



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  
2014



同仁堂

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同修仁德  
濟世養生

趙樸初書



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# Corporate Information

## BOARD OF DIRECTORS

### *Executive Directors*

Mei Qun (*Chairman*)  
Wang Quan (*Vice-Chairman*)<sup>1</sup>  
Gong Qin<sup>2</sup>  
Wang Yu Wei  
Fang Jia Zhi

### *Independent Non-Executive Directors*

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

## SUPERVISORS

Ma Bao Jian (*Chairman*)<sup>3</sup>  
Wu Yi Gang  
Bai Jian

## SENIOR MANAGEMENT<sup>4</sup>

Li Da Ming  
Liu Cun Ying  
Guo Gui Qin  
Yang De Chun  
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, 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 Information

*Note 1: At the annual general meeting of 2013 of the Company held on 12 June 2014 (the “2013 AGM”), Mr. Wang Quan was elected as an executive director (the “Director”) of the Fifth Session of the board (the “Board”) of Directors of the Company. On the same day, Mr. Wang Quan was appointed as the vice-Chairman of the Board at the Board meeting.*

*Note 2: At the 2013 AGM, Mr. Gong Qin was elected as an executive Director of the Fifth Session of the Board.*

*Note 3: At the 2013 AGM, Ms. Ma Bao Jian was elected as the shareholder representative supervisor (the “Supervisor”) of the Fifth Session of the supervisory committee of the Company (the “Supervisory Committee”). On the same day, Ms. Ma Bao Jian was appointed as the chairman of the Supervisory Committee at the Supervisory Committee meeting.*

*Note 4: The senior management who also act as the Directors are not included.*

### Links to the official website of the Company:

<http://www.tongrentangkj.com>

### Links to the official e-commerce platforms of the Company:

**JD.COM:** TRT flagship food store <http://trtsp.jd.com/>

**TMALL.COM:** TRT flagship food store <http://tongrentang.tmall.com/>

**CCTV.COM:** TRT Ejiao flagship food store <http://shop.cctvmall.com/SI37226.html>

TRT WM Dianorm official flagship store <http://shop.cctvmall.com/SI37263.html>

### Official WeChat platform of the Company:

tongrentang1669 or scan the following QR code:



### APP: “TRT pharmacopoeia”

For iOS, please scan the following QR code to download:

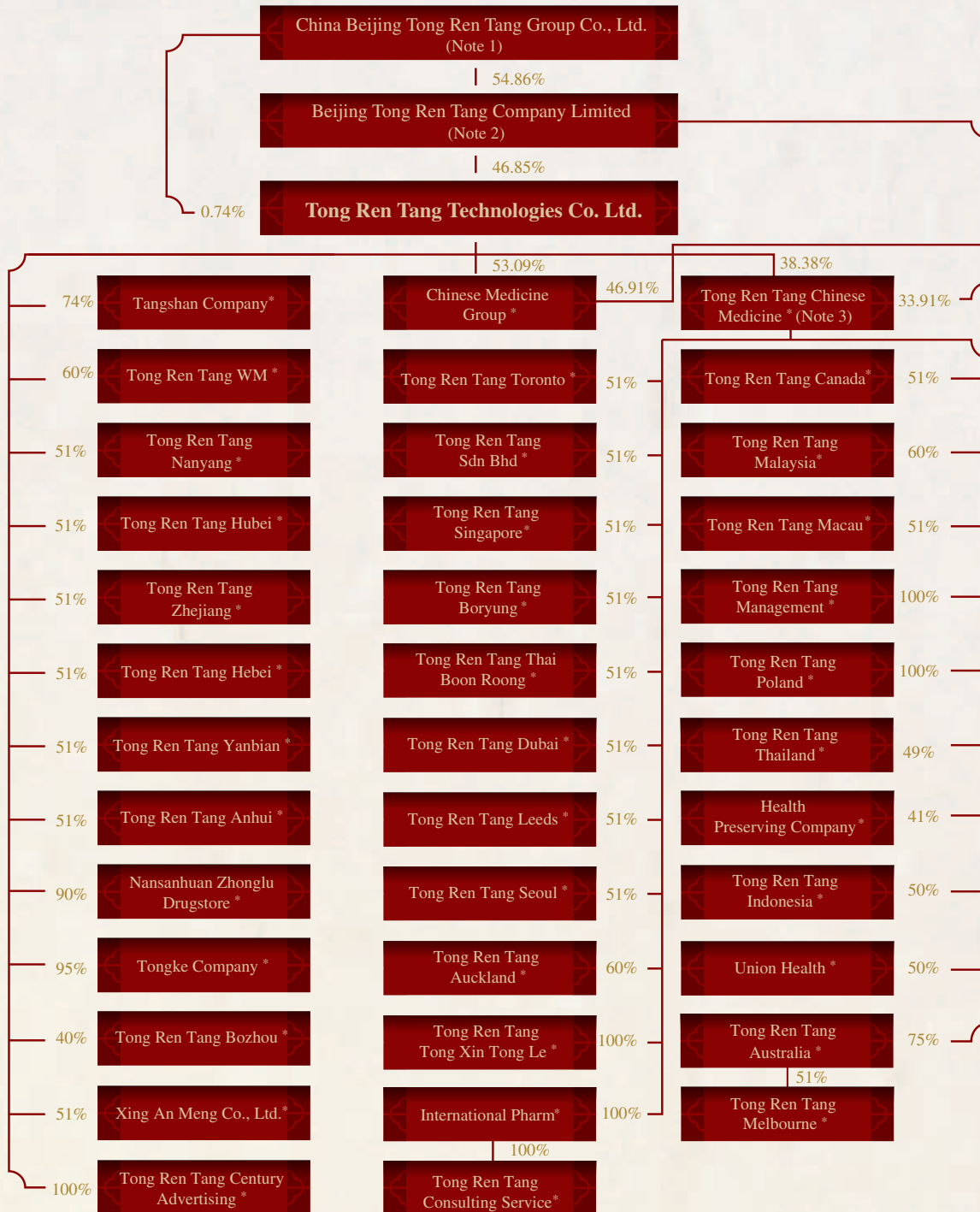


For Android, please scan the following QR code to download:



# Corporate Structure

As at 31 December 2014, our corporate structure was as follows:





## 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 People’s Republic of China (“**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. Due to the redemption of convertible bonds by Tong Ren Tang Ltd., on 10 March 2015, equity interest of Tong Ren Tang Holdings in Tong Ren Tang Ltd. diluted from 54.86% to 52.45%.

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 Special Administrative Region (“**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. Upon the completion of the share swap arrangement of Tong Ren Tang Chinese Medicine, the equity interest held by the Company and Tong Ren Tang Ltd. in Tong Ren Tang Chinese Medicine changed from 38.38% and 33.91% to 38.05% and 33.62%, respectively, and Tong Ren Tong Chinese Medicine continued to be a subsidiary of the Company. For details, please refer to the announcement of the Company dated 5 February, 2015.

\* For full names of the subsidiaries, joint ventures and associate, 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 2014, as extracted from the audited financial statements of the Group, is set out below:

|                           | Year ended 31 December |                 |                 |                 |                 |
|---------------------------|------------------------|-----------------|-----------------|-----------------|-----------------|
|                           | 2014<br>RMB'000        | 2013<br>RMB'000 | 2012<br>RMB'000 | 2011<br>RMB'000 | 2010<br>RMB'000 |
| Revenue                   | 3,341,166              | 2,910,749       | 2,439,002       | 1,899,551       | 1,578,914       |
| Profit before income tax  | 740,600                | 595,111         | 480,474         | 333,975         | 266,794         |
| Income tax expense        | (124,242)              | (91,948)        | (80,926)        | (52,481)        | (42,068)        |
| Profit for the year       | 616,358                | 503,163         | 399,548         | 281,494         | 224,726         |
| Profit attributable to:   |                        |                 |                 |                 |                 |
| Owners of the Company     | 462,187                | 390,093         | 330,180         | 254,707         | 197,978         |
| Non-controlling interests | 154,171                | 113,070         | 69,368          | 26,787          | 26,748          |

## Financial Highlights

### ASSETS AND LIABILITIES

A summary of the consolidated balance sheet of the Group for each of five years ended 31 December 2014, as extracted from the audited financial statements of the Group, is set out below:

|                           | As of 31 December |                 |                 |                 |                 |
|---------------------------|-------------------|-----------------|-----------------|-----------------|-----------------|
|                           | 2014<br>RMB'000   | 2013<br>RMB'000 | 2012<br>RMB'000 | 2011<br>RMB'000 | 2010<br>RMB'000 |
| Non-current assets        | <b>1,099,817</b>  | 835,854         | 696,020         | 615,101         | 479,950         |
| Current assets            | <b>4,432,378</b>  | 4,312,338       | 2,483,651       | 2,214,272       | 1,699,132       |
| <b>TOTAL ASSETS</b>       | <b>5,532,195</b>  | 5,148,192       | 3,179,671       | 2,829,373       | 2,179,082       |
| Non-current liabilities   | <b>78,317</b>     | 118,217         | 57,332          | 57,284          | 30,288          |
| Current liabilities       | <b>1,017,724</b>  | 1,021,358       | 895,014         | 829,960         | 408,367         |
| <b>TOTAL LIABILITIES</b>  | <b>1,096,041</b>  | 1,139,575       | 952,346         | 887,244         | 438,655         |
| Equity attributable to    |                   |                 |                 |                 |                 |
| Owners of the Company     | <b>3,549,588</b>  | 3,257,277       | 1,937,607       | 1,720,448       | 1,562,927       |
| Non-controlling interests | <b>886,566</b>    | 751,340         | 289,718         | 221,681         | 177,500         |
| <b>TOTAL EQUITY</b>       | <b>4,436,154</b>  | 4,008,617       | 2,227,325       | 1,942,129       | 1,740,427       |

# Chairman's Statement

I am pleased to present the annual report of the Group for the year ended 31 December 2014 for shareholders' review.

## RESULTS OF THE YEAR

For the year ended 31 December 2014 (the "**Reporting Period**"), the Group's revenue amounted to RMB3,341,166,000, representing an increase of 14.79% from RMB2,910,749,000 for the corresponding period of last year; the Group's net profit amounted to RMB616,358,000, representing an increase of 22.50% from RMB503,163,000 for the corresponding period of last year; net profit attributable to the owners of the Company amounted to RMB462,187,000, representing an increase of 18.48% from RMB390,093,000 for the corresponding period of last year.

## REVIEW OF THE YEAR

Amidst the stabilized but sluggish global economic recovery paces mixed with less resilience across emerging economies, China is experiencing industrial restructuring with an abrupt downshift of domestic economic growth in the short term in 2014. The year witnessed the continuously increasing demand for medicines as driven by the deepening of medical reform, a higher proportion of fiscal expenditures in the pharmaceutical and healthcare system and the introduction of a series of policies including the "low-cost drug catalogue", pointing to a positive outlook for the domestic pharmaceutical industry. However, the industry remained in challenges and transformation given the mutation of diseases which added the uncertainties to the development of domestic pharmaceutical industry. The stricter regulation over pharmaceutical safety by the authorities and the evolving market competition landscape and tactics, while posing grimmer challenges to operating cost control and business management of the Company, also provided a broader stage for large pharmaceutical corporations with high-quality products and sound reputation.

Looking back to 2014, against the backdrop of the stern external economic environment and intensifying competition among domestic rivals, we absorbed the insights from peers and managed to base our stable growth upon rational resource allocation and optimized industrial structure. During the year, the Company successfully completed the capitalisation issue which resulted in further shareholder involvement in the development of the Company with an enlarged shareholder base and higher liquidity of shares, laying a solid ground for future development in capital market. In addition, we continued to draw upon our brand strengths with a focus on consolidation of resources, and adopted flexible marketing development strategy to secure market share for our healthy and sustainable growth. Meanwhile, through focusing on market demand and launching new products rationally, our subsidiaries extend their presence to disease prevention, health care, facial and skin care and other fields, thus continuously elevating the Group's overall core competitiveness and market influence of the "Tong Ren Tang" brand.

## Chairman's Statement

### OUTLOOK AND PROSPECTS

Looking into 2015, market competition is to be heightened along with a potentially continuing slowdown of the growth rate of China's economy. Nevertheless, the constructive outlook for the domestic pharmaceutical industry and vast potential demand for Chinese medicine products would remain intact, as fueled by further medical resources to be allocated and full coverage of the basic medical insurance system to be achieved.

In 2015, we will stay focused on the life and healthcare industry. Capitalizing on our resources and cultural strength, we will embed our long-cherished pharmaceutical expertise into modern production process and the ancient teaching into our management concept. In light of the philosophy of "virtue, honesty and trustworthiness" in serving consumers, we will highlight core value of products to sustain the glory of the "Tong Ren Tang" brand in the traditional Chinese medicine industry. Also, we are increasingly required to broaden our vision by combining curing and preventive approaches given the stronger public healthcare awareness and needs, partly attributable to higher stress in life, faster aging process, sub-health status and chronic diseases that have been more common in China. At subsidiary level, to expand the niche and highlight product positioning with a commitment to better human health, we will gradually diversify into healthcare industries to cultivate new frontiers for growth, in order to uplift the Group's position and influence in the healthcare sector.

I hereby would like to express my sincere gratitude to the colleagues in 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 reward the shareholders with good results.

**Mei Qun**  
*Chairman*

Beijing, the PRC  
20 March 2015

# Management Discussion and Analysis



## BUSINESS REVIEW

In 2014, the Company continued to grow in a stable, sustainable and healthy manner, thanks to its unchanged focus on “specialisation, scale operation and integration” to respond to the increasingly intensified market competition in the industry. For the year ended 31 December 2014, the revenue of the Group amounted to RMB3,341,166,000, representing an increase of 14.79% as compared with RMB2,910,749,000 for the corresponding period of last year; the Group’s net profit amounted to RMB616,358,000, representing an increase of 22.50% as compared with RMB503,163,000 for the corresponding period of last year; net profit attributable to the owners of the Company amounted to RMB462,187,000, representing an increase of 18.48% as compared with RMB390,093,000 for the corresponding period of last year.

### Sales

We further refined our sales channels in 2014, leveraging upon promotional platforms of marketing partners to diversify cooperation models and operation channels. On the one hand, we furthered optimized the existing distribution channels, relying on strategic alliances and cooperation with large pharmaceutical circulation enterprises in building up an in-depth and large-scale distribution network. Tapping on retail outlets within its parent group under the “Tong Ren Tang” brand to maximize the brand effect, the Company made full use of fellow channels within its parent group to increase market awareness of the Company’s products, thus realizing a multi-level and multidimensional cooperation model over the traditional channel network. On the other hand, in view of the increasingly strong influence of the Internet on reshaping the market, the Company also incorporated online marketing ideology into its business philosophy by exploring resources of new network media promotion and online marketing. In the second half of 2014, the Company successfully opened “Tong Ren Tang Food Flagship Store” on JD.COM and TMALL.COM with an aim to sell food products. In addition, the online-to-offline full-channel interactive marketing model of the Company is gradually taking shape through participation in promotional events of well-known online pharmacies and publicity activities on WeChat and other new media platforms.

Keeping in its mind that future competition is a war about catering to various market needs, the Company has been adhering to differentiated marketing by aligning its regional market development with product portfolio development according to medicine needs of consumer groups. During the year, the Company’s rational sales planning under a hierarchical geographic structure helped to maximize the potential of regional markets according to their respective characteristics. At the same time, a cascaded portfolio of specialty products was developed, according to the characteristics of the specialty products and the regional consumer groups, laying a cornerstone for scale development of our product portfolio and regional market penetration towards a balance between products and regional markets.

## Management Discussion and Analysis

During the year, the Company produced and sold more than one hundred kinds of Chinese patent medicines, of which 32 kinds of products achieved a sales amount of more than RMB10 million; and 18 kinds of products achieved a sales amount 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 amount of Liuwei Dihuang Pills (六味地黄丸) series decreased, the sales amount of Niuhuang Jiedu Tablets (牛黄解毒片) series increased by 25.90% and the sales amount of Ganmao Qingre Granules (感冒清热颗粒) series increased by 16.01%. Other products, the sales amount of which increased by more than 20% over the corresponding period of last year, include Ejiao (阿膠) series, Jiawei Xiaoyao Pills (加味逍遥丸) series, Jinkui Shenqi Pills (金匱腎氣丸) series and Xihuang Pills (西黃丸) series.

### Production

In 2014, the Company produced nearly 20 forms of products including pills, tablets, granules, capsules and liquid. With market-oriented production throughout the year, the Company established an effective, rapid and smooth bridge between its production and sales through effective communication mechanisms including production-sales coordination meetings, and regular production meetings etc.. Production procedures were scheduled in a scientific and rational manner under the whole-process specialized monitoring. Taking the opportunity of certifications including new Good Manufacturing Practice ("GMP") in China and Therapeutic Goods Act ("TGA") in Australia, we further strengthened our awareness of quality, taking initiatives such as improving quality management standards and on-site management to boost quality management both in hardware and software to ensure the quality and safety of pharmaceuticals.

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 provided semi-finished goods for the production of different forms of medicines to the Company since 2007. In 2014, Tongke Company focused on specialized extraction to effectively meet the Company's production needs and ensure the quality of semi-finished products.



## Management Discussion and Analysis

The registered capital of 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**”) (located in Tangshan, Hebei Province) is RMB120 million, which is owned as to 74%, 20% and 6% respectively by the Company, 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). Tangshan Company will center on manufacturing of glue product series. During the year, its food workshop successfully passed the certification of QS (Quality Standard on Food Production). It is envisaged that the output increase of Tangshan Company will further enhance the Group’s production capacity of glue product series, and diversify the Group’s product mix of glue product series. For the year of 2014, Tangshan Company generated a total revenue of RMB 60,308,000, and a net profit of RMB5,454,000.



### *Management and Research and Development*

In 2014, the Company remained committed to “specialized” and “standardized” development. The Company streamlined key areas in production and operation, and defined more than 10 annual tasks with an intensified focus at the beginning of the year, which were pressed forward by dedicated task groups. During the year, we continued the product quality control over all kinds of products and constant improvement of management standards and operational protocols based on the development of standards and systems, which were promoted to our subsidiaries to gradually realize systematic and standardized operation. A hierarchical management model was adopted across procurement, production, warehousing, logistics and sales, etc. to identify risk areas, assess risk level and build up an internal risk-controlling “firewall”. With strengthened internal control, we gradually achieved overall control over personnel, finance and property in business processes to improve our scientific management level. During the year, the Company successfully passed the re-certification of High/New Technology Enterprise.

On research and development, the Company adhered to the tenet of providing practical and efficient scientific research services for production and operation to constantly advance scientific research on the existing products, focusing on in-depth research on increasing indications and broadening scope of application to underpin further market development. During the year, we made inspiring breakthroughs in the research and development of Ejiao food series by rolling out a series of well-received products, including Ejiao Honey Cream and Instant Ejiao Powder, which laid a foundation for diversification of product categories of the Group.



## Management Discussion and Analysis

### ***Beijing Tong Ren Tang Nansanhuan Zhonglu Drugstore Co., Limited (北京同仁堂南三环中路药店有限公司) (“Nansanhuan Zhonglu Drugstore”)***

Nansanhuan Zhonglu Drugstore is located at Nansanhuan Zhonglu, Fengtai District, Beijing, and is the only retail drugstore invested and established by the Company in Mainland China. In 2014, Nansanhuan Zhonglu Drugstore continued its quality priority on products, services and operation to give full play to its featured operations in a customer-centered approach. At the same time, leveraging on the “Tong Ren Tang” brand, it adhered to the operating direction of “establishing itself as a top-notch drugstore selling quality medicines”, integrating our culture of “Heal the world” into daily operation, which fueled the growth in sales revenue. In 2014, Nansanhuan Zhonglu Drugstore realized sales revenue of RMB94,060,000, representing an increase of 11.81% 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 Chinese medicinal raw materials such as Cornel (山茱萸), Tuckahoe (茯苓) and Catnip (荆芥). These production bases played a key role in securing the supply and quality of Chinese medicinal raw materials required for the Company’s products.

In line with the trend of “Return to the green nature” in 2014, our production bases strictly followed the planting and harvesting approach specific to places of origin and seasons, to provide pure and authentic Chinese medicinal raw materials to the Company. In addition, the production bases further standardized cultivation of herbs and improved management level to reduce operational risks. During the year, Herba Corydalis Bungeanae (苦地丁) and Cortex Moutan (牡丹皮) which were planted in our production bases situated in Hebei and Anhui successfully passed the on-site inspection for certification under the “Good Agricultural Practice” (“GAP”), which ensured the safety and quality of medicinal raw materials and achieved sustainable development of economy, environment and society. In 2014, all of the Company’s production bases for Chinese medicinal raw materials achieved a total sales revenue of RMB127,309,000.

## Management Discussion and Analysis

### **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”)**

The registered capital of Tong Ren Tang WM is US\$3 million, which is owned as to 60% and 40% respectively by the Company and WM Dianorm Biotech Co., Limited. In light of the tenet of “distilling the secret recipe culturally and scientifically” since its inception, it is committed to combining natural herb and modern Chinese medicine and promoting its application in cosmetics, daily health products and pharmaceuticals. Its major products include lotion, cream, facial and eye masks, liposome skincare products and daily health products. Responding to the consumer’s increasing pursuit for safe and natural cosmetics in 2014, Tong Ren Tang WM abided by the standards of “superior materials, superb technique”, combining extraction of herbal raw materials and the leading production technology to highlight effectiveness, safety and natural attributes of products. In addition, to meet consumer needs, it introduced innovative marketing models including e-commerce platform to promote sales of products, and gradually established a multi-platform and multi-channel growth pattern. During the year, more than 10 new products including Tong Ren Tang Freckle-Removing Cream (同仁堂祛斑霜) and Tong Ren Tang Nourishing Body Lotion (同仁堂滋養保濕體乳) were marketed. The product portfolio comprising facial care, hand care, liposome care and hair care products made Tong Ren Tang WM a carrier of the herbal skin care undertaking. In 2014, Tong Ren Tang WM generated a total sales revenue of RMB106,958,000, representing an increase of 25.01% as compared with the corresponding period of last year, and a net profit of RMB12,535,000, representing an increase of 23.82% as compared with the corresponding period of last year.



## Management Discussion and Analysis



### ***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 original registered capital of Xing An Meng Co., Ltd. was RMB3 million. In 2014, the Company and Beijing Dekang Xinrui Trading Co., Ltd. (北京德康信瑞商貿有限責任公司) (“**Dekang Xinrui**”) entered into a capital increase agreement, pursuant to which each party agreed to jointly increase its investment in Xing An Meng Co., Ltd. by an additional capital contribution of RMB16 million on a pro rata basis based on the original shareholding. Upon completion of the capital increase, the registered capital of Xing An Meng Co., Ltd. was increased to RMB19 million, and the Company and Dekang Xinrui continued to hold 51% and 49% equity interest in Xing An Meng Co., Ltd. respectively. During the Reporting Period, it focused on tea drinks and foot care products series to further promote traditional Chinese healthcare concept. While consolidating and expanding the existing sales channels, it also started to develop supermarket channels appropriate for its products and end markets, thus enhancing the influence of its products. During the year, its products were well received in the market. For the year of 2014, Xing An Meng Co., Ltd. generated a total revenue of RMB28,925,000, representing an increase of 121.67% as compared with the corresponding period of last year, and a net profit of RMB377,000.

## Management Discussion and Analysis

### ***Beijing Tong Ren Tang Century Advertising Co., Limited (北京同仁堂世紀廣告有限公司)*** ***(“Tong Ren Tang Century Advertising”)***

Tong Ren Tang Century Advertising, a wholly-owned subsidiary of the Company with registered capital of RMB1 million, is primarily engaged in advertising design, production, agency and publication, etc. Upholding the service concept with a focus on planning, originality and publicity effect during the year, it adopted various channels including, among others, printed media, television, radio and outdoor advertising to promote the “Tong Ren Tang” brand and products, and continued to improve the initiative and innovativeness of its services. For the year of 2014, Tong Ren Tang Century Advertising generated a total revenue of RMB43,983,000.

### ***Tong Ren Tang Chinese Medicine***

Tong Ren Tang Chinese Medicine, which is a subsidiary of the Company and is located in 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. As at 31 December 2014, the total issued shares of Tong Ren Tang Chinese Medicine were 830,000,000 shares, which were owned as to 38.38% by the Company, as to 33.91% by Tong Ren Tang Ltd. and the rest by public shareholders. As at the date of this annual report, the total issued shares of Tong Ren Tang Chinese Medicine have increased to 837,100,000 shares, which were owned as to 38.05% by the Company, as to 33.62% by Tong Ren Tang Ltd. and the rest by public shareholders (For details about the changes of the total issued shares of Tong Ren Tang Chinese Medicine and the shareholding percentage, please refer to Note 34 to the Consolidated Financial Statements). Tong Ren Tang Chinese Medicine is principally engaged in construction of overseas distribution network and distribution of products of “Tong Ren Tang” brand and other Chinese patent medicine health products, and development, production and sales of its own products.

Based in Hong Kong with the aim of going global, Tong Ren Tang Chinese Medicine continued to promote the Chinese traditional culture with a focus on the culture of Chinese medicine in 2014. During the year, Tong Ren Tang Chinese Medicine opened the first flagship store for Chinese medicine and health preservation in Hong Kong, completed the acquisition of Fook Ming Tong Chinese Medical Center (福明堂中醫藥中心) and entered into a framework agreement with Maori, the indigenous people of New Zealand, with the intention to establish a touring health and cultural center in New Zealand. As at 31 December 2014, Tong Ren Tang Chinese Medicine had established 56 retail stores in 15 countries and regions outside Mainland China (Hong Kong, Macau, Malaysia, Canada, Indonesia, South Korea, Thailand, Australia, Singapore, Brunei, Cambodia, United Arab Emirates, Poland, the United Kingdom and New Zealand). With the proactive development of new business modes and network and the continuously enhanced strategies of innovation, branding and international marketing, Tong Ren Tang Chinese Medicine managed to create new sources of value growth.

In 2014, Tong Ren Tang Chinese Medicine and its subsidiaries generated a total sales revenue of RMB603,895,000, representing an increase of 22.80% as compared with RMB491,772,000 for the corresponding period of last year, and a net profit of RMB233,519,000 representing an increase of 28.62% as compared with RMB181,561,000 for the corresponding period of last year.

## Management Discussion and Analysis

### FINANCIAL REVIEW

#### *Liquidity and Financial Resources*

The Group has maintained a sound financial position. During the year of 2014, the Group's primary source of funds was cash generated from daily operating activities..

As at 31 December 2014, the Group's cash and cash equivalents amounted to RMB1,774,389,000 (31 December 2013: RMB1,967,919,000) in total, plus short-term bank borrowings of RMB100,000,000 (31 December 2013: RMB155,000,000), carrying an interest rate of 5.456% (2013: 5.603%) per annum, plus nil non-current borrowings (as at 31 December 2013, the non-current borrowings amounted to RMB39,310,000, carrying an interest rate of 1.590% per annum).

