the prevailing market price; (2) if there is not any comparable market price available for the relevant materials/products, the price shall be determined based on the integrated cost plus not more than 15% surcharge, and in any event, the price for such procurement shall be on terms no less favourable than those offered by independent third parties to the Group. For the three years ended 31 December 2013, the annual caps for the purchase of the raw materials and semi-finished products were RMB30,000,000, RMB30,000,000 and RMB25,000,000 and for the purchase of finished products were RMB35,000,000, RMB35,000,000 and RMB40,000,000 for the three years ended 31 December 2013, respectively.

On 2 August 2013, the Board resolved to revise the existing 2013 annual caps for the continuing connected transactions contemplated under the Master Procurement Agreement, and to set an aggregate annual cap for the total amount of the Group's procurement of raw materials, semi-finished and finished products (collectively, the Products) from Tong Ren Tang Group for the year ended 31 December 2013, amounting to RMB116 million.

For the year ended 31 December 2013, purchase of the raw materials, semi-finished and finished products by the Group from the Tong Ren Tang Group amounted to RMB76,506,000, which does not exceed the relevant annual caps.

As the above-mentioned Master Procurement Agreement has expired on 31 December 2013, the Company and Tong Ren Tang Holdings renewed such agreement on the same terms and conditions on 10 October 2013, for a term of three years from 1 January 2014. The annual caps for the continuing connected transactions under the Master Procurement Agreement shall be RMB190,000,000, RMB240,000,000 and RMB300,000,000 for the three years ending 31 December 2016, respectively. The renewal of the Master Procurement Agreement had been approved by the independent shareholders of the Company on 16 December 2013. Please refer to the announcement dated 10 October 2013 published by the Company on the websites of the Hong Kong Stock Exchange and the Company for details.

Tong Ren Tang Holdings is the ultimate holding company of the Company, and thus a connected person of the Company pursuant to the Listing Rules. As such, all the transactions between Tong Ren Tang Holdings and the Company under the aforementioned agreements constitute continuing connected transactions of the Company.

Continuing Connected Transactions with Tong Ren Tang Chinese Medicine

Exclusive Distributorship Framework Agreements

On 29 October 2012, the Company entered into an exclusive distributorship framework agreement with Tong Ren Tang Chinese Medicine, for a term from 1 November 2012 to 31 December 2014. Pursuant to the agreement, the Company appoints Beijing Tong Ren Tang International Natural-Pharm Company Limited ("**International Pharm**"), a wholly-owned subsidiary of Tong Ren Tang Chinese Medicine, as its sole overseas distributor for the purpose of the distribution of the relevant products of the Group (for the purpose of the exclusive distributorship framework agreement, refers to the Company and its subsidiaries, joint ventures and associates, excluding Tong Ren Tang Chinese Medicine and its subsidiaries, joint ventures and associates) outside the PRC. Within the term of the agreement and for the purpose of the overseas distribution of the relevant products of the Group, International Pharm will procure from the Group, and the Group shall supply to International Pharm, the relevant products as agreed by the parties. The price of the relevant products supplied by the Group to International Pharm shall not be higher than the wholesale price of the relevant products sold by the Group to the wholesale customers in the PRC and shall be determined by reference to the then prevailing market price. The annual caps for the total amount paid by International Pharm to the Group for the continuing connected transactions contemplated under the exclusive distributorship framework agreement for the two months ended 31 December 2012 and the two years ending 31 December 2014 shall be RMB1 million, RMB10 million, and RMB12 million, respectively.

On the same day, Tong Ren Tang Ltd. entered into an TRT exclusive distributorship framework agreement with Tong Ren Tang Chinese Medicine, for a term from 1 November 2012 to 31 December 2014. Pursuant to the agreement, Tong Ren Tang Ltd. appoints International Pharm as its sole overseas distributor for the purpose of the distribution of the relevant products of Tong Ren Tang Ltd. Group (for the purpose of the TRT exclusive distributorship framework agreement, refers to Tong Ren Tang Ltd. and its subsidiaries, joint ventures and associates, excluding the Company and its subsidiaries, joint ventures and associates) outside the PRC. Within the term of the agreement and for the purpose of the overseas distribution of the relevant products of Tong Ren Tang Ltd. Group, International Pharm will procure from Tong Ren Tang Ltd. Group, and Tong Ren Tang Ltd. Group shall supply to International Pharm, the relevant products as agreed by the parties. The price of the relevant products supplied by Tong Ren Tang Ltd. Group to International Pharm shall not be higher than the wholesale price of the relevant products sold by Tong Ren Tang Ltd. Group to the wholesale customers in the PRC and shall be determined by reference to the then prevailing market price. The annual caps for the total amount paid by International Pharm to Tong Ren Tang Ltd. Group for the continuing connected transactions contemplated under the TRT exclusive distributorship framework agreement for the two months ended 31 December 2012 and the two years ending 31 December 2014 shall be RMB4 million, RMB40 million, and RMB45.5 million, respectively.

For the year ended 31 December 2013, sales by the Company and Tong Ren Tang Ltd. to International Pharm for the continuing connected transactions under the Exclusive Distributorship Framework Agreement and TRT Exclusive Distributorship Framework Agreement amounted to RMB8,973,000 and RMB23,108,000 respectively, both of which do not exceed the relevant annual caps.

Tong Ren Tang Ltd. is the intermediate controlling shareholder of the Company, which holds 46.85% interest in the Company, and 33.91% direct interest in Tong Ren Tang Chinese Medicine which is a non-wholly-owned subsidiary of the company. Therefore Tong Ren Tang Chinese Medicine and Tong Ren Tang Ltd. are both connected persons of the Company pursuant to the Listing Rules. As such, all the transactions between Tong Ren Tang Chinese Medicine and the Company and all the transactions between Tong Ren Tang Chinese Medicine and Tong Ren Tang Ltd., under the above-mentioned agreements constitute continuing connected transactions of the Company. For details about the aforementioned transactions, please refer to the relevant announcements of the Company dated 29 October 2012.

Continuing Connected Transactions with Beijing Zhongyan Tong Ren Tang Pharmaceuticals Research and Development Co., Ltd. ("Zhongyan Company")

On 19 March 2013, the Company entered into the Framework Agreement with Zhongyan Company, for a term from 19 March 2013 to 31 December 2015. Pursuant to the agreement, the Company entrust Zhongyan Company to conduct quality research on the products as specified by the Company and is responsible for corresponding research and development expenses incurred by Zhongyan Company. The research and development expenses shall be determined based on the costs and expenditures incurred by Zhongyan Company for completion of the research work under the Framework Agreement on Technology Research and Development Cooperation. The annual caps for the total amount payable by the Company to Zhongyan Company for the continuing connected transactions contemplated under the Framework Agreement on Technology Research and Development Cooperation for the period from 19 March 2013 to 31 December 2013 and the two years ending 31 December 2015 shall be RMB 8 million, RMB 8 million and RMB 8 million, respectively.

For the period from 19 March 2013 to 31 December 2013, the actual research and development expenses paid by the Company to Zhongyan Company for the continuing connected transactions under the Framework Agreement amounted to RMB7,449,000.

Zhongyan Company is held as to 50% by Tong Ren Tang Holdings (the ultimate controlling shareholder of the Company), and hence is a connected person of the Company pursuant to the Listing Rules. Therefore, the transactions under the Framework Agreement between the Company and Zhongyan Company constitute continuing connected transactions of the Company. For details about the aforementioned transactions, please refer to the relevant announcement of the Company dated 19 March 2013.

Annual review of continuing connected transactions

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 auditor has issued unqualified letter in accordance with paragraph 14A.38 of the Listing Rules, that containing the findings and conclusions in respect of the above non-exempt continuing connected transactions for the year of 2013 as disclosed by the Company:

(i) nothing has come to their attention that causes them to believe that the disclosed continuing connected transactions have not been approved by the Company's board of directors.

(ii) for transactions involving the provision of goods or services by the Group, nothing has come to their attention that causes them to believe that the transactions were not, in all material respects, in accordance with the pricing policies of the Company.

(iii) nothing has come to their attention that causes them to believe that the transactions were not entered into, in all material respects, in accordance with the relevant agreements governing such transactions.

(iv) with respect to the aggregate amount of each of the continuing connected transactions, nothing has come to their attention that causes them to believe that the disclosed continuing connected transactions have exceeded the maximum aggregate annual value disclosed in the previous announcements made by the Company in respect of each of he disclosed continuing connected transactions.

The independent non-executive Directors of the Company has reviewed the above-mentioned continuing connected transactions and confirmed that for the year of 2013:

(i) these transactions were entered into in the ordinary and usual course of business of the Group;

(ii) these transactions were entered into on normal commercial terms, or, in the absence of comparable transactions to provide a sufficient basis to determine whether those transactions were entered into on normal commercial terms, on terms that were no less favorable than those available to or from (as applicable) independent third parties so far as the Group was concerned;

(iii) these transactions were entered into on terms that were fair and reasonable and in the interests of the shareholders of the Company as a whole; and

(iv) the aggregate amount of each of these transactions has not exceeded the annual caps as set out in the in the relevant announcements of the Company.

NON-EXEMPT CONNECTED TRANSACTIONS

Capital Increase in Beijing Tong Ren Tang Chinese Medicine (Hong Kong) Group Co., Ltd. ("Chinese Medicine Group Co., Ltd."),

In order to provide Chinese Medicine Group Co., Ltd. with sufficient fund to develop its business activities and make suitable and necessary acquisitions and expansion in future when appropriate, thereby enabling Chinese Medicine Group Co., Ltd. (as a subsidiary of the Company) to generate higher return to the Group should it becomes profitable in the future, on 25 January 2013, the Company and Tong Ren Tang Ltd. entered into the Capital Increase Agreement, pursuant to which the Company and Tong Ren Tang Ltd. agreed to increase their investment in the Chinese Medicine Group Co., Ltd. of HKD39,812,191 and HKD35,177,809 respectively on a pro rata basis by subscribing further shares in Chinese Medicine Group Co., Ltd.. Upon completion of the capital increase, the issued share capital of Chinese Medicine Group Co., Ltd. was increased from HKD10,000 to HKD75,000,000, of which 53.09% and 46.91% are continued to be owned by the Company and Tong Ren Tang Ltd. respectively, therefore, Chinese Medicine Group Co., Ltd. remains as a subsidiary of the Company.

Chinese Medicine Group Co., Ltd. is a non wholly-owned subsidiary of the Company, while Tong Ren Tang Ltd. is the controlling shareholder of the Company which holds 46.91% equity interests in Chinese Medicine Group Co., Ltd.. Therefore, Chinese Medicine Group Co., Ltd. is a connected person of the Company and the Capital Increase constitutes a connected transaction of the Company under the Listing Rules. For details about the aforementioned transaction, please refer to the relevant announcement of the Company dated 25 January 2013.

Spin-off and Separate Listing of Tong Ren Tang Chinese Medicine on the GEM

Tong Ren Tang Chinese Medicine is principally engaged in the operation of an overseas distribution network for the retail and wholesale of Chinese medicine and healthcare products and provision of Chinese medicine healthcare services in markets outside of the PRC. In order to better reflect the value of Tong Ren Tang Chinese Medicine on its own merits and increase its operational and financial transparency, while allowing the Company to focus on and further develop its remaining business (i.e. the business of manufacture and sale of Chinese medicine products in the PRC), and provides it with flexibility to raise funds from the capital markets in future and attract new investors who intend to make investments in the business of overseas distribution of Chinese medicine products, on 7 May 2013, the Company completed the spin-off and separate listing of Tong Ren Tang Chinese Medicine on the GEM of the Hong Kong Stock Exchange. Dealings in the shares of Tong Ren Tang Chinese Medicine on the GEM of the Hong Kong Stock Exchange commenced on the same day. As the Company continues to control over Tong Ren Tang Chinese Medicine, Tong Ren Tang Chinese Medicine remains as a subsidiary of the Company upon completion of the spin-off.

Prior to the spin-off as mentioned above, Tong Ren Tang Chinese Medicine was owned by the Company and Tong Ren Tang Ltd. as to 53.09% and 46.91%, respectively. Upon completion of the spin-off of the Company and the share offer of Tong Ren Tang Chinese Medicine, the shareholding of the Company and Tong Ren Tang Ltd. in Tong Ren Tang Chinese Medicine were diluted to 38.38% and 33.91% respectively, and the shareholding of the public shareholders is 27.71%. The spin-off of the Company and the share offer of Tong Ren Tang Chinese Medicine constitute a deemed disposal of the Company's interest in Tong Ren Tang Chinese Medicine under the Listing Rules. As Tong Ren Tang Ltd., the controlling shareholder of the Company, is also a substantial shareholder of Tong Ren Tang Chinese Medicine, the deemed disposal transaction also constitutes a connected transaction of the Company under the Listing Rules. For details about the spin-off of the Company and the separate listing of Tong Ren Tang Chinese Medicine on the GEM of the Hong Kong Stock Exchange, please refer to the relevant announcements of the Company dated 28 February 2011, 31 October 2012, 30 April 2013 and 7 May 2013.

Acquisition of 51% Equity Interest in Xing An Meng Co. From Tong Ren Tang Medicinal Materials Co., Ltd.

In order to enlarge the products portfolio of the Group, expand the business scope of the Group, and generate higher returns to the Group in the future, on 27 June 2013, the Company entered into the Equity Transfer Agreement with Tong Ren Tang Medicinal Materials Co., Ltd., a subsidiary of Tong Ren Tang Holdings, in respect of the acquisition of 51% equity interest in Xing An Meng Co. at a consideration of RMB 1.7911 million. As at the date of this report, the transaction under the Equity Transfer Agreement has been completed, Xing An Meng Co.has become a subsidiary of the Company.

Tong Ren Tang Medicinal Materials Co. Ltd. is a subsidiary of Tong Ren Tang Holdings, the ultimate controlling shareholder of the Company. Therefore Tong Ren Tang Medicinal Materials Co. Ltd. is also a connected person of the Company and the transaction under the Equity Transfer Agreement constitutes a connected transaction of the Company under the Listing Rules. For details about the aforementioned transaction, please refer to the relevant announcement of the Company dated 27 June 2013.

Acquisition of 59% Equity Interest in Tangshan Company From Chinese Medicine Group Co., Ltd.

On 11 December 2013, the Company entered into an equity transfer agreement with Chinese Medicine Group Co., Ltd., in respect of the acquisition of 59% equity interest in Tangshan Company at a consideration of RMB 71.72 million. Upon completion of the transaction under the Equity Transfer Agreement, Tangshan Company will become a non wholly-owned subsidiary directly held by the Company from an indirect non wholly-owned subsidiary of the Company, which will strengthen the Company's control over Tangshan Company, and then generate higher returns to the Group in the future.

Chinese Medicine Group Co., Ltd. is a non wholly-owned subsidiary of the Company in which Tong Ren Tang Ltd., the intermediate controlling shareholder of the Company, holds 46.91% equity interest. Therefore, Chinese Medicine Group Co., Ltd. is a connected person of the Company and the transaction between the Company and Chinese Medicine Group Co., Ltd. under the Equity Transfer Agreement constitutes a connected transaction of the Company under the Listing Rules. For details about the aforementioned transaction, please refer to the relevant announcement of the Company dated 11 December 2013.

Save as disclosed above, there is no related party transaction or continuing related party transaction set out in Note 33 to the financial statements that fall into the category of connected transactions or continuing connected transactions that need to be disclosed under the Listing Rules. The Company has fully complied with the disclosure requirements under Chapter 14A of the Listing Rules with respect to the connected transactions and continuing connected transactions of the Company.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

For the year of 2013, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

PLACING OF H SHARES

In order to further broaden the shareholder base and raise capital to strengthen and grow the Company's business, on 30 August 2013, the Company entered into a placing agreement (the "**Placing Agreement**") with the placing agents in relation to the placing, on a best effort basis, of a maximum of 52,392,000 H shares at the Placing Price of HKD23.00 per H share, which represents a discount of approximately 10.68% to the closing price of HKD25.75 per H share as quoted on the Hong Kong Stock Exchange on 30 August 2013, being the date of entering into the Placing Agreement.

The aggregate nominal value of the above-mentioned placing shares was RMB 52,392,000. The amount of the net proceeds (after deducting all applicable costs and expenses, including commission, legal fees and levies) of approximately RMB931,740,000 from the placing of H shares will be used to replenish the working capital of the Company.

The H shares under this placing were placed to not less than 6 institutional investors, as acknowledged by the Directors, none of the placees becomes a substantial shareholder (as defined in the Listing Rules) of the Company immediately following the completion of the placing.

The placing of H shares as mentioned above completed on 6 September 2013. The number of total issued shares of the Company has increased from 588,000,000 shares to 640,392,000 shares as a result of the issue of 52,392,000 new H shares. The number of total issued H shares has increased from 261,960,000 H shares to 314,352,000 H shares, and the number of total issued domestic shares remains unchanged, being 326,040,000 domestic shares.

The Directors are of the view that the terms of the Placing Agreement (including the placing expenses and the placing price) are fair and reasonable based on the current market conditions and are in the interests of the Company and the shareholders as a whole.

PRE-EMPTIVE RIGHT

There is no provision in relation to the pre-emptive rights under the PRC Laws and the Articles of Association of the Company (the "**Articles of Association**") to offer new shares by the Company on pro-rata basis to existing shareholders.

INDEPENDENT AUDITOR

The accompanying financial statements were audited by PricewaterhouseCoopers. The Company did not change its auditor in any of the past three years. A resolution in relation to the re-appointment of PricewaterhouseCoopers as the independent auditor of the Company for the year of 2014 is to be proposed at the forthcoming 2013 annual general meeting.

By the Order of the Board
Tong Ren Tang Technologies Co., Ltd.
Mei Qun
Chairman

Beijing, the PRC
20 March 2014

Report of the Supervisory Committee

To the Shareholders:

The Supervisory Committee of Tong Ren Tang Technologies Co. Ltd. (the "Supervisory Committee") has executed its duties and powers earnestly, safeguarded the rights and interests of the shareholders as well as the interests of the Company, complied with the principle of good faith, fulfilled the Company's trust and took the initiative in carrying out its work in a reasonable, cautious and diligent manner pursuant to the provisions of the Company Law of the People's Republic of China, relevant laws and regulations of Hong Kong and the Articles of Association.

During the year, the Supervisory Committee reviewed cautiously the operation and development plans of the Company and put forward reasonable suggestions and opinions to the Board. It also strictly and effectively monitored and supervised the significant policies and specific decisions made by the management of the Company to ensure that they were in compliance with the laws and regulations of the PRC and the Articles of Association, and in the interests of the Company's shareholders.

The Supervisory Committee have reviewed earnestly and approved the report of the Board, audited financial statements and the dividend payment proposal to be presented by the Board at the forthcoming 2013 annual general meeting. We are of the opinion that the Directors, general manager and other senior management of the Company have strictly complied with the principle of good faith, and have worked diligently, exercised their authority faithfully in the best interests of the Company, and executed various tasks pursuant to the Articles of Association so that the Company is operated within the regulatory framework, and the internal control regime is increasingly improving. The transactions between the Company and associated companies were executed on terms in the interests of the shareholders of the Company as a whole and at fair and reasonable prices. Up till now, none of the Directors, general manager or senior management of the Company has been found to have abused their authority, damaged the interests of the Company or infringed upon the interests of the shareholders and employees of the Company, or to have been in breach of any laws or regulations or the Articles of Association.

The Supervisory Committee is satisfied with the various tasks carried out by the Company in 2013 and the economic benefits generated therefrom. It has full confidence in the future development outlook of the Company.

By Order of the Supervisory Committee
Tong Ren Tang Technologies Co. Ltd.
Zhang Xi Jie
Chief Supervisor

Beijing, the PRC
20 March 2014

Corporate Governance Report

The Board believes that a good and steady framework of corporate governance is extremely important for the development of the Company. The Company has adopted the principles and standards contained in the Corporate Governance Code (the "**Code**") as set out in Appendix 14 to the Listing Rules as the Company's standards, and combined with its own experience, aiming to establish a good corporate governance structure.

BOARD OF DIRECTORS

The Company's business and operation are led and authorized to manage by the Board. Several powers shall be entrusted by the Board to the management, so that the management can formulate and implement the Company's scheme and operational planning, as well as conducting the Company's daily operation. The Board tries its best to monitor the performance of the management, while it is the management's responsibility to conduct the daily operation of the Company.

The Board has established three special committees, namely are the Audit Committee, the Remuneration Committee and the Nomination Committee, to supervise the specific affairs of the Company. According to the requirements of the Listing Rules and other related laws, the Board and the special committees shall discharge their respective duties in accordance with the well-established written terms of reference.

BOARD OF DIRECTORS

CHAIRMAN AND EXECUTIVE DIRECTOR
Mei Qun

VICE-CHAIRMAN AND EXECUTIVE DIRECTOR
Xie Zhan Zhong

EXECUTIVE DIRECTORS
Yin Shun Hai
Wang Yu Wei
Fang Jia Zhi

INDEPENDENT NON-EXECUTIVE DIRECTORS
Tam Wai Chu, Maria
Ting Leung Huel, Stephen
Jin Shi Yuan

AUDIT COMMITTEE

CHAIRMAN
Ting Leung Huel, Stephen

MEMBERS
Tam Wai Chu, Maria
Jin Shi Yuan

REMUNERATION COMMITTEE

CHAIRMAN
Jin Shi Yuan

MEMBERS
Mei Qun
Ting Leung Huel, Stephen

NOMINATION COMMITTEE

CHAIRMAN
Mei Qun

MEMBERS
Tam Wai Chu, Maria
Jin Shi Yuan

The Board convenes meetings regularly and when significant decision has to be made. The Board convened eleven meetings in 2013 to discuss and decide development strategies, major operational matters, financial matters and other matters of the Company as stipulated under the Articles of Association. The following table sets out the attendance of Directors at the Board meeting, Committee meeting, general meeting, and conference between the Chairman and independent non-executive Directors in 2013:

	Attendance/Number of meetings					
Directors	**Board meeting**	**Audit Committee meeting**	**Remuneration Committee meeting**	**Nomination Committee meeting**	**General meeting**	**Conference between the Chairman and independent non-executive Directors**
Executive Directors						
Mei Qun (Chairman)	11/11		1/1	1/1	2/2	1/1
Xie Zhan Zhong (Vice-chairman)	11/11				2/2	
Yin Shun Hai	11/11				0/2	
Wang Yu Wei	11/11				2/2	
Fang Jia Zhi	11/11				2/2	
Independent non-executive Directors						
Tam Wai Chu, Maria	11/11	2/2		1/1	2/2	1/1
Ting Leung Huel, Stephen	11/11	2/2	1/1		2/2	1/1
Jin Shi Yuan	11/11	2/2	1/1	1/1	2/2	1/1

Note: Each Director attended the above meetings in person rather than by proxy.

Composition of the Board of Directors

The Directors are elected at the general meetings for a term of office of three years, and can be re-elected when the term expires. All the Directors of the Fifth Session of the Board were elected at the 2011 annual general meeting on 22 May 2012 with the term of office ending upon the conclusion of the annual general meeting in 2015.

The independent non-executive Directors are independent of the management with solid experience in business and finance, they make recommendations to the Board and management on the strategic development of the Company, and provide balancing mechanism to protect the interests of shareholders and the Company as a whole.

All of the three independent non-executive Directors have been serving for more than nine years. In a circular despatched to the shareholders on 3 April 2012 regarding the re-election of such independent non-executive Directors, the Company has confirmed the independence of the three persons and set out the reasons for their re-election pursuant to the provisions of the Listing Rules. Each of them was re-elected as the independent non-executive Director at the 2011 annual general meeting by a separate resolution (please refer to the circular of the Company dated 3 April 2012 and the announcement of the Company dated 22 May 2012 for details).

According to the requirement of the Listing Rules, the Company has received a written confirmation of the independence from each of the independent non-executive Directors for the year of 2013. The Company considers that all independent non-executive Directors are independent of the Company.

At any time during the year ended 31 December 2013, the Board had complied with the minimum requirement of the Listing Rules in relation to the appointment of at least three independent non-executive Directors and the number of independent non-executive directors being at least one-third of the members of the Board under the Listing Rules, as well as the requirement of having one independent non-executive Director with appropriate professional qualifications or accounting or related financial management expertise.

