



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)

同修仁德  
濟世養生





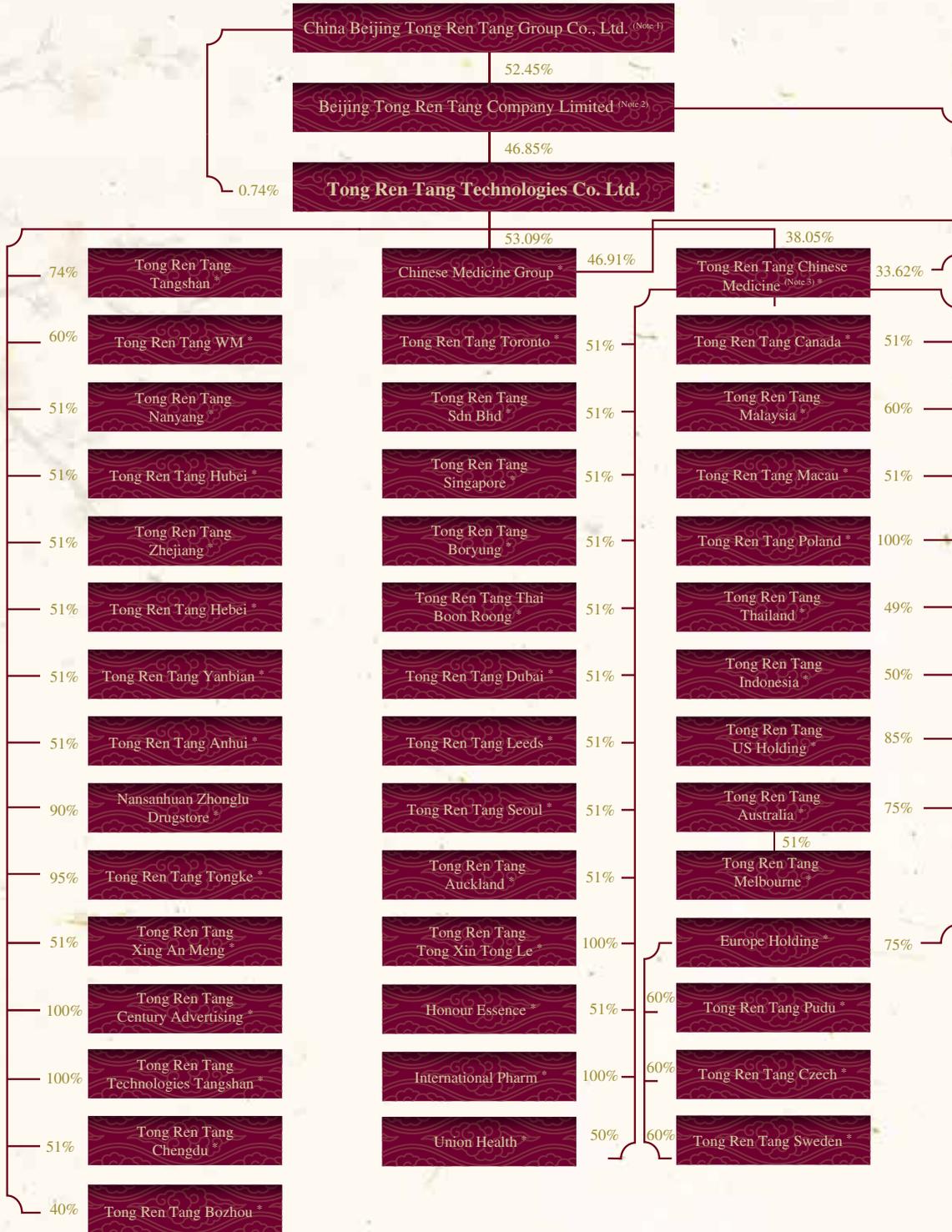


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# Corporate Structure

As at 31 December 2015, our corporate structure was as follows:



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.

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 the Company. According to the announcement of the Company and Tong Ren Tang Chinese Medicine dated 5 February, 2015, after 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 full names of the subsidiaries and joint ventures, please refer to Note 1 to the Consolidated Financial Statements.