As at 31 December 2014, the total assets of the Group amounted to RMB5,532,195,000 (31 December 2013: RMB5,148,192,000). The funds comprised non-current liabilities of RMB78,317,000 (31 December 2013: RMB118,217,000), current liabilities of RMB1,017,724,000 (31 December 2013: RMB1,021,358,000), equity attributable to owners of the Company of RMB3,549,588,000 (31 December 2013: RMB3,257,277,000) and non-controlling interests of RMB886,566,000 (31 December 2013: RMB751,340,000).

#### *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 2014, the Group's funds were mainly used for production and operation activities, purchase of non-current assets, repayment of bank loans and loan interest and payment of cash dividends, etc.

The Group mainly uses Renminbi and Hong Kong dollars ("HKD") 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. The Group monitors its capital on the basis of the gearing ratio.

#### *Gearing and Liquidity Ratios*

As at 31 December 2014, the Group's gearing ratio (the ratio of total borrowings to equity attributable to owners of the Company) was 0.03 (31 December 2013: 0.06); the Group's liquidity ratio (the ratio of current assets to current liabilities) was 4.36 (31 December 2013: 4.22), reflecting that the Group had sufficient financial resources.

#### *Charges over Assets of the Group*

As at 31 December 2014, none of the Group's assets was pledged as security for liabilities (31 December 2013: Nil).

#### *Contingent Liabilities*

The Group had no contingent liabilities as at 31 December 2014 (31 December 2013: Nil).

## Management Discussion and Analysis

### *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 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.

### *Use of Proceeds*

The Company completed the placing of 52,392,000 H shares at the placing price of HKD23.00 per H share on 6 September 2013. The net proceeds (net of all related costs and expenses (including commissions, legal fees and levies)) amounted to approximately RMB931.74 million. As disclosed in the Company's placing announcement dated 30 August 2013, the proceeds from the placing were expected to be used to replenish the Company's general working capital.

As at 31 December 2014, the use of proceeds from the aforesaid placing of approximately RMB879,250,000 was as follows:

1. approximately RMB82,660,000 were used for the acquisition of 68% equity interest in Tangshan Company.
2. RMB15,000,000 were used for liquidity repayment of bank loans.
3. approximately RMB522,300,000 were used for purchase of Chinese medicinal raw materials, auxiliary ingredients and packaging materials.
4. approximately RMB52,560,000 were used for construction projects at Daxing and Bozhou.
5. approximately RMB13,650,000 were used for replacement of production equipment and infrastructure maintenance.
6. approximately RMB122,350,000 were used for daily operating expenses.
7. approximately RMB70,730,000 were used for distribution of H share dividends for 2013.

As at 31 December 2014, approximately RMB52,490,000 of the proceeds was not yet used.

### *Capital Commitments*

As at 31 December 2014, 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 RMB127,261,000 (31 December 2013: RMB38,749,000).

### *Significant Investment and Material Acquisition/Disposal of Assets*

During the year of 2014, the Group did not have any significant investment or material acquisition or disposal of assets.

## Management Discussion and Analysis

### FUTURE INVESTMENT PLAN

As at the end of 2014, the Company had bought a total of approximately 108,700 square meters of land 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 in Da Xing Base is expected to be approximately RMB1,088 million, which will be paid by internal funds, bank borrowings or others. As at the end of 2014, RMB179,820,000 had been invested in the base. So far, main construction for R&D center, solid dosage plant and liquid dosage plant has been completed. Upon the completion of the construction, Da Xing Base will become an integrated industrial base with functions of both production and technology research for various forms of Chinese medicines such as solid dosage form and liquid dosage form.

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 in Bo Zhou Base is expected to be approximately RMB185 million, which will be paid by internal funds, bank borrowings or others. As at the end of 2014, RMB91,590,000 had been invested in the base. During the Reporting Period, the Company carried out internal improvement of the warehouse and workshop for Chinese medicinal raw materials in an orderly manner. Upon the completion of the construction, Bo Zhou Base will provide the Company with the 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

The year of 2015 is the final year of the “Twelfth Five-year Plan” for China’s evolving pharmaceutical industry. Amidst the complicated economic environment and faced with possible adjustments and changes within the industry, we should reposition ourselves in the transformation prudently and decisively, broadening our mindset to seize market opportunities and enhance our competitiveness for long-term development of the Group on a healthy and sustainable basis.

Looking ahead, we will continue to integrate our culture-based traditional Chinese medicine concept into modern pharmaceutical process to cater for various medication needs with focus on modern Chinese medicine. In 2015, we will continue to tap on market potential, introduce new marketing approaches to enhance our competitive edge. On one hand, we will stay close to the characteristics and needs of markets and consumers and guide the consumption habits based on effective and in-depth research on segment consumer markets in different regions. On the other hand, we will continue to explore on and develop new business and service models. We expect to seize the opportunity to introduce our products to more consumers through e-commerce platform, an innovative vehicle implying tremendous potential, to promote closer integration of online and offline products progressively.

In addition, we will promote the subsidiaries to continuously rely on their specialized market positioning by respectively focusing on and penetrating into cosmetics and food products. While expanding the application and categories of products, we will combine our heritage and innovations to forge a distinctive, well-structured and specialized business mix as a growth engine for the Group’s sustainable development.

# Report of the Board of Directors

The Board is pleased to present the 2014 annual report together with the audited financial statements of the Group for the year ended 31 December 2014.

## 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:

|                                    | <b>2014</b>      | 2013      |
|------------------------------------|------------------|-----------|
|                                    | <b>RMB'000</b>   | RMB'000   |
| Sales of Chinese medicine products |                  |           |
| – Mainland China                   | <b>2,807,902</b> | 2,442,149 |
| – Outside Mainland China           | <b>477,972</b>   | 447,900   |
|                                    | <b>3,285,874</b> | 2,890,049 |
| Advertising agency services income |                  |           |
| – Mainland China                   | <b>32,604</b>    | –         |
| Chinese medical consultation       |                  |           |
| – Outside Mainland China           | <b>22,134</b>    | 20,004    |
| Royalty fee income                 |                  |           |
| – Outside Mainland China           | <b>554</b>       | 696       |
|                                    | <b>3,341,166</b> | 2,910,749 |

## MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2014, sales to the five largest customers of the Group accounted for less than 30% (2013: less than 30%) of the total sales of the Group.

For the year ended 31 December 2014, purchases from the five largest suppliers of the Group accounted for less than 30% (2013: less than 30%) of the total purchases of the Group.

## RESULTS

The results and financial position of the Group for the year ended 31 December 2014 are set out on pages 79 to 154 of this annual report.



## Report of the Board of Directors

### FINAL DIVIDEND AND TAX

The Board proposed a final dividend for the year ended 31 December 2014 (the “**Final Dividend**”) of RMB0.14 (including tax) per share based on the total number of the Company’s issued and fully paid-up shares of 1,280,784,000 as at the end of 2014, totaling RMB179,309,760 (2013: a final dividend for the year ended 31 December 2013 of 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, totaling RMB160,098,000). The profit distribution proposal is subject to the approval by the shareholders at the annual general meeting of 2014 of the Company to be held on Tuesday, 9 June 2015 (the “**2014 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 organisations, 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 (Guoshuihan [2011] No.348), 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.

As of the date of this annual report, none of the shareholders had waived or agreed to waive any dividend arrangement.

### SHARE CAPITAL

The Company held its 2013 AGM, the class meeting for the holders of H shares (the “**H Shares**”) of the Company (the “**H Share Class Meeting**”) and the class meeting for the holders of domestic shares (the “**Domestic Shares**”) of the Company (the “**Domestic Share Class Meeting**”) on 12 June 2014, at which shareholders approved to proceed with the capitalisation issue. As approved by the Listing Committee of the Hong Kong Stock Exchange, 314,352,000 capitalised H Shares were officially listed and traded on the Hong Kong Stock Exchange on 3 July 2014. Upon completion of the above mentioned capitalisation issue, the Company has increased the total number of issued shares to 1,280,784,000 shares, comprising 652,080,000 Domestic Shares and 628,704,000 H Shares. Pursuant to the basis of the capitalisation issue, there is no dilutive effect on the shareholdings of the shareholders of the Company.

The Board considers that the capitalisation issue will (i) will enable shareholders to participate in the development of the Company by way of conversion of capital surplus; (ii) will expand capital base of the Company, thereby enhancing the liquidity of its shares; and (iii) can reward shareholders for their long-term support and profound goodwill.

## Report of the Board of Directors

For details on the capitalisation issue, please refer to the announcements dated 20 March 2014 and 12 June 2014, and the circular dated 25 April 2014 of the Company.

Details of the movement in the share capital of the Company during the year of 2014 are set out in Note 14 to the Consolidated Financial Statements.

### PUBLIC FLOAT

During the year of 2014 and as at the date of this annual 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 2014, the retained earnings attributable to owners of the Company were approximately RMB1,304,799,000 (31 December 2013: approximately RMB1,042,396,000).

### PROPERTY, PLANT AND EQUIPMENT

Details of movement in property, plant and equipment of the Group for the year of 2014 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, 23, 28 to the Consolidated Financial Statements.

### EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2014, the Group had a total of 3,595 employees (31 December 2013: 3,155 employees), of which 2,086 are employees of the Company (31 December 2013: 2,025 employees). Remunerations of the employees of the Company are determined with reference to the prevailing market level as well as the performance, qualification and experience of individual employee. Discretionary bonuses based on individual performance will be paid to the employees as a 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 2014, as approved by the Board, the Company paid a total of RMB3,648,400 incentive fund for the year of 2013 to the members of the senior management according to the Incentive Plan.

## Report of the Board of Directors

### STAFF QUARTERS

For the year ended 31 December 2014:

1. the Company did not provide quarters to any of its staff (2013: Nil);
2. the Company made annual contributions to the housing fund based on certain percentages of the employees salaries for employees; and
3. the Company also provided housing allowance to its staff at an average of RMB80 per person per month (2013: RMB80 per person per month).

### DIRECTORS' AND SUPERVISORS' SERVICE CONTRACTS

Each of the Directors and Supervisors has entered into a service contract with the Company for a term commencing on their respective appointment dates to the date of the 2014 AGM.

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

Saved as disclosed in the non-exempt continuing connected transactions and the non-exempt connected transactions, during the year of 2014, 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 2014, 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 54 to 57 of this annual report.

## Report of the Board of Directors

### CHANGE OF DIRECTORS AND SUPERVISORS

On 20 March 2014, due to re-designation of work, Mr. Xie Zhan Zhong has resigned as an executive Director and vice-Chairman of the Board, Mr. Yin Shun Hai has resigned as an executive Director, and Mr. Zhang Xi Jie has resigned from his positions as a shareholder representative Supervisor and the chairman of the Supervisory Committee, each with effect from the new Directors and shareholder representative Supervisor being elected at the 2013 AGM. (For details, please refer to the announcement of the Company dated 20 March 2014.)

At the 2013 AGM, Mr. Wang Quan and Mr. Gong Qin were appointed as executive Directors of the Fifth Session of the Board, and Ms. Ma Bao Jian was appointed as a shareholder representative Supervisor of the Fifth Session of the Supervisory Committee, each with a term commencing from the conclusion of the 2013 AGM to the date of the 2014 AGM. (For details, please refer to the announcement of the Company dated 12 June 2014.)

On 12 June 2014, Mr. Wang Quan, an executive Director, was elected as the vice-Chairman of the Board at the Board meeting, and Ms. Ma Bao Jian, a shareholder representative Supervisor, was elected as the chief Supervisor of the Company by the Supervisory Committee, both with immediate effect. (For details, please refer to the announcement of the Company dated 12 June 2014.)

### 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 in line with the prevailing local market rate by the Company.

In 2014, Mr. Mei Qun, Mr. Xie Zhan Zhong, Mr. Yin Shun Hai, Mr. Wang Quan, Mr. Gong Qin, 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, Ms. Ma Bao Jian 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 2014 and 2013 are set out in Note 27 to the Consolidated Financial Statements.

## Report of the Board of Directors

### 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) are set out by band as follows:

| Emoluments Grade        | number of senior management |      |
|-------------------------|-----------------------------|------|
|                         | 2014                        | 2013 |
| RMB 0-500,000           | –                           | –    |
| RMB 500,001-1,000,000   | 5                           | 3    |
| RMB 1,000,001-1,500,000 | 1                           | 2    |

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

As at 31 December 2014, 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 2) | Percentage of Domestic Shares | Percentage of total registered share capital |
|---------------------------|-------------------|------------------|---------------------------|-------------------------------|--|
| Mr. Mei Qun               | Personal          | Beneficial owner | 3,000,000                 | 0.460%                        | 0.234%                                       |
| Mr. Yin Shun Hai (Note 1) | Personal          | Beneficial owner | 3,000,000                 | 0.460%                        | 0.234%                                       |

Note 1: Mr. Yin Shun Hai resigned from the position of executive Director on 12 June 2014 and no longer holds any other positions with the Company.

Note 2: All represented Domestic Shares.

##### Tong Ren Tang Ltd.

| Name         | Type of interests | Capacity         | Number of shares (Note 1) | Percentage of total registered share capital | Number of convertible bonds |
|--------------|-------------------|------------------|---------------------------|--|-----------------------------|
| Mr. Mei Qun  | Personal          | Beneficial owner | 93,242                    | 0.007%                                       | –                           |
|              | Personal          | Beneficial owner | –                         | –  | 86,000 (Note 2)             |
| Mr. Gong Qin | Personal          | Beneficial owner | 34,965                    | 0.003%                                       | –                           |

Note 1: All represented A shares.

Note 2: Due to the redemption of convertible bonds by Tong Ren Tang Ltd. on 10 March 2015, Mr. Mei Qun ceased to be interested in 86,000 convertible bonds issued by Tong Ren Tang Ltd. since then.

## Report of the Board of Directors

Save as disclosed above, as at 31 December 2014, 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 2014, 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 registered shares |
|--|--|-----------------------------------|-------------------------------|------------------------|---------------------------------------|
| Tong Ren Tang Ltd.                                     | Beneficial owner   | 600,000,000                       | 92.013%                       | –                      | 46.846%                               |
| Tong Ren Tang Holdings <sup>(Note 2)</sup>             | Interest of controlled corporation by the substantial shareholder  | 600,000,000                       | 92.013%                       | –                      | 46.846%                               |
|  | Beneficial owner   | 9,480,000                         | 1.454%                        | –                      | 0.740%                                |
| Yuan Sainan <sup>(Note 3)</sup>                        | Beneficial owner   | 36,720,000(L) <sup>(Note 1)</sup> | –                             | 5.841%                 | 2.867%                                |
| Commonwealth Bank of Australia <sup>(Note 4)</sup>     | Interest of controlled corporation by the substantial shareholder  | 44,086,000(L) <sup>(Note 1)</sup> | –                             | 7.012%                 | 3.442%                                |
| Hillhouse Capital Management, Ltd. <sup>(Note 5)</sup> | Investment manager   | 47,736,000(L) <sup>(Note 1)</sup> | –                             | 7.593%                 | 3.727%                                |
| Gaoling Fund, L.P. <sup>(Note 6)</sup>                 | Investment manager   | 46,182,000(L) <sup>(Note 1)</sup> | –                             | 7.346%                 | 3.606%                                |
| Citigroup Inc.   | Interest of controlled corporation by the substantial shareholder and person holding security interest in shares <sup>(Note 7)</sup> | 32,926,527(L) <sup>(Note 1)</sup> | –                             | 5.237%                 | 2.571%                                |
|  |  | 373,800(S) <sup>(Note 1)</sup>    | –                             | 0.059%                 | 0.029%                                |
|  |  | 15,584,727(P) <sup>(Note 1)</sup> | –                             | 2.479%                 | 1.217%                                |

## Report of the Board of Directors

### Notes:

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

- (1) (L) – Long position (S) – Short position (P) – Lending poll
- (2) Such shares were held through Tong Ren Tang Ltd.. As at 31 December 2014, 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 600,000,000 shares held by Tong Ren Tang Ltd..
- (3) As known to the Directors, on 23 June 2014, this shareholder held 18,360,000 H Shares of the Company. Upon completion of the capitalisation issue of the Company on 3 July 2014 and as of 31 December 2014, he held 36,720,000 H Shares.
- (4) As at 31 December 2014, Commonwealth Bank of Australia indirectly held 44,086,000 H Shares in long position through a series of entities under its control.
- (5) As was known to the Directors, on 23 June 2014, Hillhouse Capital Management, Ltd., as investment manager, was indirectly interested in 23,091,000 H Shares in long position held by Gaoling Fund, L.P. and 777,000 H Shares in long position held by YHG Investment, L.P.. Upon completion of the capitalisation issue of the Company on 3 July 2014 and as at 31 December 2014, this shareholder was indirectly interested in 46,182,000 H Shares in long position held by Gaoling Fund, L.P. and 1,554,000 H Shares in long position held by YHG Investment, L.P..
- (6) As was known to the Directors, on 23 June 2014, Gaoling Fund, L.P., as investment manager, held 23,091,000 H Shares. Upon completion of the capitalisation issue of the Company on 3 July 2014 and as at the 31 December 2014, this shareholder held 46,182,000 H Shares.
- (7) As at 31 December 2014, Citigroup Inc. indirectly held 15,958,527 H Shares in long position through a series of entities under its control, and held 16,968,000 H Shares in long position as a person holding security interest in shares.

Save as disclosed above, as at 31 December 2014, 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 dosage 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 Niu Huang 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 dosage forms which are more competitive as compared with western medicine. The Company's main products include Liuwei Dihuang Pills (六味地黃丸), Niu Huang 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.

## Report of the Board of Directors

To ensure that the business classification between the Company, Tong Ren Tang Holdings and Tong Ren Tang Ltd. is properly documented and established, Tong Ren Tang Holdings and Tong Ren Tang Ltd. undertake, 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 Niu Huang 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 forms as those pharmaceutical products produced by the Company, which may compete directly with those pharmaceutical products of the Company.

The Directors consider that as Angong Niu Huang 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 Niu Huang Pills (安宮牛黃丸). Save as mentioned above, the Directors confirm that none of the products of the Company is in direct 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 products of the Company. Upon exercise of the right of first refusal, Tong Ren Tang Ltd., 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 products of the Company, the Company will be entitled to manufacturing such new product and none of Tong Ren Tang Holdings, Tong Ren Tang Ltd. or their respective subsidiaries will be allowed to manufacture such new product. The Directors believe that the above mentioned 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 and the development capability thereof, the Company confirms that among the independent non-executive Directors, 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. 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 mentioned 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 of 2014, 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.



## Report of the Board of Directors

### 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 right of first 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 2014.
- 4 We also agree this confirmation to be disclosed in the Company’s 2014 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 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 2015

## Report of the Board of Directors

### 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, 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 right of first 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 2014.
- 4 We also agree that this confirmation to be disclosed in the Company’s 2014 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 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 2015

## Report of the Board of Directors

### 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 rent a parcel of land located at No. 20 Nan San Huan Zhong Road, Feng Tai District, Beijing, the PRC (area: 43,815.15 sq.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 10 October 2013, the Company applied for the new annual cap of such agreements for each of the three years ending 31 December 2016. The new annual caps of the rental fee for each of the three years ending 31 December 2016 shall be 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 of the Hong Kong Stock Exchange and the Company for details.

In 2014, 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.

(ii) **Storage and Custody Agreement**

On 10 October 2013, the Company entered into the storage and custody agreement with Tong Ren Tang Holdings for a term of three years from 1 January 2014, 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 caps for the continuing connected transactions contemplated under the renewed storage and custody agreement for each of the three years ending 31 December 2016 shall be RMB7,000,000. Please refer to the announcement on 10 October 2013 published by the Company on the websites of the Hong Kong Stock Exchange and the Company for details.

In 2014, the storage fee paid by the Company to Tong Ren Tang Holdings amounted to RMB 2,916,000, which does not exceed the relevant annual cap.

(iii) **Distribution Framework Agreement**

On 10 October 2013, the Company renewed the distribution framework agreement with Tong Ren Tang Holdings for a term of three years from 1 January 2014, whereby the Company may sell its products to Tong Ren Tang Holdings or any of its subsidiaries and its associated companies (excluding the Group) 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 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 announcements dated 10 October 2013 and 16 December 2013, each of which was published by the Company on the websites of the Hong Kong Stock Exchange and the Company for details.

In 2014, sales by the Group to the Tong Ren Tang Group amounted to RMB436,366,000, which does not exceed the relevant annual cap.

## Report of the Board of Directors

### (iv) Master Procurement Agreement

On 10 October 2013, the Company and Tong Ren Tang Group renewed the master procurement agreement for a term of three years from 1 January 2014, whereby the Group may purchase the raw materials and semi-finished products and finished products (“**Relevant Products**”) for manufacturing and distribution from the Tong Ren Tang Group. The price to be paid for the Relevant Products procured by the Group from the Tong Ren Tang Group shall be determined in accordance with the following principle: (1) the price shall be negotiated and agreed by the parties within the range of the then prevailing market price for the similar products (the “**Market Price**”); (2) if there is no comparable Market Price available for the Relevant Products, the price shall be determined based on the integrated cost plus not more than 15% surcharge; and (3) in any event, the price to be paid by the Group for the procurement of the Relevant Products shall not be higher than that available from independent third parties for similar products, or higher than the Market Price, whichever is the lower. For the three years ending 31 December 2016, the annual caps for the continuing connected transactions contemplated under the renewed master procurement agreement shall be RMB190,000,000, RMB240,000,000 and RMB300,000,000, 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 announcements dated 10 October 2013 and 16 December 2013, each of which was published by the Company on the websites of the Hong Kong Stock Exchange and the Company for details.

In 2014, purchase of the Relevant Products by the Group from the Tong Ren Tang Group amounted to RMB84,125,000, which does not exceed the relevant annual cap.

### (v) Advertising Agency Framework Agreement

On 20 March 2014, Tong Ren Tang Century Advertising, a wholly-owned subsidiary of the Company, entered into the advertising agency framework agreement with Tong Ren Tang Group for the purpose of the provision of advertising agency services by Tong Ren Tang Century Advertising to Tong Ren Tang Group for a period from 1 April 2014 to 31 December 2016. Pursuant to the advertising agency framework agreement, Tong Ren Tang Group entrusted Tong Ren Tang Century Advertising as a non-exclusive advertising agent, to provide advertising agency services to Tong Ren Tang Group. The fees for the provision of specific services by Tong Ren Tang Century Advertising to members of Tong Ren Tang Group under individual implementation agreement shall be negotiated and determined by the parties according to the then prevailing market price, but in any event the price shall not be less than those offered to other independent third parties for similar services. For the period from 1 April 2014 to 31 December 2014 and the two years ending 31 December 2016, the annual caps for the continuing connected transactions contemplated under the advertising agency framework agreement shall be RMB50,000,000, RMB55,000,000 and RMB61,000,000, respectively. Please refer to the announcement on 20 March 2014 published by the company on the websites of Hong Kong Stock Exchange and the Company for details.

For the period from 1 April 2014 to 31 December 2014, total amount paid by Tong Ren Tang Group to Tong Ren Tang Century Advertising for the continuing connected transactions contemplated under the advertising agency framework agreement was RMB32,571,000, which does not exceed the relevant annual cap.

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.

## Report of the Board of Directors

### *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 ended 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 ended 31 December 2014 shall be RMB4 million, RMB40 million, and RMB45.5 million, respectively.

For the year ended 31 December 2014, total amount paid to the Group and Tong Ren Tang Ltd. by International Pharm for the continuing connected transactions under the exclusive distributorship framework agreement and TRT exclusive distributorship framework agreement amounted to RMB10,707,000 and RMB26,165,000 respectively, neither of which exceed the relevant annual caps.

## Report of the Board of Directors

As the term of each of the above-mentioned framework agreements as well as the annual caps for the continuing connected transactions thereunder expired on 31 December 2014, on 28 October 2014, (i) the Company and Tong Ren Tang Chinese Medicine renewed the exclusive distributorship framework agreement for a further term of three years from 1 January 2015 to 31 December 2017. For the three years ending 31 December 2017, the annual caps for the transactions under the renewed distribution framework agreement shall be RMB19,900,000, RMB23,400,000 and RMB27,600,000, respectively; and (ii) Tong Ren Tang Ltd. and Tong Ren Tang Chinese Medicine renewed the TRT exclusive distributorship agreement for a further term of three years from 1 January 2015 to 31 December 2017. For the three years ending 31 December 2017, the annual caps for the transactions under the renewed TRT exclusive distribution framework agreement shall be RMB51,900,000, RMB61,200,000 and RMB72,000,000, respectively.

As at 31 December 2014, Tong Ren Tang Ltd. is the intermediate controlling shareholder of the Company, which holds 46.85% direct 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 above-mentioned transactions, please refer to the relevant announcements of the Company dated 29 October 2012 and 28 October 2014.

### ***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 on technology research and development cooperation 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 paid by the Company to Zhongyan Company for the continuing connected transactions contemplated under the framework agreement on technology research and development cooperation for each of the period from 19 March 2013 to 31 December 2013 and the two years ending 31 December 2015 shall be RMB 8 million.

For the year ended 31 December 2014, the actual research and development expenses paid by the Company to Zhongyan Company for the continuing connected transactions under the framework agreement amounted to RMB6,249,000, which does not exceed the relevant annual cap.

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 above-mentioned agreement between the Company and Zhongyan Company constitute continuing connected transactions of the Company. For details about the above-mentioned transactions, please refer to the relevant announcement of the Company dated 19 March 2013.

The Company has confirmed that the execution and enforcement of the implementation agreements under the continuing connected transactions set above for the year of 2014 has followed the pricing principles of such continuing connected transactions.

## Report of the Board of Directors

### *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.56 and 14A.57 of the Listing Rules, that containing the findings and conclusions in respect of the above non-exempt continuing connected transactions for the year of 2014 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 Board.
- (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 Group.
- (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 amount of each of the continuing connected transactions has exceeded the annual cap set by the Company.

The independent non-executive Directors of the Company has reviewed the above-mentioned continuing connected transactions and confirmed that for the year of 2014:

- (i) these continuing connected transactions were entered into in the ordinary and usual course of business of the Group;
- (ii) these continuing connected transactions were entered into on normal commercial terms, or better;
- (iii) these continuing connected transactions were entered into according to the relevant agreement governing each of these transactions on terms that are 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 relevant announcements of the Company.

### **NON-EXEMPT CONNECTED TRANSACTIONS**

#### ***Further Acquisition of 9% Equity Interest in Tangshan Company from Beijing Tong Ren Tang Chinese Medicine (Hong Kong) Group Co., Ltd. ("Chinese Medicine Group")***

On 16 July 2014, the Company entered into the equity transfer agreement with Chinese Medicine Group in respect of further acquisition of 9% equity interest in Tangshan Company at a consideration of RMB 10.94 million. Upon completion of the transaction under the equity transfer agreement, the Company's direct equity interest in Tangshan Company will increase to 74%, and Chinese Medicine Group will no longer hold any equity interest in Tangshan Company.

## Report of the Board of Directors

Chinese Medicine Group is a non wholly-owned subsidiary of the Company in which Tong Ren Tang Ltd., the intermediate holding company of the Company, holds 46.91% equity interest. Therefore, Chinese Medicine Group is a connected person of the Company. Accordingly, the transaction between the Company and Chinese Medicine Group under the equity transfer agreement constitutes a connected transaction of the Company under the Listing Rules.