Responsibilities of the Board and the Management

According to the requirement of the Articles of Association, the Board is responsible for the general meeting and exercises the following powers:

- to convene general meetings and report its work to the general meeting;
- to implement the resolutions of general meetings;
- to determine the Company's business plans and investment plans;
- to formulate the Company's plans on annual financial budgets and final accounts;
- to formulate the Company's profit distribution plans and plans on making up losses;
- to formulate the proposals for increase or decrease of the registered capital of the Company and issue of corporate bonds;
- to formulate plans for merger, division and dissolution of the Company;
- to determine the establishment of the Company's internal management structure;
- to appoint or remove the manager of the Company and to appoint or remove the deputy manager and chief financial officer of the Company based on the nomination by the manager and to determine their remunerations;
- to formulate the basic management system of the Company;
- to formulate proposals for amendment to the Articles of Association; and
- to determine the establishment of specific committees and to appoint and remove the relevant persons in charge.

Pursuant to the provisions of the Code, the terms of reference for the Board in respect of corporate governance are set out below:

- to formulate and review the principles and policies of the Company's corporate governance;
- to review and monitor the implementation of corporate governance policies by the Company as a whole and to ensure compliance with statutory and regulatory requirements;
- to review the Company's compliance with the Code and other rules applicable;
- to approve the Company's annual corporate governance report and its publication on the websites of the Hong Kong Stock Exchange and the Company;
- to formulate, review and monitor the shareholder communication policy to ensure its effectiveness;
- to review and monitor the training and continuous professional development of the Directors and senior management; and
- to handle other corporate governance issues that the Board shall be responsible for.

According to the requirement of the Articles of Association, the management is the executives of the Company, shall be accountable to the Board and exercises the following powers:

- to lead the Company's production, operation and management, organize to carry out the Board's resolutions;
- to organize the implementation of the Company's annual business plans and investment plans;
- to draft plans for the establishment of the Company's internal management structure;
- to draft the Company's basic management system;
- to formulate the basic rules and regulations of Company;
- to propose the appointment or dismissal of the Company's deputy manager(s) and chief financial officer;
- to appoint or dismiss management personnel other than those required to be appointed or dismissed by the Board; and
- to exercise other powers conferred under the Articles of Association and by the Board.

Chairman of the Board and General Manager

Mr. Mei Qun is the chairman of the Board and Mr. Wang Yu Wei is the general manager of the Company. The chairman of the Board and the general manager of the Company are two clearly defined positions. The chairman is responsible for the operation of the Board while the general manager is in charge of day-to-day operational management. The Board formulated and approved The Terms of Reference of Chairman and General Manager, which sets out their respective duties and powers in written form.

Continuous professional development of Directors

The Directors should participate in continuous professional development to develop and update their knowledge and skills in order to ensure that they continue making contribution to the Board in an informed and appropriate manner. For the year ended 31 December 2013, the Directors actively participated in the training sessions and studied the training materials relating to inside information and connected transactions, to enhance their capability in performing their duties and read the materials relating to the internal control of enterprise in an initiative manner. Through such trainings, the Directors further understand their own responsibilities and strengthened their understanding of the supervision and standard operations of listed companies, thereby effectively enhanced their ability to perform their duties.

Directors	Attendance of training courses	Reading/ studying training materials
Executive Directors		
Mei Qun	✓	✓
Xie Zhan Zhong	✓	✓
Yin Shun Hai	✓	✓
Wang Yu Wei	✓	✓
Fang Jia Zhi	✓	✓
Independent Non-executive Directors		
Tam Wai Chu, Maria	✓	✓
Ting Leung Huel, Stephen	✓	✓
Jin Shi Yuan	✓	✓

FINANCIAL REPORTING

The management provides members of the Board with updated information on a monthly basis, setting out relevant accounts data and financial position of the Company. This is to ensure Directors have sufficient information and knowledge about the Company's affairs to effectively fulfill their responsibilities and obligations.

The Directors acknowledged their responsibility for preparation of financial statements which shall give a true and fair view of the Company's state of business, the results and cash flows for the year. In preparing the financial statements for the year, the Directors have:

1. approved the adoption of the International Financial Reporting Standards;

2. selected and applied appropriate accounting policies;

3. made reasonable judgments and estimates; and

4. prepared the financial statements on a going concern basis.

The Board recognizes the importance of good corporate governance and transparency and its accountability to shareholders, and it has present a balanced, clear and understandable assessment in the annual and interim reports and other financial disclosures of the Company as required under the Listing Rules, and reports to regulators as well as information required to be disclosed pursuant to statutory requirements.

INTERNAL CONTROL

The Board is committed to managing risk and maintaining a proper and effective system of internal control to safeguard the shareholders' interests and the Company's assets. Procedures have been established for safeguarding assets against unauthorized use or disposal; for maintaining proper accounting records; for the reliability of financial information used in the course of conducting business or for publication; and for ensuring compliance with the relevant laws and regulations.

The internal control system is designed for the Company to avoid material misstatement or omission for the purpose of minimizing the risks in the absence of operational systems.

The Board assesses the internal control system annually, through its chief auditor, designated internal audit department and the audit committee, reviewing the effectiveness of the Company and its subsidiaries' internal control system covering financial, operational, compliance and risk management processes. The Board is satisfied that the Company and its subsidiaries' internal control system is working effectively and on an ongoing basis.

AUDIT COMMITTEE

The Company has set up an Audit Committee with specific written terms of reference pursuant to the relevant requirements of the Listing Rules and "A Guide For The Formation of An Audit Committee" compiled by the Hong Kong Institute of Certified Public Accountants. The primary duties of the Audit Committee are to review and monitor the completeness and feasibility of the Company's financial reporting process and internal control system, and review the Company's annual and interim results and other related documents.

The Audit Committee comprises all the independent non-executive Directors, being Mr. Ting Leung Huel, Stephen, Miss Tam Wai Chu, Maria, and Mr. Jin Shi Yuan, of which Mr. Ting Leung Huel, Stephen, the chairman of the committee, possesses appropriate professional qualification and financial experience.

During the year of 2013, the Audit Committee convened two meetings. The first meeting was held on 12 March 2013 to review and discuss the operating results, financial position and major accounting policies contained in the audited financial statements of the Group for the year ended 31 December 2012, as well as matters in relation to risk management, legal compliance and internal audit, and to listen to the result of audit reported by the auditors. The committee concluded the meeting with agreement to the contents of the 2012 annual report. The second meeting was held on 13 August 2013 to review and discuss the operating results, financial position and major accounting policies contained in the unaudited financial statements of the Group for the six months ended 30 June 2013, as well as matters in relation to risk management, legal compliance and internal audit. The committee concluded the meeting with agreement to the contents of the 2013 interim report.

In addition, the Audit Committee reviewed the effectiveness of the Company's financial control, internal control and risk management; made recommendation to the Board on matters relating to the re-appointment of the auditors; and held separate meetings with the auditor to discuss matters relating to its audit fees and other issues arising from the audit.

At the meeting held on 13 March 2014, the Audit Committee reviewed and discussed the operating results, financial position and major accounting policies contained in the audited financial statements of the Group for the year ended 31 December 2013, as well as matters in relation to risk management, legal compliance and internal audit, and to listen to the result of audit reported by the auditors. The committee concurred in the contents of the 2013 annual report.

REMUNERATION COMMITTEE

The Company has established the Remuneration Committee according to the relevant provisions of the Listing Rules with specific written terms of reference. Its primary responsibilities are to make proposals to the Board with respect to the overall remuneration policy and framework for Directors, Supervisors and senior management of the Company and the establishment of formal and transparent procedure for formulating the remuneration policy.

The Remuneration Committee is chaired by Mr. Jin Shi Yuan, an independent non-executive Director and the members comprise an executive Director, Mr. Mei Qun, and an independent non-executive Director, Mr. Ting Leung Huel, Stephen, which is in compliance with the requirement of the Listing Rules that independent non-executive Directors shall form the majority of the remuneration committee.

According to Rule B.1.2 of the Code, the Remuneration Committee of the Company makes proposals to the Board with respect to the remuneration packages for individual executive Directors and senior management, including non-monetary benefits, pension rights and compensation (including the compensation for the loss or termination of office or appointment). The exact amount shall be determined by the Board according to the general meeting's authorization.

During the year of 2013, one meeting has been held by the Remuneration Committee. On 12 March 2013, the Committee reviewed and discussed the matters including the Directors', Supervisors' and senior management' emoluments for the year ended 31 December 2012 and discussed the Directors' and Supervisors' relevant service contracts.

NOMINATION COMMITTEE

The Company has established the Nomination Committee with specific written terms of reference according to the relevant provisions of the Listing Rules. Its primary responsibilities include:

i. reviewing the framework, size and composition including skills, knowledge and professional knowledge of the Board on a regular basis and making proposals to the Board in respect of any proposed changes;

ii. reviewing the Board diversity polity regularly, including but not limited to gender, age, cultural and educational background and professional experience and reviewing any measurable objectives that it has set for implementing the policy and progress on achieving those objectives; and

iii. identifying individuals suitably qualified to become Board members and selecting or making recommendations to the Board on the selection of individuals nominated for directorships.

The Nomination Committee is chaired by Mr. Mei Qun, the executive Director and the Chairman of the Board and the members comprise two independent non-executive Directors, namely Ms. Tam Wai Chu, Maria and Mr. Jin Shi Yuan, which is in compliance with the requirement of the Listing Rules that independent non-executive Directors should form the majority of the Nomination Committee.

Factors set out in Rule 3.13 of the Listing Rules shall be considered while assessing the independence of the independent non-executive Directors.

During the year of 2013, one meeting was held by the Nomination Committee. On 12 March 2013, the Committee reviewed and discussed the framework, number of members and composition of the Board.

In addition, the Nomination Committee assessed the independence of the independent non-executive Directors; and reviewed the adequacy of time devoted by Directors in performing their duties.

The Nomination Committee also attaches importance to the diversity of Board composition, which is believed to be beneficial for the Board as well as the Company. The Company established a policy in respect of the diversity of the Board Composition ("**Diversity Policy**"). In reviewing and evaluating the Board composition and making recommendations to the Board on appointment of new Directors, the Nomination Committee shall take account of the benefits of diversity in various aspects as well as the factors including integrity of relevant persons, their accomplishments and the time they can devote to the Company, in order to maintain an appropriate scope and the balance between expertise, skills, experience and background of the Board members. The Nomination Committee will make discussion to agree upon all the measurable targets to realize the diversity of Board composition each year, and propose the targets to the Board for adoption. The Board may at any given time seek to improve its diversity in one or more aspects and measure the progress accordingly.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

For the year ended 31 December 2013, the Company had always strictly complied with the code provisions contained in the Code.

During the year of 2013, the Board reviewed the Company's compliance with the Code and other rules applicable according to the requirement of the Code; formulated and revised the internal rules in respect of the corporate governance, and approved the Company's annual corporate governance report and its publication on the websites of the Hong Kong Stock Exchange and the Company.

DIRECTORS' AND SUPERVISORYS' DEALINGS IN SECURITIES

The Company has adopted a Code of Conduct regarding securities transactions by the Directors and Supervisors on terms no less exacting than the required standards contained in the Model Code. Having made specific enquiry of all the Directors and Supervisors, all of them confirmed that they had complied with the required standards set out in the Model Code and the Code of Conduct of the Company for the year ended 31 December 2013.

INDEPENDENT AUDITOR'S REMUNERATION

PricewaterhouseCoopers was the independent auditor of the Company for the year ended 31 December 2013. Other than annual auditing services, PricewaterhouseCoopers provided the services in connection with the initial listing of shares of Tong Ren Tang Chinese Medicine on the GEM. Save as disclosed above, PricewaterhouseCoopers did not provide any non-auditing services to the Company or any member of the Group during the year.

The independent auditor's remuneration in respect of its audit and non-audit services for the year ended 31 December 2013 is set out in the section "auditor's remuneration" of Note 24 to the Consolidated Financial Statements. In addition, the Company paid for auditor's expenses of lodging, meals and traveling during the period the auditing services were provided.

SHAREHOLDER'S RIGHTS AND COMMUNICATIONS WITH SHAREHOLDERS

The Board and senior management recognize that they represent the interests of all shareholders and that they need to enhance the value of the Company in full force. The major rights enjoyed by shareholders and how to enforce them are highlighted in the sections under "Shareholders' Rights and Obligations" and "General Meetings" of the Articles of Association of the Company.

The Company attaches great importance to the communication with the shareholders and investors. The Company uses a number of channels to account for the performance and operations of the Company to shareholders, particularly our annual, interim and quarterly reports. In addition to delivering circulars, announcements and financial reports to our shareholders, the Company also publishes its corporate information on its website (http://www.tongrentangkj.com) by electronic means. The general meeting provides a good opportunity for the communication between the Board and Company's shareholders. The Company regards the general meeting as an important event and all Directors, Supervisors, senior management and the Chairmen of the Audit Committee, Remuneration Committee and Nomination Committee should make an effort to attend and answer questions raised by the shareholders. For the year ended 31 December 2013, the Company made great efforts to hold conferences and/or conference calls, as well as arranged field trip for investors.

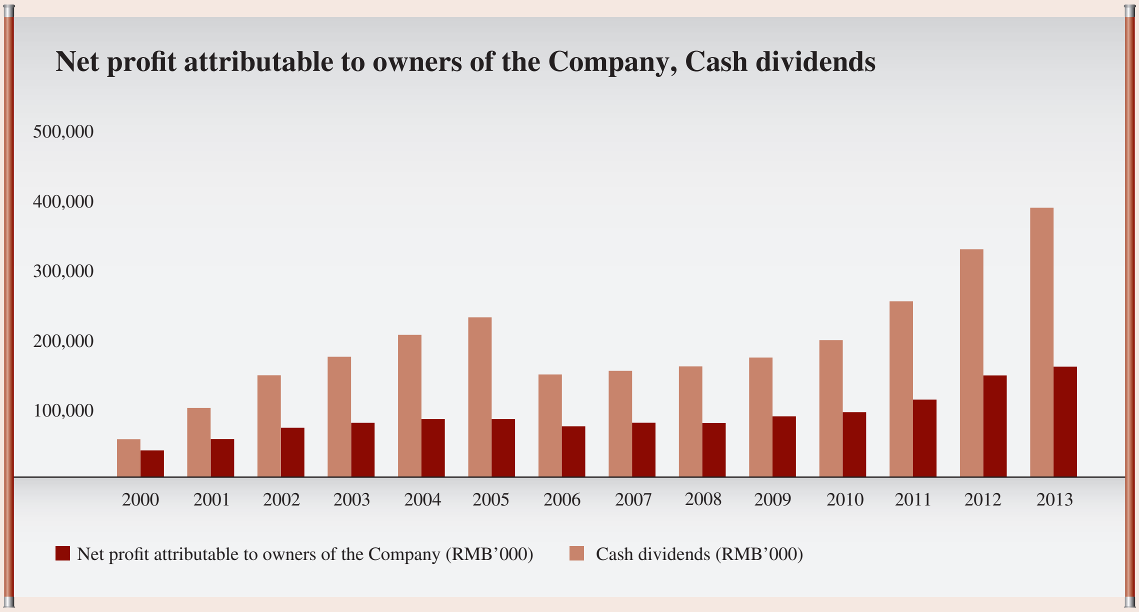
The Company encourages the shareholders to involve in the Company's affair and to discuss the corporate business and prospections directly at the annual general meeting or extraordinary general meeting.

Pursuant to the Articles of Association, two or more shareholders together holding 10% or more of the shares conferring the right to vote at the forthcoming extraordinary general meeting can sign and submit one or more written requests in the same format and content to the Board to request the convening of an EGM, with the issues to be discussed clearly stated. The Board shall convene an EGM as soon as possible upon receiving such written request(s). If the Board fails to issue a convening notice within 30 days after the receipt of such written request(s), the shareholders making the request may convene an EGM on their own within four months after the Board's receipt of such request(s). The procedure for convening the meeting shall be consistent with that for convening shareholder meetings by the Board to the greatest extent possible.

At the AGM convened by the Company, shareholders holding 5% or more of the total voting shares shall have the right to make new proposals to the Company in writing. The Company shall incorporate the issues raised in the proposal that fall within the terms of reference of the general meeting into the meeting agenda.

Enquiries may be made to the Board either by contacting the Company Secretary through office and mailing address as set out under the Corporate Information of the annual report or directly by questions at the AGM or EGM.

In the principle of sustainable returns to shareholders, the Company has been distributing cash dividends each year since its Listing. As at 31 December 2013, the Company has been distributing cash dividends totaling approximately RMB1.082 billion. Set out below are the net profits attributable to owners of the Company and the total amount of dividends in cash since the Company's listing.



General Meetings

The 2012 annual general meeting and the 2013 extraordinary general meeting were held at No. 52 Dong Xing Long Street, Dong Cheng District, Beijing, the PRC on 17 June 2013 and 16 December 2013, respectively. The relevant resolutions proposed for approval at the above meetings and the percentage of the affirmative votes are as follows:

The Annual General Meeting

Ordinary Resolutions

1. To consider and, if thought fit, to approve the audited consolidated financial statements of the Company and its subsidiaries for the year ended 31 December 2012. (100% voted for the resolution)

2. To consider and, if thought fit, to approve the report of the Board for the year ended 31 December 2012. (100% voted for the resolution)

3. To consider and, if thought fit, to approve the report of the Supervisory Committee for the year ended 31 December 2012. (100% voted for the resolution)

4. To consider and, if thought fit, to approve the proposal for payment of a final dividend of RMB0.25 per share (tax inclusive) for the year ended 31 December 2012. (99.99% voted for the resolution)

5. To consider and, if thought fit, to approve the re-appointment of PricewaterhouseCoopers as the independent auditor of the Company for the year ending 31 December 2013; and to authorize the Board to fix its remuneration.(99.48% voted for the resolution)

   As more than 50% of the votes were cast in favour of these resolutions, these resolutions were duly passed as ordinary resolutions.

Special Resolution

6. To consider and, if thought fit, to approve a general mandate to the Board to issue, allot and deal with (1)additional domestic shares not exceeding 20% of the domestic shares in issue; and (2) additional H shares not exceeding 20% of the H shares in issue, and to authorize the Board to make such corresponding amendments to the articles of association of the Company as it think fit so as to reflect the new capital structure upon the allotment and issue of the shares.(90.34% voted for the resolution)

   As more than two-thirds of the votes cast were in favour of this resolution, this resolution was duly passed as a special resolution.

The Extraordinary General Meeting

Ordinary Resolutions

1. THAT, the Distribution Framework Agreement renewed by the Company and China Beijing Tong Ren Tang Group Co., Ltd. on 10 October 2013 and the annual caps for the continuing connected transactions contemplated thereunder for the three years ending 31 December 2016 are hereby approved and confirmed; and any one director of the Company is hereby authorized to sign or execute such other documents or supplemental agreements or deeds on behalf of the Company and to do all such things and take all such actions as he may consider necessary or desirable for the purpose of giving effect to the renewed Distribution Framework Agreement with such changes as he may consider necessary, desirable or expedient. (99.99% voted for the resolution)

2. THAT, the Master Procurement Agreement renewed by the Company and China Beijing Tong Ren Tang Group Co., Ltd. on 10 October 2013 and the annual caps for the continuing connected transactions contemplated thereunder for the three years ending 31 December 2016 are hereby approved and confirmed; and any one director of the Company is hereby authorized to sign or execute such other documents or supplemental agreements or deeds on behalf of the Company and to do all such things and take all such actions as he may consider necessary or desirable for the purpose of giving effect to the renewed Master Procurement Agreement with such changes as he may consider necessary, desirable or expedient. (99.99% voted for the resolution)

   As more than 50% of the votes cast were in favour of these resolutions, these resolutions were duly passed as ordinary resolutions.

ARTICLES OF ASSOCIATION

For the year ended 31 December 2013, no amendment was made to the Articles of Association.

Directors, Supervisors and Senior Management

EXECUTIVE DIRECTORS

Mr. Mei Qun, aged 57, chairman of the Company, is a deputy chief pharmacist with a postgraduate qualification. He was formerly the assistant to the general manager and deputy general manager of Tong Ren Tang Holdings, general manager of Tong Ren Tang Ltd., and the vice-chairman of the Company. 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 of Beijing Tong Ren Tang Health Pharmaceutical Co., Ltd., the chairman of Beijing Tong Ren Tang Medicinal Materials and Shen Rong Investment Group Co., Ltd., the chairman of Beijing Tong Ren Tang Pharmaceutical Co., Ltd., the chairman of Beijing Tong Ren Tang Biological Product Development Co., Ltd., the chairman of Beijing Tong Ren Tang Traditional Chinese Medicine Hospital, the chairman of Beijing Tong Ren Tang Chinese Medicine (Hong Kong) Group Co., Ltd., and a director of Beijing Tong Ren Tang International Co., Ltd.. He is the vice president of Chinese Society of Traditional Chinese Medicine, a standing committee member of Beijing Pharmaceutical Association, the vice president of Beijing Enterprise Confederation, a standing committee member of China Association of Trade in Services and the vice president of Beijing Brand Association, the vice-chairman of Beijing Pharmaceutical Profession Association. He was also a Education, Scientific, Cultural and Health Committee member of the Beijing's 14th National People's Congress ("NPC"),and the member of the Beijing Dongcheng's 15th NPC. He is responsible for the overall decision-making of the Company. He is the compliance officer of the Company and responsible for overseeing all matters relating to the listing of the Company. He is one of the sponsors of the Company. Mr. Mei had been a Director of the Company since 9 March 2000. Mr. Mei was re-elected as a Director at the annual general meeting in 2003 and 2006 and 2009 and 2012.

Mr. Xie Zhan Zhong, aged 61, vice chairman of the Company, is a senior economist with a bachelor's degree. Mr. Xie successively served as an assistant to the general manager and the deputy general manager of Tong Ren Tang Holdings, the secretary to the Party Committee as well as the deputy general manager and the chief auditor of Tong Ren Tang Ltd.. Mr. Xie was appointed as an executive Director on 18 June 2010 and was re-elected as a director of the Company at the annual general meeting held in 2012.

Mr. Yin Shun Hai, aged 60, is a senior economist with a postgraduate qualification. He was formerly the chairman of the Company and the chairman and the secretary to the Party Committee of Tong Ren Tang Holdings. He is currently the chairman of Tong Ren Tang Chinese Medicine, the chairman of Tong Ren Tang International, the director of Tong Ren Tang Ltd., the vice president of Beijing Federation of Industrial Economics, the president of Beijing Pharmacist Association, the president of Beijing Tong Ren Tang Society of Culture and a delegate to the 12th Beijing's Chinese People's Political & Consultative Conference. He is one of the promoters of the Company. Mr. Yin had been a Director of the Company since 9 March 2000. Mr. Yin was re-elected as a Director of the Company at the annual general meeting in 2003 and 2006 and 2009 and 2012.

Mr. Wang Yu Wei, aged 46, is a senior engineer with a postgraduate qualification. He formerly served as the deputy officer of the new technology development centre and the deputy factory manager of Factory 2 of Beijing Tong Ren Tang Pharma, the assistant to the general manager and the deputy general manager of the Company. He is currently the general manager of the Company, the chairman of Beijing Tong Ren Tang (Tang Shan) Nurtition and Healthcare Co., Ltd. and Beijing Tong Ren Tang Nansanhuan Zhonglu Drugstore Co., Limited. He is also a delegate to the Fengtai District's 14th, 15th and 16th NPC of Beijing. Mr. Wang was appointed as a Director on 25 June 2009 and was re-elected as a Director of the Company at the annual general meeting in 2012.

Ms. Fang Jia Zhi, aged 47, is a senior auditor with a university qualification. She formerly served as the deputy head and head of audit department of Tong Ren Tang Holdings, the deputy chief accountant of the Company. She is currently the chief accountant of the Company, the Director of Beijing Tong Ren Tang Yanbian Chinese Medicinal Raw Materials Co., Limited, Beijing Tong Ren Tang Anhui Chinese Medicinal Raw Materials Co., Limited, Beijing Tong Ren Tang Zhejiang Chinese Medicinal Raw Materials Co., Limited, Beijing Tong Ren Tang Hebei Chinese Medicinal Raw Materials Technologies Co., Limited, Beijing Tong Ren Tang Hubei Chinese Medicinal Raw Materials Co., Limited, Beijing Tong Ren Tang Nanyang Shanzhuyu Co., Limited, Beijing Tong Ren Tang Tongke Pharmaceutical Company Limited, Beijing Tong Ren Tang WM Dianorm Biotech Co., Limited, Beijing Tong Ren Tang Century Advertising Co., Limited and Tong Ren Tang Xing An Meng Chinese Medicinal Materials Co., Ltd.. Ms. Fang was appointed as a Director on 25 June 2009 and was re-elected as a Director of the Company at the annual general meeting in 2012.