# Corporate Information

## BOARD OF DIRECTORS

As at the date of this report, the directors of the Company (each the “**Director**”) of the board (the “**Board**”) are as follows:

### *Executive Directors*

Gao Zhen Kun (*Chairman*)<sup>1</sup>  
Gong Qin (*Vice-Chairman*)<sup>2</sup>  
Gu Hai Ou<sup>3</sup>  
Li Bin<sup>4</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*)  
Wu Yi Gang  
Ding Guo Ping<sup>5</sup>

## SENIOR MANAGEMENT<sup>6</sup>

Bai Jian  
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*)  
Gao Zhen Kun<sup>1</sup>  
Ting Leung Huel, Stephen

## NOMINATION COMMITTEE

Gao Zhen Kun (*Chairman*)<sup>1</sup>  
Tam Wai Chu, Maria  
Jin Shi Yuan

## AUTHORIZED REPRESENTATIVES

Gao Zhen Kun<sup>1</sup>  
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

Bank of China, Hongkong Branch  
China Minsheng Bank, Hongkong Branch  
Industrial and Commercial Bank of China,  
Beijing Branch  
China Citic Bank, 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

*Note 1: At the 2014 annual general meeting of the Company held on 9 June 2015 (the “2014 AGM”), Mr. Gao Zhen Kun was elected as an executive Director of the sixth session of the Board. On the same day, Mr. Gao Zhen Kun was appointed as the Chairman of the Board, the member of Remuneration Committee, the chairman of Nomination Committee and the authorized representative at the Board meeting.*

*Note 2: On 9 June 2015, Mr. Gong Qin was elected as the Vice-Chairman of the Company by the Board.*

*Note 3: Mr. Gu Hai Ou was appointed as an executive Director of the sixth session of the Board at the 2014 AGM.*

*Note 4: Mr. Li Bin was appointed as an executive Director of the sixth session of the Board at the 2014 AGM.*

*Note 5: Ms. Ding Guo Ping was elected as an employee representative supervisor of the sixth session of the supervisory committee of the Company (the “Supervisory Committee”) at the employee representatives’ general meeting of the Company held on 20 March 2015.*

*Note 6: The senior management who also serve as the Directors are not included.*

**The official website of the Company:** <http://www.tongrentangkj.com>

**The official e-commerce platforms of the Group:**

**TRT Food Flagship Store**

**JD.COM:** <http://trtsp.jd.com/>  
**TMALL.COM:** <http://tongrentang.tmall.com/>  
**AMAZON.CN:** <http://dwz.cn/1cxWMF>  
**YHD.COM:** <http://shop.yhd.com/m-148543.html>  
**CCTVMALL.COM:** <http://shop.cctvmall.com/SI37226.html>

**TRT Cosmetic Flagship Store**

**AMAZON.CN:** <http://dwz.cn/1cxYNV>  
**YHD.COM:** <http://shop.yhd.com/m-156175.html>  
**CCTVMALL.COM:** <http://shop.cctvmall.com/SI37263.html>

**Official WeChat platform of the Group**

北京同仁堂科技 or tongrentang1669 or scan the following QR code:	同仁堂阿膠 or trtejiao or scan the following QR code:	北京同仁堂麥爾海化妝品 or TRT-MIRAHl or scan the following QR code:
		
<b>APP: “TRT pharmacopoeia”</b>		
同仁堂嗨寶戰隊或 or trthbzd or scan the following QR code:	For iOS, please scan the following QR code to download:	For Android, please scan the following QR code to download:
		

# 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 2015, as extracted from the audited financial statements of the Group, is set out below:

	Year ended 31 December				
	2015 RMB'000	2014 RMB'000	2013 RMB'000	2012 RMB'000	2011 RMB'000
Revenue	3,987,124	3,341,166	2,910,749	2,439,002	1,899,551
Profit before income tax	898,830	740,600	595,111	480,474	333,975
Income tax expense	(156,800)	(124,242)	(91,948)	(80,926)	(52,481)
Profit for the year	742,030	616,358	503,163	399,548	281,494
Profit attributable to:					
Owners of the Company	540,481	462,187	390,093	330,180	254,707
Non-controlling interests	201,549	154,171	113,070	69,368	26,787

## ASSETS AND LIABILITIES

A summary of the consolidated balance sheet of the Group for each of five years ended 31 December 2015, as extracted from the audited financial statements of the Group, is set out below:

	As of 31 December				
	2015 RMB'000	2014 RMB'000	2013 RMB'000	2012 RMB'000	2011 RMB'000
Non-current assets	1,341,816	1,099,817	835,854	696,020	615,101
Current assets	4,840,437	4,432,378	4,312,338	2,483,651	2,214,272
<b>TOTAL ASSETS</b>	<b>6,182,253</b>	5,532,195	5,148,192	3,179,671	2,829,373
Non-current liabilities	93,991	78,317	118,217	57,332	57,284
Current liabilities	936,227	1,017,724	1,021,358	895,014	829,960
<b>TOTAL LIABILITIES</b>	<b>1,030,218</b>	1,096,041	1,139,575	952,346	887,244
Equity attributable to:					
Owners of the Company	3,958,301	3,549,588	3,257,277	1,937,607	1,720,448
Non-controlling interests	1,193,734	886,566	751,340	289,718	221,681
<b>TOTAL EQUITY</b>	<b>5,152,035</b>	4,436,154	4,008,617	2,227,325	1,942,129

# Chairman's Statement

I am pleased to present the annual report of the Group for the year ended 31 December 2015 for shareholders' review.