The glue shop of Tangshan Company successfully passed certification under the new edition of GMP in 2013. After commencement of production, it will expand production capacity of glue production series, and progressively develop a glue product portfolio to further diversify the Group's product lines. The Directors consider that the acquisition of the target asset will further increase the Company's direct shareholding in Tangshan Company and then generate higher returns to the Group in the future.

For details about the aforementioned transactions, please refer to the relevant announcement of the Company dated 16 July 2014.

Save as disclosed above, there is no related party transaction or continuing related party transaction set out in Note 31 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 ended 31 December 2014, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

### 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 2015 is to be proposed at the forthcoming 2014 AGM.

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

Beijing, the PRC  
20 March 2015



# 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 PRC, 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 2014 AGM. 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 2014 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.**  
**Ma Bao Jian**  
*Chief Supervisor*

Beijing, the PRC  
20 March 2015

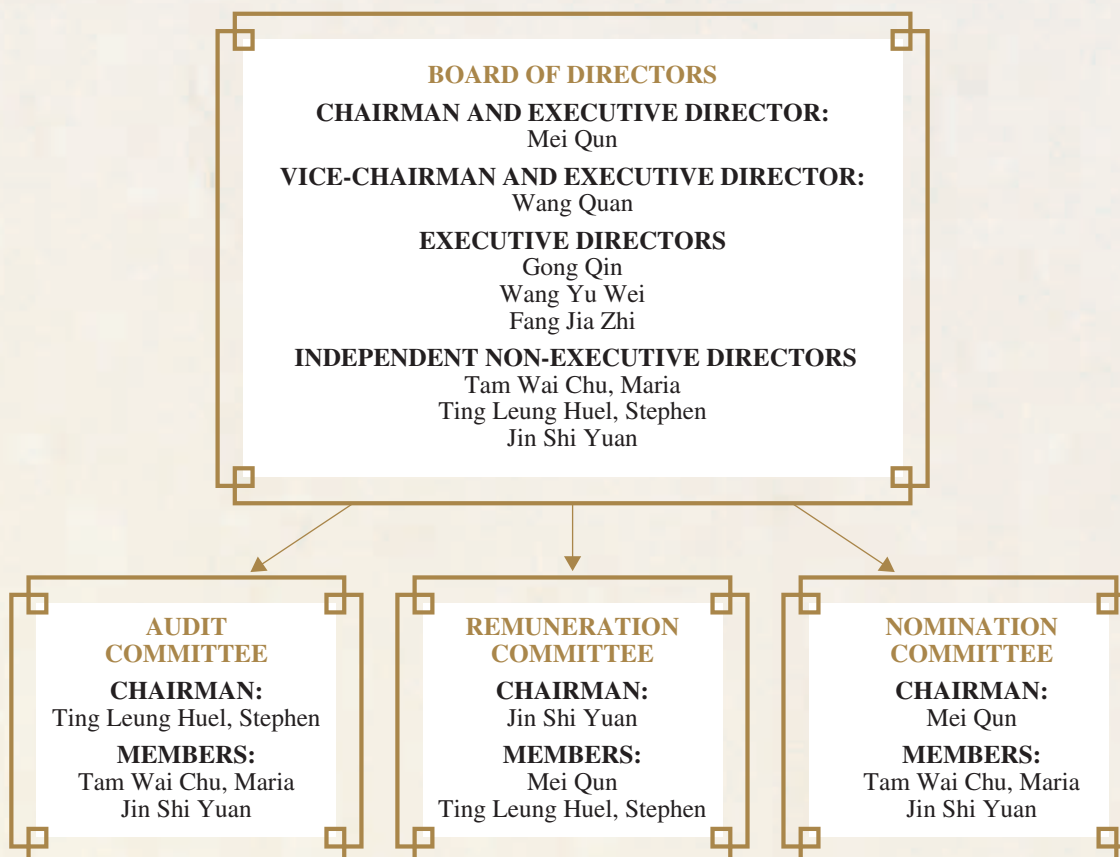
# Corporate Governance Report

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 them 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 be managed 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 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.



## Corporate Governance Report

The Board convenes meetings regularly and when significant decision has to be made. The Board convened five meetings in 2014 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 to the Board meeting, committee meeting, general meeting, and conference between the chairman and independent non-executive Directors in 2014:

| Directors                                  | Attendance/Number of meetings |                               |                                      |                                    |                    | Conference<br>between the<br>Chairman and<br>independent<br>non-executive<br>Directors |
|--|-------------------------------|-------------------------------|--------------------------------------|------------------------------------|--------------------|--|
|  | Board<br>meeting              | Audit<br>Committee<br>meeting | Remuneration<br>Committee<br>meeting | Nomination<br>Committee<br>meeting | General<br>meeting |  |
| <b>Executive Directors</b>                 |                               |                               |                                      |                                    |                    |  |
| Mei Qun (Chairman of the Board)            | 5/5                           |                               | 2/2                                  | 1/1                                | 1/1                | 1/1  |
| Xie Zhan Zhong <sup>1</sup>                | 0/2                           |                               |                                      |                                    | 0/1                |  |
| Yin Shun Hai <sup>2</sup>                  | 0/2                           |                               |                                      |                                    | 0/1                |  |
| Wang Quan <sup>3</sup>                     | 3/3                           |                               |                                      |                                    | 1/1                |  |
| Gong Qin <sup>4</sup>                      | 3/3                           |                               |                                      |                                    | 1/1                |  |
| Wang Yu Wei                                | 5/5                           |                               |                                      |                                    | 1/1                |  |
| Fang Jia Zhi                               | 5/5                           |                               |                                      |                                    | 1/1                |  |
| <b>Independent non-executive Directors</b> |                               |                               |                                      |                                    |                    |  |
| Tam Wai Chu, Maria                         | 5/5                           | 2/2                           |                                      | 1/1                                | 1/1                | 1/1  |
| Ting Leung Huel, Stephen                   | 5/5                           | 2/2                           | 2/2                                  |                                    | 1/1                | 1/1  |
| Jin Shi Yuan                               | 5/5                           | 2/2                           | 2/2                                  | 1/1                                | 1/1                | 1/1  |

*Note 1: On 20 March 2014, Mr. Xie Zhan Zhong resigned as the executive Director and the vice-Chairman, with effect from the conclusion of the 2013 AGM.*

*Note 2: On 20 March 2014, Mr. Yin Shun Hai resigned as the executive Director, with effect from the conclusion of the 2013 AGM.*

*Note 3: Mr. Wang Quan was appointed as executive Director and vice-Chairman on 12 June 2014. Mr. Wang Quan attended all three meetings of the Board in person during his tenure.*

*Note 4: Mr. Gong Qin was appointed as executive Director on 12 June 2014. Mr. Gong Qin attended all three meetings of the Board in person during his tenure.*

*Note 5: Each Director attended the above meetings in person rather than by proxy.*

## Corporate Governance Report

### *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 AGM on 22 May 2012 and the 2013 AGM on 12 June 2014 with the term of office ending upon the conclusion date of the AGM to be convened in 2015.

The independent non-executive Directors are independent of the management with solid experience in business or 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 AGM 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 2014. The Company considers that all independent non-executive Directors are independent of the Company.

At any time during the year ended 31 December 2014, 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, as well as the requirement of having one independent non-executive Director with appropriate professional qualifications or accounting or related financial management expertise.

As is known to the Company, the Directors, Supervisors and senior management of the Company do not have any relationship among themselves in financial, business, family or other material aspects except for working relationship in the Company.

## Corporate Governance Report

### *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.

## Corporate Governance Report

Pursuant to the provisions of the Code, the Board exercises the following powers in respect of corporate governance:

- 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 the 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 of the Board 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.

## Corporate Governance Report

### *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 contributions to the Board in an informed and appropriate manner. For the year ended 31 December 2014, 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.

### **Attendance of Training Courses and Reading/Studying Training Materials**

| <b>Directors</b>                           | <b>Attendance<br/>of training<br/>courses</b> | <b>Reading/<br/>studying<br/>training<br/>materials</b> |
|--|---|---|
| <b>Executive Directors</b>                 |   |   |
| Mei Qun                                    | √   | √   |
| Xie Zhan Zhong                             | √   | √   |
| Yin Shun Hai                               | √   | √   |
| Wang Quan                                  | √   | √   |
| Gong Qin                                   | √   | √   |
| Wang Yu Wei                                | √   | √   |
| Fang Jia Zhi                               | √   | √   |
| <b>Independent Non-executive Directors</b> |   |   |
| 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.

## Corporate Governance Report

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, 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 procedures. 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 and duties 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. Its primary duties 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 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. The Company has fully complied with the requirements under Rule 3.21 of the Listing Rules.



## Corporate Governance Report

During the year of 2014, the Audit Committee convened two meetings. The first meeting was held on 13 March 2014 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 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 concluded the meeting with agreement to the contents of the 2013 annual report. The second meeting was held on 12 August 2014 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 2014, 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 2014 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 reappointment of the auditors; and held separate meetings with the auditors to discuss matters relating to its audit fees and other issues arising from the audit.

At the meeting held on 11 March 2015, 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 2014, as well as matters in relation to risk management, legal compliance and internal audit, and listened to the results of audit reported by the auditors. The committee concurred in the contents of the 2014 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 and duties. Its primary duties 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 procedures 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 authorisation.

During the year of 2014, two meetings have been held by the Remuneration Committee. On 13 March 2014, the Remuneration Committee reviewed and discussed the matters including the Directors', Supervisors' and senior management' emoluments for the year ended 31 December 2013 as well as the Directors' and Supervisors' relevant service contracts. At the meeting held on 12 June 2014, the Remuneration Committee discussed matters including the remuneration and related services contracts of newly appointed Directors and Supervisors, and made recommendations to the Board.

## Corporate Governance Report

### NOMINATION COMMITTEE

The Company has established the Nomination Committee with specific written terms of reference and duties according to the relevant provisions of the Listing Rules. Its primary duties 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 change;
- ii. reviewing the Board diversity policy regularly, including but not limited to gender, age, cultural, educational background and professional experience and reviewing any measurable objectives that it has set for implementing the Board diversity 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 Miss 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 by the Nomination Committee while assessing the independence of the independent non-executive Directors.

During the year of 2014, one meeting was held by the Nomination Committee. At the meeting held on 13 March 2014, the Nomination Committee reviewed and discussed the structure, size and composition of the Board, identified suitably qualified individuals who could take up the position of Director, selected and nominated the relevant individuals for appointment as Directors, and advised the Board accordingly.

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.

## Corporate Governance Report

### COMPLIANCE WITH THE CODE

For the year ended 31 December 2014, the Company had always strictly complied with the code provisions contained in the Code.

During the year of 2014, 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 to all the Directors and Supervisors, all of them confirmed that they had strictly 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 2014.

### INDEPENDENT AUDITOR'S REMUNERATION

PricewaterhouseCoopers was the independent auditor of the Company for the year ended 31 December 2014. Other than annual auditing services, PricewaterhouseCoopers also provided non-audit services mainly including letters on continuing connected transactions. Save as disclosed above, PricewaterhouseCoopers did not provide any other non-audit 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 2014 is set out in the section "auditor's remuneration" of Note 23 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.

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 and interim 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, the Remuneration Committee and the Nomination Committee should make an effort to attend and answer questions raised by the shareholders. For the year ended 31 December 2014, the Company made great efforts to hold conferences and/or conference calls, as well as arranged field trips for investors.

## Corporate Governance Report

The Company encourages the shareholders to involve in the Company's affair and to discuss the corporate business and prospects directly at the AGM or EGM.

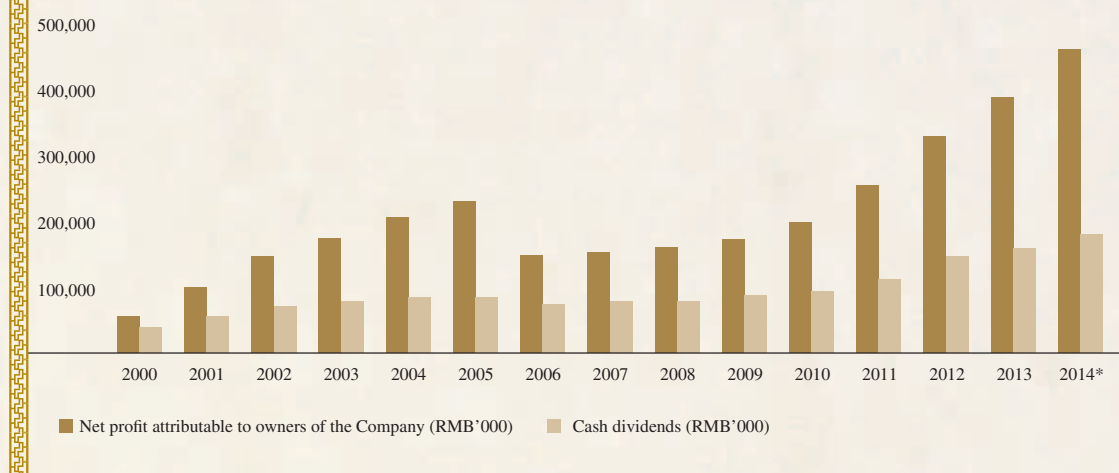
Pursuant to the Articles of Association, two or more shareholders together holding 10% or more of the shares conferring the right to vote at the forthcoming extraordinary general meeting can sign and submit one or more written requests in the same format and content to the Board to request the convening 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 raising questions at the AGM or EGM.

In the principle of sustainable returns to the shareholders, the Company has been distributing cash dividends each year since its listing. As at 31 December 2014, the Company has been distributing cash dividends totaling approximately RMB1.242 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.

**Net profit attributable to owners of the Company, Cash dividends**



\* The Dividend is subject to the shareholders' approval at the 2014 AGM.

## Corporate Governance Report

### *General Meetings*

The 2013 AGM, the H Share Class Meeting and the Domestic Share Class Meeting were held at No. 52 Dong Xing Long Street, Dong Cheng District, Beijing, the PRC on 12 June 2014. 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 2013. (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 2013. (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 2013. (100% voted for the resolution)
4. To consider and, if thought fit, to approve the proposal of payment of a final dividend of RMB0.25 (tax inclusive) per share for the year ended 31 December 2013. (100% voted for the resolution)
5. To consider and, if thought fit, to approve the re-appointment of PricewaterhouseCoopers as the independent auditors of the Company for the year ending 31 December 2014; and to authorize the Board to fix its remuneration. (99.96% voted for the resolution)
6. To consider and, if thought fit, to approve the appointment of Mr. Wang Quan as an executive Director of the Fifth Session of the Board, with a term commencing from the conclusion of the 2013 AGM to the date of the 2014 AGM; and to authorize the Board to fix the remuneration and to enter into the service contract with Mr. Wang Quan on and subject to such terms and conditions as the Board shall think fit and to do all such acts and things to give effect to such matters. (98.24% voted for the resolution)
7. To consider and, if thought fit, to approve the appointment of Mr. Gong Qin as an executive Director of the Fifth Session of the Board, with a term commencing from the conclusion of the 2013 AGM to the date of the 2014 AGM; and to authorize the Board to fix the remuneration and to enter into the service contract with Mr. Gong Qin on and subject to such terms and conditions as the Board shall think fit and to do all such acts and things to give effect to such matters. (98.24% voted for the resolution)
8. To consider and, if thought fit, to approve the appointment of Ms. Ma Bao Jian as a shareholder representative Supervisor of the Fifth Session of the Supervisory Committee of the Company, with a term commencing from the conclusion of the 2013 AGM to the date of the 2014 AGM; and to authorize the Board to fix the remuneration and to enter into the service contract with Ms. Ma Bao Jian on and subject to such terms and conditions as the Board shall think fit and to do all such acts and things to give effect to such matters. (99.99% voted for the resolution)

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

## Corporate Governance Report

### *Special Resolutions*

9. To consider and, if thought fit, to approve the Capitalisation Issue\*:

“THAT:

Subject to and conditional upon the listing committee of Hong Kong Stock Exchange granting the listing of, and permission to deal in, the Capitalisation H Shares,

- (a) the capitalisation of the capital reserve of the Company into ordinary shares of the Company to be allotted and issued to the shareholders on the basis of one (1) Capitalisation Share for every share held by the shareholders whose names appear on the register of members of the Company on the Record Date, being 23 June 2014, be and is hereby approved; and
  - (b) any one executive Director be and is hereby authorized to deal with all the matters in relation to the Capitalisation Issue in his/her sole discretion, execute all relevant documents and make such arrangements as he/she thinks appropriate and fit to give effect to, or to implement the Capitalisation Issue, including but not limited to:
    - (i) to determine, on the Record Date, the exact amount to be capitalised out of the capital reserve account of the Company and the exact number of the Capitalisation H Shares and the Capitalisation Domestic Shares to be issued and allotted on the basis as referred to in paragraph (a) of this resolution;
    - (ii) to make relevant application and submit relevant documents to the Hong Kong Stock Exchange for the listing of, and deal in, the Capitalisation H Shares;
    - (iii) to make appropriate arrangements (if needed) with the Company’s H share registrar and transfer office and Hong Kong Securities Clearing Company Limited in respect of the registration and dealings of the Capitalisation H Shares;
    - (iv) to make certain amendments to the Articles of Association as appropriate and necessary to reflect the latest shareholding structure of the Company upon completion of the Capitalisation Issue; and
    - (v) to execute relevant documents and authorize specific personnel of the Company to go through the registration and filing procedures with the industrial and commercial registration authority in respect of the changes in the registered capital of the Company and the Articles of Association upon completion of the Capitalisation Issue, and to take any other actions if necessary.” (100% voted for the resolution)
10. To consider and, if thought fit, to approve the amendments to the Articles of Association in respect of Article 10. (100% voted for the resolution)
11. 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 as it thinks fit so as to reflect the new capital structure upon the allotment and issue of the shares. (83.10% voted for the resolution)

As more than two-thirds of the votes cast were in favour of these resolutions, such resolutions were duly passed as these special resolutions.

## Corporate Governance Report

### The H Share Class Meeting

#### *Special Resolution*

1. To consider and, if thought fit, to approve the Capitalisation Issue\*:

“THAT:

Subject to and conditional upon the listing committee of Hong Kong Stock Exchange granting the listing of, and permission to deal in, the Capitalisation H Shares,

- (a) the capitalisation of the capital reserve of the Company into ordinary shares of the Company to be allotted and issued to the shareholders on the basis of one (1) Capitalisation Share for every share held by the shareholders whose names appear on the register of members of the Company on the Record Date, being 23 June 2014, be and is hereby approved; and
- (b) any one executive Director be and is hereby authorized to deal with all the matters in relation to the Capitalisation Issue in his/her sole discretion, execute all relevant documents and make such arrangements as he/she thinks appropriate and fit to give effect to, or to implement the Capitalisation Issue, including but not limited to:
  - (i) to determine, on the Record Date, the exact amount to be capitalised out of the capital reserve account of the Company and the exact number of the Capitalisation H Shares and the Capitalisation Domestic Shares to be issued and allotted on the basis as referred to in paragraph (a) of this resolution;
  - (ii) to make relevant application and submit relevant documents to Hong Kong Stock Exchange for the listing of, and deal in, the Capitalisation H Shares;
  - (iii) to make appropriate arrangements (if needed) with the Company’s H share registrar and transfer office and Hong Kong Securities Clearing Company Limited in respect of the registration and dealings of the Capitalisation H Shares;
  - (iv) to make certain amendments to the Articles of Association as appropriate and necessary to reflect the latest shareholding structure of the Company upon completion of the Capitalisation Issue; and
  - (v) to execute relevant documents and authorize specific personnel of the Company to go through the registration and filing procedures with the industrial and commercial registration authority in respect of the changes in the registered capital of the Company and the Articles of Association upon completion of the Capitalisation Issue, and to take any other actions if necessary.” (100% 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.

## Corporate Governance Report

### The Domestic Shares

#### *Special Resolution*

1. To consider and, if thought fit, to approve the Capitalisation Issue\*:

“THAT:

Subject to and conditional upon the listing committee of Hong Kong Stock Exchange granting the listing of, and permission to deal in, the Capitalisation H Shares,

- (a) the capitalisation of the capital reserve of the Company into ordinary shares of the Company to be allotted and issued to the shareholders on the basis of one (1) Capitalisation Share for every share held by the shareholders whose names appear on the register of members of the Company on the Record Date, being 23 June 2014, be and is hereby approved; and
- (b) any one executive Director be and is hereby authorized to deal with all the matters in relation to the Capitalisation Issue in his/her sole discretion, execute all relevant documents and make such arrangements as he/she thinks appropriate and fit to give effect to, or to implement the Capitalisation Issue, including but not limited to:
  - (i) to determine, on the Record Date, the exact amount to be capitalised out of the capital reserve account of the Company and the exact number of the Capitalisation H Shares and the Capitalisation Domestic Shares to be issued and allotted on the basis as referred to in paragraph (a) of this resolution;
  - (ii) to make relevant application and submit relevant documents to Hong Kong Stock Exchange for the listing of, and deal in, the Capitalisation H Shares;
  - (iii) to make appropriate arrangements (if needed) with the Company’s H share registrar and transfer office and Hong Kong Securities Clearing Company Limited in respect of the registration and dealings of the Capitalisation H Shares;
  - (iv) to make certain amendments to the Articles of Association as appropriate and necessary to reflect the latest shareholding structure of the Company upon completion of the Capitalisation Issue; and
  - (v) to execute relevant documents and authorize specific personnel of the Company to go through the registration and filing procedures with the industrial and commercial registration authority in respect of the changes in the registered capital of the Company and the Articles of Association upon completion of the Capitalisation Issue, and to take any other actions if necessary.” (100% 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.



## Corporate Governance Report

### ARTICLES OF ASSOCIATION

At the 2013 AGM, the Company considered and approved to amend Article 10 of the Articles of Association as follows: “The business scope of the Company shall be consistent with and subject to that as approved by the company registration authorities. The business scope of the Company covers development of medical technology, technology consultancy and services; manufacturing and sale of Chinese medicine, biological preparations, Chinese herbs, pharmaceutical chemical reagents, antibiotics, biochemical drugs, medical devices, food, healthcare food and commodity, e-commerce; export of self-produced products and related technology; manufacturing and import and export of raw and auxiliary materials, machinery and equipment and technology required by production; property lease business; general transportation of goods; business of joint venture, production cooperation, product processing with supplied materials and compensation trade; import and export of other commodities approved by the Ministry of Foreign Trade and Economic Cooperation (save for the projects without specific license); operating and acting as an agent in the import and export business of various commodities and technology (excluding the commodities and technology, the operation of which is restricted or the import or export of which is prohibited (merchandise catalog for import and export is not enclosed)) by the State; product processing with imported materials and “three categories of processing and one category of compensation businesses”; re-export and counter trade.”

# Directors, Supervisors and Senior Management

## EXECUTIVE DIRECTORS

**Mr. Mei Qun**, aged 58, the 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 Board. He is currently the chairman, the secretary to the Party Committee 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 Pharmaceutical Co., Ltd., the chairman of Chinese Medicine Group, the chairman of Tong Ren Rang Chinese Medicine, and the chairman 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 an 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 one of the sponsors of the Company. Mr. Mei had been a Director since 9 March 2000. Mr. Mei was re-elected as a Director at the AGM held in 2003, 2006, 2009 and 2012.

**Mr. Wang Quan**, aged 60, the vice-Chairman of the Board, is a senior economist with a master's degree. He was formerly a director, the secretary to the Disciplinary Inspection Committee, the deputy general manager and the deputy secretary to the Party Committee of Tong Ren Tang Holdings. He is currently a director of Beijing Tong Ren Tang Traditional Chinese Medicine Hospital. Mr. Wang was elected as a Director at the AGM held in 2014.

**Mr. Gong Qin**, aged 57, is a Pharmacist-in-charge with a bachelor's degree. He was formerly the secretary to the Disciplinary Inspection Committee and the head of Audit and Supervision Department of Tong Ren Tang Holdings and the chief supervisor of Tong Ren Tang Ltd.. He is currently the secretary to the Disciplinary Inspection Committee of Tong Ren Tang Holdings and the supervisor of Tong Ren Tang Ltd.. Mr. Gong was elected as a Director at the AGM held in 2014.

**Mr. Wang Yu Wei**, aged 47, 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 Tangshan Company and Nansanhuan Zhonglu Drugstore and the director of Chinese Medicine Group. He is also a member of 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 at the AGM held in 2012.

## Directors, Supervisors and Senior Management

**Ms. Fang Jia Zhi**, aged 48, 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, Tongke Company, Tong Ren Tang WM, Tong Ren Tang Century Advertising and Xing An Meng Co., Ltd.. Ms. Fang was appointed as a Director on 25 June 2009 and was re-elected as a Director at the AGM held in 2012.

### INDEPENDENT NON-EXECUTIVE DIRECTORS

**Miss Tam Wai Chu, Maria**, aged 69, 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 a member of the Operations Review Committee and the Witness Protection Review Board of the Independent Commission Against Corruption (from January 2010 to December 2014). She is currently the chairman of the Operations Review Committee, the member of the Witness Protection Review Board and the ex-officio member of the Advisory Committee on Corruption of the Independent Commission Against Corruption (effective from January 2015). She is a member of the NPC 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 AGM in 2003, 2006, 2009 and 2012.

**Mr. Ting Leung Huel, Stephen**, aged 61, MH, FCCA, FCPA (Practising), ACA, CTA (HK), FHKIoD, is the chairman of the Audit Committee and a member of the Remuneration Committee. 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 AGM held in 2003, 2006, 2009 and 2012.

## Directors, Supervisors and Senior Management

**Mr. Jin Shi Yuan**, aged 88, 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, consultant to the council of Beijing Association of Traditional Chinese Medicine, postdoctoral mentor to the Council of Beijing Institute of Chinese Medicine and guest professor of the School of Chinese Medicine of Capital University of Medical Sciences and Beijing University of Chinese Medicine, Master in Traditional 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 AGM held in 2003, 2006, 2009 and 2012.

### SUPERVISORS

**Ms. Ma Bao Jian**, aged 51, chief Supervisor, is a senior accountant with a master's degree. She was formerly the head of the Financial Operation Department and the deputy chief accountant of Tong Ren Tang Holdings. She is currently the deputy general manager of Tong Ren Tang Holdings, the chief supervisor of Tong Ren Tang Ltd. and a director of each of Beijing Tong Ren Tang Commercial Investment Group Co., Ltd., Beijing Tong Ren Tang Medicinal Materials and Shen Rong Investment Group Co., Ltd., Beijing Tong Ren Tang Health Pharmaceutical Co., Ltd., Beijing Tong Ren Tang Pharmaceutical Co., Ltd., Beijing Tong Ren Tang Traditional Chinese medicine Hospital and Beijing Tong Ren Tang (Australia) Pty. Ltd.. Ms. Ma is also the deputy head of China Pharmaceutical Accounting Association and a director of Beijing Association of Chief Financial Officers. Ms. Ma was elected as a supervisor at the AGM held in 2014.

**Mr. Wu Yi Gang**, aged 56, 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 on 22 October 2003 and re-elected at the AGM held in 2006, 2009 and 2012.

**Mr. Bai Jian**, aged 55, 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 auditor 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 Tong Ren Tang WM. He was appointed as a Supervisor on 29 June 2012.