INDEPENDENT NON-EXECUTIVE DIRECTORS

The Hon Maria Tam Wai Chu, aged 68, GBM, GBS, JP, LL.D (HonorisCausa), LL.B (Honours), barrister, is currently also an independent non-executive Director of seven companies listed on the Hong Kong Stock Exchange namely Guangnan (Holdings) Limited, Minmetals Land Limited, Nine Dragons Paper (Holdings) Limited, Sa Sa International Holdings Limited, Sinopec Kantons Holdings Limited, Wing On Company International Limited, and Macau Legend Development Limited. She was a member of the Preparatory Committee for the Hong Kong Special Administrative Region (PRC) and Hong Kong Affairs Advisor (PRC). She is currently a member of the Operations Review Committee of the ICAC and a member of the Witness Protection Review Board of the ICAC effective from January 2010. She is a Deputy to the National People's Congress of The People's Republic of China and a member of the Hong Kong Basic Law Committee. Miss. Tam was appointed as an independent non-executive Director on 11 October 2000 and was re-elected at the annual general meetings in 2003, 2006, 2009 and 2012.

Mr. Ting Leung Huel, Stephen, aged 60, MH, FCCA, FCPA (Practising), ACA, CTA(HK), FHKIoD, is the chairman of the audit committee and a member of the remuneration committee of the Company. He is a non-executive Director of Chow Sang Sang Holdings International Limited and an independent non-executive Director of six listed companies namely Tongda Group Holdings Limited, JLF Investment Company Limited, Computer And Technologies Holdings Limited, Texhong Textile Group Limited, Dongyue Group Limited and China SCE Property Holdings Limited respectively. Mr. Ting is a member of the 9th,10th and 11th Chinese People's Political & Consultative Conference, Fujian. Mr. Ting is an accountant in public practice and the managing partner of Messrs. Ting Ho Kwan & Chan, Certified Public Accountants (Practising). Mr. Ting was appointed as an independent non-executive Director on 11 October 2000 and was re-elected at the annual general meetings in 2003, 2006, 2009 and 2012.

Mr. Jin Shi Yuan, aged 87, a chief pharmacist, is currently the Chinese medicine investigation expert in state secret technology for the State Ministry of Science and Technology, evaluation expert in Chinese medicine project for the National Natural Science Foundation of China, appraisal expert in science and technology achievements for the State Administration of Traditional Chinese Medicine, appraisal expert in basic medicines for the State Food and Drug Administration, and representative successor to Chinese medicine preparations technology in State nonmaterial cultural heritages. Mr. Jin is also a lifelong councilor of the China Association of Traditional Chinese Medicine, member of the Committee on Clinical Medicine Evaluation Experts, postdoctoral mentor to the Council of Beijing Institute of Chinese Medicine and guest professor of the School of Chinese Medicine, Capital University of Medical Sciences and Beijing University of Chinese Medicine, and Capital Renowned Expert of Chinese Medicine, and the technical consultant of China National (Group) Corporation of Traditional & Herbal Medicine. He was appointed as an independent non-executive Director on 16 October 2000 and re-elected at the annual general meeting in 2003 and 2006 and 2009 and 2012.

SUPERVISORS

Mr. Zhang Xi Jie, aged 59, chief supervisor of the Company, is a senior accountant and Chinese certified public accountant with a postgraduate qualification. He served as executive deputy head, head and deputy chief accountant of the development office of Tong Ren Tang Holdings. He is currently a director and the chief accountant of Tong Ren Tang Holdings, the chairman of the supervisory committee of Tong Ren Tang Ltd., director of Beijing Tong Ren Tang Health Pharmaceutical Co., Ltd., director of Beijing Tong Ren Tang Medicinal Materials, and Beijing Tong Ren Tang Pharmaceutical Co., Ltd., Beijing Tong Ren Tang Biological Product Development Co., Ltd.. Mr. Zhang was appointed as a supervisor on 18 May 2006 and re-elected at the annual general meeting in 2009 and 2012.

Mr. Wu Yi Gang, aged 55, holding a bachelor degree of law, was admitted as a solicitor in 1984 and started practice in the same year. Mr. Wu founded Wu Luan Zhao Yan Law Firm in Beijing in 1994 and has been the managing partner of the firm since then. He served as one of the arbitrators of the first session of the Beijing Arbitration Commission in 1995. He currently serves as the deputy director of Foreign Affairs Committee of Beijing Lawyers Association, and member of the First Council of Beijing Club of Non-Party Senior Intellectuals. He was appointed as a supervisor of the Company on 22 October 2003 and re-elected at the annual general meeting in 2006, 2009 and 2012.

Mr. Bai Jian, aged 54, is a deputy chief pharmacist with MBA. He formerly served as the head of the foreign economic relations and trade section, the assistant to the factory manager, the deputy factory manager of Factory 2 of Tong Ren Tang Pharma, the deputy factory manager of pharmaceuticals factory of Tong Ren Tang Ltd. and the factory manager of southern pharmaceuticals branch factory of Tong Ren Tang Ltd. and the deputy general manager of the Company. He is currently the secretary to the Party Committee and the general audior of the Company, the chairman of Beijing Tong Ren Tang Yanbian Chinese Medicinal Raw Materials Co., Limited, Beijing Tong Ren Tang Anhui Chinese Medicinal Raw Materials Co., Limited, Beijing Tong Ren Tang Zhejiang Chinese Medicinal Raw Materials Co., Limited, Beijing Tong Ren Tang Hebei Chinese Medicinal Raw Materials Technologies Co., Limited, Beijing Tong Ren Tang Hubei Chinese Medicinal Raw Materials Co., Limited, Beijing Tong Ren Tang Nanyang Shanzhuyu Co., Limited and Beijing Tong Ren Tang WM Dianorm Biotech Co., Limited. He was appointed as a supervisor of the Company on 29 June 2012.

SENIOR MANAGEMENT

Mr. Yang De Chun, aged 50, a Pharmacist-in-charge with a postgraduate qualification. He formerly served as the a assistant to the factory manager and the deputy factory manager of Beijing TRT Pharma, the deputy factory manager in charge of production of southern branch factory, the deputy factory manager of northern branch factory, the deputy factory manager of southern branch factory, the factory manager and the secretary to the Party committee of northern branch factory of Tong Ren Tang Ltd., the deputy secretary to the Party Committee, the secretary to the Disciplinary Committee and the Chairman of the labour committee of the Company. He is currently the deputy general manager of the Company.

Ms. Liu Cun Ying, aged 49, is a senior accountant with a bachelor degree. She formerly served as the chief of the finance section of supply station of Tong Ren Tang Holdings, the deputy manager of the sale branch of the Company, and the assistant to the general manager of the Company. She is currently the deputy general manager of the Company.

Ms. Guo Gui Qin, aged 49, is a senior engineer and a licensed pharmacist with a postgraduate qualification. She formerly served as the deputy manager of the import and export branch of the Company, and the assistant to the general manager of the Company. She is currently the deputy general manager of the Company.

Mr. Chen Jia Fu, aged 45, a Pharmacist-in-charge and a licensed pharmacist with a postgraduate qualification. He formerly served as the assistant to factory manager of southern pharmaceuticals branch factory of Tong Ren Tang Ltd., the deputy factory manager of southern branch factory, the factory manager of Yi Zhuang branch factory, the deputy secretary to the Party Committee, the secretary to the Disciplinary Committee and the Chairman of the labour committee of the Company. He is currently the deputy general manager of the Company.

Ms. Zhang Jing Yan, aged 40, is a licensed pharmacist with a master degree in Economics. She formerly served as a securities representative of Tong Ren Tang Ltd.. She is currently the secretary to the Company's Board of Directors and the Company secretary.

Environmental, Social and Governance Report

The Board believes that a sound environmental, social and governance structure is vital for development of the Company. In addition to business growth, the Company has been pursuing excellence in environmental protection, social responsibility, corporate governance and other areas. Meanwhile, the Company also expects to enhance its transparency to achieve and uplift the sense of social responsibility. With reference to its own experience, the Company primarily adopts the principles and basis of Environmental, Social and Governance Reporting Guide set out in Appendix 27 to the Listing Rules as its standards, with an aim to establish a sound environment, social and governance structure. As the first Environmental, Social and Governance Report published by the Company, this report is a review of its performance in environment, social and governance areas, which sets out the Company's policies and practices in four aspects namely working environment, operational management, public welfare and environmental protection for the period from 1 January 2013 to 31 December 2013. This report is designed to allow shareholders, investors and the public to have a more comprehensive and profound understanding of the Company's corporate governance and culture.

In the future, the Company will disclose the report periodically to provide the public an access to the Company's environmental, social and governance updates. For any suggestion or opinion on this report or the Company's environmental, social and governance work, please kindly send it to the Company through its communication channels.

WORKING ENVIRONMENT

The Company attaches importance to development and growth of talents, and is aware that realization and promotion of employees' value will help to achieve the Company's overall goals. The Company highly recognizes employees' contribution to its business growth, and seeks to provide a platform for mutual growth and sharing of success between the Company and employees. The Company also provides skill training, career planning and development opportunities to the staff, as well as humanistic cares to each employee.

Employee Policy

The Company adopts the human-oriented approach in provision of employment opportunities, salary, education, performance assessment, promotion and other issues without any discrimination due to gender, religion, cultural and educational background and any other factors, and seeks to provide an equal growth platform for all employees.

To maintain a rational personnel structure, the Company has established qualifications and requirements specific to different posts of departments, which are taken as criteria in recruitment. The Company's recruitment channels include campus recruitment, social recruitment and internal referral. Each candidate is subject to verification of academic qualifications and professional skill certificates as well as relevant interviews. The Company adheres to the principle of equality, free will and consensus, and enters into written employment contracts with all employees on an equal pay for equal work basis.

The Company maintains a strict recruitment process to avoid employment case of child labor and forced labor. Given its domicile in China, the Company's labor standards and recruitment process are implemented in strict compliance with the relevant labor laws and regulations of the PRC.

The laws and regulations prohibiting child labor and forced labor include:

"Law of the PRC on Protection of Minors"
"Regulations on Prohibiting Use of Child Labor"
"Special Provisions on Labor Protection of Females"

Indicator	2013	Unit
Total number of employees	**2,025**	Person
Employment contract signing ratio	**100%**	%
Social security coverage	**100%**	%

With a focus on employee growth needs and career planning, the Company has established an assessment system and promotion mechanism integrating training, use and evaluation of talents, building up a sound career platform for employees. The virtuous cycle of talent cultivation, utilization and identification lays a sound foundation for and plays as a strong driver to the Company's sustainable development.

Remunerations of the employees of the Company are determined with reference to the prevailing market level as well as the performance, qualifications and experience of individual employee. Discretionary bonuses based on individual performance will be paid to the employees as recognition of and a reward for their contributions to the Company. Other benefits include contributions by the Company to the endowment insurance, medical insurance, unemployment insurance, industrial accident insurance, maternity insurance and housing fund. In continually updating and improving its employee remuneration policy, the Company takes full consideration of the balanced growth between employee remuneration and the Company's economic benefits, to ensure an equal access to and sharing of value according to employees' contribution.

Working Hours

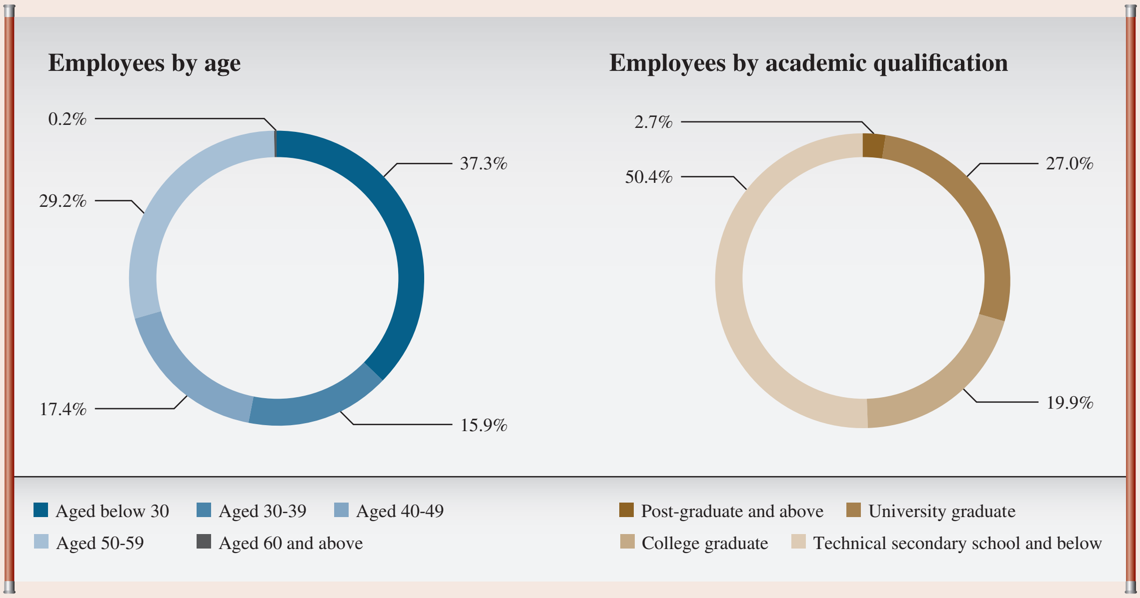
Working hours for the Company's employees are in accordance with requirements under the Labor Law of the PRC and the Labor Contract Law of the PRC.

The Company adopts a working hour system of 8 hours a day and 5 days a week for office staff, as well as a work shift and alternate holiday system for production staff where appropriate. Overtime is remunerated accordingly in accordance with relevant requirements under the national labor laws and regulations. The arrangements for rest days and statutory holidays of employees are consistent with those provided in the national labor laws and regulations.

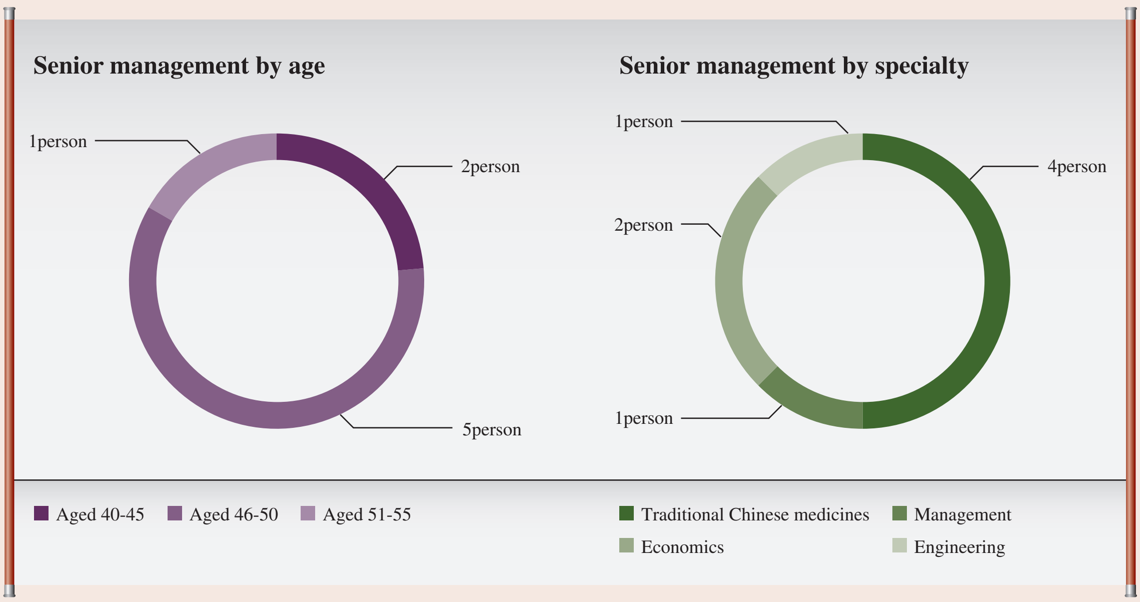
Structure of Employees

The Company understands and recognizes the benefits of the diversity of staff, which is regarded as a key to maintaining its competitive strengths. A company with a wide diversity of cultures should be inclusive of employees with different genders, ages, skills, educational backgrounds, industry experiences and other qualities in order to achieve the most suitable composition and balance.

As at the end of 31 December 2013, the Company had a male/female composition ratio of 1.6:1, 144 employees with intermediate or senior titles which accounted for 7.1% of the total headcount, 112 ethnic minority employees which accounted for 5.5% of the total headcount, and 25 handicapped employees which accounted for 1.2% of the total headcount. The Company's employees by age and academic qualification are illustrated as below:



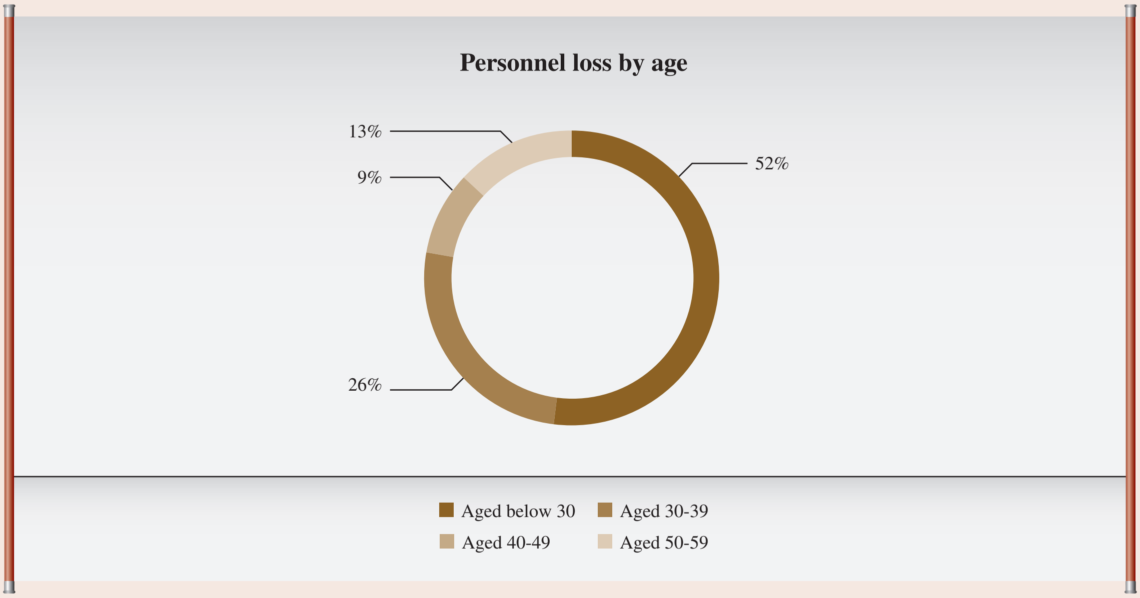
The diversity policy also applies to the Company's senior management. The Company has a male/female composition ratio of 1:1 for senior management, with the breakdowns by age and specialty illustrated as below:



The Company believes that an appropriate personnel turnover can bring new vitality continuously, which is conducive for its long-term healthy development. During the Reporting Period, the Company recorded a personnel inflow of 223 persons, representing an inflow ratio of 11.30%; recorded a personnel outflow of 119 persons (including retirees), representing an outflow ratio of 6.03%, and a personnel loss of 23 persons (being voluntary departures), representing a loss ratio of 1.17%. Details of the personnel loss are set out below:

	Number of person loss	Loss ratio
Aged 50-59	3	0.5%
Aged 40-49	2	0.5%
Aged 30-39	6	2.0%
Aged 20-29	12	1.7%
Total number of person loss	23	1.2%

*Note: Loss ratio = 2 * Number of voluntary departures/(Total headcount at the beginning of the period + Total headcount at the end of the period)*



Employee Training and Development

The Company pays respect to and maintains a standardized and sound system for recruitment of talents, and recognizes the importance of their sustainable development.

The Company adopts the principle of unified management and tiered training for its staff education and training work. Upon joining the Company, new employees must participate in pre-service training in relation to corporate policies and goals, corporate culture, production safety, necessary skills, etc. The Company also provides a wide range of training sessions each year for all employees covering management, quality, skills and extended areas. The training performance is evaluated by human resources department which proposes improvements to enhance the pertinence and effectiveness of training. During the Reporting Period, the Company organized more than 160 training sessions according to different needs, with total participation over 10,000 person-times. With satisfactory effect achieved, the training sessions further enhanced technical skills and professional literacy of the employees of each level.

The Company encourages and organizes qualified employees to participate in professional technical and vocational qualification training programs and examinations, and issues letters of appointment according to the actual need of work to those passing the examinations and obtaining certificates, who are also entitled to corresponding allowances letters of appointment as appropriate, and the Company allows free and adequate time for professional technical and vocational personnel to participate in continuing education specific to their posts or specialties.

The Company also maintains a "Pyramid Talent Project", under which talents are classified into experts, chief technicians, chief workers, outstanding young talents, etc. covering production, quality, sales and other posts, thus providing a fair, healthy and broad growth platform for each employee. The project has also specified talent appraisal and appointment criteria as well as special incentive funds in order to build up career paths and encourage employees of each level to upgrade their business competency continuously. As at the end of 2013, a total of 162 employees were included into the "Pyramid Talent Project".

Set out below is the record of major training sessions of the Company in 2013:

Category of training	Name of training session	Training hours
Quality management	Quality control in planting and processing traditional Chinese medical raw materials	8
	Production process control and on-site management under the new edition of GMP	24
Financial	Budgeting and reimbursement	8
	Continuing education for financial personnel	16
Management	Internal control and risk prevention	8
New employee orientation	Orientation for newly joined college graduates in 2013	24

Extended training sessions

Employee Rights and Benefits

The Company actively guarantees and safeguards the rights of employees, and lays stress on enhancing the wellbeing of employees, and improve their all kinds of benefits on an ongoing basis.

The Company's Supervisors as employee representatives account for one-third members of the Supervisory Committee, with an aim to protect all kinds of interests of all employees. Meanwhile, the Company lays emphasis on employees' rights to know and to speak. The smooth and effective communication channels allow the Company to listen to and adopt employee's opinions and suggestions, whereby appropriate measures are taken in a timely manner to address their concerns and protect their interests.

The Company's employees are entitled to statutory holidays prescribed by the State, as well as a one-day leave for relevant ethnic minority employees on the Lasser Bairam day, and a half-day to one-day leave for housing relocation, participation in parents' meetings and preschool children vaccination. Furthermore, employees' bonuses, allowances, subsidies and benefits during paid leaves are distributed in accordance with the Remuneration Management System, the Management Rules on Bonuses and relevant requirements of the Company. Apart from paying the premium for basic medical insurance for employees, the Company also set up a supplementary medical insurance system to complement basic medical insurance, which further enhanced healthcare protection for employees by establishing a tiered healthcare protection system. The Company also values the cares to employees' families. A mechanism is in place to provide a certain percentage of medical expense reimbursement for family members of qualified employees to lessen their burden. In addition, the Company paid visits to diseased, needy and retired employees during the Reporting Period, conveyed cares and provided supports to them in monetary and physical forms.

The Company takes efforts to promote the balance between work and life for employees, and provides venues and facilities such as basketball and badminton courts and gymnasium and multi-purpose hall, and organizes various activities regularly. In addition the Company also provides employees with clean and comfortable reading and painting rooms, and publishes internal periodicals such as "Sail", "Speak and Hear", "Our Voices" and "Home Growth Talks" to enrich their cultural life. During the Reporting Period, the Company organized more than 20 variegated events with participations of approximately 2,700 person-times, establishing a platform for employees to show themselves.

A variety of recreational facilities

A rich mixture of recreational activities

Employee Health

Employees are our most important asset and resource. The Company is committed to providing healthy cares for employees in a safe, healthy, sound and guaranteed workplace in addition of production safety.

Dedusting, denoising and poison-proof devices are furnished at production workshops, where standard identification marks for hazard articles are in place and inflammables and explosives are stored and used as required to minimize the impact on employees' health. The Company carries out monitoring and evaluation of occupational hazards in production premises on a regular basis. During the year, third party inspectors were engaged for detections of microwave, dust and other occupational hazards at certain branch factories, so as to prevent, control and eliminate occupational hazards and improve the working environment.