## RESULTS OF THE YEAR

For the year ended 31 December 2015 (the “**Reporting Period**”), the Group's revenue amounted to RMB3,987,124,000, representing an increase of 19.33% from RMB3,341,166,000 for the corresponding period of last year; the Group's net profit amounted to RMB742,030,000, representing an increase of 20.39% from RMB616,358,000 for the corresponding period of last year; net profit attributable to the owners of the Company amounted to RMB540,481,000, representing an increase of 16.94% from RMB462,187,000 for the corresponding period of last year.

## REVIEW OF THE YEAR

In 2015, the global economic growth recovery continued to slowdown, the adverse effects of conflicts resulted from differentiated economic policies among different countries began to show with unbalanced recovery. Meanwhile, China is experiencing continuous adjustment of economic structure with changes in mode of economic growth and slowdown of GDP growth. Therefore, under such adverse economic situation both at home and abroad, there are numerous challenges in the pharmaceutical industry in the PRC. However, along with the deepening reform of the medical and health system in the PRC and the partial ease of control over drug prices in this year, the Chinese government continued to attach great importance to and remained supportive to the Chinese medicine industry, which has brought about new opportunities for development in the industry.

During the year, amid the environment full of chances and challenges for development, we upheld the core business philosophy of “Tong Ren Tang” brand to adapt to the trends and seize the opportunities available in the industry to actively respond to the adverse effects arising from the slowdown of economic growth and such other changes in the macro-economic environment, and at the same time continued to focus on the consolidation of our advantageous product resources on the back of support from the market and under the guidance of the polices. During the year, we focused on products under Ejiao (阿膠) series and continued our research and development for launching new types of products with new specifications, broaden our product offerings in order to provide more and better choices for consumers and to satisfy their various expectations and preferences, thereby promoting the stable and healthy development of the Group in areas such as Chinese medicines, food, cosmetics and so on.

To keep up with the trend of integrated development of Beijing, Tianjin and Hebei and plan for the development under the “13th Five-year Plan” in advance, we proceeded with the formulation of the industrial layout adjustment plan by establishing a new subsidiary in Yutian County, Heibei Province, where a production base for Chinese medicine products was constructed, and the function positioning of Da Xing Production Base (“**Da Xing Base**”) located in Daxing District, Beijing was readjusted. Upon completion of the construction and commencement of operation, such bases will become an integral part of the production center of the Company. At the same time, the Company obtained the control over a High/New Technology Enterprise engaged in extraction of natural herbs by way of capital increase, so as to satisfy the year-on-year growth of the Group's demand for traditional Chinese medicine extracts and enhance the overall production capacity of the Group.

## Chairman's Statement

### OUTLOOK AND PROSPECTS

2016 is the first year under the “13th Five-year Plan” with structural adjustment of the mode of economic growth remained as the main focus. In the future, the population structure in the PRC tends to develop towards aging. At the same time, affected by the accelerating pace of life and the ecosystem, the number of people with chronic illnesses or of sub-health group are increasing. Therefore, the rigid demand for medicines is bound to increase. As Chinese medicine cares and preserves one's health with little side effects and integrates nursery and nourishment, which is suitable for people with chronic illnesses, Chinese medicine will have much room for further development in the future. However, the entry threshold of the industry is constantly rising and the competition in the market is intensifying with continuous increase in the costs of raw materials, salary and on, resulting in constant increase in uncertainties in the overall development of the industry.

Looking forward, we will continue to solidify the foundation for production and sale of Chinese patent medicine, intensify the adjustment of industrial layout, constantly optimize and expand the production capacity by forming a relatively closed operation system loop comprising production, supply, sales and logistics and devoting our utmost efforts in the realisation of new breakthrough in production and supply landscape.