## Directors, Supervisors and Senior Management

### SENIOR MANAGEMENT

**Mr. Li Da Ming**, aged 57, is a senior engineer with a postgraduate qualification. He formerly served as the secretary of the Party Committee of Beijing Tong Ren Tang Pharmacy, the factory manager of Factory 3 of Beijing Tong Ren Tang Pharm, the manager of the Beijing Tong Ren Tang Medicinal Herbal Wine Branch, the factory manager of the North Branch of Tong Ren Tang Ltd., and the deputy general manager of the Tong Ren Tang Chinese Medicine. He is currently the deputy general manager of the Company.

**Ms. Liu Cun Ying**, aged 50, 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 50, 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. Yang De Chun**, aged 51, a Pharmacist-in-charge with a postgraduate qualification. He formerly served as the assistant to the factory manager and the deputy factory manager of Beijing Tong Ren Tang 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 Inspection Committee and the chairman of the labour committee of the Company. He is currently the deputy general manager of the Company.

**Mr. Chen Jia Fu**, aged 46, 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, the deputy factory manager of southern branch factory and the factory manager of Yi Zhuang branch factory of Tong Ren Tang Ltd.; the deputy secretary to the Party Committee, the secretary to the Disciplinary Inspection 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 41, 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 Board and the Company secretary.

# Environmental, Social and Governance Report

The Board believes that a sound environmental, social and governance structure is vital for the 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 of operation 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 environmental, social and governance structure. As the second Environmental, Social and Governance Report published by the Company, this report is a review of its performance in environmental, 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 2014 to 31 December 2014. 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 Environmental, Social and Governance Report periodically to provide the public an access to the Company's updates in these aspects. 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 believes 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. The Company also provides skill training, career planning and development opportunities to the staff as well as humanistic cares to each employee, seeking to create a platform for mutual growth and sharing of success between the Company and employees.

### *Employee Policy*

The Company adopts the arm's length 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 and adequate 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 equal pay for equal work, and enters into written employment contracts with all employees on the basis of equality, free will and consensus.

Given its domicile in China, the Company's recruitment and utilization standards are implemented in strict compliance with the relevant labor laws of the PRC. The Company maintains strict recruitment system and process to avoid employment case of child labor and forced labor. In case of any suspected irregularity above, the Company will immediately assist the victim employee in reporting to the police or relevant labor authorities in strict compliance with national laws and regulations, and will take every

## Environmental, Social and Governance Report

effort to cooperate in investigation. Should the case be confirmed, the Company will promptly affix the responsibility of the person liable. The laws and regulations prohibiting child labor and forced labor governing the Company mainly include:

Labor Law of the PRC  
 Labor Contract Law of the PRC  
 Law of the PRC on Protection of Minors  
 Regulations on Prohibiting Use of Child Labor (State Council Order No. 364)  
 Special Provisions on Labor Protection of Females (State Council Order No. 619)  
 Rules on Labor Contracts of Beijing

The Company has also established a rigorous and prudent dismissal process in accordance with national laws and regulations. The Company may terminate employment contract with an employee who involves in serious dereliction of duty or severe violation of national laws and regulations or the Company's rules and regulations, in which case the procedures shall be handled in accordance with the Management System on Service Termination and Retirement of Employees of the Company.

| Indicator                         | 2014 | 2013 | Unit   |
|-----------------------------------|------|------|--------|
| Total number of employees         | 2086 | 2025 | Person |
| Employment contract signing ratio | 100  | 100  | %      |
| Social security coverage          | 100  | 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-development platform for employees. The virtuous cycle of talent cultivation, utilization and identification lays a solid 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 competency, 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 statutory benefits include contributions by the Company to the endowment insurance, medical insurance, unemployment insurance, employment injury insurance, maternity insurance and housing fund. Meanwhile, in continually updating and improving its employee remuneration policy and system, 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.

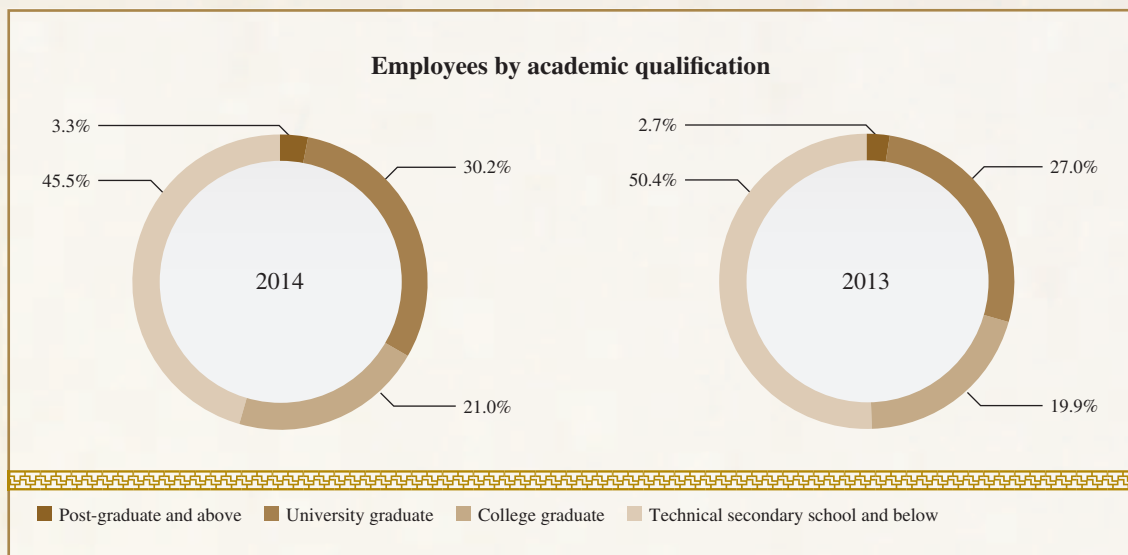
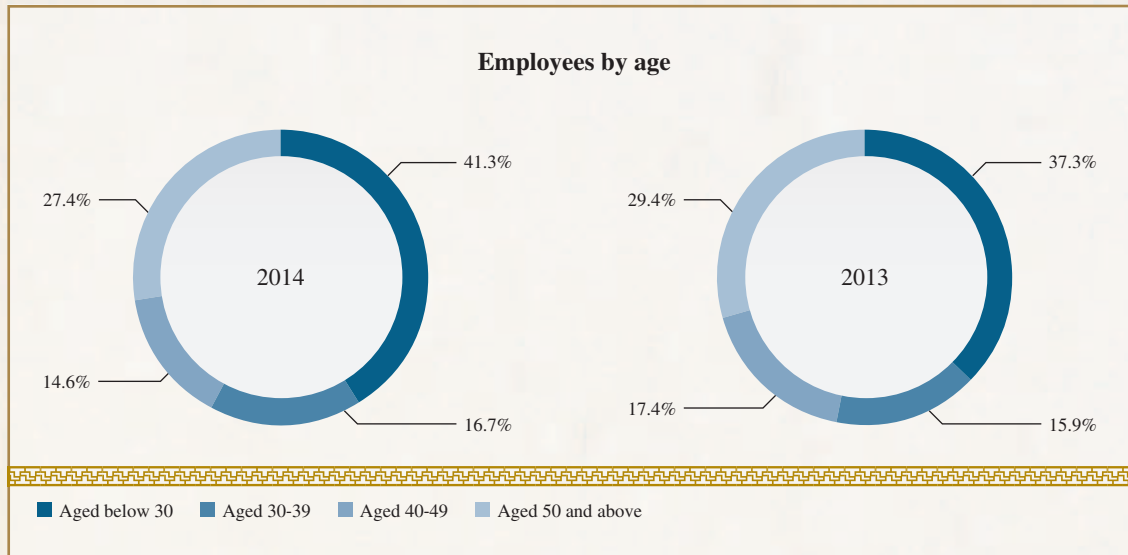
The Company adopts a working hour system of 40 hours a week for office staff, as well as a work shift and alternate holiday system for production staff where appropriate. Overtime is remunerated accordingly in accordance with relevant requirements under the national labor laws and regulations. The arrangements for rest days and statutory holidays of employees are consistent with those provided in the national labor laws and regulations.

## Environmental, Social and Governance Report

### Structure of Employees

The Company understands and recognizes the benefits of the diversity of staff, which is regarded as one of the key elements to maintaining its competitive strengths in the long run. 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.

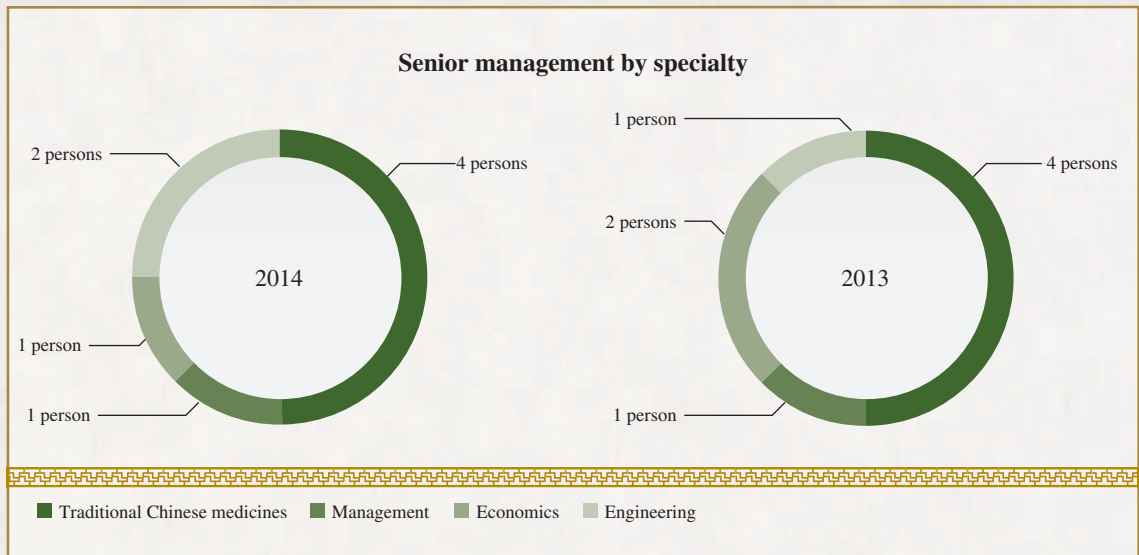
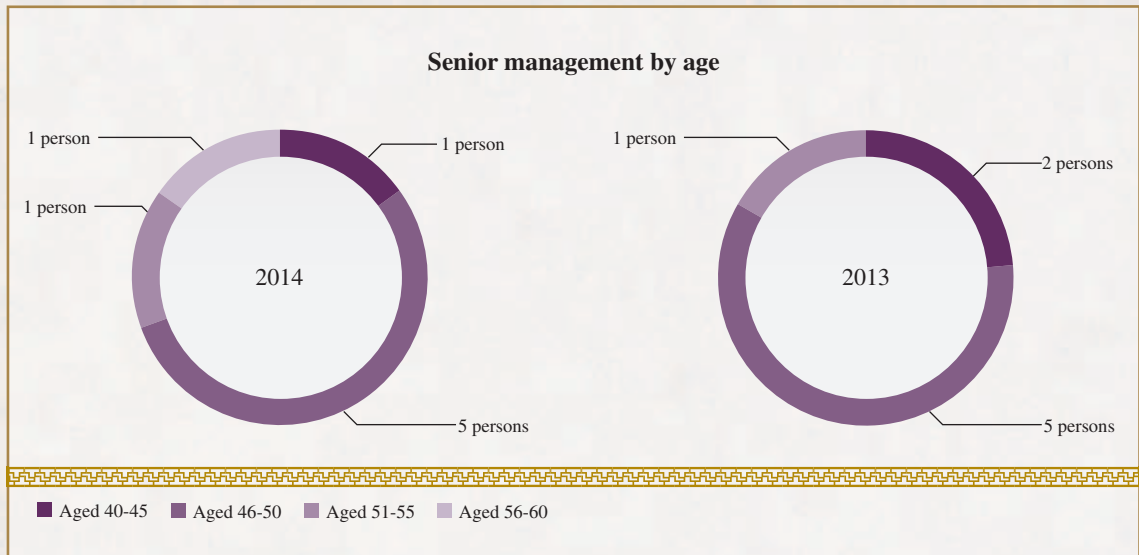
As at the end of 31 December 2014, the Company had a male/female composition ratio of 1.6:1 (2013: 1.6:1), 138 (2013:144) employees with intermediate or senior titles which accounted for 6.6% (2013: 7.1%) of the total headcount, 116 (2013: 112) ethnic minority employees which accounted for 5.6% (2013: 5.5%) of the total headcount, and 23 (2013: 25) handicapped employees which accounted for 1.1% (2013: 1.2%) of the total headcount. The Company's employees by age and academic qualification are illustrated as below:





## Environmental, Social and Governance Report

The diversity policy for employees also applies to the Company's senior management. As at 31 December 2014, the Company had a male/female composition of 1:1 for senior management, with the breakdowns by age and specialty illustrated as below:



## Environmental, Social and Governance Report

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 182 (2013: 223) persons, representing an inflow ratio of 8.85% (2013: 11.30%); a personnel outflow of 121 (2013: 119) persons, representing an outflow ratio of 5.89% (2013: 6.03%), and a personnel loss of 25 (2013: 23) persons, representing a loss ratio of 1.22% (2013:1.17%). Details of the personnel loss are set out below:

| 2013                        | Number of person loss | Loss ratio |
|-----------------------------|-----------------------|------------|
| Aged 50 and above           | 3                     | 0.5%       |
| Aged 40-49                  | 2                     | 0.5%       |
| Aged 30-39                  | 6                     | 2.0%       |
| Aged 18-29                  | 12                    | 1.7%       |
| Total number of person loss | 23                    | 1.2%       |

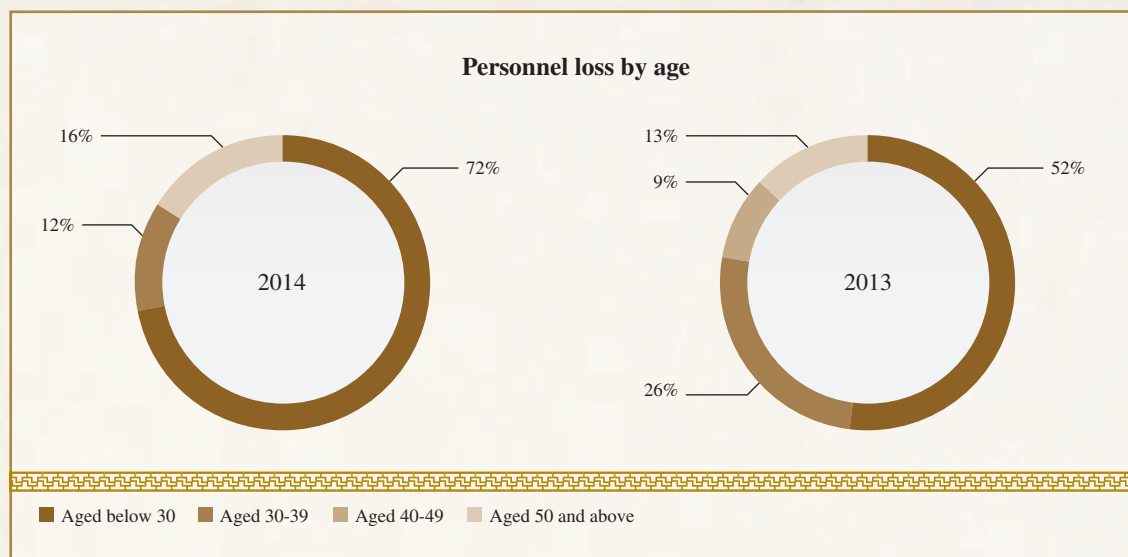
| 2014                        | Number of person loss | Loss ratio |
|-----------------------------|-----------------------|------------|
| Aged 50 and above           | 4                     | 0.7%       |
| Aged 40-49                  | 0                     | 0%         |
| Aged 30-39                  | 3                     | 0.9%       |
| Aged 18-29                  | 18                    | 2.2%       |
| Total number of person loss | 25                    | 1.2%       |

*Note:*

*Personnel inflow is based on new recruits. Inflow ratio = 2 \* Number of annual personnel inflows / (Total headcount at the beginning of the period + Total headcount at the end of the period)*

*Personnel outflow includes retirees. Outflow ratio = 2 \* Number of annual personnel outflows / (Total headcount at the beginning of the period + Total headcount at the end of the period)*

*Personnel loss is based on voluntary departures. Loss ratio = 2 \* Number of voluntary departures / (Total headcount at the beginning of the period + Total headcount at the end of the period)*



## Environmental, Social and Governance Report

### *Employee Training and Development*

The Company pays respect to and maintains a standardized and sound system for recruitment and development of talents, and seeks to inspire their growth potential.

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 culture, corporate policies and goals, production safety, necessary skills, etc. The Company also provides a wide range of training sessions each year for all employees covering management, quality standards, skills and extended areas. A series of training courses are provided to senior management and middle management on enterprise group management, incorruptibility of executives, leadership of middle and senior managers, etc., and the training effect is evaluated to enhance the pertinence and effectiveness of training. With satisfactory effect achieved, the training sessions further enhanced technical skills and professional literacy of the employees of each level. During the Reporting Period, the Company organized more than 180 training sessions according to different needs, with total participation over 13,000 person-times and more than 20 training hours per person.

Set out below is the record of major training sessions of the Company in 2014:

| Category of training            | Name of training session  | Training hours |
|---------------------------------|---|----------------|
| <b>Quality management</b>       | Key technologies in new testing methods and quality control for Chinese medicines | 24             |
|                                 | Appendixes of the Pharmacopoeia (version 2015)                                    | 24             |
| <b>Financial</b>                | Computerized financial management and accounting                                  | 16             |
|                                 | Reconciliation of income tax  | 8              |
| <b>Management</b>               | Leadership of middle and senior management  | 8              |
| <b>New employee orientation</b> | Orientation for newly joined college graduates                                    | 30             |

The Company encourages and organizes qualified employees to participate in professional technical and vocational qualification training programs and examinations, and issues letters of appointment as appropriate to those passing the examinations and obtaining certificates, who are also entitled to corresponding allowances. Meanwhile, the Company also encourages employees to participate in various vocational qualification examinations, and allows adequate free time for professional technical and vocational personnel to participate in training or continuing education specific to their posts or specialties in expectation of their fulfillment of self-worth and career development goals.

The Company also maintains a “Pyramid Talent Project” catering to its development plan and needs, under which talents are classified into experts, chief technicians, chief workers, outstanding young talents, etc. to establish a fleet of professional leaders at different levels backed by a talent pool. The project has also specified talent appraisal and recruitment criteria as well as special incentive funds in order to provide a fair, healthy and broad growth platform for each employee and motivate them to upgrade their business competency continuously. As at the end of 2014, a total of 180 employees were included into the “Pyramid Talent Project”, including 45 members newly added in the year.

## Environmental, Social and Governance Report

### Extended training sessions



## Environmental, Social and Governance Report

### *Employee Rights and Benefits*

The Company actively guarantees and safeguards the rights of employees, and lays stress on enhancing the wellbeing of employees, and improves 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 paid leaves for circumstances including ethnic minority events such as the Lesser Bairam day, 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 relevant requirements of the State and 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 medical benefit for employees by establishing a tiered healthcare protection system. A mechanism is also in place to provide a certain percentage of medical expense reimbursement for family members of qualified employees to lessen their burden. During the Reporting Period, the Company paid visits to diseased, needy and retired employees, conveyed cares and provided supports to them in monetary and physical forms. During the year, the "Tong Ren Tang Charity Fund of the Beijing Warm Foundation" was jointly founded by the Beijing Warm Foundation and Tong Ren Tang Holdings, the Company's ultimate holding company. The fund is aimed to provide temporary emergency aid for those within Tong Ren Tang Group who are suffering critical illness of the employees themselves and their family members, educational problem for single parent families in need, as well as hardship due to accidents or disasters. The Company donated RMB500,000 to the fund, mirroring our culture of cherishing everyone within Tong Ren Tang. During the year, aids were provided to employees of the Company by the Charity Fund.

The Company takes efforts to promote the balance between work and life for employees, and provides venues and facilities such as basketball courts, badminton halls, gymnasium and multi-purpose halls, and organizes various activities from time to time. The Company also provides employees with clean and comfortable reading and painting rooms, and publishes internal periodicals such as "Sail (起航)", "Speak and Hear (亦聲亦聞)", "Our Voices (通聞同聲)" and "Home Growth Talks (成長家話)" to enrich their cultural life. During the Reporting Period, the Company organized more than 20 variegated events with participations of approximately 2,900 person-times, establishing a platform for employees to show themselves and communicate with each other.

## Environmental, Social and Governance Report

A variety of recreational facilities



# Environmental, Social and Governance Report

A rich mixture of recreational activities



## Environmental, Social and Governance Report

### *Employee Health and Safety*

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

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 also holds regular drills on fire evacuation, self-help and escape each year to strengthen safety and self-protection awareness of employees for avoidance of accidents in workplace. Furthermore, the Company also 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 of the PRC on Prevention and Control of Occupational Diseases and relevant labor protection regulations, 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.

During the year, the Company made every effort to improve the working environment and facilities, endeavoring to provide a pleasant and comfortable workplace for all employees. In addition, the Company has nearly ten canteens at different workplaces for daily provision of over 100 nutritious and varied healthy foods.

#### Clean and tidy canteen for employees





## Environmental, Social and Governance Report

### 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, the Company is dedicated to consolidating and enhancing the legitimacy of business environment, to maintain a healthy and rational environment for development. We require employees strictly observing our code of conducts to eliminate corruption, bribery, fraud or any form of dishonesty 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.

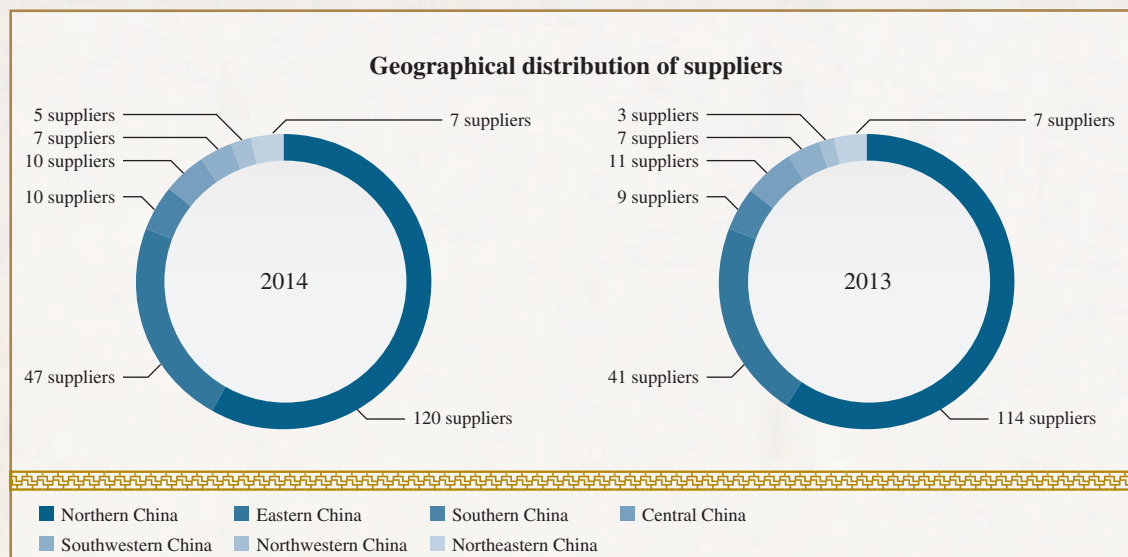
To ensure the quality of the purchased traditional Chinese medical raw materials, auxiliary ingredients, packaging and other materials, the Company has established a supplier management system in strict compliance with the Law of the PRC on the Administration of Pharmaceuticals, GMP, and relevant laws 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 adequate 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 make purchases from a suppliers included in the list.

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 immediately and, if necessary, cancel its qualification as a qualified supplier to ensure pharmaceutical quality of the Company.

## Environmental, Social and Governance Report

In 2014, the Company purchased raw materials, auxiliary ingredients and packaging materials from 206 qualified suppliers (2013: 192), which are mainly situated in northern China. The geographical distribution of suppliers are as follows:



*Note: Based on the 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.

The Company has been sticking to strict product quality control throughout the production process, and has won sound reputation. 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 to ensure full compliance of our products with the quality requirements. During the year, the Company had no products that were recalled due to quality issue.

## Environmental, Social and Governance Report

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 (State Drug Administration)
- Administrative Measures on Adverse Drug Reaction Reporting and Monitoring (Ministry of Health Order No. 81)

### *Consumer Services*

Upholding the principle of honesty and trustworthiness, we endeavor to provide correct information to consumers to safeguard their right to know, seeking to build up a trustable service ecosystem for them.

The Company has established standard procedures which are strictly implemented for handling pharmaceutical enquires and complaints. During the Reporting Period, the Company received over 2,000 cases (representing a decrease of 30% as compared for the corresponding period of last year) 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 on adverse reaction. During the Reporting Period, the Company did not receive any report 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 2014, focusing on inspection on potential illegal product promotions and suspected counterfeit products in order to further standardize market order, prevent potential risks and protect interests of consumers and the Company.



## Environmental, Social and Governance Report

### *Anti-Corruption*

In strict compliance with national laws and regulations and its internal policies, the Company requires its employees abstaining from such misconducts as offering or accepting bribery and corruption in any circumstance. Any suspected criminal offence will be promptly whistle-blowed and reported to relevant authorities.

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 monitoring and internal control system building of the Company. To reduce operation risks, an internal audit department is also in place to exercise monitoring over the issues of the Company including financial incomes and expenses, budgets, final accounts, asset quality, operating performance and other economic activities as well as infrastructure projects, major technological upgrades and other internal investments. The Company has also developed the “Management System on Internal Supervision Information Feedbacks” (《內部監督信息反饋管理制度》) to encourage all employees participating in supervision by feeding back and reporting any internal operational weakness or irregularities through multiple channels, thus promoting compliance practices of the Company in its operation. 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”.

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. Continuous efforts were taken in caring public health in 2014. Scholars and experts in traditional Chinese medicines 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. 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.

## Environmental, Social and Governance Report

### Public welfare activities



The Company extends active presence in 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 donations including “Benevolent Salary Program”, “Warm Clothes in Winter” and “Donate our Love”, 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 public environmental activities, which allow our employees to take part in social services and promote the public welfare culture and spirit incorporating interaction, cares and understanding.

### 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 minimize the impact of production and operation on ecosystem.

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, coal and other natural resources. In 2014, the Company reduced carbon dioxide emission totaling approximately 15,000 tonnes. The Company taps on OA, ERP and other information management 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.

## Environmental, Social and Governance Report



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. On conservation and recycling of water resources, circulating water systems are employed across our production process to minimize consumption of water resources, and tertiary treated wastewater is used for lawn irrigation. Moreover, we encourage employees to participate in designing solutions of energy saving and consumption reduction, to improve their environmental awareness constantly.