Under the Management Procedures for Employees' Healthcare and the Management Procedures on Hygiene and Employees' Health Conditions, the Company arranges regular physical examinations for all employees each year. For employees engaged in occupational hazards, the Company strictly implements relevant provisions in the Law on Prevention and Control of Occupational Diseases and labor protection regulations of the PRC, and seeks to reduce the incidence of occupational diseases through physical examinations, recuperation and other measures. During the Reporting Period, the Company arranged physical examinations for all workers exposed to occupational hazards, and no occupational disease was found.

The Company also endeavors to provide pleasant and comfortable working environment for all employees. During the Reporting Period, the Company conducted interior renovation for certain offices to create a more wide and bright workplace. In addition, the Company has nearly ten canteens at different workplaces for daily provision of over 100 nutritious and varied and healthy foods to employees.

Clean and tidy canteen for employees

OPERATIONAL MANAGEMENT

The Company strives to provide clients and consumers with quality and safe products to establish good reputation and credibility. In addition to ensuring product sanitation and safety through the production process, the Company places emphasis on sustainable and effective supply chain management. In addition, to maintain a healthy and rational environment for the industry, the Company is dedicated to consolidating and enhancing the legitimacy of business environment. We inculcate our code of conducts into employees, and strictly prohibit corruption, bribery, fraud or any form of crime in a bid to strengthen our integrity.

Supply Chain Management

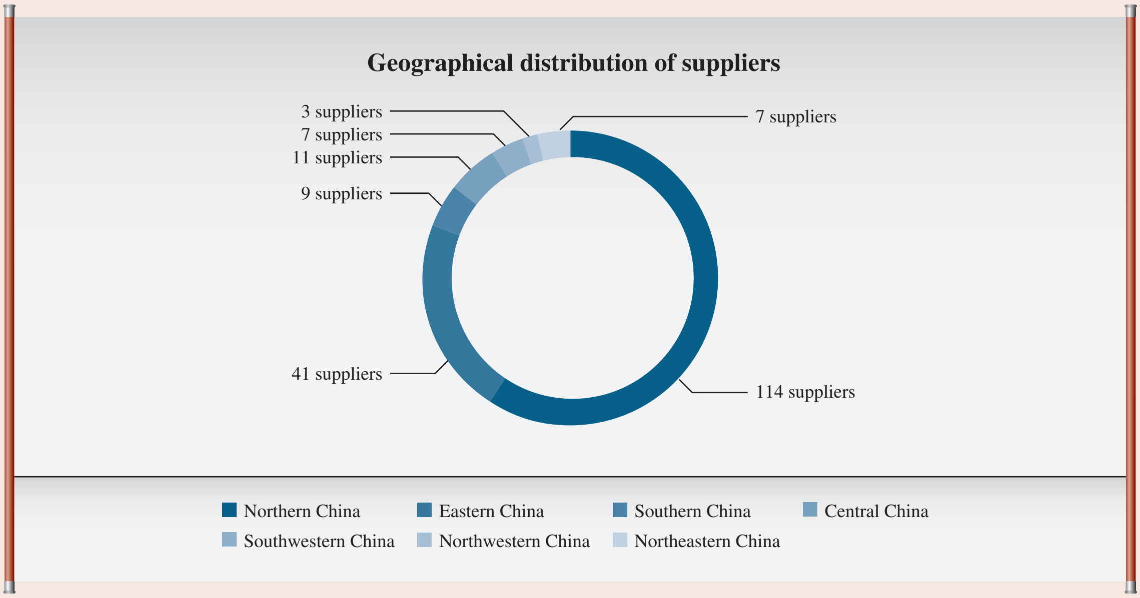
As a time-honored traditional Chinese medicine brand, Tong Ren Tang is well known throughout the world by virtue of its high quality materials. As such, supply chain management is always one of the key links in the Company's quality control system. With a focus on product quality risk management, the Company keeps a close eye on quality and safety crisis signals of its medicines. Attaching great importance to product compliance, the Company organizes self inspections and rectifications in a timely manner to ensure product quality.

To ensure the quality of the purchased traditional Chinese medical raw materials, auxiliary ingredients, packaging and other materials, the Company has established a comprehensive supplier management system in strict compliance with the Law of the PRC on the Administration of Pharmaceuticals, GMP and relevant laws and regulations. Standard management is implemented on procurement of raw materials under a comparatively well-established management system.

The Company exercises a high level of scrutiny over the selection of suppliers. Based on legitimate qualifications, suppliers are subject to assessment and on-site audits on product quality as well as suitability and quality consistency tests made by our quality department. Suppliers must pass the audits and assessment before being included into the "Qualified Supplier List", and the Company shall only enter into contract with and make purchases from a suppliers whose name are in the list according to needs.

The Company also carries out long-term quality monitoring and regular reviews on all suppliers. In case of a significant change in supplier qualification or serious quality issue, the Company may suspend delivery of the supplier in question at any time and, if necessary, cancel its qualification as a qualified supplier to ensure pharmaceutical quality of the Company.

During the year of 2013, there were 192 suppliers (mainly in northern China) of the Company to supply the raw materials and packaging materials. The geographical distribution of suppliers are as follows:



Note: Based on registered address of suppliers

Product Safety

The Company is committed to ensuring product safety. Especially, as most of our products are pharmaceuticals, product quality and safety are undoubtedly the top priority of the Company amidst a backdrop of heightened concerns by the public about pharmaceutical safety.

The Company has been sticking to strict product quality control throughout the production process, and has won sound reputation in the industry. The Company's quality control is executed primarily in accordance with relevant requirements of GMP and the ISO9001 quality management system.

The Company has formulated a complete set of quality inspection management standards covering traditional Chinese medical raw materials, auxiliary ingredients, packaging materials, semi-finished and finished products, which detail the requirements on various objects, methods and coverage of tests. Inspections in the production process are mainly conducted through random sampling in accordance with the national standards.

Under a comprehensive source-to-end management framework, the Company implements strict acceptance inspections from raw material procurement, sourcing and storage, which shall be suspended upon identification of any quality defect. In case of substandard product in the production process, the quality officers have the discretion of one-vote veto.

The Company strictly complies with national laws and regulations governing product safety, including:

- Law of the PRC on the Administration of Pharmaceuticals
- Implementation Regulations of the Law of the PRC on the Administration of Pharmaceuticals
- Law of the PRC on Product Quality
- Good Manufacturing Practice
- Administrative Measures on Adverse Drug Reaction Reporting and Monitoring

Consumer Services

As an honest and trustworthy enterprise, we endeavor to provide correct information to consumers to safeguard their right to know and offer helps to solve their difficulties in a timely manner, seeking to build up a trustable service ecosystem for them.

The Company has established standard procedures and preventive measures which are strictly implemented for handling pharmaceutical enquires and complaints. During the Reporting Period, the Company received over 3,000 cases of consumer enquires and complains through its customer service hotline with a handling ratio of 100%, effectively safeguarding the legitimate interests of each consumer.

Under the management regulations on adverse reaction and other issues, the Company has developed the monitoring and reporting processes. During the Reporting Period, the Company did not receive any telephone consultation on adverse reaction.

The Company has also established a market observer patrol system. The market observers paid visits to various domestic provinces and cities in 2013, focusing on inspection on product promotions by distributors and counterfeit products in order to further standardize market order, prevent potential risks and protect consumers' interests.

Anti-Corruption

To effectively carry forward the integrity campaign, the Company continues to improve its internal audit rules and regulations and the internal control system with an aim at strengthened internal supervision, risk management and anti-corruption management. A chief auditor has been appointed to oversee internal audit and internal control activities of the Company and its subsidiaries. To reduce operation risks, an internal audit department is also in place to exercise monitoring and control over the issues across the Company and its subsidiaries including financial incomes and expenses, budgets, final accounts, asset quality, operating performance and other economic activities; endorsement of infrastructure projects, major technological upgrades and other internal investments; and highly risky businesses such as equity investments, entrusted loans and guarantees. During the Reporting Period, these rules and systems played a sound control and preventive role in risk control and anti-corruption management of the Company and its subsidiaries, and no material weakness was identified.

PUBLIC WELFARE

Through over 300 years since its inception, Tong Ren Tang has been firmly adhering to the philosophy of “Righteousness-based profits”, a heritage which has been and will be carried forward. As an integral part of its sustainable development, the Company actively gives back to the society while taking resources from it. Public welfare practice is not only an obligation, but also a compulsory course necessary in the growth and development road of the Company. Effectively integrating its business development with social responsibility, the Company extends active presence in public welfare activities under the motto of “Be kind to the society”.

With an unchanged commitment to “Healing the world and nurturing the life”, we are connected with and contribute ourselves whenever needed in emergencies and disasters falling upon the public. Despite the influence from soaring raw material costs during the SARS epidemic, Wenchuan earthquake and snowstorms in Southern China, the Company exerted itself in producing the required medicines around the clock to ensure pharmaceutical supply, highlighting the sense of social responsibility as expected.

Continuous efforts were taken in caring public health in 2013. The Company endeavored to improve communication with different groups and listen to their needs and demands. Professionals in traditional Chinese medicines, scholars and experts were organized to host welfare activities such as lectures and healthcare forums across the country, to promote the culture of traditional Chinese medicines and disseminate healthcare knowledge.

As the successor and disseminator of the Tong Ren Tang culture, the Company capitalizes on its expertise and strengths in “unique prescription, superior materials, superb technique, obvious effects” to actively deliver on its promise to public welfare. With the theme of “Tong Ren Tang to Empower Chinese Dream”, the Company organized free clinic, publicity of medication knowledge and healthcare seminar in 2013. And the Company participated in the “Family Medicine Chest” educational promotion event across the country to advocate housewives to care about the health of family members. The Company believes that through persistent efforts, the healthy living and medication concept will be eventually delivered to each person.

Public welfare activities

The educational promotion event "Family Medicine Chests"

The free clinic for "Supporting the Garden Expo"

A healthcare seminar

The Company actively undertakes the responsibility for poverty relief and development of philanthropy to help disadvantaged groups in society. During the year, the Company interpreted the concept of public welfare through a string of activities including "Benevolent Salary Program", "House of Angels" and "Warm Clothes in Winter", trying its best to lend a helping hand to people in special need, poverty-stricken areas and orphanages. The Company also encourages all employees to actively participate in volunteer activities and social services as advocated, aiming to promote the public welfare culture and spirit incorporating interaction, cares and understanding.

Public welfare activities

"Warm Clothes in Winter – To warm those most in need"

A visit to a welfare house

The loving care activity "House of Angels"

ENVIRONMENTAL PROTECTION

As a part of its social responsibility, the Company is committed to environmental-friendly development through rational resource utilization and practices of environmental protection, seeking to contribute to the improvement of ecological environment and sustainable development.

The Company advocates the green office concept with an aim towards paperless, energy-saving and low-carbon offices, and minimizes consumption of petroleum, wood, water, electricity and other resources.. The Company taps on OA, ERP and other information platforms as well as electronic communication means including teleconferencing and video conferencing. Strict control is exercised on consumption of paper, portfolios, crates and other paper products, coupled with efforts reducing the use of non-biodegradable articles such as plastics, inks, chemical fiber, electronic equipment and other consumables.

The Company is also in light of the “Green” production concept, achieving the purpose of energy conservation, consumption reduction and pollution reduction. The Company seeks to improve production process and upgrade its technical expertise during the course of production and an array of measures, including energy-saving LED lighting, steam timer switch, water ring vacuum pump (in lieu of hydraulic jet pump) and introduction of time controller for heat exchange tank at workshop, are taken to save various resources. In addition, pollutant emissions were under strict control, the Company reduced exhaust emission from the source to mitigate environmental impact through a combination of initiatives including adjusting coal thickness, reasonable mix of soft coal, use of natural gas, steam and other clean energy sources, and noise level was minimized to avoid environmental pollution. Meanwhile, during the Reporting Period, certain branch factories of the Company engaged third-party inspectors to carry out detections of wastewater, boiler exhaust and noise, and all detections met the relevant standards and requirements.

The energy consumption of the Company during the Reporting Period is illustrated as below:

Water (m^3/year)	Power (kWh/year)	Raw coal (Kg/year)	Liquefied petroleum gas (tonne/year)	Natural Gas (m^3/year)	Steam (million kJ/year)
474,745	25,068,061	16,299,000	12	1,152,000	24,179

Environmental Protection

Environmental advocacy

Green environment

Resource and Waste Management

1. Use tertiary treated wastewater and replaced fire-fighting water for lawn irrigation
2. Reduce the use of disposable supplies such as paper cups, plastic food boxes, etc.
3. Provide bus services for certain lines to reduce car travel
4. Collect waste of canteen kitchens
5. Appoint dedicated staff for recycling of consumables and electronic waste
6. Use energy-saving lamps, etc.
7. Promote the use of and provide reusable shopping bags

Emissions

Emissions from the Company's production process mainly include sulfur dioxide, nitrogen oxides, wastewater, etc.

The mainly pollutant emission of the Company during the Reporting Period is approximately illustrated as below:

Type	Pollutant	Emission (tonne)
Wastewater	Total wastewater emission	379,796
	Chemical Oxygen Demand (COD_{cr})	37
	Five-day Biochemical Oxygen Demand (BOD_5)	17
	Ammonia nitrogen	1
	Suspended Substance (SS)	14
Exhaust gas	Soot	47
	Sulfur dioxide	14
	Nitrogen oxides	152

Note: Calculated based on empirical formula with reference to data in the nationwide pollutant emission declaration forms; pollutant emissions are in compliance with Beijing local standards (DB11/139-2007 and DB11/307-2013)

The Company monitors its emission data in strict compliance with the requirements on emission volume and level in relevant laws and regulations, mainly including:

- Environmental Protection Law of the PRC
- Air Pollution Prevention Law of the PRC
- Solid Waste Pollution Prevention Law of the PRC
- Water Pollution Prevention Law of the PRC
- Ambient Noise Emission Standards for Industrial Plants
- Water Pollution Control Standards (Beijing local standards)
- Boiler Air Pollutant Emission Standards (Beijing local standards)

DISCLOSURE OF ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The Board approved this Environmental, Social and Governance Report for 2013 as well as its disclosure on the websites of the Hong Kong Stock Exchange and the Company.

Independent Auditor's Report

羅兵咸永道

TO THE SHAREHOLDERS OF TONG REN TANG TECHNOLOGIES CO., LTD.
(Incorporated in the People's Republic of China with limited liability)

We have audited the consolidated financial statements of Tong Ren Tang Technologies Co., Ltd. (the "Company") and its subsidiaries (together, the "Group") set out on pages 73 to 152, which comprise the consolidated and company balance sheets as at 31 December 2013, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards and the disclosure requirements of 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. We conducted our audit in accordance with International Standards on Auditing. 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.

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Independent Auditor's Report

OPINION

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

OTHER MATTERS

This report, including the opinion, has been prepared for and only for you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 20 March 2014

Consolidated Balance Sheet

As of 31 December 2013

	Note	As at 31 December 2013 RMB'000	As at 31 December 2012 RMB'000 (Restated)	As at 1 January 2012 RMB'000 (Restated)
Assets				
Non-current assets				
Leasehold land and land use rights	6	**137,693**	140,961	143,879
Property, plant and equipment	7	**656,030**	509,132	432,584
Investments in joint ventures	9	**13,353**	21,018	17,617
Investment in an associate	10	**–**	753	1,554
Deposits paid for purchase of property, plant and equipment		**12,454**	8,297	–
Deferred income tax assets	14	**14,051**	13,372	18,754
Other long-term assets		**2,273**	2,487	713
		835,854	696,020	615,101
Current assets				
Inventories	13	**1,511,016**	1,411,851	1,334,712
Trade and bills receivables, net	12	**244,807**	152,447	144,846
Amounts due from related parties	33(d)	**78,253**	12,833	16,675
Prepayments and other current assets		**111,353**	65,360	49,908
Short-term bank deposits	31	**398,990**	5,977	9,407
Cash and cash equivalents	31	**1,967,919**	835,183	658,724
		4,312,338	2,483,651	2,214,272
Total assets		**5,148,192**	3,179,671	2,829,373
Equity and liabilities				
Equity attributable to owners of the Company				
Share capital	15	**640,392**	588,000	588,000
Reserves				
– Proposed final dividend	27	**160,098**	147,000	111,720
– Other reserves		**2,456,787**	1,202,607	1,020,728
		3,257,277	1,937,607	1,720,448
Non-controlling interests		**751,340**	289,718	221,681
Total equity		**4,008,617**	2,227,325	1,942,129

Consolidated Balance Sheet

As of 31 December 2013

	Note	As at 31 December 2013 RMB'000	2012 RMB'000 (Restated)	As at 1 January 2012 RMB'000 (Restated)
Liabilities				
Non-current liabilities				
Borrowings	18	**39,310**	–	–
Deferred income tax liabilities	14	**3,340**	3,094	5,099
Deferred income – government grants	17	**75,567**	54,238	52,185
		118,217	57,332	57,284
Current liabilities				
Trade payables	19	**360,744**	388,364	472,637
Salary and welfare payables	20	**14,796**	6,442	3,534
Advances from customers		**179,885**	117,766	89,841
Amounts due to related parties	33(d)	**83,192**	22,109	34,552
Current income tax liabilities		**24,849**	13,631	19,231
Other payables		**202,892**	221,702	85,165
Borrowings	18	**155,000**	125,000	125,000
		1,021,358	895,014	829,960
Total liabilities		**1,139,575**	952,346	887,244
Total equity and liabilities		**5,148,192**	3,179,671	2,829,373
Net current assets		**3,290,980**	1,588,637	1,384,312
Total assets less current liabilities		**4,126,834**	2,284,657	1,999,413

The notes on pages 81 to 152 are an integral part of these financial statements.

The financial statements on pages 73 to 152 were approved by the Board of Directors on 20 March 2014 and were signed on its behalf.

Mei Qun
Director

Fang Jia Zhi
Director

Balance Sheet

As of 31 December 2013

		The Company	
	Note	**2013** **RMB'000**	2012 RMB'000
Assets			
Non-current assets			
Leasehold land and land use rights	6	**94,097**	95,718
Property, plant and equipment	7	**327,831**	274,181
Investments in subsidiaries	8	**250,901**	216,044
Investments in joint ventures	9	**2,000**	2,000
Deposits paid for purchase of property, plant and equipment		**10,500**	2,725
Deferred income tax assets	14	**5,223**	8,507
Other long-term assets		**1,741**	2,090
		692,293	601,265
Current assets			
Inventories	13	**1,393,855**	1,321,608
Trade and bills receivables, net	12	**166,350**	124,382
Amounts due from related parties	33(d)	**41,168**	9,122
Amount due from subsidiaries		**3,212**	–
Prepayments and other current assets		**34,070**	45,513
Cash and cash equivalents	31	**1,533,277**	567,829
		3,171,932	2,068,454
Total assets		**3,864,225**	2,669,719
Equity and liabilities			
Equity attributable to owners of the Company			
Share capital	15	**640,392**	588,000
Reserves	16		
– Proposed final dividend	27	**160,098**	147,000
– Other reserves		**2,162,008**	1,080,622
Total equity		**2,962,498**	1,815,622

Balance Sheet

As of 31 December 2013

	Note	The Company 2013 RMB'000	2012 RMB'000
Liabilities			
Non-current liabilities			
Deferred income – government grants	17	**59,015**	36,912
		59,015	36,912
Current liabilities			
Trade payables	19	**298,261**	330,202
Salary and welfare payables	20	**443**	443
Advances from customers		**145,129**	102,844
Amounts due to related parties	33(d)	**67,370**	14,214
Amounts due to subsidiaries		**48,370**	45,141
Current income tax liabilities		**2,219**	3,952
Other payables		**165,920**	195,389
Borrowings	18	**115,000**	125,000
		842,712	817,185
Total liabilities		**901,727**	854,097
Total equity and liabilities		**3,864,225**	2,669,719
Net current assets		**2,329,220**	1,251,269
Total assets less current liabilities		**3,021,513**	1,852,534

The notes on pages 81 to 152 are an integral part of these financial statements.

The financial statements on pages 73 to 152 were approved by the Board of Directors on 20 March 2014 and were signed on its behalf.

Mei Qun
Director

Fang Jia Zhi
Director

Consolidated Income Statement

For the year ended 31 December 2013

	Note	2013 RMB'000	2012 RMB'000 (Restated)
Revenue	21	**2,910,749**	2,439,002
Cost of sales		**(1,469,455)**	(1,202,432)
Gross profit		**1,441,294**	1,236,570
Distribution expenses		**(582,346)**	(551,917)
Administrative expenses		**(244,034)**	(198,347)
Other losses – net	22	**(8,428)**	(9,096)
Operating profit		**606,486**	477,210
Finance income	23	**12,887**	8,874
Finance costs	23	**(22,954)**	(8,158)
Finance (costs)/income – net	23	**(10,067)**	716
Share of (losses)/profits of joint ventures	9	**(555)**	3,349
Share of loss of an associate	10	**(753)**	(801)
Profit before income tax	24	**595,111**	480,474
Income tax expense	25	**(91,948)**	(80,926)
Profit for the year		**503,163**	399,548
Profit attributable to:			
Owners of the Company		**390,093**	330,180
Non-controlling interests		**113,070**	69,368
		503,163	399,548
Earnings per share for profit attributable to owners of the Company during the year	26		
– Basic		**RMB 0.65**	RMB 0.56
– Diluted		**RMB 0.65**	RMB 0.56

The notes on pages 81 to 152 are an integral part of these consolidated financial statements.

	Note	2013 RMB'000	2012 RMB'000
Dividends	27	**160,098**	147,000

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2013

	2013 RMB'000	2012 RMB'000 (Restated)
Profit for the year	**503,163**	399,548
Other comprehensive (expense)/income:		
Items that may be reclassified to profit or loss		
Foreign currency translation differences	**(25,733)**	2,062
Other comprehensive (expense)/income for the year, net of tax	**(25,733)**	2,062
Total comprehensive income for the year	**477,430**	401,610
Attributable to:		
Owners of the Company	**382,883**	331,115
Non-controlling interests	**94,547**	70,495
Total comprehensive income for the year	**477,430**	401,610

The notes on pages 81 to 152 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2013

	Attributable to owners of the Company									Non-controlling interests	Total equity
	Share capital	Capital reserve	Statutory surplus reserve fund	Statutory public welfare fund	Tax reserve	Foreign currency translation differences	Other reserve	Retained earnings	Total		
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance as of 1 January 2012, as previously stated	588,000	175,144	193,281	45,455	102,043	(23,520)	(4,070)	642,555	1,718,888	220,182	1,939,070
Adoption of merger accounting (Note 32)	–	–	–	–	–	–	1,530	30	1,560	1,499	3,059
Balance as of 1 January 2012, as restated	588,000	175,144	193,281	45,455	102,043	(23,520)	(2,540)	642,585	1,720,448	221,681	1,942,129
Profit for the year	–	–	–	–	–	–	–	330,180	330,180	69,368	399,548
Foreign currency translation differences											
– Group	–	–	–	–	–	711	–	–	711	1,127	1,838
– Joint Ventures	–	–	–	–	–	224	–	–	224	–	224
Appropriation from retained earnings	–	–	25,529	–	–	–	–	(25,529)	–	–	–
Dividends paid to shareholders of the Company relating to 2011	–	–	–	–	–	–	–	(111,720)	(111,720)	–	(111,720)
Dividends paid to non-controlling interests relating to 2011	–	–	–	–	–	–	–	–	–	(4,031)	(4,031)
Capital injection to a subsidiary	–	–	–	–	–	–	–	–	–	3,200	3,200
Acquisition of additional interests in a subsidiary	–	–	–	–	–	–	(185)	–	(185)	185	–
Cost incurred for an intended listing of a subsidiary	–	–	–	–	–	–	(2,051)	–	(2,051)	(1,812)	(3,863)
Balance as of 31 December 2012	588,000	175,144	218,810	45,455	102,043	(22,585)	(4,776)	835,516	1,937,607	289,718	2,227,325
Balance as of 1 January 2013, as previous stated	588,000	175,144	218,810	45,455	102,043	(22,585)	(6,306)	835,477	1,936,038	288,211	2,224,249
Adoption of merger accounting (Note 32)	–	–	–	–	–	–	1,530	39	1,569	1,507	3,076
Balance as of 1 January 2013, as restated	**588,000**	**175,144**	**218,810**	**45,455**	**102,043**	**(22,585)**	**(4,776)**	**835,516**	**1,937,607**	**289,718**	**2,227,325**
Profit for the year	–	–	–	–	–	–	–	**390,093**	**390,093**	**113,070**	**503,163**
Foreign currency translation differences											
– Group	–	–	–	–	–	**(4,827)**	–	–	**(4,827)**	**(18,523)**	**(23,350)**
– Joint Ventures	–	–	–	–	–	**(2,383)**	–	–	**(2,383)**	–	**(2,383)**
Appropriation from retained earnings	–	–	**36,213**	–	–	–	–	**(36,213)**	–	–	–
Issuance of new shares	**52,392**	**906,681**	–	–	–	–	–	–	**959,073**	–	**959,073**
Professional expenses incurred in connection with the Company's issuance of new shares	–	**(27,333)**	–	–	–	–	–	–	**(27,333)**	–	**(27,333)**
Dividends paid to shareholders of the Company relating to 2012	–	–	–	–	–	–	–	**(147,000)**	**(147,000)**	–	**(147,000)**
Dividends paid to non-controlling interests relating to 2012	–	–	–	–	–	–	–	–	–	**(44,191)**	**(44,191)**
Business combinations under common control	–	–	–	–	–	–	**(1,791)**	–	**(1,791)**	–	**(1,791)**
Capital contribution to the newly formed subsidiaries	–	–	–	–	–	–	–	–	–	**28,226**	**28,226**
Deemed acquisition of a subsidiary	–	–	–	–	–	–	–	–	–	**6,139**	**6,139**
Professional expenses incurred in connection with issuance of new shares of a subsidiary	–	–	–	–	–	–	**(13,705)**	–	**(13,705)**	**(12,111)**	**(25,816)**
Issuance of new shares of a subsidiary (Note 8)	–	–	–	–	–	–	**167,543**	–	**167,543**	**389,012**	**556,555**
Balance as of 31 December 2013	**640,392**	**1,054,492**	**255,023**	**45,455**	**102,043**	**(29,795)**	**147,271**	**1,042,396**	**3,257,277**	**751,340**	**4,008,617**

The notes on pages 81 to 152 are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 December 2013

	Note	2013 RMB'000	2012 RMB'000 (Restated)
Cash flows from operating activities:			
Cash generated from operations	31	**468,824**	490,425
Interest paid		**(10,122)**	(7,932)
Income tax paid		**(83,251)**	(83,149)
Net cash generated from operating activities		**375,451**	399,344
Cash flows from investing activities:			
Purchase of property, plant and equipment		**(188,638)**	(113,542)
Purchases of land use rights		**(11,080)**	(56)
Purchase of other long-term assets		**(364)**	(2,282)
Proceeds from government grants relating to property, plant and equipment		**–**	3,550
Proceeds from disposal of property, plant and equipment		**698**	67
Proceeds from short-term bank deposits		**5,977**	9,407
Increase in short-term bank deposits		**(398,399)**	(5,977)
Payment for business combination under common control		**(1,791)**	–
Deemed acquisition of a subsidiary		**7,501**	–
Dividend received		**7**	172
Interest received		**12,887**	8,874
Net cash used in investing activities		**(573,202)**	(99,787)
Cash flows from financing activities:			
Proceeds from issuance of new shares		**959,073**	–
Professional expenses incurred in connection with the Company's issuance of new shares		**(27,333)**	–
Issuance of new shares of a subsidiary (Note 8)		**556,555**	–
Professional expenses incurred in connection with issuance of new shares of a subsidiary		**(35,893)**	(11,343)
Proceeds from borrowings		**294,310**	125,000
Repayments of borrowings		**(225,000)**	(125,000)
Capital injection from non-controlling interests		**28,226**	3,200
Dividends paid to shareholders of the Company		**(147,000)**	(111,720)
Dividends paid to non-controlling interests		**(44,191)**	(4,031)
Net cash generated/(used in) from financing activities		**1,358,747**	(123,894)
Net increase in cash and cash equivalents		**1,160,996**	175,663
Cash and cash equivalents at beginning of the year		**835,183**	658,724
Exchange (losses)/gains on cash and cash equivalents		**(28,260)**	796
Cash and cash equivalents at end of the year	31	**1,967,919**	835,183

The notes on pages 81 to 152 are an integral part of these consolidated financial statements.

1. GENERAL INFORMATION

Tong Ren Tang Technologies Co., Ltd. (the "**Company**") was incorporated as a joint stock limited company in Beijing, the People's Republic of China (the "PRC") on 22 March 2000. The address of its registered office is No. 16 Tongji Beilu, Beijing Economic and Technological Development Zone, Beijing, the PRC.

The Company and its subsidiaries are hereafter collectively referred to as the "Group". The Group is principally engaged in the production and distribution of Chinese medicine and primarily operates in Mainland China and Hong Kong.

The directors of the Company (the "Directors") consider China Beijing Tong Ren Tang Group Co., Ltd., a limited liability company incorporated in Beijing, the PRC, as the ultimate holding company.

The Company was listed on the Growth Enterprise Market (the "**GEM**") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 31 October 2000. On 9 July 2010, the Company transferred the listing from GEM to the Main Board (the "**MB**") of the Stock Exchange.

These financial statements are presented in RMB unless otherwise stated.

These consolidated financial statements have been approved for issue by the Board of Directors on 20 March 2014.

1. GENERAL INFORMATION (CONT'D)

As of 31 December 2013, the Group had equity interests in these subsidiaries:

Name	Place/date of incorporation/kind of legal entity	Percentage of equity interest held	Issued/ registered and paid-up capital	Principal activities/place of operation
Subsidiaries:				
Beijing Tong Ren Tang Nanyang Sanzhuyu Co., Limited ("Tong Ren Tang Nanyang")	Henan, PRC 24 October 2001 Limited liability company	51%*	RMB4,000,000	Purchasing, processing and selling of Chinese medicinal raw materials Henan, PRC
Beijing Tong Ren Tang Hubei Chinese Medicinal Raw Materials Co., Limited ("Tong Ren Tang Hubei")	Hubei, PRC 26 October 2001 Limited liability company	51%*	RMB3,000,000	Purchasing and selling of agricultural by-products Hubei, PRC
Beijing Tong Ren Tang Zhejiang Chinese Medicinal Raw Materials Co., Limited ("Tong Ren Tang Zhejiang")	Zhejiang, PRC 31 October 2001 Limited liability company	51%*	RMB10,000,000	Purchasing of Chinese medicinal raw materials and selling of agricultural by-products Zhejiang, PRC
Beijing Tong Ren Tang Hebei Chinese Medicinal Raw Materials Technologies Co., Limited ("Tong Ren Tang Hebei")	Hebei, PRC 19 November 2001 Limited liability company	51%*	RMB8,000,000	Purchasing, processing and selling of Chinese medicinal raw materials Hebei, PRC
Beijing Tong Ren Tang Tongke Pharmaceutical Company Limited ("Tongke Company")	Beijing, PRC 4 November 2003 Limited liability company	95%*	RMB75,000,000	Production of ointment, and medical research and development Beijing, PRC
Beijing Tong Ren Tang Chinese Medicine Company Limited ("Tong Ren Tang Chinese Medicine") [1]	Hong Kong, PRC 18 March 2004 Limited liability company	38.38%*	HK$415,000,000	Production and sales of Chinese medicine Hong Kong, PRC
Beijing Tong Ren Tang Nansanhuan Zhonglu Drugstore Co., Limited ("Nansanhuan Zhonglu Drugstore")	Beijing, PRC 28 April 2004 Limited liability company	90%*	RMB500,000	Sales of medicinal products Beijing, PRC
Beijing Tong Ren Tang Yanbian Chinese Medicinal Raw Materials Co., Limited ("Tong Ren Tang Yanbian")	Jilin, PRC 24 September 2004 Limited liability company	51%*	RMB4,000,000	Purchasing and selling of agricultural by-products Jilin, PRC

* *Shares directly held by the Company*

1. GENERAL INFORMATION (CONT'D)

Name	Place/date of incorporation/kind of legal entity	Percentage of equity interest held	Issued/ registered and paid-up capital	Principal activities/place of operation
Subsidiaries: *(Cont'd)*				
Beijing Tong Ren Tang Anhui Chinese Medicinal Raw Materials Co., Limited ("Tong Ren Tang Anhui")	Anhui, PRC 18 October 2004 Limited liability company	51%*	RMB4,000,000	Purchasing and selling of agricultural by-products Anhui, PRC
Beijing Tong Ren Tang WM Dianorm Biotech Co., Limited ("Tong Ren Tang WM")	Beijing, PRC 20 February 2001 Sino-foreign equity joint venture	60%*	US$3,000,000	Technological development and sales of biological products, Chinese and western medicines and cosmetics Beijing, PRC
Beijing Tong Ren Tang Chinese Medicine (Hong Kong) Group Co., Ltd., ("Chinese Medicine Group Co., Ltd.")	Hong Kong, PRC 1 March 2012 Limited liability company	53.09%*	HK$10,000	Investment holding Hong Kong, PRC
Beijing Tong Ren Tang Xing Anmeng Chinese Medicinal Raw Materials Co.,Limited ("Xing Anmeng Co., Ltd.")	Inner Mongolia, PRC 14 April 2004 Limited liability company	51%*	RMB3,000,000	Purchasing and selling of the Chinese medicine Inner Mongolia, PRC
Beijing Tong Ren Tang Century advertising Co., Limited ("Tong Ren Tang Century Advertising)	Beijing, PRC 25 September 2013 Limited liability company	100%*	RMB1,000,000	Advertisement services Beijing, PRC
Beijing Tong Ren Tang International Natural-Pharm Co., Ltd. ("International Pharm")	Beijing, PRC 6 March 2006 Limited liability company	100%	HK$10,000,000	Sale and distribution of Chinese medicine and healthcare products Beijing, PRC
Beijing Tong Ren Tang (Australia) Pty. Ltd. ("Tong Ren Tang Australia")	Sydney, Australia 20 May 2004 Limited liability company	75%	AUD1,000,000	Wholesale and retail of Chinese medicine and healthcare products and provision of Chinese medical consultation and treatment Sydney, Australia
Beijing Tong Ren Tang Science Arts (Singapore) Co Pte. Ltd ("Tong Ren Tang Singapore")	Singapore 1 December 2003 Limited liability company	51%	SGD857,000	Wholesale and retail of Chinese medicine and healthcare products and provision of Chinese medical consultation and treatment Singapore

* *Shares directly held by the Company*

1. GENERAL INFORMATION (CONT'D)

Name	Place/date of incorporation/kind of legal entity	Percentage of equity interest held	Issued/ registered and paid-up capital	Principal activities/place of operation
Subsidiaries: *(Cont'd)*				
Beijing Tong Ren Tang (B) Sdn Bhd ("Tong Ren Tang Sdn Bhd")	Bandar Seri Begawan, Brunei 20 May 2009 Limited liability company	51%	BND100	Retail of Chinese medicine and healthcare products Bandar Seri Begawan, Brunei
Beijing Tong Ren Tang (Toronto) Inc. ("Tong Ren Tang Toronto")	Toronto, Canada 24 June 2010 Limited liability company	51%	CAD100	Retail of Chinese medicine, healthcare products and provision of Chinese medical consultation and treatment Toronto, Canada
Beijing Tong Ren Tang (Tangshan) Nutrition and Healthcare Co., Ltd ("Tangshan Company")	Hebei, PRC 13 September 2010 Limited liability company	74%**	RMB120,000,000	Production and sales of healthcare products and Chinese medicine Hebei, PRC
Beijing Tong Ren Tang (Macau) Company Limited ("Tong Ren Tang Macau")	Macau, PRC 6 November 2002 Limited liability company	51%	MOP1,000,000	Wholesale and retail of Chinese medicine and healthcare products and provision of Chinese medical consultation and treatment Macau, PRC
Beijing Tong Ren Tang Gulf FZLLC ("Tong Ren Tang Dubai")	Dubai, United Arab Emirates 8 June 2011 Limited liability company	51%	AED2,920,000	Retail of Chinese medicine, healthcare products and provision of Chinese medical consultation and treatment Dubai, United Arab Emirates
Beijing Tong Ren Tang Poland sp.zo.o. ("Tong Ren Tang Poland")	Warsaw, Poland 26 July 2012, Limited liability company	100%	Zloty50,000	Retail of healthcare products and provision of Chinese healthcare consultation and treatment Warsaw, Poland

** *6% of which directly held by the Company*

1. GENERAL INFORMATION (CONT'D)

Name	Place/date of incorporation/kind of legal entity	Percentage of equity interest held	Issued/ registered and paid-up capital	Principal activities/place of operation
Subsidiaries: *(Cont'd)*				
Beijing Tong Ren Tang Canada Co., Ltd.[2] ("Tong Ren Tang Canada")	Vancouver, Canada 11 January 2002 Limited liability company	51%	CAD100	Retail of Chinese medicine, healthcare products and provision of Chinese medical consultation and treatment Vancouver, Canada
Beijing Tong Ren Tang Management Pty. Ltd. ("Tong Ren Tang Management")	Sydney, Australia 1 October 2013 Limited liability company	100%	AUD100	Investment holding Sydney, Australia
Beijing Tong Ren Tang (Leeds) Company Limited ("Tong Ren Tang Leeds")	Leeds, United Kingdom 17 October 2013 Limited liability company	51%	GBP1,000	Retail of Chinese medicine and healthcare products and provision of Chinese medical consultation and treatment Leeds, United Kingdom
Beijing Tong Ren Tang Consulting Service Co., Ltd. ("Tong Ren Tang Consulting Service")	Beijing, PRC 30 March 2010 Limited liability company	100%	RMB600,000	Provision of administrative services to group companies Beijing, PRC

[1] Tong Ren Tang Chinese Medicine was listed on the GEM of the Stock Exchange on 7 May 2013. Upon completion of the listing the percentage of equity interest held of the Company decreased from 53.09% to 38.38%. Although the Group owns less than half of the equity interest, it is able to gain power over more than one half of the voting rights by virtue of an agreement with other investor. Consequently, the Group consolidates Tong Ren Tang Chinese Medicine.

[2] Tong Ren Tang Canada, a then joint venture, has become a subsidiary of the Group since 1 June 2013.

The Group has the power to control the strategic operating, investing and financing policies of its subsidiaries since these policies are decided by the board of directors of these companies by simple majority votes and the Group can appoint more than half of the board members in each of these companies. Accordingly, they are considered as the Group's subsidiaries under International Financial Reporting Standards ("IFRS").

1. GENERAL INFORMATION (CONT'D)

As of 31 December 2013, the Group had equity interests in these joint ventures:

Name	Place/date of incorporation/kind of legal entity	Percentage of equity interest held	Issued/ registered and paid-up capital	Principal activities
Joint ventures:				
Beijing Tong Ren Tang Bozhou Chinese Medicinal Raw Materials and Logistics Co., Limited ("Tong Ren Tang Bozhou")	Anhui, PRC 12 July 2011 Limited liability company	40%*	RMB5,000,000	Purchasing, processing and selling of Chinese medicinal raw materials, storage and logistics
Peking Tongrentang (M) SDN. BHD. ("Tong Ren Tang Malaysia")	Kuala Lumpur, Malaysia 19 January 2001 Limited liability company	60%	MYR1,900,000	Retail of Chinese medicine, healthcare products and provision of Chinese medical consultation and treatment
PT. Beijing Tong Ren Tang Indo. ("Tong Ren Tang Indonesia")	Jakarta, Indonesia 22 September 2003 Limited liability company	50%	USD1,000,000	Investment holding
Beijing Tong Ren Tang (Thailand) Company Limited ("Tong Ren Tang Thailand")	Bangkok, Thailand 23 March 2000 Limited liability company	49%	THB38,000,000	Wholesale and retail of Chinese medicine and healthcare products and provision of Chinese medical consultation and treatment
Beijing Tong Ren Tang (Boryung) Co., Ltd. ("Tong Ren Tang Boryung")	Boryung, Korea 10 May 2002 Limited liability company	51%	WON 1,829,835,000	Wholesale of Chinese medicine and healthcare products
Beijing Tong Ren Tang (Thai Boon Roong) Company Limited ("Tong Ren Tang Thai Boon Roong")	Phnom Penh, Cambodia 29 December 2005 Limited liability company	51%	USD500,000	Retail of Chinese medicine and healthcare products
PT. Klinik Beijing Tongrentang [1] ("Tong Ren Tang PT Klinik")	Jakarta, Indonesia 22 October 2006 Limited liability company	N/A	Rp2,600,000,000	Retail of Chinese medicine and healthcare products

* *Shares directly held by the Company*

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

1. GENERAL INFORMATION (CONT'D)

The above entities are considered as the Group's joint ventures under IFRS because their strategic operating, investing and financing activities are jointly controlled by the Group and the joint venture partners.

The indirectly held associated company below was under liquidation as of 31 December 2013:

Name	Place/date of incorporation/kind of legal entity	Percentage of equity interest held	Issued/ registered and paid-up capital	Principal activities
Associate:				
Beijing Tong Ren Tang Health Preserving and Culture Co., Ltd. ("Health Preserving Company")	Beijing, PRC 24 May 2010 Limited liability company	41%	RMB8,000,000	Provision of Chinese medical consultation and treatment

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.

2.1 Basis of preparation

The consolidated financial statements of Tong Ren Tang Technologies Co., Ltd., have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The consolidated financial statements have been prepared under the historical cost convention.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.1 Basis of preparation (Cont'd)

2.1.1 Changes in accounting policy and disclosures

(a) *Standards, amendments and interpretations effective in 2013*

- Amendment to IFRS 1 'First time adoption', on government loans
- Amendment to IFRS 7 'Financial instruments: Disclosures' on asset and liability offsetting
- IFRS 10 'Consolidated financial statements'
- IFRS 11 'Joint arrangements'
- IFRS 12 'Disclosure of interests in other entities'
- Amendment to IFRSs 10, 11 and 12 on transition guidance
- IFRS 13 'Fair value measurements'
- Amendment to IAS 1, 'Financial statements presentation' regarding other comprehensive income
- Amendment to IAS 19, 'Employee benefits'
- IAS 27 (revised 2011), 'Separate financial statements'
- IAS 28 (revised 2011), 'Associates and joint ventures'
- IFRIC – Int 20 'Stripping costs in the production phase of a surface mine'
- Annual improvements 2011
- Annual improvement 2012 – Amendment to IFRS 13, 'Fair value measurement'
- Annual improvement 2013 – Amendment to IFRS 1, 'First time adoption'

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.1 *Basis of preparation (Cont'd)*

2.1.1 Changes in accounting policy and disclosures (Cont'd)

(a) *Standards, amendments and interpretations effective in 2013 (Cont'd)*

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

Effect on consolidated balance sheet

	2013 RMB'000	2012 RMB'000	2011 RMB'000
Increase/(decrease)			
ASSETS			
Property, plant and equipment	**(8,222)**	(9,562)	(2,422)
Investment in joint ventures	**13,353**	21,018	17,617
Deferred income tax assets	**–**	(73)	(147)
Inventories	**(3,889)**	(5,876)	(4,733)
Trade and bills receivables, net	**(27)**	(42)	(193)
Amounts due from related parties	**–**	–	(26)
Prepayments and other current assets	**(780)**	(2,518)	(880)
Short-term bank deposits	**–**	(2,785)	–
Cash and cash equivalents	**(7,908)**	(9,717)	(14,593)
Total assets	**(7,473)**	(9,555)	(5,377)
LIABILITIES			
Deferred income tax liabilities	**(140)**	(147)	(40)
Trade payables	**(624)**	(1,320)	(1,111)
Salary and welfare payables	**–**	(174)	(40)
Advances from customers	**(2)**	(83)	(52)
Amounts due to related parties	**(760)**	(1,642)	(2,540)
Current income tax liabilities	**(865)**	(763)	(617)
Other payables	**(1,921)**	(1,748)	(977)
Short-term borrowings	**(3,161)**	(3,678)	–
Total liabilities	**(7,473)**	(9,555)	(5,377)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.1 *Basis of preparation (Cont'd)*

2.1.1 Changes in accounting policy and disclosures (Cont'd)

(a) *Standards, amendments and interpretations effective in 2013 (Cont'd)*

Effect on consolidated income statement

	2013 **RMB'000**	2012 RMB'000
Increase/(decrease)		
Revenue	**(14,513)**	(20,859)
Cost of sales	**(6,573)**	(8,892)
Distribution expenses	**(4,781)**	(7,154)
Administrative expenses	**(2,815)**	(1,076)
Finance income-net	**(27)**	(250)
Share of losses/profits of joint ventures	**555**	3,349
Income tax expense	**(926)**	(638)
Profit for the year	**–**	–

Effect on consolidated statement of cash flows

	2013 **RMB'000**	2012 RMB'000
Increase/(decrease)		
Operating activities cash flows	**(1,147)**	(1,543)
Investing activities cash flows	**3,974**	10,231
Financing activities cash flows	**577**	(3,678)
Net increase in cash and cash equivalents	**3,404**	5,010
Cash and cash equivalents at the beginning of year	**(9,717)**	(14,593)
Net exchange (loss)/gain on cash and cash equivalents	**(1,595)**	(134)
Cash and cash equivalents at the end of year	**(7,908)**	(9,717)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.1 Basis of preparation (Cont'd)

2.1.1 Changes in accounting policy and disclosures (Cont'd)

(b) *Standards, amendments and interpretations to existing standards that are effective for annual periods beginning after 1 January 2014 or later periods and have not been early adopted by the Group*

- IFRS 9 'Financial Instruments' (effective for annual periods beginning on or after 1 January 2015)

- Amendments to IFRS 10, 12 and IAS 27 'Consolidation for investment entities' (effective for annual periods beginning on or after 1 January 2014)

- Amendment to IAS 32 'Financial instruments: Presentation' on asset and liability offsetting (effective for annual periods beginning on or after 1 January 2014)

- Amendments to IAS 36 'Impairment of assets' on recoverable amount disclosures (effective for annual periods beginning on or after 1 January 2014)

- Amendments to IAS 39 'Financial Instruments: Recognition and Measurement' – 'Novation of derivatives (effective for annual periods beginning on or after 1 January 2014)

- IFRIC 21 'Levies' (effective for annual periods beginning on or after 1 January 2014)

- Amendment to IAS 19 regarding defined benefit plans (effective for annual periods beginning on or after 1 July 2014)

- Annual improvement 2012 (effective for annual periods beginning on or after 1 July 2014)

- Annual improvement 2013 (effective for annual periods beginning on or after 1 July 2014)

There are no IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Group.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.2 Subsidiaries

2.2.1 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 de-consolidated from the date that control ceases.

(a) *Merger accounting for common control combinations*

The consolidated financial statements incorporate the financial statements of the combining entities or businesses in which the common control combination occurs as if they had been combined from the date when the combining entities or businesses first came under the control of the controlling party.

The net assets of the combining entities or businesses are combined using the existing book values from the controlling parties' perspective. No amount is recognised in consideration for goodwill or excess of acquirers' interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the continuation of the controlling party's interest.

The consolidated income statements include the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under the control of the controlling party, whichever is shorter.

Transaction costs, including professional fees, registration fees, costs of furnishing information to shareholders, costs or losses incurred in combining operations of the previously separate businesses, etc., incurred in relation to the common control combination that is to be accounted for by using merger accounting is recognised as an expense in the year in which it is incurred.

(b) *Acquisition method for business combinations other than common control combinations*

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.2 *Subsidiaries (Cont'd)*

2.2.1 Consolidation (Cont'd)

(b) *Acquisition method for business combinations other than common control combinations (Cont'd)*

Acquisition-related costs are expensed as incurred.

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 through 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 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.

(c) *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 subsidiaries in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

2.2.2 Separate financial statements

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

Impairment testing of the investments in subsidiaries is required upon receiving a dividend 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 (CONT'D)

2.3 Associates

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.4 *Joint ventures*

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

Under the equity method of accounting, interests in joint ventures are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses and movements in other comprehensive income. When the Group's share of losses in a 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 interest in the joint ventures. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of the joint ventures have been changed where necessary to ensure consistency with the policies adopted by the Group. The change in accounting policy has been applied as from 1 January 2012.

The effects of the change in accounting policies on the financial position, comprehensive income and the cash flows of the Group at 1 January 2012 and 31 December 2012 are shown in Note 2.1.1. The change in accounting policy has had no impact on earnings per share.