With strict control over pollutant emissions, the Company reduces exhaust emission from the source through a combination of initiatives including use of natural gas, steam and other clean energy sources, and noise level is minimized to avoid environmental pollution. During the Reporting Period, the Company engaged third-party inspectors to carry out detections of wastewater, boiler exhaust and noise for certain branch factories, and all detections met the relevant standards and requirements.

## Environmental, Social and Governance Report

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

|      | Water<br>(m <sup>3</sup> /year) | Power<br>(kWh/year) | Raw coal<br>(Kg/year) | Liquefied<br>petroleum gas<br>(tonne/year) | Natural Gas<br>(m <sup>3</sup> /year) | Steam<br>(million kJ/year) |
|------|---------------------------------|---------------------|-----------------------|--|---------------------------------------|----------------------------|
| 2014 | 485,066                         | 26,373,300          | 15,747,000            | 11   | 1,171,323                             | 29,222                     |
| 2013 | 474,745                         | 25,068,061          | 16,299,000            | 12   | 1,152,000                             | 24,179                     |

### Environmental Protection



### Resource and Waste Management

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



## Environmental, Social and Governance Report

### Emissions

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

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

| Type        | Pollutant  | Emission (tonne)<br>of 2014 | Emission (tonne)<br>of 2013 |
|-------------|--|-----------------------------|-----------------------------|
| Wastewater  | Total wastewater emission                              | <b>388,053</b>              | 379,796                     |
|             | Chemical Oxygen Demand (COD <sub>cr</sub> )            | <b>44</b>                   | 37                          |
|             | Five-day Biochemical Oxygen Demand (BOD <sub>5</sub> ) | <b>15</b>                   | 17                          |
|             | Ammonia nitrogen                                       | <b>1</b>                    | 1                           |
|             | Suspended Substance (SS)                               | <b>10</b>                   | 14                          |
| Exhaust gas | Soot   | <b>45</b>                   | 47                          |
|             | Sulfur dioxide   | <b>14</b>                   | 14                          |
|             | Nitrogen oxides  | <b>147</b>                  | 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 (PRC national standards)
- Comprehensive Discharge Standards on Water Pollution (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 2014 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 79 to 154, which comprise the consolidated and company balance sheets as at 31 December 2014, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

## DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with 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.

# 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 2014, 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 2015

# Consolidated Balance Sheet

As of 31 December 2014

|   | Note  | As at 31 December |                 |
|---|-------|-------------------|-----------------|
|   |       | 2014<br>RMB'000   | 2013<br>RMB'000 |
| <b>Assets</b>   |       |                   |                 |
| <b>Non-current assets</b>                                   |       |                   |                 |
| Leasehold land and land use rights                          | 6     | 146,523           | 137,693         |
| Property, plant and equipment                               | 7     | 890,411           | 656,030         |
| Investments in joint ventures                               | 9     | 22,396            | 13,353          |
| Deposits paid for purchase of property, plant and equipment |       | 21,000            | 12,454          |
| Deferred income tax assets                                  | 13    | 17,536            | 14,051          |
| Other long-term assets                                      |       | 1,951             | 2,273           |
|   |       | <b>1,099,817</b>  | 835,854         |
| <b>Current assets</b>                                       |       |                   |                 |
| Inventories   | 12    | 1,749,835         | 1,511,016       |
| Trade and bills receivables, net                            | 11    | 290,488           | 244,807         |
| Amounts due from related parties                            | 31(d) | 98,856            | 78,253          |
| Prepayments and other current assets                        |       | 142,610           | 111,353         |
| Short-term bank deposits                                    | 30(b) | 376,200           | 398,990         |
| Cash and cash equivalents                                   | 30(b) | 1,774,389         | 1,967,919       |
|   |       | <b>4,432,378</b>  | 4,312,338       |
| <b>Total assets</b>   |       | <b>5,532,195</b>  | 5,148,192       |
| <b>Equity and liabilities</b>                               |       |                   |                 |
| <b>Equity attributable to owners of the Company</b>         |       |                   |                 |
| Share capital   | 14    | 1,280,784         | 640,392         |
| Reserves  | 15    |                   |                 |
| – Proposed final dividend                                   | 26    | 179,310           | 160,098         |
| – Other reserves  |       | 2,089,494         | 2,456,787       |
|   |       | <b>3,549,588</b>  | 3,257,277       |
| <b>Non-controlling interests</b>                            |       | <b>886,566</b>    | 751,340         |
| <b>Total equity</b>   |       | <b>4,436,154</b>  | 4,008,617       |

# Consolidated Balance Sheet

As of 31 December 2014

|  | Note  | As at 31 December |                 |
|--|-------|-------------------|-----------------|
|  |       | 2014<br>RMB'000   | 2013<br>RMB'000 |
| <b>Liabilities</b>                           |       |                   |                 |
| <b>Non-current liabilities</b>               |       |                   |                 |
| Borrowings                                   | 17    | –                 | 39,310          |
| Deferred income tax liabilities              | 13    | 4,264             | 3,340           |
| Deferred income – government grants          | 16    | 74,053            | 75,567          |
|  |       | <b>78,317</b>     | 118,217         |
| <b>Current liabilities</b>                   |       |                   |                 |
| Trade payables                               | 18    | 421,924           | 360,744         |
| Salary and welfare payables                  | 19    | 19,845            | 14,796          |
| Advances from customers                      |       | 164,235           | 179,885         |
| Amounts due to related parties               | 31(d) | 84,118            | 83,192          |
| Current income tax liabilities               |       | 26,940            | 24,849          |
| Other payables                               |       | 200,662           | 202,892         |
| Borrowings                                   | 17    | 100,000           | 155,000         |
|  |       | <b>1,017,724</b>  | 1,021,358       |
| <b>Total liabilities</b>                     |       | <b>1,096,041</b>  | 1,139,575       |
| <b>Total equity and liabilities</b>          |       | <b>5,532,195</b>  | 5,148,192       |
| <b>Net current assets</b>                    |       | <b>3,414,654</b>  | 3,290,980       |
| <b>Total assets less current liabilities</b> |       | <b>4,514,471</b>  | 4,126,834       |

The notes on pages 87 to 154 are an integral part of these financial statements.

The financial statements on pages 79 to 154 were approved by the Board of Directors on 20 March 2015 and were signed on its behalf.

**Mei Qun**  
Director

**Fang Jia Zhi**  
Director

# Balance Sheet

As of 31 December 2014

|   | Note  | As at 31 December |                 |
|---|-------|-------------------|-----------------|
|   |       | 2014<br>RMB'000   | 2013<br>RMB'000 |
| <b>Assets</b>   |       |                   |                 |
| <b>Non-current assets</b>                                   |       |                   |                 |
| Leasehold land and land use rights                          | 6     | 91,997            | 94,097          |
| Property, plant and equipment                               | 7     | 490,505           | 327,831         |
| Investments in subsidiaries                                 | 8     | 341,726           | 250,901         |
| Investments in joint ventures                               | 9     | 2,000             | 2,000           |
| Deposits paid for purchase of property, plant and equipment |       | 21,000            | 10,500          |
| Deferred income tax assets                                  | 13    | 4,710             | 5,223           |
| Other long-term assets                                      |       | 1,491             | 1,741           |
|   |       | <b>953,429</b>    | 692,293         |
| <b>Current assets</b>                                       |       |                   |                 |
| Inventories   | 12    | 1,635,428         | 1,393,855       |
| Trade and bills receivables, net                            | 11    | 216,706           | 166,350         |
| Amounts due from related parties                            | 31(d) | 35,441            | 41,168          |
| Amounts due from subsidiaries                               |       | 21,912            | 3,212           |
| Prepayments and other current assets                        |       | 61,822            | 34,070          |
| Cash and cash equivalents                                   | 30(b) | 1,167,544         | 1,533,277       |
|   |       | <b>3,138,853</b>  | 3,171,932       |
| <b>Total assets</b>   |       | <b>4,092,282</b>  | 3,864,225       |
| <b>Equity and liabilities</b>                               |       |                   |                 |
| <b>Equity attributable to owners of the Company</b>         |       |                   |                 |
| Share capital   | 14    | 1,280,784         | 640,392         |
| Reserves  | 15    |                   |                 |
| – Proposed final dividend                                   | 26    | 179,310           | 160,098         |
| – Other reserves  |       | 1,739,181         | 2,162,008       |
| <b>Total equity</b>   |       | <b>3,199,275</b>  | 2,962,498       |

# Balance Sheet

As of 31 December 2014

|  | Note  | As at 31 December |                 |
|--|-------|-------------------|-----------------|
|  |       | 2014<br>RMB'000   | 2013<br>RMB'000 |
| <b>Liabilities</b>                           |       |                   |                 |
| <b>Non-current liabilities</b>               |       |                   |                 |
| Deferred tax liabilities                     | 13    | 576               | –               |
| Deferred income – government grants          | 16    | 58,597            | 59,015          |
|  |       | <b>59,173</b>     | 59,015          |
| <b>Current liabilities</b>                   |       |                   |                 |
| Trade payables                               | 18    | 343,801           | 298,261         |
| Salary and welfare payables                  | 19    | 3,954             | 443             |
| Advances from customers                      |       | 139,135           | 145,129         |
| Amounts due to related parties               | 31(d) | 54,362            | 67,370          |
| Amounts due to subsidiaries                  |       | 40,820            | 48,370          |
| Current income tax liabilities               |       | 7,822             | 2,219           |
| Other payables                               |       | 143,940           | 165,920         |
| Borrowings                                   | 17    | 100,000           | 115,000         |
|  |       | <b>833,834</b>    | 842,712         |
| <b>Total liabilities</b>                     |       | <b>893,007</b>    | 901,727         |
| <b>Total equity and liabilities</b>          |       | <b>4,092,282</b>  | 3,864,225       |
| <b>Net current assets</b>                    |       | <b>2,305,019</b>  | 2,329,220       |
| <b>Total assets less current liabilities</b> |       | <b>3,258,448</b>  | 3,021,513       |

The notes on pages 87 to 154 are an integral part of these financial statements.

The financial statements on pages 79 to 154 were approved by the Board of Directors on 20 March 2015 and were signed on its behalf.

**Mei Qun**  
Director

**Fang Jia Zhi**  
Director

# Consolidated Income Statement

For the year ended 31 December 2014

|  | Note | 2014<br>RMB'000  | 2013<br>RMB'000 |
|--|------|------------------|-----------------|
| Revenue  | 20   | 3,341,166        | 2,910,749       |
| Cost of sales  |      | (1,725,965)      | (1,469,455)     |
| <b>Gross profit</b>  |      | <b>1,615,201</b> | 1,441,294       |
| Distribution expenses  |      | (638,608)        | (582,346)       |
| Administrative expenses  |      | (264,977)        | (244,034)       |
| Other losses – net   | 21   | –                | (8,428)         |
| <b>Operating profit</b>  |      | <b>711,616</b>   | 606,486         |
| Finance income   | 22   | 32,387           | 12,887          |
| Finance costs  | 22   | (3,591)          | (22,954)        |
| Finance income/(costs)– net  | 22   | 28,796           | (10,067)        |
| Share of profit/(losses) of joint ventures   | 9    | 188              | (555)           |
| Share of loss of an associate  |      | –                | (753)           |
| <b>Profit before income tax</b>  |      | <b>740,600</b>   | 595,111         |
| Income tax expense   | 24   | (124,242)        | (91,948)        |
| <b>Profit for the year</b>   |      | <b>616,358</b>   | 503,163         |
| <b>Profit attributable to:</b>   |      |                  |                 |
| Owners of the Company  |      | 462,187          | 390,093         |
| Non-controlling interests  |      | 154,171          | 113,070         |
|  |      | <b>616,358</b>   | 503,163         |
| <b>Earnings per share for profit attributable to owners of the Company during the year</b> |      |                  |                 |
| – Basic (2013: Restated)   | 25   | <b>RMB0.36</b>   | RMB0.32         |
| – Diluted (2013: Restated)   |      | <b>RMB0.36</b>   | RMB0.32         |

The notes on pages 87 to 154 are an integral part of these consolidated financial statements.

|           | Note | 2014<br>RMB'000 | 2013<br>RMB'000 |
|-----------|------|-----------------|-----------------|
| Dividends | 26   | 179,310         | 160,098         |

# Consolidated Statement of Comprehensive Income

For the year ended 31 December 2014

|   | <b>2014</b>    | 2013     |
|---|----------------|----------|
|   | <b>RMB'000</b> | RMB'000  |
| <b>Profit for the year</b>                                  | <b>616,358</b> | 503,163  |
| <b>Other comprehensive expense</b>                          |                |          |
| <i>Items that may be reclassified to profit or loss</i>     |                |          |
| Foreign currency translation differences                    | <b>(6,660)</b> | (25,733) |
| <b>Other comprehensive expense for the year, net of tax</b> | <b>(6,660)</b> | (25,733) |
| <b>Total comprehensive income for the year</b>              | <b>609,698</b> | 477,430  |
| <b>Attributable to:</b>                                     |                |          |
| Owners of the Company                                       | <b>460,633</b> | 382,883  |
| Non-controlling interests                                   | <b>149,065</b> | 94,547   |
| <b>Total comprehensive income for the year</b>              | <b>609,698</b> | 477,430  |

The notes on pages 87 to 154 are an integral part of these consolidated financial statements.



# Consolidated Statement of Changes in Equity

For the year ended 31 December 2014

|  | 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 2013   | 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          |
| <b>Balance as of 31 December 2013</b>  | <b>640,392</b>                        | <b>1,054,492</b> | <b>255,023</b>                 | <b>45,455</b>                 | <b>102,043</b> | <b>(29,795)</b>                          | <b>147,271</b> | <b>1,042,396</b>  | <b>3,257,277</b> | <b>751,340</b>            | <b>4,008,617</b> |
| Balance as of 1 January 2014   | 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        |
| Profit for the year  | -                                     | -                | -                              | -                             | -              | -  | -              | 462,187           | 462,187          | 154,171                   | 616,358          |
| Foreign currency translation differences   |                                       |                  |                                |                               |                |  |                |                   |                  |                           |                  |
| – Group  | -                                     | -                | -                              | -                             | -              | (1,022)                                  | -              | -                 | (1,022)          | (5,106)                   | (6,128)          |
| – Joint Ventures   | -                                     | -                | -                              | -                             | -              | (532)                                    | -              | -                 | (532)            | -                         | (532)            |
| Appropriation from retained earnings   | -                                     | -                | 39,686                         | -                             | -              | -  | -              | (39,686)          | -                | -                         | -                |
| Dividends paid to shareholders of the Company relating to 2013                           | -                                     | -                | -                              | -                             | -              | -  | -              | (160,098)         | (160,098)        | -                         | (160,098)        |
| Dividends paid to non-controlling interests relating to 2013                             | -                                     | -                | -                              | -                             | -              | -  | -              | -                 | -                | (40,159)                  | (40,159)         |
| Capitalisation of the reserve (Note 14)  | 640,392                               | (640,392)        | -                              | -                             | -              | -  | -              | -                 | -                | -                         | -                |
| Capital contribution to the newly formed subsidiaries                                    | -                                     | -                | -                              | -                             | -              | -  | -              | -                 | -                | 8,766                     | 8,766            |
| Capital injection from non-controlling interests   | -                                     | -                | -                              | -                             | -              | -  | -              | -                 | -                | 9,330                     | 9,330            |
| Transaction with non-controlling interests   | -                                     | -                | -                              | -                             | -              | -  | (8,224)        | -                 | (8,224)          | 8,224                     | -                |
| <b>Balance as of 31 December 2014</b>  | <b>1,280,784</b>                      | <b>414,100</b>   | <b>294,709</b>                 | <b>45,455</b>                 | <b>102,043</b> | <b>(31,349)</b>                          | <b>139,047</b> | <b>1,304,799</b>  | <b>3,549,588</b> | <b>886,566</b>            | <b>4,436,154</b> |

The notes on pages 87 to 154 are an integral part of these consolidated financial statements.

# Consolidated Statement of Cash Flows

For the year ended 31 December 2014

|  | Note  | 2014<br>RMB'000  | 2013<br>RMB'000  |
|--|-------|------------------|------------------|
| <b>Cash flows from operating activities:</b>   |       |                  |                  |
| Cash generated from operations   | 30    | 462,178          | 468,824          |
| Interest paid  |       | (3,591)          | (10,122)         |
| Income tax paid  |       | (124,712)        | (83,251)         |
| Net cash generated from operating activities   |       | 333,875          | 375,451          |
| <b>Cash flows from investing activities:</b>   |       |                  |                  |
| Purchase of property, plant and equipment  |       | (262,435)        | (188,638)        |
| Purchase of land use rights  |       | (14,582)         | (11,080)         |
| Purchase of other long-term assets   |       | (610)            | (364)            |
| Cash paid for investment   |       | (9,606)          | –                |
| Proceeds from government grants relating to property, plant and equipment                |       | 5,910            | –                |
| Proceeds from disposal of property, plant and equipment                                  |       | 1,542            | 698              |
| Proceeds from short-term bank deposits   |       | 398,990          | 5,977            |
| Increase in short-term bank deposits   |       | (376,200)        | (398,399)        |
| Increase in structured deposits  |       | (25,000)         | –                |
| Payment for business combination under common control                                    |       | –                | (1,791)          |
| Deemed acquisition of a subsidiary   |       | –                | 7,501            |
| Dividend received  |       | 219              | 7                |
| Interest received  |       | 28,596           | 12,887           |
| Net cash used in investing activities  |       | (253,176)        | (573,202)        |
| <b>Cash flows from financing activities:</b>   |       |                  |                  |
| 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)         |
| Proceeds from borrowings   |       | 110,000          | 294,310          |
| Repayments of borrowings   |       | (204,310)        | (225,000)        |
| Capital injection from non-controlling interests   |       | 18,096           | 28,226           |
| Dividends paid to shareholders of the Company  |       | (160,098)        | (147,000)        |
| Dividends paid to non-controlling interests  |       | (40,159)         | (44,191)         |
| Net cash (used in)/generated from financing activities                                   |       | (276,471)        | 1,358,747        |
| Net (decrease)/increase in cash and cash equivalents                                     |       | (195,772)        | 1,160,996        |
| Cash and cash equivalents at beginning of the year                                       |       | 1,967,919        | 835,183          |
| Exchange gains/(losses) on cash and cash equivalents                                     |       | 2,242            | (28,260)         |
| <b>Cash and cash equivalents at end of the year</b>                                      | 30(b) | <b>1,774,389</b> | <b>1,967,919</b> |

The notes on pages 87 to 154 are an integral part of these consolidated financial statements.

# Notes to the Consolidated Financial Statements

31 December 2014

## 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’s shares have been 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 2015.

The following is a full list of subsidiaries as at 31 December 2013 and 2014:

| 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 |   |
|--|---|------------------------------------|--|---|---|
|  |   | <b>2014</b>                        | 2013                                   |   |   |
| <i>Subsidiaries:</i>   |   |                                    |  |   |   |
| Beijing Tong Ren Tang Nanyang Shanzhuyu Co., Limited (“Tong Ren Tang Nanyang”)                         | Henan, PRC<br>24 October 2001<br>Limited liability company    | <b>51%*</b>                        | 51%*                                   | RMB4,000,000                              | Cultivating and selling of Chinese medicinal raw materials<br>Henan, PRC                |
| Beijing Tong Ren Tang Hubei Chinese Medicinal Raw Materials Co., Limited (“Tong Ren Tang Hubei”)       | Hubei, PRC<br>26 October 2001<br>Limited liability company    | <b>51%*</b>                        | 51%*                                   | RMB3,000,000                              | Cultivating, purchasing and selling of Chinese medicinal raw materials<br>Hubei, PRC    |
| Beijing Tong Ren Tang Zhejiang Chinese Medicinal Raw Materials Co., Limited (“Tong Ren Tang Zhejiang”) | Zhejiang, PRC<br>31 October 2001<br>Limited liability company | <b>51%*</b>                        | 51%*                                   | RMB10,000,000                             | Cultivating, purchasing and selling of Chinese medicinal raw materials<br>Zhejiang, PRC |

\* Equity interests directly held by the Company

# Notes to the Consolidated Financial Statements

31 December 2014

## 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   |
|--|---|------------------------------------|---------|--|---|
|  |   | 2014                               | 2013    |  |   |
| <b>Subsidiaries: (Cont'd)</b>  |   |                                    |         |  |   |
| Beijing Tong Ren Tang Hebei Chinese Medicinal Raw Materials Technologies Co., Limited<br>("Tong Ren Tang Hebei") | Hebei, PRC<br>19 November 2001<br>Limited liability company           | 51%*                               | 51%*    | RMB8,000,000                           | Cultivating, purchasing and selling of Chinese medicinal raw materials<br>Hebei, PRC                                    |
| Beijing Tong Ren Tang Tongke Pharmaceutical Company Limited<br>("Tongke Company")                                | Beijing, PRC<br>4 November 2003<br>Limited liability company          | 95%*                               | 95%*    | RMB75,000,000                          | Production of ointment, and medical research and development<br>Beijing, PRC  |
| Beijing Tong Ren Tang Chinese Medicine Company Limited<br>("Tong Ren Tang Chinese Medicine") <sup>(1)</sup>      | Hong Kong, PRC<br>18 March 2004<br>Limited liability company          | 38.38%*                            | 38.38%* | HKD867,363,000                         | Production and sales of Chinese medicine<br>Hong Kong, PRC  |
| Beijing Tong Ren Tang Nansanhuan Zhonglu Drugstore Co., Limited<br>("Nansanhuan Zhonglu Drugstore")              | Beijing, PRC<br>28 April 2004<br>Limited liability company            | 90%*                               | 90%*    | RMB500,000                             | Sales of medicinal products<br>Beijing, PRC   |
| Beijing Tong Ren Tang Yanbian Chinese Medicinal Raw Materials Co., Limited<br>("Tong Ren Tang Yanbian")          | Jilin, PRC<br>24 September 2004<br>Limited liability company          | 51%*                               | 51%*    | RMB4,000,000                           | Cultivating and selling of Chinese medicinal raw materials<br>Jilin, PRC  |
| Beijing Tong Ren Tang Anhui Chinese Medicinal Raw Materials Co., Limited<br>("Tong Ren Tang Anhui")              | Anhui, PRC<br>18 October 2004<br>Limited liability company            | 51%*                               | 51%*    | RMB4,000,000                           | Cultivating, purchasing and selling of Chinese medicinal raw materials<br>Anhui, PRC                                    |
| Beijing Tong Ren Tang WM Dianorm Biotech Co., Limited<br>("Tong Ren Tang WM")                                    | Beijing, PRC<br>20 February 2001<br>Sino-foreign equity joint venture | 60%*                               | 60%*    | US\$3,000,000                          | Technological development and sales of biological products, Chinese and western medicines and cosmetics<br>Beijing, PRC |

\* Equity interests directly held by the Company

## Notes to the Consolidated Financial Statements

31 December 2014

## 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   |
|--|---|------------------------------------|---------|--|---|
|  |   | 2014                               | 2013    |  |   |
| <b>Subsidiaries: (Cont'd)</b>  |   |                                    |         |  |   |
| Beijing Tong Ren Tang Chinese Medicine (Hong Kong) Group Co., Ltd., ("Chinese Medicine Group")             | Hong Kong, PRC<br>1 March 2012<br>Limited liability company       | 53.09%*                            | 53.09%* | HKD10,000                              | Investment holding<br>Hong Kong, PRC  |
| Beijing Tong Ren Tang Xing An Meng Chinese Medicinal Raw Materials Co., Limited ("Xing An Meng Co., Ltd.") | Inner Mongolia, PRC<br>14 April 2004<br>Limited liability company | 51%*                               | 51%*    | RMB19,000,000                          | Cultivating, purchasing and selling of Chinese medicinal raw materials, production and selling of tea drinks product series and foot care product series<br>Inner Mongolia, PRC |
| Beijing Tong Ren Tang Century Advertising Co., Limited ("Tong Ren Tang Century Advertising")               | Beijing, PRC<br>25 September 2013<br>Limited liability company    | 100%*                              | 100%*   | RMB1,000,000                           | Advertisement services<br>Beijing, PRC  |
| Beijing Tong Ren Tang (Tangshan) Nutrition and Healthcare Co., Ltd ("Tangshan Company")                    | Hebei, PRC<br>13 September 2010<br>Limited liability company      | 74%*                               | 74%**   | RMB120,000,000                         | Production and sales of healthcare products and Chinese medicine<br>Hebei, PRC  |
| Beijing Tong Ren Tang International Natural-Pharm Co., Ltd. ("International Pharm")                        | Beijing, PRC<br>6 March 2006<br>Limited liability company         | 100%                               | 100%    | HKD10,000,000                          | Sale and distribution of Chinese medicine and healthcare products<br>Beijing, PRC   |
| Beijing Tong Ren Tang (Australia) Pty Ltd ("Tong Ren Tang Australia")                                      | Sydney, Australia<br>20 May 2004<br>Limited liability company     | 75%                                | 75%     | AUD1,000,000                           | Wholesale and retail of Chinese medicine and healthcare products and provision of Chinese medical consultation and treatment<br>Sydney, Australia                               |

\* Equity interests directly held by the Company

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

# Notes to the Consolidated Financial Statements

31 December 2014

## 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   |
|--|---|------------------------------------|--|---|
|  |   | 2014                               | 2013                                   |   |
| <i>Subsidiaries: (Cont'd)</i>  |   |                                    |  |   |
| Beijing Tong Ren Tang Science Arts (Singapore) Co Pte. Ltd ("Tong Ren Tang Singapore") | Singapore<br>1 December 2003<br>Limited liability company               | 51%                                | 51%                                    | SGD857,000<br>Wholesale and retail of Chinese medicine and healthcare products and provision of Chinese medical consultation and treatment<br>Singapore       |
| Beijing Tong Ren Tong (B) Sdn Bhd ("Tong Ren Tang Sdn Bhd")                            | Bandar Seri Begawan, Brunei<br>20 May 2009<br>Limited liability company | 51%                                | 51%                                    | BND100<br>Retail of Chinese medicine and healthcare products<br>Bandar Seri Begawan, Brunei   |
| Beijing Tong Ren Tong (Toronto) Inc. ("Tong Ren Tang Toronto")                         | Toronto, Canada<br>24 June 2010<br>Limited liability company            | 51%                                | 51%                                    | CAD100<br>Retail of Chinese medicine and healthcare products and provision of Chinese medical consultation and treatment<br>Toronto, Canada                   |
| Beijing Tong Ren Tang (Macau) Company Limited ("Tong Ren Tang Macau")                  | Macau, PRC<br>6 November 2002<br>Limited liability company              | 51%                                | 51%                                    | MOP1,000,000<br>Wholesale and retail of Chinese medicine and healthcare products and provision of Chinese medical consultation and treatment<br>Macau, PRC    |
| Beijing Tong Ren Tang Gulf FZLLC ("Tong Ren Tang Dubai")                               | Dubai, United Arab Emirates<br>8 June 2011<br>Limited liability company | 51%                                | 51%                                    | AED2,920,000<br>Retail of Chinese medicine and healthcare products and provision of Chinese medical consultation and treatment<br>Dubai, United Arab Emirates |

# Notes to the Consolidated Financial Statements

31 December 2014

## 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   |
|---|---|------------------------------------|--|---|
|   |   | <b>2014</b>                        | 2013                                   |   |
| <i>Subsidiaries: (Cont'd)</i>   |   |                                    |  |   |
| Beijing Tong Ren Tang Poland sp.zo.o.<br>("Tong Ren Tang Poland")                         | Warsaw, Poland<br>26 July 2012,<br>Limited liability company          | <b>100%</b>                        | 100%                                   | Zloty50,000<br>Retail of healthcare products and provision of Chinese medical consultation and treatment<br>Warsaw, Poland                          |
| Beijing Tong Ren Tang Canada Co., Ltd.<br>("Tong Ren Tang Canada")                        | Vancouver, Canada<br>11 January 2002<br>Limited liability company     | <b>51%</b>                         | 51%                                    | CAD100<br>Retail of Chinese medicine and healthcare products and provision of Chinese medical consultation and treatment<br>Vancouver, Canada       |
| Beijing Tong Ren Tang Management Pty. Ltd.<br>("Tong Ren Tang Management")                | Sydney, Australia<br>1 October 2013<br>Limited liability company      | <b>100%</b>                        | 100%                                   | AUD100<br>Investment holding<br>Sydney, Australia   |
| Beijing Tong Ren Tang (Leeds) Company Limited<br>("Tong Ren Tang Leeds")                  | Leeds, United Kingdom<br>17 October 2013<br>Limited liability company | <b>51%</b>                         | 51%                                    | GBP1,000<br>Retail of Chinese medicine and healthcare products and provision of Chinese medical consultation and treatment<br>Leeds, United Kingdom |
| Beijing Tong Ren Tang Consulting Service Co., Ltd<br>("Tong Ren Tang Consulting Service") | Beijing, PRC<br>30 March 2010<br>Limited liability company            | <b>100%</b>                        | 100%                                   | RMB600,000<br>Provision of administrative services to group companies<br>Beijing, PRC   |

# Notes to the Consolidated Financial Statements

31 December 2014

## 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   |
|---|---|------------------------------------|--|---|
|   |   | <b>2014</b>                        | 2013                                   |   |
| <i>Subsidiaries: (Cont'd)</i>   |   |                                    |  |   |
| Beijing Tong Ren Tang Melbourne Company Limited ("Tong Ren Tang Melbourne")               | Melbourne, Australia<br>4 September 2014<br>Limited liability company | <b>51%</b>                         | – AUD100,000                           | Retail of Chinese medicine and healthcare products and provision of Chinese medical consultation and treatment<br>Melbourne, Australia  |
| Beijing Tong Ren Tang Seoul Company Limited ("Tong Ren Tang Seoul")                       | Seoul, Korea<br>10 March 2014<br>Limited liability company            | <b>51%</b>                         | – WON1,052,000,000                     | Wholesale of Chinese medicine and healthcare products<br>Seoul, Korea   |
| Beijing Tong Ren Tang Auckland Company Limited ("Tong Ren Tang Auckland")                 | Auckland, New Zealand<br>2 May 2014<br>Limited liability company      | <b>60%</b>                         | – NZD2,000,000                         | Retail of Chinese medicine and healthcare products and provision of Chinese medical consultation and treatment<br>Auckland, New Zealand |
| Beijing Tong Ren Tang Tong Xin Tong Le Company Limited ("Tong Ren Tang Tong Xin Tong Le") | Hong Kong, PRC<br>24 June 2014<br>Limited liability company           | <b>100%</b>                        | – HKD10,000                            | Retail of Chinese medicine and healthcare products and provision of Chinese medical consultation and treatment<br>Hong Kong, PRC        |

<sup>(1)</sup> 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 investors. Consequently, the Group consolidates Tong Ren Tang Chinese Medicine.