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

In the Company's balance sheet, impairment testing of the investments in joint ventures is required upon receiving dividends from these investments if the dividend exceeds the total comprehensive income of the joint venture 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.

2.5 *Segment reporting*

Operating segments are reported in a manner consistent with the internal reporting provided to the Board of Directors. Board of Directors, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Directors in the Board of Directors that makes strategic decisions.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.6 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the 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 RMB, which is the Company's functional and the Group's presentation currency.

(b) 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, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the income statement within 'Finance income/costs – net'.

(c) 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 exchange 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 (CONT'D)

2.7 Property, plant and equipment

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.

Depreciation on property, plant and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

Buildings	8-50 years
Equipment and machinery	3-15 years
Motor vehicles	5-8 years
Office equipment	2.5-12 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 2.9).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in the income statement.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.8 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 2.9.

2.9 Impairment of investments in subsidiaries, joint ventures, associates and non-financial assets

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

2.10 Financial assets

2.10.1 Classification

Management determines the classification of its financial assets at initial recognition. Other than loans and receivables, the Group did not hold any financial assets in other categories.

Loans and receivables

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 and bill receivables net' and 'cash and cash equivalents' in the balance sheet (Notes 2.13 and 2.14).

2.10.2 Recognition and measurement

Regular way purchases and sales of financial assets are recognised on the trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.11 *Impairment of financial assets*

Assets carried at amortised cost

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.

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated income statement. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

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.

2.12 *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 (CONT'D)

2.13 Trade and other receivables

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection of trade and other receivables 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 and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

2.14 Cash and cash equivalents

In the consolidated statement of cash flows, cash and cash equivalents includes cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less.

2.15 Share capital

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

2.16 Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable 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 payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.17 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.18 Borrowing costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

2.19 Current and deferred income tax

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

(a) 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.

(b) Deferred income tax

Inside basis differences

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.19 Current and deferred income tax (Cont'd)

(b) Deferred income tax (Cont'd)

Outside basis differences

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

Deferred income tax assets are recognised on deductible temporary differences arising from investments in subsidiaries, associates and joint ventures 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.

(c) 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.

2.20 Employee benefits

(a) Pension obligations

The Group participates in a number of defined contribution plans in the PRC and Hong Kong. The pension plans are generally funded by payments from employees and relevant Group companies. The Group pays contributions to the pension plans which are calculated as a certain percentage of the employees' salaries.

The Group has no legal or constructive obligations to make further payments once the required contributions have been paid, even if the plans do not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.20 *Employee benefits (Cont'd)*

(b) Termination benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to a termination when the entity has a detailed formal plan to terminate the employment of current employees without possibility of withdrawal. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to their present value.

2.21 *Provision*

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.

2.22 *Revenue recognition*

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods supplied, stated net of discounts returns and value added taxes. 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.22 Revenue recognition (Cont'd)

(a) 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 wholesale, 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 arrived at 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 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 retailed sales, the Group also sells products to individual customers through its retail outlets. Sales of goods are recognised in the accounting period in which the retail outlet sells a product to the customer. Retail sales are usually settled in cash or by credit card.

(b) Service income

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

(c) 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 on an accrual basis upon sales recognised by the overseas entities.

(d) Agency fee income

Agency fee income is recognised when the services for distribution of products are provided.

2.23 Interest income

Interest income is recognised using the effective interest method. When a loan and receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loan and receivables are recognised using the original effective interest rate.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.24 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.

2.25 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.

2.26 Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the income statement over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to property, plant and equipment are included in non-current liabilities as deferred income – government grants and are credited to the income statement on a straight-line basis over the expected lives of the related assets.

3. FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk and 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.

(a) Market risk

(i) Foreign exchange risk

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

3. FINANCIAL RISK MANAGEMENT (CONT'D)

3.1 Financial risk factors (Cont'd)

(a) Market risk (Cont'd)

(i) Foreign exchange risk (Cont'd)

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

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

The Group	**2013 Increase/(decrease) on profit before income tax if exchange rates change by +5% RMB'000**	**2013 Increase/(decrease) on profit before income tax if exchange rates change by –5% RMB'000**	2012 Increase/(decrease) on profit before income tax if exchange rates change by +5% RMB'000 (Restated)	2012 Increase/(decrease) on profit before income tax if exchange rates change by –5% RMB'000 (Restated)
HKD	**71,628**	**(71,628)**	6,125	(6,125)

(ii) Interest rate risk

As the Group has no significant interest-bearing assets or liabilities other than short-term bank deposits, cash and cash equivalents and borrowings, the Group's income and operating cash flows are substantially independent of changes in market interest rates. As of 31 December 2013 and 2012, the Group's borrowings were at fixed rates. The interest rates and repayment terms of the Group's borrowings are disclosed in Note 18. The Group has not used any interest rate swaps to hedge its exposure to interest rate risk. However, the current debt level of the Group is relatively low and the exposure to the fair value interest rate risk is limited for the Group. The management of the Group monitors the interest rate exposure regularly.

3. FINANCIAL RISK MANAGEMENT (CONT'D)

3.1 *Financial risk factors (Cont'd)*

(b) Credit risk

The Group has no significant concentrations of credit risk. It has policies to ensure that sales of products are made to customers (including customers that are related parties) with an appropriate credit history. Individual credit risk limit is set up based on internal assessment, taking into account the customer's financial position, past experience and other factors. The factors considered by management in determining the impairment are described in Note 12.

Cash at bank and short-term bank deposits are deposited with high-credit-quality financial institutions. The Group has policies that limit the amount of credit exposure to any financial institution. As of 31 December 2013, main part of the bank deposits is due with state-owned banks, which are at lower credit risk.

	The Group		The Company	
	2013	2012	**2013**	2012
	RMB'000	RMB'000 (Restated)	**RMB'000**	RMB'000
State-owned banks (Note 31(b))	**2,346,254**	791,988	**1,533,218**	567,793
Other banks	**19,516**	48,267	**–**	–
	2,365,770	840,255	**1,533,218**	567,793

(c) Liquidity risk

The Group's policy is to maintain sufficient cash and cash equivalents or have available funding through adequate amount of committed credit facilities to meet its working capital requirements. The amount of undrawn credit facilities at the balance sheet date is disclosed in Note 34.

The borrowings are all these borrowings that will mature within two year (Note 18). Generally, there is no specific credit period granted by the suppliers but the related trade payables are normally expected to be settled within one year after receipt of goods or services.

The carrying amounts of the Group's and the Company's financial liabilities approximate their fair values as the impact of discounting is not significant.

3. FINANCIAL RISK MANAGEMENT (CONT'D)

3.2 *Capital risk management*

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

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, issue new shares or repay borrowings.

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as total borrowings divided by total equity. Total borrowings included 'current and non-current borrowings' as shown in the consolidated balance sheet. Total equity was shown in the consolidated balance sheet.

	2013 **RMB'000**	2012 RMB'000 (Restated)
Total borrowings	**194,310**	125,000
Total equity	**4,008,617**	2,227,325
Gearing ratio	**5%**	6%

3.3 *Fair value estimation*

The Group's financial assets include cash and cash equivalents, short-term bank deposits and receivables. Financial liabilities include payables, short-term borrowings, and long-term borrowings. The carrying amount of the financial assets and financial liabilities approximate their fair values due to their short maturities.

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.

(i) *Net realisable value of inventories*

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated cost to completion and 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.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONT'D)

(ii) Estimated provision for impairment of receivables

The Group makes provision for impairment of receivables based on an assessment of the collectability of trade and other receivables. Provisions for impairment are applied to trade and other receivables where events or changes in circumstances indicated that the balances may not be collectible. The identification of doubtful debts requires the use of judgement and estimates. Where the expectation is different from the original estimate, such difference will impact carrying value of receivables and doubtful debt expenses in the period in which such estimate is changed.

(iii) 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.

5. SEGMENT INFORMATION

The Directors in the Board of Directors is the Group's chief operating decision-maker. Management has determined the operating segments based on the information reviewed by the Directors in the Board of Directors for the purposes of allocating resources and assessing performance.

The Directors in the Board of Directors consider the business from an operational entity perspective. Generally, the Directors in the Board of Directors considers the performance of business of each entity within the Group separately. Thus, each entity within the Group is an operating segment.

The reportable operating segments derive their revenue primarily from (i) the manufacture and sale of Chinese medicine of the Company in Mainland China, and (ii) the operation of the distribution network of Tong Ren Tang Chinese Medicine and the manufacture of Chinese medicine outside Mainland China.

Other companies are engaged in processing and purchasing of Chinese medicinal raw materials and sales of medicinal products, etc. They do not form separate reportable segments as they do not meet the quantitative thresholds required by IFRS 8.

The Directors in the Board of Directors assesses the performance of the operating segments based on revenue and profit after income tax of each segment.

5. SEGMENT INFORMATION (CONT'D)

The segment information provided to the Directors in the Board of Directors for the reportable segments for the year ended 31 December 2013 is as follows:

	The Company RMB'000	Tong Ren Tang Chinese Medicine RMB'000	All other segments RMB'000	Total RMB'000
Segment revenue	2,237,724	491,772	376,330	3,105,826
Inter-segment revenue	(12,823)	–	(182,254)	(195,077)
Revenue from external customers	2,224,901	491,772	194,076	2,910,749
Profit after income tax	318,307	172,675	12,181	503,163
Interest income	7,424	4,583	880	12,887
Interest expense	(9,152)	(469)	(501)	(10,122)
Depreciation of property, plant and equipment	(26,305)	(11,279)	(5,799)	(43,383)
Amortisation of prepaid operating lease payments	(2,099)	(433)	(740)	(3,272)
Reversal of provision for impairment of inventories	7,512	585	–	8,097
Provision for impairment of receivables	(1,246)	–	–	(1,246)
Share of profits/(losses) of joint ventures	3	(558)	–	(555)
Share of loss of an associate	–	(753)	–	(753)
Income tax expense	(51,619)	(35,042)	(5,287)	(91,948)
Segment assets and liabilities				
Total assets	3,588,266	1,108,633	451,293	5,148,192
Investment in joint ventures	2,007	11,346	–	13,353
Additions to non-current assets (other than deferred tax assets)	95,055	98,606	14,935	208,596
Total liabilities	853,359	75,683	210,533	1,139,575

5. SEGMENT INFORMATION (CONT'D)

The segment information for the year ended 31 December 2012 is as follows:

(Restated)	The Company RMB'000	Tong Ren Tang Chinese Medicine RMB'000	All other segments RMB'000	Total RMB'000
Segment revenue	1,939,598	365,818	294,291	2,599,707
Inter-segment revenue	(5,903)	(4,017)	(150,785)	(160,705)
Revenue from external customers	1,933,695	361,801	143,506	2,439,002
Profit after income tax	254,510	130,823	14,215	399,548
Interest income	7,580	590	704	8,874
Interest expense	(7,933)	(225)	–	(8,158)
Depreciation of property, plant and equipment	(25,990)	(7,757)	(5,913)	(39,660)
Amortisation of prepaid operating lease payments	(2,091)	(937)	(142)	(3,170)
Reversal of provision/Provision for impairment of inventories	10,958	(4,667)	–	6,291
Provision for impairment of receivables	(581)	–	–	(581)
Share of profit of joint ventures	8	3,341	–	3,349
Share of loss of an associate	–	(801)	–	(801)
Income tax expense	(44,234)	(30,397)	(6,295)	(80,926)
Segment assets and liabilities				
Total assets	2,433,613	542,344	203,714	3,179,671
Investment in joint ventures	2,011	19,007	–	21,018
Investment in an associate	–	753	–	753
Additions to non-current assets (other than deferred tax assets)	69,258	53,033	4,193	126,484
Total liabilities	808,957	82,043	61,346	952,346

Sales between segments are carried out at arm's length. The revenue from external parties reported to the Directors in the Board of Directors is measured in a manner consistent with that in the income statement.

The amounts provided to the Directors in the Board of Directors with respect to total assets and liabilities are measured in a manner consistent with that of the financial statements. These assets are allocated based on the operations of the segment and the physical location of the asset.

5. SEGMENT INFORMATION (CONT'D)

Revenues from external customers are derived from the sales of medicine and provision of services. The breakdown of sales of medicine by region is provided in Note 21.

The total of the non-current assets other than deferred income tax assets located in Mainland China is RMB633,839,000 (2012: RMB559,738,000(Restated)), and the total of these non-current assets located in other countries is RMB187,964,000 (2012: RMB122,910,000 (Restated)).

6. LEASEHOLD LAND AND LAND USE RIGHTS

The interests in leasehold land and land use rights represent prepaid operating lease payments and their net book values are analysed as follows:

	The Group		The Company	
	2013	2012	**2013**	2012
	RMB'000	RMB'000	**RMB'000**	RMB'000
In Mainland China, held on:				
Leases of between 10 to 50 years	**123,400**	125,780	**94,097**	95,718
In Hong Kong, held on:				
Leases of between 10 to 50 years	**14,293**	15,181	**–**	–
	137,693	140,961	**94,097**	95,718

	The Group		The Company	
	2013	2012	**2013**	2012
	RMB'000	RMB'000	**RMB'000**	RMB'000
At 1 January	**140,961**	143,879	**95,718**	97,809
Additions	**580**	56	**478**	–
Amortisation of prepaid operating lease payments	**(3,272)**	(3,170)	**(2,099)**	(2,091)
Exchange differences	**(576)**	196	**–**	–
At 31 December	**137,693**	140,961	**94,097**	95,718

7. PROPERTY, PLANT AND EQUIPMENT

The Group:

	Buildings RMB'000	Equipment and machinery RMB'000	Motor vehicles RMB'000	Office equipment RMB'000	CIP RMB'000	Total RMB'000
At 1 January 2012						
Cost, as previously stated	362,636	376,605	18,290	29,203	44,322	831,056
Effect of adoption of amendment to IAS 28	(3,214)	(1,378)	(424)	(2,227)	–	(7,243)
Adoption of merger accounting (Note 32)	–	851	142	307	–	1,300
Cost, as restated	359,422	376,078	18,008	27,283	44,322	825,113
Accumulated depreciation, as previously stated	(103,924)	(253,837)	(10,614)	(14,857)	–	(383,232)
Effect of adoption of amendment to IAS 28	1,592	1,291	356	1,582	–	4,821
Adoption of merger accounting (Note 32)	–	(423)	(55)	(157)	–	(635)
Accumulated depreciation, as restated	(102,332)	(252,969)	(10,313)	(13,432)	–	(379,046)
Accumulated impairment	(561)	(12,922)	–	–	–	(13,483)
Net book amount, as restated	256,529	110,187	7,695	13,851	44,322	432,584
Year ended 31 December 2012						
Opening net book amount, as previously stated	258,151	109,846	7,676	14,346	44,322	434,341
Effect of adoption of amendment to IAS 28	(1,622)	(87)	(68)	(645)	–	(2,422)
Adoption of merger accounting (Note 32)	–	428	87	150	–	665
Opening net book amount as restated	256,529	110,187	7,695	13,851	44,322	432,584
Exchange differences	214	10	23	179	458	884
Additions	4,898	340	1,895	1,911	106,552	115,596
Transferred from CIP	1,122	28,642	4,152	1,939	(35,855)	–
Disposals	(565)	(724)	(123)	(75)	–	(1,487)
Depreciation	(12,636)	(21,185)	(1,905)	(3,934)	–	(39,660)
Write-off	561	654	–	–	–	1,215
Closing net book amount	250,123	117,924	11,737	13,871	115,477	509,132

7. PROPERTY, PLANT AND EQUIPMENT (CONT'D)

The Group: (Cont'd)

	Buildings RMB'000	Equipment and machinery RMB'000	Motor vehicles RMB'000	Office equipment RMB'000	CIP RMB'000	Total RMB'000
At 31 December 2012						
Cost as previously stated	373,000	402,577	22,216	31,976	115,477	945,246
Effect of adoption of amendment to IAS 28	(9,524)	(1,378)	(434)	(1,966)	–	(13,302)
Adoption of merger accounting (Note 32)	–	851	142	330	–	1,323
Cost, as restated	363,476	402,050	21,924	30,340	115,477	933,267
Accumulated depreciation, as previously stated	(114,419)	(272,571)	(10,493)	(17,248)	–	(414,731)
Effect of adoption of amendment to IAS 28	1,066	1,291	386	996	–	3,739
Adoption of merger accounting (Note 32)	–	(578)	(80)	(217)	–	(875)
Accumulated depreciation, as restated	(113,353)	(271,858)	(10,187)	(16,469)	–	(411,867)
Accumulated impairment	–	(12,268)	–	–	–	(12,268)
Net book amount, as restated	250,123	117,924	11,737	13,871	115,477	509,132
Year ended 31 December 2013						
Opening net book amount, as previously stated	258,581	117,738	11,723	14,728	115,477	518,247
Effect of adoption of amendment to IAS 28	(8,458)	(87)	(48)	(970)	–	(9,563)
Adoption of merger accounting (Note 32)	–	273	62	113	–	448
Opening net book amount, as restated	250,123	117,924	11,737	13,871	115,477	509,132
Exchange differences	(3,616)	65	(30)	(200)	–	(3,781)
Additions	93,520	1,812	2,425	2,870	94,470	195,097
Deemed acquisition of a subsidiary	331	72	62	–	–	465
Transferred from CIP	–	33,991	2,683	2,695	(39,369)	–
Disposals	(68)	(1,198)	(146)	(88)	–	(1,500)
Depreciation	(15,393)	(20,169)	(2,967)	(4,854)	–	(43,383)
Closing net book amount	324,897	132,497	13,764	14,294	170,578	656,030
At 31 December 2013						
Cost	452,178	421,342	25,416	33,757	170,578	1,103,271
Accumulated depreciation	(127,281)	(276,577)	(11,652)	(19,463)	–	(434,973)
Accumulated impairment	–	(12,268)	–	–	–	(12,268)
Net book amount	324,897	132,497	13,764	14,294	170,578	656,030

7. PROPERTY, PLANT AND EQUIPMENT (CONT'D)

The Company:

	Buildings RMB'000	Equipment and machinery RMB'000	Motor vehicles RMB'000	Office equipment RMB'000	CIP RMB'000	Total RMB'000
At 1 January 2012						
Cost	226,326	305,467	14,748	17,755	1,103	565,399
Accumulated depreciation	(78,974)	(224,325)	(8,530)	(8,448)	–	(320,277)
Accumulated impairment	(561)	(8,421)	–	–	–	(8,982)
Net book amount	146,791	72,721	6,218	9,307	1,103	236,140
Year ended 31 December 2012						
Opening net book amount	146,791	72,721	6,218	9,307	1,103	236,140
Additions	–	2	1,479	473	62,297	64,251
Transferred from CIP	1,122	25,786	4,152	1,910	(32,970)	–
Disposals	(561)	(724)	(100)	(50)	–	(1,435)
Depreciation	(6,569)	(15,500)	(1,498)	(2,423)	–	(25,990)
Write-off	561	654	–	–	–	1,215
Closing net book amount	141,344	82,939	10,251	9,217	30,430	274,181
At 31 December 2012						
Cost	226,646	328,715	18,285	18,907	30,430	622,983
Accumulated depreciation	(85,302)	(238,009)	(8,034)	(9,690)	–	(341,035)
Accumulated impairment	–	(7,767)	–	–	–	(7,767)
Net book amount	141,344	82,939	10,251	9,217	30,430	274,181
Year ended 31 December 2013						
Opening net book amount	141,344	82,939	10,251	9,217	30,430	274,181
Additions	–	16	226	11	81,117	81,370
Transferred from CIP	–	25,054	2,003	2,622	(29,679)	–
Disposals	–	(1,215)	(133)	(67)	–	(1,415)
Depreciation	(6,651)	(14,623)	(2,179)	(2,852)	–	(26,305)
Closing net book amount	134,693	92,171	10,168	8,931	81,868	327,831
At 31 December 2013						
Cost	226,609	338,093	19,426	20,489	81,868	686,485
Accumulated depreciation	(91,916)	(238,155)	(9,258)	(11,558)	–	(350,887)
Accumulated impairment	–	(7,767)	–	–	–	(7,767)
Net book amount	134,693	92,171	10,168	8,931	81,868	327,831

7. PROPERTY, PLANT AND EQUIPMENT (CONT'D)

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

	The Group		The Company	
	2013	2012	**2013**	2012
	RMB'000	RMB'000 (Restated)	**RMB'000**	RMB'000
Cost of sales	**31,288**	30,032	**22,003**	21,442
Distribution expenses	**5,229**	3,979	**322**	301
Administrative expenses	**6,866**	5,649	**3,980**	4,247
	43,383	39,660	**26,305**	25,990

8. INVESTMENTS IN SUBSIDIARIES

	The Company	
	2013	2012
	RMB'000	RMB'000
Investments, at cost:		
Shares listed in Hong Kong	**105,416**	–
Unlisted shares	**145,485**	216,044
	250,901	216,044

On 7 May 2013, Tong Ren Tang Chinese Medicine, a subsidiary of the Company, has its primary listing on the GEM of the Stock Exchange, issued new shares amounted to RMB556,555,000. Upon completion of the listing the percentage of equity interest held of the Company decreased from 53.09% to 38.38%. Although the Company owns less than half of the equity interest, it is able to gain power over more than one half of the voting rights by virtue of an agreement with other investor. Therefore, it did not result in a loss of control, and the dilution gain amounted to RMB167,543,000 was recorded in "Other Reserve".

Details of the subsidiaries are set out in Note 1 to the consolidated financial statements.

Material non-controlling interests

The total non-controlling interest for the year is RMB751,340,000, of which RMB 616,997,000 is for Tong Ren Tang Chinese Medicine. The non-controlling interest in respect of others is not material.

Set out below are the summarised financial information for Tong Ren Tang Chinese Medicine that has non-controlling interests that are material to the Group.

8. INVESTMENTS IN SUBSIDIARIES (CONT'D)

Summarised balance sheet

	Tong Ren Tang Chinese Medicine 2013 RMB'000	2012 RMB'000 (Restated)
Current		
Assets	**910,909**	306,401
Liabilities	**75,692**	62,741
Total current net assets	**835,217**	243,660
Non-current		
Assets	**197,724**	235,943
Liabilities	**3,340**	19,302
Total non-current net assets	**194,384**	216,641
Non-controlling interests	**28,307**	59,034
Net assets	**1,001,294**	401,267

Summarised income statement

	Tong Ren Tang Chinese Medicine 2013 RMB'000	2012 RMB'000 (Restated)
Revenue	**491,772**	365,818
Profit before income tax	**216,603**	161,220
Income tax expense	**(35,042)**	(30,397)
Profit for the year	**181,561**	130,823
Other comprehensive income	**(25,098)**	1,220
Total comprehensive income	**156,463**	132,043
Total comprehensive income allocated to non- controlling interests	**4,742**	4,689
Dividends paid to non-controlling interests	**5,207**	2,961

8. INVESTMENTS IN SUBSIDIARIES (CONT'D)

Summarised cash flows

	Tong Ren Tang Chinese Medicine	
	2013	2012
	RMB'000	RMB'000
		(Restated)
Cash generated from operations	**140,076**	178,051
Income tax paid	**(26,353)**	(27,457)
Net cash generated from operating activities	**113,723**	150,594
Net cash used in investing activities	**(379,445)**	(51,251)
Net cash generated from/(used in) financing activities	**431,440**	(11,840)
Net increase in cash and cash equivalents	**165,718**	87,503
Cash, cash equivalents at beginning of year	**202,146**	110,354
Exchange (losses)/gains on cash and cash equivalents	**(10,722)**	4,289
Cash and cash equivalents at end of year	**357,142**	202,146

The information above is the amount before inter-company eliminations.

9. INVESTMENTS IN JOINT VENTURES

The Group:

	As of 31 December	
	2013	2012
	RMB'000	RMB'000
Unlisted investment	**13,353**	21,018

The following amounts represent the Group's share of the results and commitments of the joint ventures.

	2013	2012
	RMB'000	RMB'000
(Loss)/profit for the year	**(555)**	3,349
Other comprehensive income		
– Currency translation difference	**(2,383)**	224
Total comprehensive income	**(2,938)**	3,573
The Group's share of joint ventures' commitments	**2,852**	5,396

9. INVESTMENTS IN JOINT VENTURES (CONT'D)

The Company:

	As of 31 December	
	2013	2012
	RMB'000	RMB'000
Unlisted investment at cost	**2,000**	2,000

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 1 to the consolidated financial statements.