# Notes to the Consolidated Financial Statements

31 December 2014

## 1. GENERAL INFORMATION (CONT'D)

The following is a full list of joint ventures as at 31 December 2013 and 2014:

| Name  | Place / date of incorporation / kind of legal entity                   | Percentage of equity interest held | Issued/ registered and paid-up capital | Principal activities   |
|---|--|------------------------------------|--|--|
|   |  | <b>2014</b>                        | 2013                                   |  |
| <i>Joint ventures:</i>  |  |                                    |  |  |
| Beijing Tong Ren Tang Bozhou Chinese Medicinal Raw Materials and Logistics Co., Limited<br>("Tong Ren Tang Bozhou") | Anhui, PRC<br>12 July 2011<br>Limited liability company                | <b>40%*</b>                        | 40%*<br>RMB5,000,000                   | Purchasing, processing and selling of Chinese medicinal raw materials, storage and logistics                                 |
| Peking Tong Ren Tang (M) SDN. BHD.<br>("Tong Ren Tang Malaysia")  | Kuala Lumpur, Malaysia<br>19 January 2001<br>Limited liability company | <b>60%</b>                         | 60%<br>MYR1,900,000                    | Retail of Chinese medicine and healthcare products and provision of Chinese medical consultation and treatment               |
| PT. Beijing Tong Ren Tang Indo.<br>("Tong Ren Tang Indonesia")  | Jakarta, Indonesia<br>22 September 2003<br>Limited liability company   | <b>50%</b>                         | 50%<br>USD1,000,000                    | Investment holding   |
| Beijing Tong Ren Tong (Thailand) Company Limited<br>("Tong Ren Tang Thailand")                                      | Bangkok, Thailand<br>23 March 2000<br>Limited liability company        | <b>49%</b>                         | 49%<br>THB38,000,000                   | Wholesale and retail of Chinese medicine and healthcare products and provision of Chinese medical consultation and treatment |
| Beijing Tong Ren Tong (Boryung) Co., Ltd.<br>("Tong Ren Tang Boryung")  | Boryung, Korea<br>10 May 2002<br>Limited liability company             | <b>51%</b>                         | 51%<br>WON 1,829,835,000               | Wholesale of Chinese medicine and healthcare products  |

\* *Equity interests directly held by the Company.*

# Notes to the Consolidated Financial Statements

31 December 2014

## 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 |  |
|---|---|------------------------------------|--|----------------------|--|
|   |   | 2014                               | 2013                                   |                      |  |
| <i>Joint ventures (Cont'd):</i>   |   |                                    |  |                      |  |
| Beijing Tong Ren Tong (Thai Boon Roong) Company Limited ("Tong Ren Tang Thai Boon Roong") | Phnom Penh, Cambodia<br>29 December 2005<br>Limited liability company | 51%                                | 51%                                    | USD500,000           | Retail of Chinese medicine and healthcare products   |
| PT. Klinik Beijing Tongrentang <sup>(1)</sup> ("Tong Ren Tang PT Klinik")                 | Jakarta, Indonesia<br>22 October 2006<br>Limited liability company    | N/A                                | N/A                                    | Rp2,600,000,000      | Retail of Chinese medicine and healthcare products   |
| Union Health International Limited ("Union Health")                                       | Hong Kong, PRC<br>3 May 2004<br>Limited liability company             | 50%                                | –                                      | HKD10,000            | Retail of Chinese medicine and healthcare products and provision of Chinese medical consultation and treatment |

<sup>(1)</sup> 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).

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

# Notes to the Consolidated Financial Statements

31 December 2014

## 1. GENERAL INFORMATION (CONT'D)

The indirectly held associated company below was under liquidation as of 31 December 2013 and 2014:

| Name   | Place / date of incorporation / kind of legal entity     | Percentage of equity interest held | Issued/ registered and paid-up capital | Principal activities                                    |
|--|--|------------------------------------|--|---|
| <i>Associate:</i>  |  | <b>2014</b>                        | 2013                                   |   |
| Beijing Tong Ren Tang Health Preserving and Culture Co., Ltd.<br>("Health Preserving Company") | Beijing, PRC<br>24 May 2010<br>Limited liability company | <b>41%</b>                         | 41%<br>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 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.

#### 2.1.1 Changes in accounting policy and disclosures

##### (a) Adoption of new standards and amendments to standards

The Group has adopted the following new standards and amendments to standards which are relevant to the Group's operations and are mandatory for the financial year beginning on or after 1 January 2014:

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

# Notes to the Consolidated Financial Statements

31 December 2014

## 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) *Adoption of new standards and amendments to standards (Cont'd)*

The adoption of above new standards and amendments to standards does not have any significant financial effect on these consolidated financial statements.

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

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

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

<sup>(1)</sup> Effective for the accounting period beginning on 1 July 2014

<sup>(2)</sup> Effective for the accounting period beginning on 1 January 2016

<sup>(3)</sup> Effective for the accounting period beginning on 1 January 2017

<sup>(4)</sup> Effective for the accounting period beginning on 1 January 2018

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

### 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.

# Notes to the Consolidated Financial Statements

31 December 2014

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

### 2.1 Basis of preparation (Cont'd)

#### 2.2.1 Consolidation (Cont'd)

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

# Notes to the Consolidated Financial Statements

31 December 2014

## 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.

# Notes to the Consolidated Financial Statements

31 December 2014

## 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. Upon the acquisition of the ownership interest in an associate, any difference between the cost of the associate and the Group's share of the net fair value of the associate's identifiable assets and liabilities is accounted for as goodwill.

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

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

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

# Notes to the Consolidated Financial Statements

31 December 2014

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

### 2.4 *Joint ventures*

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

Under the equity method of accounting, interests in joint ventures are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses and movements in other comprehensive income. The Group's investments in joint ventures include goodwill identified on acquisition. Upon the acquisition of the ownership interest in a joint venture, any difference between the cost of the joint venture and the Group's share of the net fair value of the joint venture's identifiable assets and liabilities is accounted for as goodwill. When the Group's share of losses in a joint venture equals or exceeds its interests in the joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the joint venture), the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint venture.

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.

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 chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Directors in the Board of Directors that makes strategic decisions.



# Notes to the Consolidated Financial Statements

31 December 2014

## 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 other comprehensive income 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.

# Notes to the Consolidated Financial Statements

31 December 2014

## 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 and finance leasehold land | 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.

### 2.8 *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.

# Notes to the Consolidated Financial Statements

31 December 2014

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

### 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 bills 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.

# Notes to the Consolidated Financial Statements

31 December 2014

## 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.

### 2.13 *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.

# Notes to the Consolidated Financial Statements

31 December 2014

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

### 2.13 Trade and other receivables (Cont'd)

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. Trade payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade 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.

### 2.18 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.

# Notes to the Consolidated Financial Statements

31 December 2014

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

### 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.

##### *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.

# Notes to the Consolidated Financial Statements

31 December 2014

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

### 2.19 Current and deferred income tax (Cont'd)

#### (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 tax 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.

#### (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.

# Notes to the Consolidated Financial Statements

31 December 2014

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

### 2.21 Provision (Cont'd)

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.

#### (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 retail 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.



# Notes to the Consolidated Financial Statements

31 December 2014

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

### 2.22 Revenue recognition (Cont'd)

#### (d) Advertising agency services income

The Group provides advertising agency services for external client. Advertising agency services revenue is recognised by the reference to the stage of completion of service according to contractual agreement or by the reference to the percentage of completion method. Under this method, the percentage of completion is identified with proportion of incurred contract costs to estimated total cost.

### 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.

### 2.24 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.

# Notes to the Consolidated Financial Statements

31 December 2014

## 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").

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

If the respective functional currency of the Group's entities had strengthened/weakened by 5% against the relevant foreign currencies, with all other variables held constant, the profit before income tax for the year ended 31 December 2014 and 2013 would increase/decrease as follows:

|           | 2014  |          | 2013  |          |
|-----------|---|----------|---|----------|
|           | Increase/(decrease) on profit before income tax if exchange rates change by |          | Increase/(decrease) on profit before income tax if exchange rates change by |          |
|           | +5%   | -5%      | +5%   | -5%      |
|           | RMB'000   | RMB'000  | RMB'000   | RMB'000  |
| The Group |   |          |   |          |
| HKD       | 17,449  | (17,449) | 71,628  | (71,628) |

##### (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 2014 and 2013, the Group's borrowings were at fixed rates. The interest rates and repayment terms of the Group's borrowings are disclosed in Note 17. 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.

# Notes to the Consolidated Financial Statements

31 December 2014

## 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 11.

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 2014, majority of the bank deposits are placed with state-owned and large listed banks, which are at lower credit risk.

|   | The Group<br>As at 31 December |                 | The Company<br>As at 31 December |                 |
|---|--------------------------------|-----------------|----------------------------------|-----------------|
|   | 2014<br>RMB'000                | 2013<br>RMB'000 | 2014<br>RMB'000                  | 2013<br>RMB'000 |
| State-owned and large listed banks (Note 30(b)) | <b>2,130,608</b>               | 2,346,254       | <b>1,167,505</b>                 | 1,533,218       |
| Other banks                                     | <b>17,283</b>                  | 19,516          | –                                | –               |
|   | <b>2,147,891</b>               | 2,365,770       | <b>1,167,505</b>                 | 1,533,218       |

#### (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 32.

All of the Group's borrowings will mature within one year (Note 17). Also, the trade payables are normally expected to be settled within one year after receipt of goods or services, while generally no specific credit period is granted by the suppliers.

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.

# Notes to the Consolidated Financial Statements

31 December 2014

## 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.

|                  | As at 31 December |                 |
|------------------|-------------------|-----------------|
|                  | 2014<br>RMB'000   | 2013<br>RMB'000 |
| Total borrowings | 100,000           | 194,310         |
| Total equity     | 4,436,154         | 4,008,617       |
| Gearing ratio    | 2%                | 5%              |

### 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 to 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.

# Notes to the Consolidated Financial Statements

31 December 2014

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

### (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.

### (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 consider 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 ("The Company" Segment), and (ii) the operation of the distribution network of Tong Ren Tang Chinese Medicine and the manufacture of Chinese medicine outside Mainland China and wholesale of healthcare products in Mainland China ("Tong Ren Tang Chinese Medicine" Segment).

# Notes to the Consolidated Financial Statements

31 December 2014

## 5. SEGMENT INFORMATION (CONT'D)

Other companies are engaged in processing and purchasing of Chinese medicinal raw materials, sales of medicinal products and advertising, 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.

The segment information provided to the Directors in the Board of Directors for the reportable segments for the year ended 31 December 2014 is as follows:

|  | The<br>Company<br>RMB'000 | Tong<br>Ren Tang<br>Chinese<br>Medicine<br>RMB'000 | All other<br>segments<br>RMB'000 | Total<br>RMB'000 |
|--|---------------------------|--|----------------------------------|------------------|
| Segment revenue  | 2,493,608                 | 603,895  | 528,303                          | 3,625,806        |
| Inter-segment revenue  | (15,621)                  | –  | (269,019)                        | (284,640)        |
| Revenue from external customers                                  | 2,477,987                 | 603,895  | 259,284                          | 3,341,166        |
| Profit after income tax  | 372,072                   | 233,519  | 10,767                           | 616,358          |
| Interest income  | 17,843                    | 9,422  | 1,331                            | 28,596           |
| Interest expense   | (987)                     | –  | (2,604)                          | (3,591)          |
| Depreciation of property, plant and equipment                    | (29,837)                  | (13,943)   | (12,332)                         | (56,112)         |
| Amortization of prepaid operating lease payments                 | (2,100)                   | (430)  | (644)                            | (3,174)          |
| (Provision for) /reversal of impairment of inventories           | (5,540)                   | 92   | –                                | (5,448)          |
| Provision for impairment of receivables                          | (543)                     | –  | –                                | (543)            |
| Share of (losses)/profits of joint ventures                      | (10)                      | 198  | –                                | 188              |
| Income tax expense   | (67,874)                  | (47,957)   | (8,411)                          | (124,242)        |
| Segment assets and liabilities                                   |                           |  |                                  |                  |
| Total assets   | 3,686,893                 | 1,287,912  | 557,390                          | 5,532,195        |
| Investment in joint ventures                                     | 2,000                     | 20,396   | –                                | 22,396           |
| Additions to non-current assets (other than deferred tax assets) | 199,906                   | 56,669   | 54,153                           | 310,728          |
| Total liabilities  | 852,187                   | 71,311   | 172,543                          | 1,096,041        |

# Notes to the Consolidated Financial Statements

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## 5. SEGMENT INFORMATION (CONT'D)

The segment information for the year ended 31 December 2013 is as follows:

|  | The<br>Company<br>RMB'000 | Tong<br>Ren Tang<br>Chinese<br>Medicine<br>RMB'000 | All other<br>segments<br>RMB'000 | Total<br>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        |

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.

# Notes to the Consolidated Financial Statements

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## 5. SEGMENT INFORMATION (CONT'D)

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.

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 20.

The total of the non-current assets other than deferred income tax assets located in Mainland China is RMB840,851,000 (2013: RMB633,839,000), and the total of these non-current assets located in other countries and regions is RMB241,430,000 (2013: RMB187,964,000).

## 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<br>As at 31 December |                 | The Company<br>As at 31 December |                 |
|---|--------------------------------|-----------------|----------------------------------|-----------------|
|   | 2014<br>RMB'000                | 2013<br>RMB'000 | 2014<br>RMB'000                  | 2013<br>RMB'000 |
| In Mainland China, held on:                         |                                |                 |                                  |                 |
| Leases of between 10 to 50 years                    | 132,609                        | 123,400         | 91,997                           | 94,097          |
| In Hong Kong, held on:                              |                                |                 |                                  |                 |
| Leases of between 10 to 50 years                    | 13,914                         | 14,293          | –                                | –               |
|   | <b>146,523</b>                 | 137,693         | <b>91,997</b>                    | 94,097          |
|   |                                |                 |                                  |                 |
|   | The Group                      |                 | The Company                      |                 |
|   | 2014<br>RMB'000                | 2013<br>RMB'000 | 2014<br>RMB'000                  | 2013<br>RMB'000 |
| At 1 January  | 137,693                        | 140,961         | 94,097                           | 95,718          |
| Additions   | 11,952                         | 580             | –                                | 478             |
| Amortisation of prepaid operating<br>lease payments | (3,174)                        | (3,272)         | (2,100)                          | (2,099)         |
| Exchange differences                                | 52                             | (576)           | –                                | –               |
| At 31 December                                      | <b>146,523</b>                 | 137,693         | <b>91,997</b>                    | 94,097          |



## Notes to the Consolidated Financial Statements

31 December 2014

## 7. PROPERTY, PLANT AND EQUIPMENT

The Group:

|                                    | Buildings and<br>finance<br>leasehold land<br>RMB'000 | Equipment<br>and<br>machinery<br>RMB'000 | Motor<br>vehicles<br>RMB'000 | Office<br>equipment<br>RMB'000 | CIP<br>RMB'000 | Total<br>RMB'000 |
|------------------------------------|---|--|------------------------------|--------------------------------|----------------|------------------|
| <b>At 1 January 2013</b>           |   |  |                              |                                |                |                  |
| Cost                               | 363,476   | 402,050                                  | 21,924                       | 30,340                         | 115,477        | 933,267          |
| Accumulated depreciation           | (113,353)   | (271,858)                                | (10,187)                     | (16,469)                       | –              | (411,867)        |
| Accumulated impairment             | –   | (12,268)                                 | –                            | –                              | –              | (12,268)         |
| Net book amount                    | 250,123   | 117,924                                  | 11,737                       | 13,871                         | 115,477        | 509,132          |
| <b>Year ended 31 December 2013</b> |   |  |                              |                                |                |                  |
| Opening net book amount            | 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          |
| <b>At 31 December 2013</b>         |   |  |                              |                                |                |                  |
| 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          |
| <b>Year ended 31 December 2014</b> |   |  |                              |                                |                |                  |
| Opening net book amount            | 324,897   | 132,497                                  | 13,764                       | 14,294                         | 170,578        | 656,030          |
| Exchange differences               | (2,251)   | (271)                                    | 87                           | (6)                            | –              | (2,441)          |
| Additions                          | 53,799  | 35,367                                   | 3,803                        | 6,890                          | 195,135        | 294,994          |
| Transferred from CIP               | 84,931  | 41,887                                   | –                            | 5                              | (126,823)      | –                |
| Disposals                          | (3)   | (1,146)                                  | (51)                         | (860)                          | –              | (2,060)          |
| Depreciation                       | (20,108)  | (26,755)                                 | (3,399)                      | (5,850)                        | –              | (56,112)         |
| Closing net book amount            | 441,265   | 181,579                                  | 14,204                       | 14,473                         | 238,890        | 890,411          |
| <b>At 31 December 2014</b>         |   |  |                              |                                |                |                  |
| Cost                               | 589,831   | 487,374                                  | 29,013                       | 35,879                         | 238,890        | 1,380,987        |
| Accumulated depreciation           | (148,566)   | (293,527)                                | (14,809)                     | (21,406)                       | –              | (478,308)        |
| Accumulated impairment             | –   | (12,268)                                 | –                            | –                              | –              | (12,268)         |
| Net book amount                    | 441,265   | 181,579                                  | 14,204                       | 14,473                         | 238,890        | 890,411          |

# Notes to the Consolidated Financial Statements

31 December 2014

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

The Company:

|                                    | Buildings and<br>finance<br>leasehold land<br>RMB'000 | Equipment<br>and<br>machinery<br>RMB'000 | Motor<br>vehicles<br>RMB'000 | Office<br>equipment<br>RMB'000 | CIP<br>RMB'000 | Total<br>RMB'000 |
|------------------------------------|---|--|------------------------------|--------------------------------|----------------|------------------|
| <b>At 1 January 2013</b>           |   |  |                              |                                |                |                  |
| 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          |
| <b>Year ended 31 December 2013</b> |   |  |                              |                                |                |                  |
| 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          |
| <b>At 31 December 2013</b>         |   |  |                              |                                |                |                  |
| 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          |
| <b>Year ended 31 December 2014</b> |   |  |                              |                                |                |                  |
| Opening net book amount            | 134,693   | 92,171                                   | 10,168                       | 8,931                          | 81,868         | 327,831          |
| Additions                          | 5,483   | 15,728                                   | 2,349                        | 2,090                          | 168,859        | 194,509          |
| Transferred from CIP               | –   | 18,475                                   | –                            | 5                              | (18,480)       | –                |
| Disposals                          | (1)   | (1,150)                                  | (50)                         | (797)                          | –              | (1,998)          |
| Depreciation                       | (7,943)   | (16,291)                                 | (2,518)                      | (3,085)                        | –              | (29,837)         |
| Closing net book amount            | 132,232   | 108,933                                  | 9,949                        | 7,144                          | 232,247        | 490,505          |
| <b>At 31 December 2014</b>         |   |  |                              |                                |                |                  |
| Cost                               | 232,066   | 361,218                                  | 20,766                       | 19,889                         | 232,247        | 866,186          |
| Accumulated depreciation           | (99,834)  | (244,518)                                | (10,817)                     | (12,745)                       | –              | (367,914)        |
| Accumulated impairment             | –   | (7,767)                                  | –                            | –                              | –              | (7,767)          |
| Net book amount                    | 132,232   | 108,933                                  | 9,949                        | 7,144                          | 232,247        | 490,505          |

# Notes to the Consolidated Financial Statements

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

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

|                         | The Group       |                 | The Company     |                 |
|-------------------------|-----------------|-----------------|-----------------|-----------------|
|                         | 2014<br>RMB'000 | 2013<br>RMB'000 | 2014<br>RMB'000 | 2013<br>RMB'000 |
| Cost of sales           | 40,086          | 31,288          | 24,997          | 22,003          |
| Distribution expenses   | 6,666           | 5,229           | 499             | 322             |
| Administrative expenses | 9,360           | 6,866           | 4,341           | 3,980           |
|                         | <b>56,112</b>   | 43,383          | <b>29,837</b>   | 26,305          |

During the year, the Group has capitalised borrowing costs amounting to RMB5,613,000 (2013: nil) on qualifying assets. Borrowing costs were capitalised at the weighted average rate of its general borrowings of 5.27% (2013: nil).

## 8. INVESTMENTS IN SUBSIDIARIES

|                            | The Company<br>As at 31 December |                 |
|----------------------------|----------------------------------|-----------------|
|                            | 2014<br>RMB'000                  | 2013<br>RMB'000 |
| Investments, at cost:      |                                  |                 |
| Shares listed in Hong Kong | 105,416                          | 105,416         |
| Unlisted shares            | 236,310                          | 145,485         |
|                            | <b>341,726</b>                   | 250,901         |

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 in Tong Ren Tang Chinese Medicine was 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 in Tong Ren Tang Chinese Medicine by virtue of an agreement with other investors. Therefore, it did not result in a loss of control, and the dilution gain amounted to RMB167,543,000 was recorded in "Other Reserve" in 2013.

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

# Notes to the Consolidated Financial Statements

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## 8. INVESTMENTS IN SUBSIDIARIES (CONT'D)

### *Material non-controlling interests*

The total non-controlling interest for the year is RMB886,566,000, of which RMB762,575,000 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.

### *Summarised balance sheet*

|                              | <b>Tong Ren Tang<br/>Chinese Medicine<br/>As at 31 December</b> |                 |
|------------------------------|---|-----------------|
|                              | <b>2014<br/>RMB'000</b>   | 2013<br>RMB'000 |
| <b>Current</b>               |   |                 |
| Assets                       | <b>1,041,073</b>  | 910,909         |
| Liabilities                  | <b>71,794</b>   | 75,692          |
| Total current net assets     | <b>969,279</b>  | 835,217         |
| <b>Non-current</b>           |   |                 |
| Assets                       | <b>246,839</b>  | 197,724         |
| Liabilities                  | <b>3,688</b>  | 3,340           |
| Total non-current net assets | <b>243,151</b>  | 194,384         |
| Non-controlling interests    | <b>40,323</b>   | 28,307          |
| Net assets                   | <b>1,172,107</b>  | 1,001,294       |

# Notes to the Consolidated Financial Statements

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## 8. INVESTMENTS IN SUBSIDIARIES (CONT'D)

### *Summarised income statement*

|   | <b>Tong Ren Tang<br/>Chinese Medicine</b> |          |
|---|---|----------|
|   | <b>2014</b>                               | 2013     |
|   | <b>RMB'000</b>                            | RMB'000  |
| Revenue   | <b>603,895</b>                            | 491,772  |
| Profit before income tax  | <b>281,476</b>                            | 216,603  |
| Income tax expense  | <b>(47,957)</b>                           | (35,042) |
| Profit for the year   | <b>233,519</b>                            | 181,561  |
| Other comprehensive income  | <b>(4,226)</b>                            | (25,098) |
| Total comprehensive income  | <b>229,293</b>                            | 156,463  |
| Total comprehensive income allocated to non-controlling interests | <b>1,952</b>                              | 4,742    |
| Dividends paid to non-controlling interests                       | <b>2,291</b>                              | 5,207    |

### *Summarised cash flows*

|  | <b>Tong Ren Tang<br/>Chinese Medicine</b> |           |
|--|---|-----------|
|  | <b>2014</b>                               | 2013      |
|  | <b>RMB'000</b>                            | RMB'000   |
| Cash generated from operations                         | <b>247,269</b>                            | 140,076   |
| Income tax paid  | <b>(53,342)</b>                           | (26,353)  |
| Net cash generated from operating activities           | <b>193,927</b>                            | 113,723   |
| Net cash used in investing activities                  | <b>(57,752)</b>                           | (379,445) |
| Net cash (used in)/generated from financing activities | <b>(44,462)</b>                           | 431,440   |
| <b>Net increase in cash and cash equivalents</b>       | <b>91,713</b>                             | 165,718   |
| Cash and cash equivalents at beginning of the year     | <b>357,142</b>                            | 202,146   |
| Exchange losses on cash and cash equivalents           | <b>(4,402)</b>                            | (10,722)  |
| Cash and cash equivalents at end of the year           | <b>444,453</b>                            | 357,142   |

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

# Notes to the Consolidated Financial Statements

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## 9. INVESTMENTS IN JOINT VENTURES

The Group:

|                     | As at 31 December |                 |
|---------------------|-------------------|-----------------|
|                     | 2014<br>RMB'000   | 2013<br>RMB'000 |
| Unlisted investment | 22,396            | 13,353          |

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

|  | 2014<br>RMB'000 | 2013<br>RMB'000 |
|--|-----------------|-----------------|
| Profit/(loss) for the year                       | 188             | (555)           |
| Other comprehensive income                       |                 |                 |
| – Currency translation difference                | (532)           | (2,383)         |
| Total comprehensive income                       | (344)           | (2,938)         |
| The Group's share of joint ventures' commitments | 2,810           | 2,852           |

The Company:

|                             | As at 31 December |                 |
|-----------------------------|-------------------|-----------------|
|                             | 2014<br>RMB'000   | 2013<br>RMB'000 |
| Unlisted investment at cost | 2,000             | 2,000           |

Notes:

- The joint ventures are private companies and there are no quoted market prices available for their shares.
- There are no contingent liabilities relating to the Group's interests in the joint ventures.
- Details of the joint ventures are set out in Note 1 to the consolidated financial statements.

# Notes to the Consolidated Financial Statements

31 December 2014

## 10. FINANCIAL INSTRUMENTS BY CATEGORY

The Group:

|   | Loans and receivables<br>As at 31 December |                  |
|---|--|------------------|
|   | 2014<br>RMB'000                            | 2013<br>RMB'000  |
| <b>Assets as per consolidated balance sheet</b>     |  |                  |
| Trade and bills receivables, net                    | 290,488                                    | 244,807          |
| Amounts due from related parties                    | 98,856                                     | 78,253           |
| Other current assets-Deposit and structured Deposit | 41,509                                     | 13,927           |
| Short-term bank deposits                            | 376,200                                    | 398,990          |
| Cash and cash equivalents                           | 1,774,389                                  | 1,967,919        |
| <b>Total</b>  | <b>2,581,442</b>                           | <b>2,703,896</b> |

|  | Financial liabilities<br>at amortised cost<br>As at 31 December |                 |
|--|---|-----------------|
|  | 2014<br>RMB'000   | 2013<br>RMB'000 |
| <b>Liabilities as per consolidated balance sheet</b> |   |                 |
| Trade payables                                       | 421,924   | 360,744         |
| Amounts due to related parties                       | 84,118  | 83,192          |
| Other payables                                       | 200,662   | 202,892         |
| Borrowings   | 100,000   | 194,310         |
| <b>Total</b>   | <b>806,704</b>  | <b>841,138</b>  |

# Notes to the Consolidated Financial Statements

31 December 2014

## 10. FINANCIAL INSTRUMENTS BY CATEGORY (CONT'D)

The Company:

|                                    | Loans and receivables<br>As at 31 December |                  |
|------------------------------------|--|------------------|
|                                    | 2014                                       | 2013             |
|                                    | RMB'000                                    | RMB'000          |
| <b>Assets as per balance sheet</b> |  |                  |
| Trade and bills receivables, net   | 216,706                                    | 166,350          |
| Amounts due from related parties   | 35,441                                     | 41,168           |
| Amounts due from subsidiaries      | 21,912                                     | 3,212            |
| Other current assets-Deposit       | 6,568                                      | 5,589            |
| Cash and cash equivalents          | 1,167,544                                  | 1,533,277        |
| <b>Total</b>                       | <b>1,448,171</b>                           | <b>1,749,596</b> |

|   | Financial liabilities at<br>amortized cost<br>As at 31 December |                |
|---|---|----------------|
|   | 2014  | 2013           |
|   | RMB'000   | RMB'000        |
| <b>Liabilities as per balance sheet</b> |   |                |
| Trade payables                          | 343,801   | 298,261        |
| Amounts due to related parties          | 54,362  | 67,370         |
| Amounts due to subsidiaries             | 40,820  | 48,370         |
| Other payables                          | 143,940   | 165,920        |
| Borrowings                              | 100,000   | 115,000        |
| <b>Total</b>                            | <b>682,923</b>  | <b>694,921</b> |

## 11. TRADE AND BILLS RECEIVABLES, NET

|  | The Group<br>As at 31 December |                | The Company<br>As at 31 December |                |
|--|--------------------------------|----------------|----------------------------------|----------------|
|  | 2014                           | 2013           | 2014                             | 2013           |
|  | RMB'000                        | RMB'000        | RMB'000                          | RMB'000        |
| Trade and bills receivables                      | 308,278                        | 262,054        | 234,496                          | 183,597        |
| Less: provision for impairment of<br>receivables | (17,790)                       | (17,247)       | (17,790)                         | (17,247)       |
| <b>Trade and bills receivables, net</b>          | <b>290,488</b>                 | <b>244,807</b> | <b>216,706</b>                   | <b>166,350</b> |

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



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## 11. 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 2014 and 2013, the ageing analysis of trade and bills receivables based on invoice date was as follows:

|                                 | The Group<br>As at 31 December |                 | The Company<br>As at 31 December |                 |
|---------------------------------|--------------------------------|-----------------|----------------------------------|-----------------|
|                                 | 2014<br>RMB'000                | 2013<br>RMB'000 | 2014<br>RMB'000                  | 2013<br>RMB'000 |
| Within 4 months                 | 281,799                        | 242,705         | 211,767                          | 165,469         |
| Over 4 months but within 1 year | 20,874                         | 12,116          | 17,595                           | 11,720          |
| Over 1 year but within 2 years  | 274                            | 466             | 75                               | 54              |
| Over 2 years but within 3 years | 20                             | 1,584           | –                                | 1,295           |
| Over 3 years                    | 5,311                          | 5,183           | 5,059                            | 5,059           |
|                                 | <b>308,278</b>                 | 262,054         | <b>234,496</b>                   | 183,597         |

As of 31 December 2014, trade receivables of RMB17,790,000 (2013: RMB17,247,000) 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<br>As at 31 December |                 | The Company<br>As at 31 December |                 |
|-----------------|--------------------------------|-----------------|----------------------------------|-----------------|
|                 | 2014<br>RMB'000                | 2013<br>RMB'000 | 2014<br>RMB'000                  | 2013<br>RMB'000 |
| Within 4 months | 10,360                         | 4,551           | 10,360                           | 4,551           |
| Over 4 months   | 7,430                          | 12,696          | 7,430                            | 12,696          |
|                 | <b>17,790</b>                  | 17,247          | <b>17,790</b>                    | 17,247          |

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

|   | The Group       |                 | The Company     |                 |
|---|-----------------|-----------------|-----------------|-----------------|
|   | 2014<br>RMB'000 | 2013<br>RMB'000 | 2014<br>RMB'000 | 2013<br>RMB'000 |
| At 1 January                            | 17,247          | 16,181          | 17,247          | 16,181          |
| Provision for impairment of receivables | 543             | 1,246           | 543             | 1,246           |
| Write-off                               | –               | (180)           | –               | (180)           |
| At 31 December                          | <b>17,790</b>   | 17,247          | <b>17,790</b>   | 17,247          |

# Notes to the Consolidated Financial Statements

31 December 2014

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

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.

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

|                      | The Group<br>As at 31 December |                 |
|----------------------|--------------------------------|-----------------|
|                      | 2014<br>RMB'000                | 2013<br>RMB'000 |
| RMB                  | 248,430                        | 201,266         |
| HKD                  | 55,299                         | 59,591          |
| United States Dollar | 2,158                          | 526             |
| Korean Won           | 1,872                          | –               |
| Australian Dollar    | 253                            | 212             |
| Polish Zloty         | 114                            | –               |
| New Zealand Dollar   | 99                             | –               |
| Macanese Pataca      | 34                             | 366             |
| Brunei Ringgit       | 19                             | 10              |
| Singapore Dollar     | –                              | 80              |
| Canadian Dollar      | –                              | 3               |
|                      | <b>308,278</b>                 | <b>262,054</b>  |

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

## 12. INVENTORIES

|   | The Group<br>As at 31 December |                  | The Company<br>As at 31 December |                  |
|---|--------------------------------|------------------|----------------------------------|------------------|
|   | 2014<br>RMB'000                | 2013<br>RMB'000  | 2014<br>RMB'000                  | 2013<br>RMB'000  |
| Raw materials                                 | 617,115                        | 618,182          | 607,726                          | 587,634          |
| Work-in-progress                              | 323,299                        | 173,422          | 303,010                          | 158,382          |
| Finished goods                                | 825,767                        | 738,115          | 735,114                          | 661,526          |
|   | <b>1,766,181</b>               | <b>1,529,719</b> | <b>1,645,850</b>                 | <b>1,407,542</b> |
| Less: Provision for impairment of inventories | (16,346)                       | (18,703)         | (10,422)                         | (13,687)         |
|   | <b>1,749,835</b>               | <b>1,511,016</b> | <b>1,635,428</b>                 | <b>1,393,855</b> |

The cost of inventories recognised as expense and included in 'cost of sales' amounted to RMB952,667,000 (2013: RMB768,559,000).

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## 13. 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<br>As at 31 December |                 | The Company<br>As at 31 December |                 |
|--|--------------------------------|-----------------|----------------------------------|-----------------|
|  | 2014<br>RMB'000                | 2013<br>RMB'000 | 2014<br>RMB'000                  | 2013<br>RMB'000 |
| Deferred tax assets:   |                                |                 |                                  |                 |
| – Deferred tax assets to be recovered after 12 months              | 3,049                          | 1,624           | 3,049                            | 1,624           |
| – Deferred tax assets to be recovered within 12 months             | 14,487                         | 12,427          | 1,661                            | 3,599           |
|  | <b>17,536</b>                  | 14,051          | <b>4,710</b>                     | 5,223           |
| Deferred tax liabilities:  |                                |                 |                                  |                 |
| – Deferred tax liabilities to be settled after more than 12 months | (2,845)                        | (2,361)         | (502)                            | –               |
| – Deferred tax liabilities to be settled within 12 months          | (1,419)                        | (979)           | (74)                             | –               |
|  | <b>(4,264)</b>                 | (3,340)         | <b>(576)</b>                     | –               |
| Deferred tax assets, net   | <b>13,272</b>                  | 10,711          | <b>4,134</b>                     | 5,223           |

# Notes to the Consolidated Financial Statements

31 December 2014

## 13. 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     |                 |
|--|-----------------|-----------------|-----------------|-----------------|
|  | 2014<br>RMB'000 | 2013<br>RMB'000 | 2014<br>RMB'000 | 2013<br>RMB'000 |
| Beginning of the year                                    | 14,051          | 13,372          | 5,223           | 8,507           |
| Deemed acquisition of a subsidiary                       | –               | 72              | –               | –               |
| Credited/(charged) to income statement                   | 3,485           | 607             | (513)           | (3,284)         |
| End of the year  | 17,536          | 14,051          | 4,710           | 5,223           |
| Provided for in respect of:                              |                 |                 |                 |                 |
| Provision for termination benefits                       | 226             | 308             | 226             | 308             |
| Amortisation of leasehold land and land use rights       | 453             | 435             | 453             | 435             |
| Unrealised profit resulting from intragroup transactions | 11,420          | 7,167           | –               | –               |
| Accelerated accounting depreciation                      | –               | 69              | –               | –               |
| Provision for inventories                                | 2,970           | 3,578           | 1,564           | 1,986           |
| Provision for property, plant and equipment              | 1,165           | 1,165           | 1,165           | 1,165           |
| Deferred income arising from government grant            | 1,302           | 1,329           | 1,302           | 1,329           |
|  | 17,536          | 14,051          | 4,710           | 5,223           |

# Notes to the Consolidated Financial Statements

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## 13. DEFERRED INCOME TAX (CONT'D)

### Deferred income tax liabilities

|   | The Group       |                 | The Company     |                 |
|---|-----------------|-----------------|-----------------|-----------------|
|   | 2014<br>RMB'000 | 2013<br>RMB'000 | 2014<br>RMB'000 | 2013<br>RMB'000 |
| Beginning of the year   | 3,340           | 3,094           | –               | –               |
| Deemed acquisition of a subsidiary                                | –               | 952             | –               | –               |
| Charged/(credited) to income statement                            | 924             | (706)           | 576             | –               |
| End of the year   | 4,264           | 3,340           | 576             | –               |
| Provided for in respect of:                                       |                 |                 |                 |                 |
| Accelerated tax depreciation allowance                            | 3,904           | 2,781           | 576             | –               |
| Deferred income tax liabilities arising from business combination | 360             | 559             | –               | –               |
|   | 4,264           | 3,340           | 576             | –               |

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 RMB3,092,000 (2013: RMB2,492,000) in respect of losses amounting to RMB16,243,000 (2013: RMB10,697,000) at 31 December 2014. At 31 December 2014, these tax losses have no expiry dates except for the tax losses of RMB6,503,000 (2013: RMB10,697,000) which will expire between 2015 and 2019 (2013: between 2014 and 2018).

# Notes to the Consolidated Financial Statements

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## 14. SHARE CAPITAL

|  | As at 31 December    |                       |                  |                       |
|--|----------------------|-----------------------|------------------|-----------------------|
|  | 2014                 |                       | 2013             |                       |
|  | Number of shares     | Nominal value RMB'000 | Number of shares | Nominal value RMB'000 |
| Total share capital                                  | <b>1,280,784,000</b> | <b>1,280,784</b>      | 640,392,000      | 640,392               |
| Issued and fully paid                                |                      |                       |                  |                       |
| – Domestic shares with a par value of RMB1 per share | <b>652,080,000</b>   | <b>652,080</b>        | 326,040,000      | 326,040               |
| – H shares with a par value of RMB1 per share        | <b>628,704,000</b>   | <b>628,704</b>        | 314,352,000      | 314,352               |
|  | <b>1,280,784,000</b> | <b>1,280,784</b>      | 640,392,000      | 640,392               |

|                               | 2014                    |                  |                  | 2013                    |                  |               |
|-------------------------------|-------------------------|------------------|------------------|-------------------------|------------------|---------------|
|                               | Domestic shares RMB'000 | H shares RMB'000 | Total RMB'000    | Domestic shares RMB'000 | H shares RMB'000 | Total RMB'000 |
| At 1 January                  | <b>326,040</b>          | <b>314,352</b>   | <b>640,392</b>   | 326,040                 | 261,960          | 588,000       |
| Proceeds from shares issued   | –                       | –                | –                | –                       | 52,392           | 52,392        |
| Capitalisation of the reserve | <b>326,040</b>          | <b>314,352</b>   | <b>640,392</b>   | –                       | –                | –             |
| At 31 December                | <b>652,080</b>          | <b>628,704</b>   | <b>1,280,784</b> | 326,040                 | 314,352          | 640,392       |

On 20 March 2014, the Board of Directors 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, totaling RMB640,392,000, which was approved by the shareholders at the annual general meeting held on 12 June 2014 and has been completed on 3 July 2014.

## Notes to the Consolidated Financial Statements

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## 15. RESERVES

|   | The Group                                   |  |   |   |  |                             |                                 |                  |
|---|---|--|---|---|--|-----------------------------|---------------------------------|------------------|
|   | Capital<br>reserve<br>(Note (b))<br>RMB'000 | Statutory<br>surplus<br>reserve<br>fund<br>(Note (c))<br>RMB'000 | Statutory<br>public<br>welfare<br>fund<br>(Note (c))<br>RMB'000 | Tax<br>reserve<br>(Note (d))<br>RMB'000 | Foreign<br>currency<br>translation<br>differences<br>RMB'000 | Other<br>reserve<br>RMB'000 | Retained<br>earnings<br>RMB'000 | Total<br>RMB'000 |
| Balance as of 1 January   |   |  |   |   |  |                             |                                 |                  |
| 2013  | 175,144                                     | 218,810  | 45,455  | 102,043                                 | (22,585)   | (4,776)                     | 835,516                         | 1,349,607        |
| Profit for the year   | -   | -  | -   | -                                       | -  | -                           | 390,093                         | 390,093          |
| Foreign currency translation<br>differences   |   |  |   |   |  |                             |                                 |                  |
| - Group   | -   | -  | -   | -                                       | (4,827)  | -                           | -                               | (4,827)          |
| - Joint Ventures  | -   | -  | -   | -                                       | (2,383)  | -                           | -                               | (2,383)          |
| Appropriation from retained<br>earnings   | -   | 36,213   | -   | -                                       | -  | -                           | (36,213)                        | -                |
| Issuance of new shares  | 906,681                                     | -  | -   | -                                       | -  | -                           | -                               | 906,681          |
| Professional expenses<br>incurred in connection<br>with the Company's<br>issuance of new shares   | (27,333)                                    | -  | -   | -                                       | -  | -                           | -                               | (27,333)         |
| Dividends paid to<br>shareholders of the<br>Company relating to 2012                              | -   | -  | -   | -                                       | -  | -                           | (147,000)                       | (147,000)        |
| Business combinations<br>under common control   | -   | -  | -   | -                                       | -  | (1,791)                     | -                               | (1,791)          |
| Professional expenses<br>incurred in connection<br>with issuance of new<br>shares of a subsidiary | -   | -  | -   | -                                       | -  | (13,705)                    | -                               | (13,705)         |
| Issuance of new shares of a<br>subsidiary (Note 8)  | -   | -  | -   | -                                       | -  | 167,543                     | -                               | 167,543          |
| Balance as of 31 December   |   |  |   |   |  |                             |                                 |                  |
| 2013  | 1,054,492                                   | 255,023  | 45,455  | 102,043                                 | (29,795)   | 147,271                     | 1,042,396                       | 2,616,885        |

# Notes to the Consolidated Financial Statements

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## 15. RESERVES (CONT'D)

|  | The Group                                   |  |   |   |  |                             |                                 |                  |
|--|---|--|---|---|--|-----------------------------|---------------------------------|------------------|
|  | Capital<br>reserve<br>(Note (b))<br>RMB'000 | Statutory<br>surplus<br>reserve<br>fund<br>(Note (c))<br>RMB'000 | Statutory<br>public<br>welfare<br>fund<br>(Note (c))<br>RMB'000 | Tax<br>reserve<br>(Note (d))<br>RMB'000 | Foreign<br>currency<br>translation<br>differences<br>RMB'000 | Other<br>reserve<br>RMB'000 | Retained<br>earnings<br>RMB'000 | Total<br>RMB'000 |
| Balance as of 1 January  |   |  |   |   |  |                             |                                 |                  |
| 2014   | 1,054,492                                   | 255,023  | 45,455  | 102,043                                 | (29,795)   | 147,271                     | 1,042,396                       | 2,616,885        |
| Profit for the year  | -   | -  | -   | -                                       | -  | -                           | 462,187                         | 462,187          |
| Foreign currency translation<br>differences                          |   |  |   |   |  |                             |                                 |                  |
| - Group  | -   | -  | -   | -                                       | (1,022)  | -                           | -                               | (1,022)          |
| - Joint Ventures   | -   | -  | -   | -                                       | (532)  | -                           | -                               | (532)            |
| Appropriation from retained<br>earnings                              | -   | 39,686   | -   | -                                       | -  | -                           | (39,686)                        | -                |
| Dividends paid to<br>shareholders of the<br>Company relating to 2013 | -   | -  | -   | -                                       | -  | -                           | (160,098)                       | (160,098)        |
| Capitalisation of the reserve<br>(Note 14)                           | (640,392)                                   | -  | -   | -                                       | -  | -                           | -                               | (640,392)        |
| Transaction with<br>non-controlling interests                        | -   | -  | -   | -                                       | -  | (8,224)                     | -                               | (8,224)          |
| Balance as of 31 December  |   |  |   |   |  |                             |                                 |                  |
| 2014   | 414,100                                     | 294,709  | 45,455  | 102,043                                 | (31,349)   | 139,047                     | 1,304,799                       | 2,268,804        |



## Notes to the Consolidated Financial Statements

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## 15. RESERVES (CONT'D)

|  | The Company           |   |  |                       |                      |                  |
|--|-----------------------|---|--|-----------------------|----------------------|------------------|
|  | Capital<br>reserve    | Statutory<br>surplus<br>reserve<br>fund | Statutory<br>public<br>welfare<br>fund | Tax<br>reserve        | Retained<br>earnings | Total            |
|  | (Note (b))<br>RMB'000 | (Note (c))<br>RMB'000                   | (Note (c))<br>RMB'000                  | (Note (d))<br>RMB'000 | RMB'000              | RMB'000          |
| 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<br>in connection with issuance<br>of new shares | (27,333)              | -                                       | -                                      | -                     | -                    | (27,333)         |
| Dividends paid to shareholders<br>of the Company relating to<br>2012           | -                     | -                                       | -                                      | -                     | (147,000)            | (147,000)        |
| Appropriation from retained<br>earnings  | -                     | 36,213                                  | -                                      | -                     | (36,213)             | -                |
| Balance as of 31 December<br>2013  | 1,054,492             | 255,023                                 | 45,455                                 | 102,043               | 865,093              | 2,322,106        |
| Balance as of 1 January 2014   | <b>1,054,492</b>      | <b>255,023</b>                          | <b>45,455</b>                          | <b>102,043</b>        | <b>865,093</b>       | <b>2,322,106</b> |
| Profit for the year (Note(a))  | -                     | -                                       | -                                      | -                     | 396,875              | 396,875          |
| Dividends paid to shareholders<br>of the Company relating to<br>2013           | -                     | -                                       | -                                      | -                     | (160,098)            | (160,098)        |
| Capitalisation of the reserve  | (640,392)             | -                                       | -                                      | -                     | -                    | (640,392)        |
| Appropriation from retained<br>earnings  | -                     | 39,686                                  | -                                      | -                     | (39,686)             | -                |
| Balance as of 31 December<br>2014  | <b>414,100</b>        | <b>294,709</b>                          | <b>45,455</b>                          | <b>102,043</b>        | <b>1,062,184</b>     | <b>1,918,491</b> |

# Notes to the Consolidated Financial Statements

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## 15. RESERVES (CONT'D)

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 RMB396,875,000 (2013: RMB362,136,000).

(b) **Capital reserve**

Capital reserve 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.

(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 RMB39,686,000 (2013: RMB36,213,000), 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 as at 31 December 2014.

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), an 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 utilisation of the exempted tax is restricted to specified purposes and not distributable to shareholders.

## 16. DEFERRED INCOME - GOVERNMENT GRANTS

|   | The Group       |                 | The Company     |                 |
|---|-----------------|-----------------|-----------------|-----------------|
|   | 2014<br>RMB'000 | 2013<br>RMB'000 | 2014<br>RMB'000 | 2013<br>RMB'000 |
| Beginning of the year                               | 75,567          | 54,238          | 59,015          | 36,912          |
| Government grants received                          | 6,960           | 45,472          | 6,890           | 45,553          |
| Amount recognised in the income statement (Note 23) | (8,474)         | (24,143)        | (7,308)         | (23,450)        |
| End of the year                                     | 74,053          | 75,567          | 58,597          | 59,015          |

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## 16. DEFERRED INCOME – GOVERNMENT GRANTS (CONT'D)

The ending balance of the government grants are relating to:

|  | The Group<br>As at 31 December |                 | The Company<br>As at 31 December |                 |
|--|--------------------------------|-----------------|----------------------------------|-----------------|
|  | 2014<br>RMB'000                | 2013<br>RMB'000 | 2014<br>RMB'000                  | 2013<br>RMB'000 |
| Government grants relating to research and development expenditure | 11,568                         | 8,176           | 11,568                           | 7,416           |
| Government grants relating to property, plant and equipment        | 17,795                         | 18,940          | 17,795                           | 18,940          |
| Government grants relating to land use rights                      | 24,133                         | 24,654          | 8,677                            | 8,862           |
| Government grants relating to other expenditure                    | 20,557                         | 23,797          | 20,557                           | 23,797          |
| <b>Total</b>   | <b>74,053</b>                  | <b>75,567</b>   | <b>58,597</b>                    | <b>59,015</b>   |

## 17. BORROWINGS

|                         | The Group<br>As at 31 December |                 | The Company<br>As at 31 December |                 |
|-------------------------|--------------------------------|-----------------|----------------------------------|-----------------|
|                         | 2014<br>RMB'000                | 2013<br>RMB'000 | 2014<br>RMB'000                  | 2013<br>RMB'000 |
| <b>Non-current</b>      |                                |                 |                                  |                 |
| Bank borrowings         |                                |                 |                                  |                 |
| – Unsecured             | –                              | 39,310          | –                                | –               |
| <b>Current</b>          |                                |                 |                                  |                 |
| Bank borrowings         |                                |                 |                                  |                 |
| – Unsecured             | 100,000                        | 155,000         | 100,000                          | 115,000         |
| <b>Total borrowings</b> | <b>100,000</b>                 | <b>194,310</b>  | <b>100,000</b>                   | <b>115,000</b>  |

# Notes to the Consolidated Financial Statements

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## 17. BORROWINGS (CONT'D)

(a) At 31 December 2014, the Group's borrowings would be repayable as follows:

|                       | The Group<br>As at 31 December |                 | The Company<br>As at 31 December |                 |
|-----------------------|--------------------------------|-----------------|----------------------------------|-----------------|
|                       | 2014<br>RMB'000                | 2013<br>RMB'000 | 2014<br>RMB'000                  | 2013<br>RMB'000 |
| Within 1 year         | 100,000                        | 155,000         | 100,000                          | 115,000         |
| Between 1 and 2 years | –                              | 39,310          | –                                | –               |
|                       | <b>100,000</b>                 | 194,310         | <b>100,000</b>                   | 115,000         |

(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<br>As at 31 December |                 | The Company<br>As at 31 December |                 |
|-----|--------------------------------|-----------------|----------------------------------|-----------------|
|     | 2014<br>RMB'000                | 2013<br>RMB'000 | 2014<br>RMB'000                  | 2013<br>RMB'000 |
| RMB | 100,000                        | 155,000         | 100,000                          | 115,000         |
| HKD | –                              | 39,310          | –                                | –               |
|     | <b>100,000</b>                 | 194,310         | <b>100,000</b>                   | 115,000         |

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

|                 | The Group |        | The Company |        |
|-----------------|-----------|--------|-------------|--------|
|                 | 2014      | 2013   | 2014        | 2013   |
| Bank borrowings |           |        |             |        |
| – RMB           | 5.456%    | 5.603% | 5.266%      | 5.603% |
| – HKD           | 1.590%    | 1.590% | –           | –      |

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## 18. TRADE PAYABLES

As of 31 December 2014, the ageing analysis of trade payables based on invoice date was as follows:

|                                 | The Group         |         | The Company       |         |
|---------------------------------|-------------------|---------|-------------------|---------|
|                                 | As at 31 December |         | As at 31 December |         |
|                                 | 2014              | 2013    | 2014              | 2013    |
|                                 | RMB'000           | RMB'000 | RMB'000           | RMB'000 |
| Within 4 months                 | 357,113           | 347,834 | 287,842           | 288,510 |
| Over 4 months but within 1 year | 63,400            | 12,720  | 55,720            | 9,651   |
| Over 1 year but within 2 years  | 1,411             | 190     | 239               | 100     |
|                                 | <b>421,924</b>    | 360,744 | <b>343,801</b>    | 298,261 |

## 19. SALARY AND WELFARE PAYABLES

|                 | The Group         |         | The Company       |         |
|-----------------|-------------------|---------|-------------------|---------|
|                 | As at 31 December |         | As at 31 December |         |
|                 | 2014              | 2013    | 2014              | 2013    |
|                 | RMB'000           | RMB'000 | RMB'000           | RMB'000 |
| Salary payable  | 15,805            | 12,649  | 443               | 443     |
| Welfare payable | 4,040             | 2,147   | 3,511             | –       |
|                 | <b>19,845</b>     | 14,796  | <b>3,954</b>      | 443     |

## 20. REVENUE

|                                     | 2014             | 2013      |
|-------------------------------------|------------------|-----------|
|                                     | RMB'000          | RMB'000   |
| Sales of Chinese medicinal products |                  |           |
| – Mainland China                    | 2,807,902        | 2,442,149 |
| – Outside Mainland China            | 477,972          | 447,900   |
|                                     | <b>3,285,874</b> | 2,890,049 |
| Advertising agency services income  |                  |           |
| – Mainland China                    | 32,604           | –         |
| Chinese medical consultation        |                  |           |
| – Outside Mainland China            | 22,134           | 20,004    |
| Royalty fee income                  |                  |           |
| – Outside Mainland China            | 554              | 696       |
|                                     | <b>3,341,166</b> | 2,910,749 |

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## 21. OTHER LOSSES- NET

|  | 2014<br>RMB'000 | 2013<br>RMB'000 |
|--|-----------------|-----------------|
| Professional expenses incurred in connection with issuance of new shares of a subsidiary | –               | 10,077          |
| Remeasurement gain on previously held interest (Note (a))                                | –               | (1,649)         |
|  | –               | 8,428           |

- (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.