10. INVESTMENT IN AN ASSOCIATE

The Group:

	As of 31 December	
	2013	2012
	RMB'000	RMB'000
Unlisted investment	**–**	753

The Group's share of results of the associated company is as follows:

	2013	2012
	RMB'000	RMB'000
Loss for the year	**(753)**	(801)

Notes:

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

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

(c) Details of the associate are set out in Note 1 to the consolidated financial statements.

11. FINANCIAL INSTRUMENTS BY CATEGORY

The Group:

	Loans and receivables	
	2013	2012
	RMB'000	RMB'000
		(Restated)
Assets as per consolidated balance sheet		
Trade and bills receivables, net	**244,807**	152,447
Amounts due from related parties	**78,253**	12,833
Prepayments and other current assets-Deposit	**13,927**	11,759
Short-term bank deposits	**398,990**	5,977
Cash and cash equivalents	**1,967,919**	835,183
Total	**2,703,896**	1,018,199

	Financial liabilities at amortised cost	
	2013	2012
	RMB'000	RMB'000
		(Restated)
Liabilities as per consolidated balance sheet		
Trade payables	**360,744**	388,364
Amounts due to related parties	**83,192**	22,109
Other payables	**202,892**	221,702
Borrowings	**194,310**	125,000
Total	**841,138**	757,175

11. FINANCIAL INSTRUMENTS BY CATEGORY (CONT'D)

The Company:

	Loans and receivables	
	2013	2012
	RMB'000	RMB'000
Assets as per balance sheet		
Trade and bills receivables, net	**166,350**	124,382
Amounts due from related parties	**41,168**	9,122
Amounts due from subsidiaries	**3,212**	–
Prepayments and other current assets-Deposit	**5,589**	5,670
Cash and cash equivalents	**1,533,277**	567,829
Total	**1,749,596**	707,003

	Financial liabilities at amortised cost	
	2013	2012
	RMB'000	RMB'000
Liabilities as per balance sheet		
Trade payables	**298,261**	330,202
Amounts due to related parties	**67,370**	14,214
Amounts due to subsidiaries	**48,370**	45,141
Other payables	**165,920**	195,389
Borrowings	**115,000**	125,000
Total	**694,921**	709,946

12. TRADE AND BILLS RECEIVABLES, NET

	The Group		The Company	
	2013	2012	**2013**	2012
	RMB'000	RMB'000 (Restated)	**RMB'000**	RMB'000
Trade and bills receivables	**262,054**	168,628	**183,597**	140,563
Less: provision for impairment of receivables	**(17,247)**	(16,181)	**(17,247)**	(16,181)
Trade and bills receivables, net	**244,807**	152,447	**166,350**	124,382

The carrying amounts of trade and bills receivables approximate their fair values.

12. TRADE AND BILLS RECEIVABLES, NET (CONT'D)

Retail sales at the Group's stores are usually made in cash or by debit or credit cards. For wholesale to distributors, the Group normally grants a credit period ranging from 30 days to 120 days. As of 31 December 2013 and 2012, the ageing analysis of trade and bills receivables based on invoice date was as follows:

	The Group		The Company	
	2013	2012	**2013**	2012
	RMB'000	RMB'000 (Restated)	**RMB'000**	RMB'000
Within 4 months	**242,705**	141,165	**165,469**	114,509
Over 4 months but within 1 year	**12,116**	19,176	**11,720**	18,514
Over 1 year but within 2 years	**466**	1,635	**54**	1,301
Over 2 years but within 3 years	**1,584**	78	**1,295**	–
Over 3 years	**5,183**	6,574	**5,059**	6,239
	262,054	168,628	**183,597**	140,563

As of 31 December 2013, trade receivables of RMB17,247,000 (2012: RMB16,181,000) were fully provided for impairment. The individually impaired receivables mainly relate to medium and smaller customers, which are in unexpectedly difficult economic situations. The ageing analysis of these receivables was as follows:

	The Group		The Company	
	2013	2012	**2013**	2012
	RMB'000	RMB'000 (Restated)	**RMB'000**	RMB'000
Within 4 months	**4,551**	2,670	**4,551**	2,670
Over 4 months	**12,696**	13,511	**12,696**	13,511
	17,247	16,181	**17,247**	16,181

Movements in the provision for impairment of receivables were as follows:

	The Group		The Company	
	2013	2012	**2013**	2012
	RMB'000	RMB'000 (Restated)	**RMB'000**	RMB'000
At 1 January	**16,181**	15,600	**16,181**	15,600
Provision for impairment of receivables	**1,246**	581	**1,246**	581
Write-off	**(180)**	–	**(180)**	–
At 31 December	**17,247**	16,181	**17,247**	16,181

The maximum exposure to credit risk at the reporting date is the carrying value of trade and bills receivables mentioned above. The Group does not hold any collateral as security.

12. TRADE AND BILLS RECEIVABLES, NET (CONT'D)

The carrying amounts of the Group's trade and bills receivables are denominated in the following currencies:

	The Group	
	2013	2012
	RMB'000	RMB'000
		(Restated)
RMB	**201,266**	151,233
HKD	**59,591**	16,995
United States Dollar	**526**	–
Macanese Pataca	**366**	32
Australian Dollar	**212**	272
Singapore Dollar	**80**	78
Brunei Ringgit	**10**	18
Canadian Dollar	**3**	–
	262,054	168,628

The carrying amounts of the Company's trade receivables and other current assets are denominated in RMB.

13. INVENTORIES

	The Group		The Company	
	2013	2012	**2013**	2012
	RMB'000	RMB'000	**RMB'000**	RMB'000
		(Restated)		
Raw materials	**618,182**	490,475	**587,634**	458,232
Work-in-progress	**173,422**	158,625	**158,382**	152,529
Finished goods	**738,115**	789,551	**661,526**	732,046
	1,529,719	1,438,651	**1,407,542**	1,342,807
Less: Provision for impairment of inventories	**(18,703)**	(26,800)	**(13,687)**	(21,199)
	1,511,016	1,411,851	**1,393,855**	1,321,608

The cost of inventories recognised as expense and included in 'Cost of sales' amounted to RMB768,559,000 (2012: RMB684,946,000 (Restated)).

14. DEFERRED INCOME TAX

Deferred income tax is calculated in full on temporary differences under the liability method using the tax rates which are expected to apply at the time of reversal of the temporary differences.

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

	The Group		The Company	
	2013	2012	**2013**	2012
	RMB'000	RMB'000 (Restated)	**RMB'000**	RMB'000
Deferred tax assets:				
– Deferred tax asset to be recovered after 12 months	**(1,624)**	(1,753)	**(1,624)**	(1,753)
– Deferred tax asset to be recovered within 12 months	**(12,427)**	(11,619)	**(3,599)**	(6,754)
	(14,051)	(13,372)	**(5,223)**	(8,507)
Deferred tax liabilities:				
– Deferred tax liabilities to be recovered after more than 12 months	**2,361**	2,469	**–**	–
– Deferred tax liabilities to be recovered within 12 months	**979**	625	**–**	–
	3,340	3,094	**–**	–
Deferred tax assets, net	**(10,711)**	(10,278)	**(5,223)**	(8,507)

14. DEFERRED INCOME TAX (CONT'D)

The movement in deferred income tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

Deferred income tax assets

	The Group		The Company	
	2013	2012	**2013**	2012
	RMB'000	RMB'000 (Restated)	**RMB'000**	RMB'000
Beginning of the year as previously stated	**13,445**	18,901	**8,507**	8,356
Effect of adoption of IAS 28 amendment	**(73)**	(147)	**–**	–
Beginning of the year, as restated	**13,372**	18,754	**8,507**	8,356
Deemed acquisition of a subsidiary	**72**	–	**–**	–
Credited/(charged) to income statement	**607**	(5,382)	**(3,284)**	151
End of the year	**14,051**	13,372	**5,223**	8,507
Provided for in respect of:				
Provision for termination benefits	**308**	428	**308**	428
Amortisation of leasehold land and land use rights	**435**	277	**435**	277
Unrealised profit resulting from intragroup transactions	**7,167**	3,276	**–**	–
Accelerated accounting depreciation	**69**	–	**–**	–
Provision for inventories	**3,578**	4,769	**1,986**	3,180
Provision for property, plant and equipment	**1,165**	1,165	**1,165**	1,165
Provision for advertising expenses	**–**	2,100	**–**	2,100
Deferred income arising from government grant	**1,329**	1,357	**1,329**	1,357
	14,051	13,372	**5,223**	8,507

14. DEFERRED INCOME TAX (CONT'D)

Deferred income tax liabilities

	The Group		The Company	
	2013	2012	**2013**	2012
	RMB'000	RMB'000 (Restated)	**RMB'000**	RMB'000
Beginning of the year as previously stated	**3,241**	5,139	**–**	–
Effect of adoption of IAS 28 amendment	**(147)**	(40)	**–**	–
Beginning of the year, as restated	**3,094**	5,099	**–**	–
Deemed acquisition of a subsidiary	**952**	–	**–**	–
Credited to income statement	**(706)**	(2,005)	**–**	–
End of the year	**3,340**	3,094	**–**	–
Provided for in respect of:				
Accelerated tax depreciation allowance	**2,781**	3,040	**–**	–
Deferred income tax liabilities arising from business combination	**559**	54	**–**	–
	3,340	3,094	**–**	–

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 RMB 2,492,000 (2012: RMB 1,671,000 (Restated)) in respect of losses amounting to RMB 10,697,000 (2012: RMB 6,814,000 (Restated)) at 31 December 2013. At 31 December 2013, tax losses will expire between 2013 and 2018.

15. SHARE CAPITAL

	2013 Number of shares	2013 Nominal value RMB'000	2012 Number of shares	2012 Nominal value RMB'000
Registered	**640,392,000**	**640,392**	588,000,000	588,000
Issued and fully paid				
– Domestic shares with a par value of RMB1 per share	**326,040,000**	**326,040**	326,040,000	326,040
– H shares with a par value of RMB1 per share	**314,352,000**	**314,352**	261,960,000	261,960
	640,392,000	**640,392**	588,000,000	588,000

	2013 Domestic shares RMB'000	2013 H shares RMB'000	2013 Total RMB'000	2012 Domestic shares RMB'000	2012 H shares RMB'000	2012 Total RMB'000
At 1 January	**326,040**	**261,960**	**588,000**	326,040	261,960	588,000
Proceeds from shares issued	**–**	**52,392**	**52,392**	–	–	–
At 31 December	**326,040**	**314,352**	**640,392**	326,040	261,960	588,000

On 30 August 2013, the Company placed 52,392,000 new H shares at a price of HKD23 per share. The placement was completed on 6 September 2013.

On 20 March 2014, the Board of Director proposed a share issue to all shareholders by capitalisation of the reserve, on the basis of one share with a par value of RMB1 for every ordinary share, totalling RMB640,392,000, which is subject to the shareholders' approval at the Annual General Meeting and H share Class Meeting and Domestic Share Class Meeting on 12 June 2014.These financial statements do not reflect this capitalisation of the reserve.

16. RESERVES

	The Company					
	Capital reserve (Note(b)) RMB'000	**Statutory surplus reserve fund** (Note(c)) RMB'000	**Statutory public welfare fund** (Note(c)) RMB'000	**Tax reserve** (Note(d)) RMB'000	**Retained earnings** RMB'000	**Total** RMB'000
Balance as of 1 January 2012	175,144	193,281	45,455	102,043	568,138	1,084,061
Profit for the year (Note(a))	–	–	–	–	255,281	255,281
Dividends paid to shareholders of the Company relating to 2011	–	–	–	–	(111,720)	(111,720)
Appropriation from retained earnings	–	25,529	–	–	(25,529)	–
Balance as of 31 December 2012	175,144	218,810	45,455	102,043	686,170	1,227,622
Balance as of 1 January 2013	**175,144**	**218,810**	**45,455**	**102,043**	**686,170**	**1,227,622**
Profit for the year (Note(a))	**–**	**–**	**–**	**–**	**362,136**	**362,136**
Proceeds from shares issued	**906,681**	**–**	**–**	**–**	**–**	**906,681**
Professional expenses incurred in connection with issuance of new shares	**(27,333)**	**–**	**–**	**–**	**–**	**(27,333)**
Dividends paid to shareholders of the Company relating to 2012	**–**	**–**	**–**	**–**	**(147,000)**	**(147,000)**
Appropriation from retained earnings	**–**	**36,213**	**–**	**–**	**(36,213)**	**–**
Balance as of 31 December 2013	**1,054,492**	**255,023**	**45,455**	**102,043**	**865,093**	**2,322,106**

Notes:

(a) Profit attributable to owners of the Company

The profit attributable to owners of the Company in the financial statements of the Company is RMB362,136,000 (2012: RMB255,281,000).

(b) Capital reserve

Capital reserve of the Company represents the difference between the amount of share capital issued by the Company and the historical net value of the assets, liabilities and interests transferred to the Company upon its establishment, and net premium on issue of shares upon listing of the Company and issuance of additional shares.

16. RESERVES (CONT'D)

Notes: (Cont'd)

(c) Statutory reserves

The Company sets aside 10% of its net profit after income tax, before distribution of dividend to shareholders, as stated in the financial statements prepared under PRC accounting standards to the statutory surplus reserve fund. Approximately RMB36,213,000 (2012: RMB25,529,000), being 10% of the net profit after income tax as stated in the financial statements prepared under PRC accounting standards, was transferred to the statutory surplus reserve fund for the year ended 31 December 2013.

In accordance with the amendment of the Company Law of the PRC on 27 October 2005 effective from 1 January 2006, the Company decided not to accrue for statutory public welfare fund since the year 2006. The balance together with statutory surplus reserve fund can be used to offset accumulated losses or convert as share capital of the Company.

(d) Tax reserve

According to the preferential enterprise income tax policy for new technology enterprises ("NTE") under the old PRC Enterprise Income Tax ("EIT") regulation (effective before 1 January 2008), a NTE located in a designated area of Beijing Economic and Technological Development Zone was subject to EIT at a preferential income tax rate of 15%. Moreover, upon approval by the relevant local tax bureau, the Company was entitled to full exemption from EIT from 2000 to 2002 and 50% reduction from 2003 to 2005. An amount for exemption and reduction has to be appropriated to a non-distributable tax reserve. However, the use of the exempted tax is restricted to specified purposes and not distributable to shareholders.

17. DEFERRED INCOME – GOVERNMENT GRANTS

	The Group		The Company	
	2013	2012	**2013**	2012
	RMB'000	RMB'000	**RMB'000**	RMB'000
Beginning of the year	**54,238**	52,185	**36,912**	35,050
Government grants received	**45,472**	6,228	**45,553**	5,709
Amount recognised in the income statement (Note 24)	**(24,143)**	(4,175)	**(23,450)**	(3,847)
End of the year	**75,567**	54,238	**59,015**	36,912

17. DEFERRED INCOME – GOVERNMENT GRANTS (CONT'D)

The ending balance of the government grants are relating to:

	The Group		The Company	
	2013	2012	**2013**	2012
	RMB'000	RMB'000	**RMB'000**	RMB'000
Government grants relating to research and development expenditure	**8,176**	8,454	**7,416**	7,336
Government grants relating to property, plant and equipment	**18,940**	18,789	**18,940**	18,789
Government grants relating to land use rights	**24,654**	25,256	**8,862**	9,048
Government grants relating to other expenditure	**23,797**	1,739	**23,797**	1,739
Total	**75,567**	54,238	**59,015**	36,912

18. BORROWINGS

	The Group		The Company	
	2013	2012	**2013**	2012
	RMB'000	RMB'000 (Restated)	**RMB'000**	RMB'000
Non-current				
Bank borrowings				
– Unsecured	**39,310**	–	**–**	–
Current				
Bank borrowings				
– Unsecured	**155,000**	125,000	**115,000**	125,000
Total borrowings	**194,310**	125,000	**115,000**	125,000

18. BORROWINGS (CONT'D)

(a) At 31 December 2013, the Group's borrowings would be repayable as follows:

	The Group		The Company	
	2013	2012	**2013**	2012
	RMB'000	RMB'000 (Restated)	**RMB'000**	RMB'000
Within 1 year	**155,000**	125,000	**115,000**	125,000
Between 1 and 2 years	**39,310**	–	**–**	–
	194,310	125,000	**115,000**	125,000

(b) The carrying amounts of borrowings approximate their fair value.

(c) The carrying amounts of the Group's borrowings are denominated in the following currencies:

	The Group		The Company	
	2013	2012	**2013**	2012
	RMB'000	RMB'000 (Restated)	**RMB'000**	RMB'000
RMB	**155,000**	125,000	**115,000**	125,000
HKD	**39,310**	–	**–**	–
	194,310	125,000	**115,000**	125,000

(d) The average interest rates (per annum) are as follows:

	The Group		The Company	
	2013	2012 (Restated)	**2013**	2012
Bank borrowings				
– RMB	**5.603%**	6.321%	**5.603%**	6.321%
– HKD	**1.590%**	–	**–**	–

19. TRADE PAYABLES

As of 31 December 2013, the ageing analysis of trade payables based on invoice date was as follows:

	The Group		The Company	
	2013	2012	**2013**	2012
	RMB'000	RMB'000 (Restated)	**RMB'000**	RMB'000
Within 4 months	**347,834**	315,552	**288,510**	261,446
Over 4 months but within 1 year	**12,720**	71,512	**9,651**	68,440
Over 1 year but within 2 years	**190**	1,300	**100**	316
	360,744	388,364	**298,261**	330,202

20. SALARY AND WELFARE PAYABLES

	The Group		The Company	
	2013	2012	**2013**	2012
	RMB'000	RMB'000 (Restated)	**RMB'000**	RMB'000
Salary payable	**12,649**	4,408	**443**	443
Welfare payable	**2,147**	2,034	**–**	–
	14,796	6,442	**443**	443

21. REVENUE

	2013	2012
	RMB'000	RMB'000 (Restated)
Sales of Chinese medicine products		
– Mainland China	**2,442,149**	2,122,782
– Outside Mainland China	**447,900**	282,884
	2,890,049	2,405,666
Chinese medical consultation		
– Outside Mainland China	**20,004**	19,434
Royalty fee income		
– Outside Mainland China	**696**	1,107
Agency fee income for distribution services		
– Outside Mainland China	**–**	12,795
	2,910,749	2,439,002

22. OTHER LOSSES – NET

	2013 RMB'000	2012 RMB'000
Professional expenses incurred in connection with issuance of new shares of a subsidiary	**10,077**	9,096
Remeasurement gain on previously held interest (Note (a))	**(1,649)**	–
	8,428	9,096

(a) The Group has held 51% equity interest in Tong Ren Tang Canada. Pursuant to the revised shareholders agreement entered into on 1 June 2013, the other joint venturer of Tong Ren Tang Canada has given up the joint control and as a result, the Group has obtained the control over the financial and operating policies of Tong Ren Tang Canada. Tong Ren Tang Canada has changed its status from a joint venture to a subsidiary of the Group. The Group consolidated the results of Tong Ren Tang Canada from 1 June 2013 onwards.

The Group has obtained control of Tong Ren Tang Canada at nil consideration and without any acquisition of further equity interest in Tong Ren Tang Canada. There was no change in equity interest and profit-sharing ratio. The carrying value of the Group's interest in Tong Ren Tang Canada immediately before the deemed acquisition date was RMB4,720,000. The fair value of the identified net assets of Tong Ren Tang Canada shared by the Group at the deemed acquisition date was RMB6,369,000. As a result, a gain on business combination arose.

23. FINANCE INCOME AND COSTS

	2013 RMB'000	2012 RMB'000 (Restated)
Finance income		
Interest income on cash at bank and short-term bank deposits	**12,887**	8,874
Finance costs		
Interest expense on bank borrowings	**(10,122)**	(7,932)
Exchange losses	**(12,832)**	(226)
	(22,954)	(8,158)
Finance (costs)/income – net	**(10,067)**	716

24. EXPENSE BY NATURE

Profit before income tax was arrived at after charging/(crediting) the following:

	2013 RMB'000	2012 RMB'000 (Restated)
Raw materials and consumables used	**805,198**	849,039
Change in inventories of finished goods and work-in-progress	**(36,639)**	(164,093)
Employee benefit expense		
– Salary and wages	**311,602**	240,578
– Staff welfare	**28,968**	26,903
– Housing fund (Note 30)	**17,833**	13,712
– Contribution to pension scheme	**57,423**	44,313
Depreciation of property, plant and equipment (Note 7)	**43,383**	39,660
Amortization of prepaid operating lease payments (Note 6)	**3,272**	3,170
Amortization of other long-term assets	**758**	508
Reversal of provision for impairment of inventories	**(8,097)**	(6,291)
Provision for impairment of receivables (Note 12)	**1,246**	581
Operating lease rental	**69,455**	54,050
Auditor's remuneration		
– Audit services	**3,502**	1,822
– Non-audit services	**2,698**	2,615
Research and development costs	**21,470**	12,016
Loss on disposal of property, plant and equipment	**802**	209
Recognition of government grants (Note 17)	**(24,143)**	(4,175)
Professional expenses incurred in connection with issuance of new shares of a subsidiary	**10,077**	9,096
Processing costs	**157,676**	159,837
Advertising & Promotion expenses	**159,171**	156,674
Transportation	**54,757**	48,805
Repair and maintenance	**42,589**	36,033
Utilities	**42,527**	37,877
Other taxes	**30,067**	28,611

25. INCOME TAX EXPENSE

Pursuant to the Corporate Income Tax Law of the PRC effective from 1 January 2008, enterprises with a High/New Technology Enterprise ("HNTE") status are able to enjoy a preferential tax rate of 15%. For the entities without the HNTE status, the PRC income tax rate is 25% (2012: 25%). As of 31 December 2013 and 2012, the Company has obtained the HNTE certificate. Consequently, the applicable income tax rate of the Company in 2013 is 15% (2012: 15%).

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

Income tax on overseas profits has been calculated on the estimated assessable profit for the year at the income tax rates prevailing in the tax jurisdictions in which the Group operates.

Details of income tax during the year are as follows:

	2013 **RMB'000**	2012 RMB'000 (Restated)
Current income tax expense		
– PRC	**54,533**	51,405
– Hong Kong	**35,988**	22,269
– Overseas	**2,740**	3,875
	93,261	77,549
Deferred income tax expense	**(1,313)**	3,377
	91,948	80,926

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

	2013 **RMB'000**	2012 RMB'000 (Restated)
Profit before income tax	**595,111**	480,474
Tax calculated at domestic tax rates applicable to profits in the respective countries	**131,504**	107,166
Tax effects of:		
– Income not subject to tax	**(7,573)**	(1,228)
– Expenses not deductible for tax purposes	**1,533**	3,266
– Tax losses for which no deferred income tax asset was recognised	**2,481**	1,332
– Effect of preferential income tax treatments	**(35,997)**	(29,610)
Income tax expense	**91,948**	80,926

26. EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the profit attributable to owners of the Company of approximately RMB390,093,000 (2012: RMB330,180,000) by the weighted average number of 604,651,000 shares (2012: 588,000,000 shares) in issue during the year.

The Company had no dilutive potential shares for the years ended 31 December 2013 and 2012.

	2013 RMB'000	2012 RMB'000 (Restated)
Profit attributable to owners of the Company	**390,093**	330,180
Weighted average number of ordinary shares in issue (thousands)	**604,651**	588,000
Earnings per share	**RMB0.65**	RMB0.56

27. DIVIDENDS

The cash dividends paid in 2013 and 2012 were RMB 147,000,000 (RMB0.25 (including tax) per share based on the total share capital of 588,000,000 shares) and RMB111,720,000 (RMB0.19 (including tax) per share based on the total share capital of 588,000,000 shares) respectively.

On 20 March 2014, the Board of Director proposed a cash dividend in respect of the year ended 31 December 2013 of RMB0.25 (including tax) per share based on the total share capital of 640,392,000 shares, amounting to a total of RMB160,098,000, which is subject to the shareholders' approval at the Annual General Meeting on 12 June 2014. These financial statements do not reflect this dividend payable.