## 22. FINANCE INCOME AND COSTS

|  | 2014<br>RMB'000 | 2013<br>RMB'000 |
|--|-----------------|-----------------|
| <b>Finance income</b>  |                 |                 |
| Interest income on cash at bank and short-term bank deposits | 28,596          | 12,887          |
| Exchange gains   | 3,791           | –               |
|  | 32,387          | 12,887          |
| <b>Finance costs</b>   |                 |                 |
| Interest on bank borrowings                                  | (9,204)         | (10,122)        |
| Less: amounts capitalised on qualifying assets (note 7)      | 5,613           | –               |
| Exchange losses  | –               | (12,832)        |
|  | (3,591)         | (22,954)        |
| <b>Finance income/(costs) – net</b>                          | <b>28,796</b>   | <b>(10,067)</b> |

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## 23. EXPENSE BY NATURE

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

|   | 2014<br>RMB'000 | 2013<br>RMB'000 |
|---|-----------------|-----------------|
| Raw materials and consumables used  | 1,190,196       | 805,198         |
| Change in inventories of finished goods and work-in-progress                                | (237,529)       | 36,639          |
| Employee benefit expense  |                 |                 |
| – Salary and wages  | 373,678         | 311,602         |
| – Staff welfare   | 42,624          | 28,968          |
| – Housing fund  | 21,884          | 17,833          |
| – Contribution to pension scheme  | 66,307          | 57,423          |
| Depreciation of property, plant and equipment (Note 7)                                      | 56,112          | 43,383          |
| Amortization of prepaid operating lease payments (Note 6)                                   | 3,174           | 3,272           |
| Amortization of other long-term assets  | 1,254           | 758             |
| Provision/(reversal of provision) for impairment of inventories                             | 5,448           | (8,097)         |
| Provision for impairment of receivables (Note 11)   | 543             | 1,246           |
| Operating lease rental  | 87,505          | 69,455          |
| Auditor's remuneration  |                 |                 |
| – Audit services  | 4,843           | 3,502           |
| – Non-audit services  | 515             | 2,698           |
| Research and development costs  | 19,528          | 21,470          |
| Loss on disposal of property, plant and equipment   | 518             | 802             |
| Recognition of government grants (Note 16)  | (8,474)         | (24,143)        |
| Professional expenses incurred in connection with<br>issuance of new shares of a subsidiary | –               | 10,077          |
| Processing costs  | 191,527         | 157,676         |
| Advertising and promotion expenses  | 185,536         | 159,171         |
| Transportation  | 57,278          | 54,757          |
| Repair and maintenance  | 40,081          | 42,589          |
| Utilities   | 57,648          | 42,527          |
| Other taxes   | 39,207          | 30,067          |

## 24. 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% (2013: 25%). As of 31 December 2014 and 2013, the Company has obtained the HNTE certificate. Consequently, the applicable income tax rate of the Company in 2014 is 15% (2013: 15%).

Hong Kong profits tax has been provided at the rate of 16.5% (2013: 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.

# Notes to the Consolidated Financial Statements

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## 24. INCOME TAX EXPENSE (CONT'D)

Details of income tax during the year are as follows:

|                             | <b>2014</b><br><b>RMB'000</b> | 2013<br>RMB'000 |
|-----------------------------|-------------------------------|-----------------|
| Current income tax expense  |                               |                 |
| – Mainland China            | <b>83,607</b>                 | 54,533          |
| – Hong Kong                 | <b>40,197</b>                 | 35,988          |
| – Overseas                  | <b>2,999</b>                  | 2,740           |
|                             | <b>126,803</b>                | 93,261          |
| Deferred income tax expense | <b>(2,561)</b>                | (1,313)         |
|                             | <b>124,242</b>                | 91,948          |

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:

|  | <b>2014</b><br><b>RMB'000</b> | 2013<br>RMB'000 |
|--|-------------------------------|-----------------|
| Profit before income tax   | <b>740,600</b>                | 595,111         |
| Tax calculated at domestic tax rates applicable to profits in the respective countries         | <b>164,143</b>                | 131,504         |
| Tax effects of:  |                               |                 |
| – Income not subject to tax  | <b>(2,223)</b>                | (7,573)         |
| – Expenses not deductible for tax purposes   | <b>858</b>                    | 1,533           |
| – Utilisation of previously unrecognised temporary differences                                 | <b>(561)</b>                  | –               |
| – Tax losses and temporary differences for which no deferred income tax assets were recognised | <b>3,571</b>                  | 2,481           |
| – Effect of preferential income tax treatments   | <b>(46,822)</b>               | (35,997)        |
| – Final settlement and payment of enterprise income taxes                                      | <b>5,276</b>                  | –               |
| Income tax expense   | <b>124,242</b>                | 91,948          |

The weighted average applicable tax rate was 22.2% (2013: 22.1%).



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## 25. EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the profit attributable to owners of the Company of approximately RMB462,187,000 by the weighted average number of 1,280,784,000 shares in issue during the year.

In accordance with IAS 33, "Earnings per share", as the number of ordinary shares outstanding increases as a result of the capitalisation (Note 14), the calculation of basic earnings per share for the year ended 31 December 2013 presented has been adjusted retrospectively.

The Company had no dilutive potential shares for the years ended 31 December 2014 and 2013.

|   | <b>2014</b><br><b>RMB'000</b> | 2013<br>RMB'000<br>(Restated) |
|---|-------------------------------|-------------------------------|
| Profit attributable to owners of the Company                    | <b>462,187</b>                | 390,093                       |
| Weighted average number of ordinary shares in issue (thousands) | <b>1,280,784</b>              | 1,209,302                     |
| Earnings per share  | <b>RMB0.36</b>                | RMB0.32                       |

## 26. DIVIDENDS

The cash dividends paid in 2014 and 2013 were RMB160,098,000 (RMB0.25 (including tax) per share based on the total share capital of 640,392,000 shares) and RMB147,000,000 (RMB0.25 (including tax) per share based on the total share capital of 588,000,000 shares) respectively.

On 20 March 2015, the Board of Directors proposed a cash dividend in respect of the year ended 31 December 2014 of RMB0.14 (including tax) per share based on the total share capital of 1,280,784,000 shares, amounting to a total of RMB179,309,760, which is subject to the shareholders' approval at the 2014 annual general meeting to be held on 9 June 2015. These financial statements do not reflect this dividend payable.

|   | <b>2014</b><br><b>RMB'000</b> | 2013<br>RMB'000 |
|---|-------------------------------|-----------------|
| Interim dividend paid of RMB nil (2013: RMB nil) per ordinary share   | -                             | -               |
| Proposed final cash dividend of RMB0.14 (including tax, based on the total share capital of 1,280,784,000 shares) (2013: RMB0.25 (including tax, based on the total share capital of 640,392,000 shares) ) per ordinary share | <b>179,310</b>                | 160,098         |
|   | <b>179,310</b>                | 160,098         |

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

# Notes to the Consolidated Financial Statements

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## 27. 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 2014 is set out below:

|                              | Fees<br>RMB'000 | Basic salaries and<br>allowances<br>RMB'000 | Contribution<br>to pension<br>scheme<br>RMB'000 | Bonuses***<br>RMB'000 | Total<br>RMB'000 |
|------------------------------|-----------------|---|---|-----------------------|------------------|
| <b>Directors:</b>            |                 |   |   |                       |                  |
| Mr. Mei Qun                  | -               | -   | -   | -                     | -                |
| Mr. Wang Quan*               | -               | -   | -   | -                     | -                |
| Mr. Gong Qin*                | -               | -   | -   | -                     | -                |
| Mr. Wang Yu Wei              | -               | 1,270                                       | 40  | 770                   | 2,080            |
| Ms. Fang Jia Zhi             | -               | 508   | 40  | 220                   | 768              |
| Miss Tam Wai Chu, Maria      | 143             | -   | -   | -                     | 143              |
| Mr. Ting Leung Huel, Stephen | 143             | -   | -   | -                     | 143              |
| Mr. Jin Shi Yuan             | 80              | -   | -   | -                     | 80               |
| Mr. Yin Shun Hai**           | -               | -   | -   | -                     | -                |
| Mr. Xie Zhan Zhong**         | -               | -   | -   | -                     | -                |
| <b>Supervisors:</b>          |                 |   |   |                       |                  |
| Ms. Ma Bao Jian*             | -               | -   | -   | -                     | -                |
| Mr. Wu Yi Gang               | 80              | -   | -   | -                     | 80               |
| Mr. Bai Jian                 | -               | 762   | 40  | 440                   | 1,242            |
| Mr. Zhang Xi Jie**           | -               | -   | -   | -                     | -                |
| <b>Chief executive:</b>      |                 |   |   |                       |                  |
| Mr. Wang Yu Wei              | -               | 1,270                                       | 40  | 770                   | 2,080            |

\* Appointed on 12 June 2014.

\*\* Resigned on 12 June 2014.

\*\*\* The Company accrues bonuses to senior management according to current year's results, which will be paid in the following year after Board of Directors approves.

## Notes to the Consolidated Financial Statements

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## 27. 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 2013 is set out below:

|                              | Fees<br>RMB'000 | Basic salaries and<br>allowances<br>RMB'000 | Contribution<br>to pension<br>scheme<br>RMB'000 | Bonuses*<br>RMB'000 | Total<br>RMB'000 |
|------------------------------|-----------------|---|---|---------------------|------------------|
| <b>Directors:</b>            |                 |   |   |                     |                  |
| Mr. Mei Qun                  | –               | –   | –   | –                   | –                |
| Mr. Xie Zhan Zhong           | –               | –   | –   | –                   | –                |
| Mr. Yin Shun Hai             | –               | –   | –   | –                   | –                |
| Mr. Wang Yu Wei              | –               | 1,270                                       | 37  | 700                 | 2,007            |
| Ms. Fang Jia Zhi             | –               | 559   | 37  | 200                 | 796              |
| 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 |
|-----------------|---|-------|----|-----|-------|

\* The Company accrues bonuses to senior management according to current year's results, which will be paid in the following year after Board of Directors approves.

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.

# Notes to the Consolidated Financial Statements

31 December 2014

## 27. 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 (2013: one) director and one (2013: no) supervisor whose emoluments are reflected in the analysis presented in Note 27(a) above. The emoluments payable to the remaining three (2013: four) individuals during the year are as follows:

|  | 2014<br>RMB'000 | 2013<br>RMB'000 |
|--|-----------------|-----------------|
| Basic salaries, allowances and bonuses | 4,503           | 5,600           |
| Contribution to pension scheme         | 39              | 73              |
|  | <b>4,542</b>    | <b>5,673</b>    |

The emoluments fell within the following band:

|  | 2014 | 2013 |
|--|------|------|
| RMB792,401 – RMB1,188,600<br>(Equivalent to HKD1,000,001 – HKD1,500,000)   | –    | 1    |
| RMB1,188,601 – RMB1,584,800<br>(Equivalent to HKD1,500,001 – HKD2,000,000) | 2    | 2    |
| RMB1,584,801 – RMB1,981,000<br>(Equivalent to HKD2,000,001 – HKD2,500,000) | –    | 1    |
| RMB1,981,001 – RMB2,377,200<br>(Equivalent to HKD2,500,001 – HKD3,000,000) | 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.

# Notes to the Consolidated Financial Statements

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## 28. 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% (2013: 28% to 32%) of the employees' standard salaries, of which 20% to 24% (2013: 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 HKD1,000 per month to the MPF scheme. Since 1 June 2012, the MPF scheme contribution has increased from HKD1,000 to HKD1,250 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 2014 and 2013, were approximately RMB1,509,000 and RMB2,051,000 respectively.

## 29. 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 2014, the Group contributed approximately RMB21,884,000 (2013: approximately RMB17,833,000) to the Fund.

# Notes to the Consolidated Financial Statements

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## 30. CASH GENERATED FROM OPERATIONS

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

|  | 2014<br>RMB'000 | 2013<br>RMB'000 |
|--|-----------------|-----------------|
| Profit before income tax   | 740,600         | 595,111         |
| Adjustments for:   |                 |                 |
| Provision for impairment of receivables (Note 11)  | 543             | 1,246           |
| Depreciation of property, plant and equipment (Note 7)   | 56,112          | 43,383          |
| Amortization of prepaid operating lease payments (Note 6)  | 3,174           | 3,272           |
| Amortization of other long-term assets   | 1,254           | 758             |
| Provision/(reversal of provision) for impairment of inventory                                      | 5,448           | (8,097)         |
| Loss on disposal of property, plant and equipment  | 518             | 802             |
| Deferred government grants recognised in the income statement (Note 16)                            | (8,474)         | (24,143)        |
| Interest income (Note 22)  | (28,596)        | (12,887)        |
| Interest expense (Note 22)   | 3,591           | 10,122          |
| Exchange (gains)/losses (Note 22)  | (3,791)         | 12,832          |
| Share of result of joint ventures (Note 9)   | (188)           | 555             |
| Share of result of an associated company   | –               | 753             |
| Remeasurement gain on previously held interest   | –               | (1,649)         |
| Professional expenses incurred in connection with issuance of new shares of a subsidiary (Note 21) | –               | 10,077          |
| Operating profit before working capital changes  | 770,191         | 632,135         |
| Increase in current assets:  |                 |                 |
| Trade and bills receivables  | (46,224)        | (93,114)        |
| Inventories  | (244,267)       | (87,453)        |
| Prepayments and other current assets   | (31,257)        | (45,993)        |
| Amounts due from related parties   | (20,603)        | (65,884)        |
| Increase/(decrease) in current liabilities:  |                 |                 |
| Trade payables   | 61,180          | (28,969)        |
| Other current liabilities  | (34,728)        | 51,547          |
| Amounts due to related parties   | 926             | 61,083          |
| Proceeds from government grants relating to expenditure  | 6,960           | 45,472          |
| Cash generated from operations   | 462,178         | 468,824         |

# Notes to the Consolidated Financial Statements

31 December 2014

## 30. 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       |           |
|--------------------------|-------------------|-----------|-------------------|-----------|
|                          | As at 31 December |           | As at 31 December |           |
|                          | 2014              | 2013      | 2014              | 2013      |
|                          | RMB'000           | RMB'000   | RMB'000           | RMB'000   |
| Cash at bank and in hand |                   |           |                   |           |
| RMB                      | 1,213,152         | 843,885   | 1,084,017         | 771,502   |
| HKD                      | 505,658           | 1,078,302 | 82,547            | 760,780   |
| Macanese Pataca          | 14,513            | 13,711    | –                 | –         |
| Australian Dollar        | 12,056            | 5,758     | –                 | –         |
| Singapore Dollar         | 9,818             | 8,354     | –                 | –         |
| Canadian Dollar          | 5,145             | 6,515     | –                 | –         |
| United States Dollar     | 4,581             | 4,655     | 980               | 995       |
| UAE Dirham               | 3,853             | 2,033     | –                 | –         |
| New Zealand Dollar       | 1,694             | –         | –                 | –         |
| GBP                      | 1,435             | –         | –                 | –         |
| Brunei Ringgit           | 1,423             | 1,918     | –                 | –         |
| Polish Zloty             | 385               | 61        | –                 | –         |
| Korean Won               | 353               | –         | –                 | –         |
| European Dollar          | 323               | 2,727     | –                 | –         |
|                          | 1,774,389         | 1,967,919 | 1,167,544         | 1,533,277 |

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       |         |
|-------------------|-------------------|---------|-------------------|---------|
|                   | As at 31 December |         | As at 31 December |         |
|                   | 2014              | 2013    | 2014              | 2013    |
|                   | RMB'000           | RMB'000 | RMB'000           | RMB'000 |
| HKD               | 359,850           | 354,257 | –                 | –       |
| Singapore Dollar  | 6,245             | 6,342   | –                 | –       |
| RMB               | 5,000             | 30,000  | –                 | –       |
| Australian Dollar | 3,745             | 6,923   | –                 | –       |
| Canadian Dollar   | 1,360             | 1,468   | –                 | –       |
|                   | 376,200           | 398,990 | –                 | –       |

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31 December 2014

## 30. 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 0.61% (2013: 0.58%) per annum. Cash at bank earns interest at floating rates based on daily bank deposit rates.

As of 31 December 2014, the cash in hand balance of the Group was RMB2,698,000 (2013: RMB1,139,000). Cash at bank and short-term bank deposits balance of the Group was RMB2,147,891,000 (2013: RMB2,365,770,000). Management did not expect any losses from non-performance by those banks.

## 31. 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 is beneficially owned by the State-owned Assets Supervision and Administration Commission of People's Government of Beijing Municipality, so it 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.



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## 31. RELATED PARTY TRANSACTIONS (CONT'D)

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.

### (a) Transactions with the ultimate holding company

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

|                                  | 2014<br>RMB'000 | 2013<br>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 was renewed on 28 February 2013 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 agreement is effective from 1 March 2013 to 28 February 2018. Upon the expiration of the licence, if the ultimate holding company successfully renews the right to use the Trademarks and if the Company fully complies with the terms and conditions of agreement and requests to continue to use the Trademarks, the ultimate holding company shall renew the agreement with the Company. The renewed term of the licence shall not be shorter than 5 years.

The annual licence fee for the year ended 2014 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 10 October 2013 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 2014 to 2016. 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.

# Notes to the Consolidated Financial Statements

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## 31. RELATED PARTY TRANSACTIONS (CONT'D)

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

|  | 2014<br>RMB'000 | 2013<br>RMB'000 |
|--|-----------------|-----------------|
| Sales of Chinese medicine related products (Note (i))      | 436,366         | 350,218         |
| Purchases of Chinese medicine related products (Note (ii)) | 84,125          | 76,506          |
| Sole overseas exclusive distributorship (Note (iii))       | 26,165          | 23,108          |
| Research and development expense (Note (iv))               | 6,249           | 7,449           |
| Advertising agency services (Note (v))                     | 32,571          | –               |
| Rental expense   | 1,426           | 1,436           |

Notes:

- (i) The Company renewed a sales agreement with the ultimate holding company on 10 October 2013. 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 extraordinary general meeting of 2013 and is effective from 2014 to 2016.
- (ii) The Company renewed a procurement agreement with the ultimate holding company on 10 October 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 no 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 not be higher than terms offered by independent third parties to the Group. The agreement has been approved at the Company's 2013 extraordinary general meeting and is effective from 2014 to 2016.

# Notes to the Consolidated Financial Statements

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## 31. RELATED PARTY TRANSACTIONS (CONT'D)

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

Notes: (Cont'd)

- (iii) Tong Ren Tang Chinese Medicine entered into an exclusive distributorship framework agreement with Beijing Tong Ren Tang Company Limited (“Parent Company”) on 29 October 2012, with a term 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 Tong Ren Tang branded products supplied by Parent Company (“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. Tong Ren Tang Chinese Medicine renewed the agreement with Parent Company on 28 October 2014, with an effective period from 1 January 2015 to 31 December 2017. The renewed agreement has been approved by the extraordinary general meeting of Tong Ren Tang Chinese Medicine on 27 November 2014.
- (iv) On 19 March 2013, the Company entered into a framework agreement (“Framework Agreement”) 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 a term 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.
- (v) On 20 March 2014, Tong Ren Tang Century Advertising, a wholly-owned subsidiary of the Company, entered into a framework agreement with the ultimate holding company for the purpose of the provision of the advertising agency services by Tong Ren Tang Century Advertising to the ultimate holding company and its subsidiaries or joint ventures for a period from 1 April 2014 to 31 December 2016. Accordingly, the ultimate holding company agreed to entrust Tong Ren Tang Century Advertising, as a non-exclusive advertising agent, to provide the advertising agency services to the ultimate holding company and its subsidiaries or joint ventures. The fees for the provision of specific services by Tong Ren Tang Century Advertising to the ultimate holding company and its subsidiaries or joint ventures under individual implementation agreement shall be negotiated and determined by the parties according to the then prevailing market price, but in any event the price shall not be less than those offered to other independent third parties for similar services.

# Notes to the Consolidated Financial Statements

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## 31. RELATED PARTY TRANSACTIONS (CONT'D)

### (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.

### (d) Balances with related parties

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

|   | The Group<br>As at 31 December |                 | The Company<br>As at 31 December |                 |
|---|--------------------------------|-----------------|----------------------------------|-----------------|
|   | 2014<br>RMB'000                | 2013<br>RMB'000 | 2014<br>RMB'000                  | 2013<br>RMB'000 |
| <b>Amounts due from related parties:</b>                        |                                |                 |                                  |                 |
| Subsidiaries and joint ventures of the ultimate holding company | 76,696                         | 67,190          | 22,172                           | 30,528          |
| Other state-owned enterprises                                   | 22,160                         | 11,063          | 13,269                           | 10,640          |
|   | <b>98,856</b>                  | 78,253          | <b>35,441</b>                    | 41,168          |
| <b>Amounts due to related parties:</b>                          |                                |                 |                                  |                 |
| Subsidiaries and joint ventures of the ultimate holding company | 60,597                         | 43,369          | 30,911                           | 27,582          |
| Other state-owned enterprises                                   | 23,521                         | 39,823          | 23,451                           | 39,788          |
|   | <b>84,118</b>                  | 83,192          | <b>54,362</b>                    | 67,370          |

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

# Notes to the Consolidated Financial Statements

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## 31. RELATED PARTY TRANSACTIONS (CONT'D)

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

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

|                                 | The Group         |         | The Company       |         |
|---------------------------------|-------------------|---------|-------------------|---------|
|                                 | As at 31 December |         | As at 31 December |         |
|                                 | 2014              | 2013    | 2014              | 2013    |
|                                 | RMB'000           | RMB'000 | RMB'000           | RMB'000 |
| Within 4 months                 | 87,218            | 73,702  | 33,821            | 39,427  |
| Over 4 months but within 1 year | 10,180            | 3,501   | 1,543             | 1,604   |
| Over 1 year                     | 1,458             | 1,050   | 77                | 137     |
|                                 | <b>98,856</b>     | 78,253  | <b>35,441</b>     | 41,168  |

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

|                                 | The Group         |         | The Company       |         |
|---------------------------------|-------------------|---------|-------------------|---------|
|                                 | As at 31 December |         | As at 31 December |         |
|                                 | 2014              | 2013    | 2014              | 2013    |
|                                 | RMB'000           | RMB'000 | RMB'000           | RMB'000 |
| Within 4 months                 | 77,978            | 81,855  | 52,506            | 66,243  |
| Over 4 months but within 1 year | 4,903             | 1,257   | 891               | 1,047   |
| Over 1 year                     | 1,237             | 80      | 965               | 80      |
|                                 | <b>84,118</b>     | 83,192  | <b>54,362</b>     | 67,370  |

## 32. BANKING FACILITIES

As of 31 December 2014, the Group had aggregated banking facilities of RMB300,000,000 (2013: RMB400,000,000) for loan and other trade financing. As of 31 December 2014, the unutilised banking facilities amounted to RMB200,000,000 (2013: RMB285,000,000).

# Notes to the Consolidated Financial Statements

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## 33. 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<br>As at 31 December |                 | The Company<br>As at 31 December |                 |
|-------------------------------|--------------------------------|-----------------|----------------------------------|-----------------|
|                               | 2014<br>RMB'000                | 2013<br>RMB'000 | 2014<br>RMB'000                  | 2013<br>RMB'000 |
| Property, plant and equipment | 127,261                        | 38,749          | 112,289                          | 33,318          |

### (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<br>As at 31 December |                 | The Company<br>As at 31 December |                 |
|--|--------------------------------|-----------------|----------------------------------|-----------------|
|  | 2014<br>RMB'000                | 2013<br>RMB'000 | 2014<br>RMB'000                  | 2013<br>RMB'000 |
| Not later than one year                          | 62,477                         | 45,454          | 26,550                           | 16,414          |
| Later than one year and no later than five years | 71,099                         | 47,640          | 14,213                           | 12,147          |
| Later than five years                            | 10,416                         | 10,195          | 1,970                            | 4,333           |
|  | 143,992                        | 103,289         | 42,733                           | 32,894          |

## 34. EVENT AFTER THE BALANCE SHEET DATE

On 5 February 2015, Tong Ren Tang Chinese Medicine, a subsidiary of the Company, entered into an agreement with an independent third party (the "Vendor"), pursuant to which Tong Ren Tang Chinese Medicine has conditionally agreed to purchase and the Vendor has conditionally agreed to sell 51% of the issued share capital of Honour Essence Trading Limited, a limited company incorporated in Hong Kong which is principally engaged in the distribution of Chinese medicine in Hong Kong, at a consideration of HKD71,426,000 (approximately RMB56,537,000), which shall be satisfied by the allotment and issue of 7,100,000 shares at HKD10.06 (approximately RMB7.96) each by Tong Ren Tang Chinese Medicine to the Vendor. The transaction was completed on 27 February 2015 and the issued shares of Tong Ren Tang Chinese Medicine increased from 830,000,000 to 837,100,000 on the same date. Upon completion, the shareholding ratio of the Company in Tong Ren Tang Chinese Medicine declined from 38.38% to 38.05%, but Tong Ren Tang Chinese Medicine continued to be a subsidiary of the Company.



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