	2013 RMB'000	2012 RMB'000
Interim dividend paid of RMB nil (2012:RMB nil) per ordinary share	**–**	–
Proposed final cash dividend of RMB0.25 (including tax) (2012:RMB0.25 (including tax)) per ordinary share	**160,098**	147,000
	160,098	147,000

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

28. DIRECTORS', SUPERVISORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) *Details of the directors' and supervisors' emoluments*

The remuneration before individual income tax of every director, supervisor and the chief executive for the year ended 31 December 2013 is set out below:

	Fees RMB'000	Basic salaries and allowance RMB'000	Contribution to pension scheme RMB'000	Bonuses* RMB'000	Total RMB'000
Directors:					
Mr. Mei Qun	–	–	–	–	–
Mr. Yin Shun Hai	–	–	–	–	–
Mr. Wang Yu Wei	–	1,270	37	700	2,007
Ms. Fang Jia Zhi	–	559	37	200	796
Mr. Xie Zhan Zhong	–	–	–	–	–
Miss Tam Wai Chu, Maria	144	–	–	–	144
Mr. Ting Leung Huel, Stephen	144	–	–	–	144
Mr. Jin Shi Yuan	80	–	–	–	80
Supervisors:					
Mr. Zhang Xi Jie	–	–	–	–	–
Mr. Wu Yi Gang	80	–	–	–	80
Mr. Bai Jian	–	762	37	350	1,149
Chief executive:					
Mr. Wang Yu Wei	–	1,270	37	700	2,007

* *Approved by the Board of Directors, the Company paid bonuses to senior management according to the results of the year 2012.*

28. DIRECTORS', SUPERVISORS' AND SENIOR MANAGEMENT'S EMOLUMENTS (CONT'D)

(a) *Details of the directors' and supervisors' emoluments (Cont'd)*

The remuneration before individual income tax of every director, supervisor and the chief executive for the year ended 31 December 2012 is set out below:

	Fees RMB'000	Basic salaries and allowance RMB'000	Contribution to pension scheme RMB'000	Bonuses*** RMB'000	Total RMB'000
Directors:					
Mr. Mei Qun	–	–	–	–	–
Mr. Yin Shun Hai	–	–	–	–	–
Mr. Wang Yu Wei	–	1,272	33	700	2,005
Ms. Fang Jia Zhi	–	509	33	200	742
Mr. Xie Zhan Zhong	–	–	–	–	–
Miss Tam Wai Chu, Maria	146	–	–	–	146
Mr. Ting Leung Huel, Stephen	146	–	–	–	146
Mr. Jin Shi Yuan	80	–	–	–	80
Supervisors:					
Mr. Zhang Xi Jie	–	–	–	–	–
Mr. Wu Yi Gang	80	–	–	–	80
Ms. Wang Yan Rong*	–	785	33	400	1,218
Mr. Bai Jian**	–	700	33	200	933
Chief executive:					
Mr. Wang Yu Wei	–	1,272	33	700	2,005

* *Resigned on 29 June 2012.*

** *Appointed on 29 June 2012.*

*** *Approved by the Board of Directors, the Company paid bonuses to senior management according to the results of the year 2011.*

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

28. DIRECTORS', SUPERVISORS' AND SENIOR MANAGEMENT'S EMOLUMENTS (CONT'D)

(b) *Details of the five highest paid individuals' emoluments*

The five individuals whose emoluments before individual income tax were the highest in the Group for the year include one (2012: one) director and no (2012: one) supervisor whose emoluments are reflected in the analysis presented in Note 28(a) above. The emoluments payable to the remaining four (2012: three) individuals during the year are as follows:

	2013 RMB'000	2012 RMB'000
Basic salaries, allowance and bonuses	**5,600**	3,932
Contribution to pension scheme	**73**	55
	5,673	3,987

The emoluments fell within the following band:

	2013 RMB'000	2012 RMB'000
Nil to RMB797,900 (Equivalent to HKD1,000,000)	**–**	–
RMB797,901 – RMB1,196,850 (Equivalent to HKD1,000,001 – HKD1,500,000)	**1**	1
RMB1,196,851 – RMB1,595,800 (Equivalent to HKD1,500,001 – HKD2,000,000)	**2**	2
RMB1,595,801 – RMB1,994,750 (Equivalent to HKD2,000,001 – HKD2,500,000)	**1**	–

None of the five highest paid individuals of the Group waived any emoluments and no emoluments were paid by the Group to any of such individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

29. RETIREMENT AND TERMINATION BENEFITS

Pursuant to the PRC laws and regulations, the Group is required to make monthly contributions to various retirement benefit schemes organised by the relevant provincial and municipal governments for the Group's employees in the PRC at rates ranging from 28% to 32% (2012: 28% to 32%) of the employees' standard salaries, of which 20% to 24% (2012: 20% to 24%) is borne by the Group and the remaining portion is borne by the employees.

The Group's subsidiary in Hong Kong participates in a Mandatory Provident Fund scheme (the "MPF scheme") in accordance with the Mandatory Provident Fund Scheme Ordinance of Hong Kong (the "MPF Ordinance"). Under the rules of the MPF scheme, the employer and its employees in Hong Kong are each required to contribute 5% of their gross earnings with a ceiling of HK$1,000 per month to the MPF scheme. Since 1 June 2012, the MPF scheme contribution has increased from HK$1,000 to HK$1,250 per month. The only obligation of the Group with respect to the MPF Scheme is to make the required contributions under the scheme.

These defined contribution schemes are responsible for the pension liabilities of the employees. The Group's contributions to these defined contribution schemes are expensed as incurred.

In addition, the Company provides termination benefits to certain employees up to their normal retirement age. Termination benefits are payable when employment is terminated before the normal retirement age or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Company recognises termination benefits when it is demonstrably committed to either terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after balance sheet date are discounted to present value. Carrying amounts of the relevant provision included in "Other payables" as of 31 December 2013 and 2012, were approximately RMB2,051,000 and RMB 2,850,000 respectively.

30. HOUSING FUND

The Group's full-time employees in the PRC participate in a state-sponsored housing fund ("Fund"). The housing fund can be used by the Group's employees for purchasing houses, or withdrawn upon their retirement. The Group is required to make annual contributions to the Fund based on certain percentages of the employees' salaries. The Group's liability in respect of the housing fund is limited to the contributions payable in each period. For the year ended 31 December 2013, the Group contributed approximately RMB17,833,000 (2012: RMB13,712,000) to the Fund.

31. CASH GENERATED FROM OPERATIONS

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

	2013 RMB'000	2012 RMB'000 (Restated)
Profit before income tax	**595,111**	480,474
Adjustments for:		
Provision for impairment of receivables (Note 12)	**1,246**	581
Depreciation of property, plant and equipment	**43,383**	39,660
Amortisation of prepaid operating lease payments	**3,272**	3,170
Amortisation of other long-term assets	**758**	508
Reversal of provision for impairment of inventory	**(8,097)**	(6,291)
Loss on disposal of property, plant and equipment	**802**	209
Deferred government grants recognised in the income statement (Note 17)	**(24,143)**	(4,175)
Interest income	**(12,887)**	(8,874)
Interest expense	**10,122**	7,932
Exchange losses	**12,832**	226
Share of result of joint ventures	**555**	(3,349)
Share of result of an associated company	**753**	801
Remeasurement gain on previously held interest	**(1,649)**	–
Professional expenses incurred in connection with issuance of new shares of a subsidiary (Note 22)	**10,077**	9,096
Operating profit before working capital changes	**632,135**	519,968
Decrease/(increase) in current assets:		
Trade and bills receivables	**(93,114)**	(8,182)
Inventories	**(87,453)**	(70,840)
Prepayments and other current assets	**(45,993)**	(15,452)
Amounts due from related parties	**(65,884)**	3,842
Increase/(Decrease) in current liabilities:		
Trade payables	**(28,969)**	(84,273)
Other current liabilities	**51,547**	155,127
Amounts due to related parties	**61,083**	(12,443)
Proceeds from government grants relating to expenditure	**45,472**	2,678
Cash generated from operations	**468,824**	490,425

31. CASH GENERATED FROM OPERATIONS (CONT'D)

(b) *Analysis of the balances of cash and cash equivalents and short-term bank deposits*

As of 31 December, cash and cash equivalents were denominated in the following currencies:

	The Group		The Company	
	2013 RMB'000	2012 RMB'000 (Restated)	**2013 RMB'000**	2012 RMB'000
Cash at bank and in hand				
HKD	**1,078,302**	122,016	**760,780**	8,036
RMB	**843,885**	672,025	**771,502**	558,783
Macanese Pataca	**13,711**	8,274	**–**	–
United States Dollar	**4,655**	4,433	**995**	1,010
Singapore Dollar	**8,354**	14,442	**–**	–
Australian Dollar	**5,758**	7,954	**–**	–
Canadian Dollar	**6,515**	866	**–**	–
Brunei Ringgit	**1,918**	2,479	**–**	–
Dirham	**2,033**	1,966	**–**	–
European Dollar	**2,727**	261	**–**	–
Polish złoty	**61**	467	**–**	–
	1,967,919	835,183	**1,533,277**	567,829

Bank deposits with original maturities of over three months were classified as short-term bank deposits and denominated in the following currencies:

	The Group		The Company	
	2013 RMB'000	2012 RMB'000 (Restated)	**2013 RMB'000**	2012 RMB'000
HKD	**354,257**	480	**–**	–
RMB	**30,000**	–	**–**	–
Australian Dollar	**6,923**	4,535	**–**	–
Singapore Dollar	**6,342**	–	**–**	–
Canadian Dollar	**1,468**	962	**–**	–
	398,990	5,977	**–**	–

31. CASH GENERATED FROM OPERATIONS (CONT'D)

(b) *Analysis of the balances of cash and cash equivalents and short-term bank deposits (Cont'd)*

The weighted average effective interest rate on short-term bank deposits was 0.58% (2012: 3.07% (Restated)) per annum. Cash at bank earns interest at floating rates based on daily bank deposit rates.

As of 31 December 2013, the cash in hand balance of the Group was RMB1,139,000 (2012: RMB906,000 (Restated)). Cash at bank and short-term bank deposits balance of the Group was RMB2,365,770,000 (2012: RMB840,254,000 (Restated). Management did not expect any losses from non-performance by those banks.

32. BUSINESS COMBINATIONS UNDER COMMON CONTROL

On 27 June 2013, the Company entered into the equity transfer agreement with Tong Ren Tang Medicinal Materials Co., in respect of the acquisition of 51% equity interest in Xing An Meng Co. at a consideration of RMB 1,791,120.

Tong Ren Tang Medicinal Materials Co., is under common control by the ultimate holding company of the Company, thus the acquisition is regarded as business combination under common control.

Effects for common control combination of the acquired subsidiary on the consolidated balance sheets as at 31 December 2013 and 2012 and the Group's results for the years then ended are as follows:

	The Group before acquired business RMB'000	Acquired subsidiary RMB'000	Adjustments[i] RMB'000	The Group after acquired business RMB'000
Year ended 31 December 2013				
Revenues	**2,897,700**	**13,049**	**–**	**2,910,749**
Profit before income tax	**595,084**	**27**	**–**	**595,111**
Profit for the year	**503,147**	**16**	**–**	**503,163**

32. BUSINESS COMBINATIONS UNDER COMMON CONTROL (CONT'D)

	The Group before acquired business RMB'000	Acquired subsidiary RMB'000	Adjustments[i] RMB'000	The Group after acquired business RMB'000
As at 31 December 2013				
ASSETS				
Non-current assets	834,881	973	–	835,854
Current assets	4,288,082	24,256	–	4,312,338
Total assets	5,122,963	25,229	–	5,148,192
EQUITY				
Capital and reserves				
Share capital	640,392	3,000	(3,000)	640,392
Reserves	2,615,308	93	1,484	2,616,885
	3,255,700	3,093	(1,516)	3,257,277
Non-controlling interests	749,824	–	1,516	751,340
Total equity	4,005,524	3,093	–	4,008,617
LIABILITIES				
Non-current liabilities	118,217	–	–	118,217
Current liabilities	999,222	22,136	–	1,021,358
Total liabilities	1,117,439	22,136	–	1,139,575
Total equity and liabilities	5,122,963	25,229	–	5,148,192

32. BUSINESS COMBINATIONS UNDER COMMON CONTROL (CONT'D)

	As previously stated RMB'000	Effect of Adoption of amendment to IAS 28 RMB'000	Acquired subsidiary RMB'000	Adjustments[i] RMB'000	As restated RMB'000
Year ended 31 December 2012					
Revenues	2,447,132	(20,859)	12,729	–	2,439,002
Profit before income tax	481,078	(638)	34	–	480,474
Profit for the year	399,531	–	17	–	399,548
As at 31 December 2012					
ASSETS					
Non-current assets	683,815	11,383	822	–	696,020
Current assets	2,485,131	(20,938)	19,458	–	2,483,651
Total assets	3,168,946	(9,555)	20,280	–	3,179,671
EQUITY					
Capital and reserves					
Share capital	588,000	–	3,000	(3,000)	588,000
Reserves	1,348,038	–	76	1,493	1,349,607
	1,936,038	–	3,076	(1,507)	1,937,607
Non-controlling interests	288,211	–	–	1,507	289,718
Total equity	2,224,249	–	3,076	–	2,227,325
LIABILITIES					
Non-current liabilities	57,479	(147)	–	–	57,332
Current liabilities	887,218	(9,408)	17,204	–	895,014
Total liabilities	944,697	(9,555)	17,204	–	952,346
Total equity and liabilities	3,168,946	(9,555)	20,280	–	3,179,671

Note:

(i) Adjustments to eliminate the investment costs, share capitals of the acquired business against reserves and non-controlling interests.

No other significant adjustments were made to the net assets and net profit of any entities or businesses as a result of the common control combinations to achieve consistency of accounting policies.

33. RELATED PARTY TRANSACTIONS

Related parties include the Group and its subsidiaries, other majority state-owned enterprises and their subsidiaries directly or indirectly controlled by the PRC government, other entities and corporations in which the Company is able to control or exercise significant influence in making financial and operating decisions and key management personnel of the Company as well as their close family members.

The ultimate holding company itself is a state-owned enterprise and is controlled by the PRC government, which also owns a significant portion of the productive assets in the PRC. In accordance with IAS 24, "Related Party Disclosures", state-owned enterprises and their subsidiaries, other than the ultimate holding company and its subsidiaries, directly or indirectly controlled by the PRC government are also defined as related parties of the Group.

A portion of the Group's business activities are conducted with other state-owned enterprises. The Group believes that these transactions are carried out on normal commercial terms that are consistently applied to all customers. For the purpose of related party transactions disclosure, the Group has identified, to the extent practicable, those corporate customers and suppliers which are state-owned enterprises based on their ownership structure. It should be noted, however, that substantially all of the Group's business activities are conducted in the PRC and the influence of the PRC government in the Chinese economy is pervasive. In this regard, the PRC government indirectly holds interests in many companies. Many state-owned enterprises have multi-layered corporate structure and the ownership structures change over time as a result of transfers and privatisation programs. Some of these interests may, in themselves or when combined with other indirect interests, be controlling interests. Such interests, however, would not be known to the Group and are not reflected in the disclosures below. In addition, a portion of the Group's revenue from sales of goods are of a retail nature to end users, which include transactions with the employees of state controlled entities while such employees are key management personnel and their close family members. These transactions are carried out on normal commercial terms that are consistently applied to all customers. Due to the volume and the pervasiveness of these transactions, the Group is unable to determine the aggregate amount of these transactions for disclosure. Therefore, the revenue from sales of goods disclosed below does not include retail transactions with these related parties. However, the Group believes that meaningful information relating to related party disclosures has been adequately disclosed.

During the year, the Group had the following material transactions with related parties, which were entered into at terms mutually agreed with these related parties in the ordinary course of business.

33. RELATED PARTY TRANSACTIONS (CONT'D)

(a) *Transactions with the ultimate holding company*

Transactions with the ultimate holding company during the year are summarised as follows:

	2013 RMB'000	2012 RMB'000
Trademark licence fee (Note (i))	**850**	850
Rental expense (Note (ii))	**2,364**	2,364
Storage fee (Note (iii))	**2,916**	2,916

Notes:

(i) A licence agreement dated 1 January 2005 was entered into between the Company and the ultimate holding company whereby the Company is allowed to use certain trademarks and trademark logos (collectively, "Trademarks") of the ultimate holding company.

The licence is authorised up to 28 February 2013 and renewed on 28 February 2013. The renewed term of the licence lasts from 1 March 2013 to 28 February 2018, which is 5 years.

The annual licence fee for the year ended 2013 is RMB850,000. The parties are entitled to adjust the annual licence fee thereafter. Such annual increase or decrease shall not exceed 10% of that of the previous year.

(ii) A land use right leasing agreement (the "Old Agreement") dated 6 October 2000 was entered into between the Company and the ultimate holding company. Pursuant to the agreement, the total area leased to the Company is approximately 49,776.35 sq.m. The land is located in Beijing, the PRC, with a lease period of 20 years commencing from 6 October 2000. The annual rental is calculated at a rate of RMB53.95 per sq.m. Any adjustments to the annual rental shall be made at the market rent, provided that such adjustment shall not exceed 10% of that of the previous year. On 1 January 2006, an amendment was made to reduce the total area of the land leased to 43,815.15 sq.m., the remaining clauses on the Old Agreement still remain effective.

(iii) A contract for storage and custody was renewed on 18 January 2011 between the Company and the ultimate holding company whereby the ultimate holding company agreed to provide storage and custody services to the Company, with an effective period from 2011 to 2013. From the effective date of the contract, the storage fee is calculated at RMB252 per sq.m. per year. Adjustment to the storage fee is permitted after one-year period provided that the annual increase or decrease shall not exceed 10% of that of the previous year.

33. RELATED PARTY TRANSACTIONS (CONT'D)

(b) *Transactions with the subsidiaries and joint ventures of the ultimate holding company*

	2013 RMB'000	2012 RMB'000 (Restated)
Sales of Chinese medicine related products (Note (i))	**350,218**	310,867
Agency fee income for distribution services (Note (ii))	**–**	12,795
Purchases of Chinese medicine related products (Note (iii))	**76,506**	55,134
Sole overseas exclusive distributorship (Note (iv))	**23,108**	–
Research and development expense (Note (v))	**7,449**	–
Rental expense	**1,436**	1,464

Notes:

(i) The Company renewed a sales agreement with the ultimate holding company on 18 January 2011. In accordance with this agreement, the Group can sell its products to the subsidiaries and joint ventures of the ultimate holding company. The selling price to the ultimate holding company's subsidiaries and joint ventures shall not be lower than the prices to independent third parties. The agreement has been approved at the Company's Annual General Meeting and is effective from 2011 to 2013.

(ii) Tong Ren Tang Chinese Medicine renewed an agency agreement with Beijing Tong Ren Tang Company Limited ("Parent Company") on 2 March 2010. In accordance with this agreement, Tong Ren Tang Chinese Medicine was appointed as an agent in distributing the Parent Company's products, with an effective period from 2010 to 2012. These agreements expired in December 2012 without renewal. Tong Ren Tang Chinese Medicine is no longer acting as an agent in distributing. Therefore, there was no agency fee income in 2013.

(iii) The Company signed a procurement agreement with the ultimate holding company on 28 February 2011, with an effective period from 2011 to 2013. Pursuant to the agreement, the subsidiaries and joint ventures of the ultimate holding company can supply to the Group the products that are required for the Group's production, sale and distribution. The price procured by the Group from the ultimate holding company's subsidiaries and joint ventures shall be negotiated by the parties on an arm's length basis. The ultimate holding company shall not supply the products to the Group (1) at a price higher than that of the products of the same type and quality offered to the Group by independent third parties or the prevailing market price; (2) if there is not any comparable market price available for the relevant materials/ products, the price shall be determined based on the integrated cost plus not more than 15% surcharge, and in any event, the price for such procurement shall be no less favorable than terms offered by independent third parties to the Group.

33. RELATED PARTY TRANSACTIONS (CONT'D)

(b) *Transactions with the subsidiaries and joint ventures of the ultimate holding company (Cont'd)*

Notes: (Cont'd)

(iv) Tong Ren Tang Chinese Medicine entered into an exclusive distributorship frame-work agreement with the Parent Company on 29 October 2012, effective from 1 November 2012 to 31 December 2014, pursuant to which International Pharm, a wholly-owned subsidiary of Tong Ren Tang Chinese Medicine, is appointed as the sole overseas distributor of the Parent Company, for the purpose of the distribution of the Relevant Products outside the PRC. The price of the Relevant Products supplied shall not be higher than the wholesale price of the Relevant Products sold to the wholesale customers in the PRC and shall be determined with reference to the then prevailing market price.

(v) On 19 March 2013, the Company entered into a framework agreement on Technology Research and Development Cooperation with Beijing Zhongyan Tong Ren Tang Pharmaceuticals Research and Development Co., Ltd. ("Zhongyan Company"), a joint venture of the ultimate holding company, for the purpose of the cooperation between the parties in technology research and development, with an effective period from 19 March 2013 to 31 December 2015. The research and development expenses will be determined based on the costs and expenditures incurred by Zhongyan Company for completion of the research work under the Framework Agreement, including raw material and test material fees, energy consumption, purchase and maintenance of instruments and equipment, laboratory construction costs, staff salaries and technical consultation and assessment fees, etc.

(c) *Transactions with other state-owned enterprises*

In the ordinary course of business, the Group sells goods to, and purchase goods from other state-owned enterprises based on terms as set out in the underlying agreements, market prices or actual cost incurred, or as mutually agreed.

Group places deposits in and receives loans mainly from state-owned financial institutions in the ordinary course of business. The deposits and loans are in accordance with the terms as set out in the respective agreements, and the interest rates are set at prevailing market rates.

33. RELATED PARTY TRANSACTIONS (CONT'D)

(d) *Balances with related parties*

As of 31 December, balances with related parties consisted of:

	The Group		The Company	
	2013 RMB'000	2012 RMB'000 (Restated)	**2013 RMB'000**	2012 RMB'000
Amounts due from related parties:				
Subsidiaries and joint ventures of the ultimate holding company	**67,190**	10,228	**30,528**	6,681
Other state-owned enterprises	**11,063**	2,605	**10,640**	2,441
	78,253	12,833	**41,168**	9,122
Amounts due to related parties:				
Subsidiaries and joint ventures of the ultimate holding company	**43,369**	15,822	**27,582**	8,082
Other state-owned enterprises	**39,823**	6,287	**39,788**	6,132
	83,192	22,109	**67,370**	14,214

The amounts due from/to related parties are unsecured, interest-free and recoverable or repayable within twelve months.

As of 31 December, the ageing analysis of amounts due from related parties based on invoice date was as follows:

	The Group		The Company	
	2013 RMB'000	2012 RMB'000 (Restated)	**2013 RMB'000**	2012 RMB'000
Within 4 months	**73,702**	10,785	**39,427**	7,763
Over 4 months but within 1 year	**3,501**	1,349	**1,604**	1,269
Over 1 year	**1,050**	699	**137**	90
	78,253	12,833	**41,168**	9,122

33. RELATED PARTY TRANSACTIONS (CONT'D)

(d) *Balances with related parties (Cont'd)*

As of 31 December, the ageing analysis of amounts due to related parties based on invoice date was as follows:

	The Group		The Company	
	2013	2012	**2013**	2012
	RMB'000	RMB'000 (Restated)	**RMB'000**	RMB'000
Within 4 months	**81,855**	17,126	**66,243**	13,267
Over 4 months but within 1 year	**1,257**	3,903	**1,047**	744
Over 1 year	**80**	1,080	**80**	203
	83,192	22,109	**67,370**	14,214

34. BANKING FACILITIES

As of 31 December 2013, the Group had aggregated banking facilities of RMB400,000,000 (2012: RMB400,000,000) for loan and other trade financing. As of 31 December 2013, the unutilised banking facilities amounted to RMB285,000,000 (2012: RMB275,000,000).

35. COMMITMENTS

(a) *Capital commitments*

As of 31 December, the Group and the Company had the following capital commitments which were contracted but not provided for:

	The Group		The Company	
	2013	2012	**2013**	2012
	RMB'000	RMB'000 (Restated)	**RMB'000**	RMB'000
Property, plant and equipment	**38,749**	170,426	**33,318**	72,399

35. COMMITMENTS (CONT'D)

(b) *Operating lease commitments*

The Group leases various warehouse and factory premises under non-cancellable operating leases. The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	The Group		The Company	
	2013	2012	**2013**	2012
	RMB'000	RMB'000 (Restated)	**RMB'000**	RMB'000
Not later than one year	**45,454**	51,419	**16,414**	23,021
Later than one year and no later than five years	**47,640**	70,624	**12,147**	22,655
Later than five years	**10,195**	6,753	**4,333**	6,698
	103,289	128,796	**32,894**	52,374