We fully understand that the continuous improvement in the industrial chain is the foundation for long-term development of the Group. We will start from Chinese medicinal raw materials and develop the existing products and resources in an in-depth manner. The widening of varieties of our cultivation and planting and the deep processing of Chinese medicinal raw materials will enable us to ensure the supply and quality of the raw materials of the Group while expediting the development of new products via raw material processing. Moreover, comprehensive planning will be made based on the market demand and our own resources in order to exploit natural Chinese medicine's advantage of combining treatment with healthcare, and various aspects of product will be thoroughly studied while the Group's structure will be optimized and consolidated continuously in many ways, thereby promoting the Group's development in the health sector. Also, we will further widen our financing channels and grasp market opportunities to ensure the successful implementation of the Group's future development strategies. By means of various funding methods including issuance of corporate bonds, our capital structure will be further optimized and our investment and financing systems will be improved so that the funding for our sustainable development can be safeguarded.

I hereby would like to express my sincere gratitude to the members of 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.

**Gao Zhen Kun**  
*Chairman*

Beijing, the PRC  
18 March 2016

# Management Discussion and Analysis



## BUSINESS REVIEW

In 2015, the Company continued to grow in a stable, sustainable and healthy manner, thanks to its unchanged focus on “specialisation, scale operation and integration” in response to the increasingly intensified market competition in the industry. For the year ended 31 December 2015, the revenue of the Group amounted to RMB3,987,124,000, representing an increase of 19.33% as compared with RMB3,341,166,000 for the corresponding period of last year; the Group’s net profit amounted to RMB742,030,000, representing an increase of 20.39% as compared with RMB616,358,000 for the corresponding period of last year; net profit attributable to the owners of the Company amounted to RMB540,481,000, representing an increase of 16.94% as compared with RMB462,187,000 for the corresponding period of last year.

For the year ended 31 December 2015, the results of the major subsidiaries of the Group are as follows:

The sales revenue of Tong Ren Tang Chinese Medicine<sup>1</sup> and its subsidiaries amounted to RMB783,125,000, representing an increase of 29.68% as compared with the corresponding period of last year and a net profit of RMB301,535,000, representing an increase of 29.13% as compared with the corresponding period of last year;

Tong Ren Tang Tangshan<sup>2</sup> amounted to RMB162,965,000, representing an increase of 170.22% as compared with the corresponding period of last year and a net profit of RMB37,958,000, representing an increase of 596.00% as compared with the corresponding period of last year;

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*Note 1: Tong Ren Tang Chinese Medicine is principally engaged in the manufacturing, retail and wholesale of Chinese medicine products and healthcare products, as well as the provision of Chinese medical consultation and treatments.*

*Note 2: Tong Ren Tang Tangshan is principally engaged in production and sales of glue product series.*

## Management Discussion and Analysis

Tong Ren Tang WM<sup>3</sup> amounted to RMB128,341,000, representing an increase of 19.99% as compared with the corresponding period of last year and a net profit of RMB15,046,000, representing an increase of 20.03% as compared with the corresponding period of last year;

Tong Ren Tang Xing An Meng<sup>4</sup> amounted to RMB46,329,000, representing an increase of 60.17% as compared with the corresponding period of last year and a net profit of RMB1,691,000, representing an increase of 348.49% as compared with the corresponding period of last year;

Nansanhuan Zhonglu Drugstore<sup>5</sup> amounted to RMB98,079,000, representing an increase of 4.27% as compared with the corresponding period of last year and a net profit of RMB5,969,000, representing an increase of 17.52% as compared with the corresponding period of last year;

The total sales revenue of six subsidiaries of Chinese medicinal raw materials production<sup>6</sup> amounted to RMB128,775,000, representing an increase of 1.15% as compared with the corresponding period of last year and a net profit of RMB10,060,000, representing an increase of 23.30% as compared with the corresponding period of last year.

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*Note 3: Tong Ren Tang WM is principally engaged in research and development as well as sales of biological products, cosmetics products and other products.*

*Note 4: Tong Ren Tang Xing An Meng is principally engaged in cultivating, purchasing and selling of Chinese medicinal raw materials; production and selling of tea drinks product series and foot care product series.*

*Note 5: Nansanhuan Zhonglu Drugstore is a retail drugstore invested and established by the Company in Mainland China, principally engaged in sales of medicine, Chinese and Western patent medicines, Shen Rong and medicinal materials, medical instruments and other products of almost 1000 varieties.*

*Note 6: The Company has established six subsidiaries engaged in Chinese medicinal raw materials production respectively in Yutian County of Hebei Province, Nanyang City of Henan Province, Yingshan County of Hubei Province, Hangzhou City of Zhejiang Province, Tongling County of Anhui Province and Yanji City of Jilin Province, with major business scope of cultivating and selling of Chinese medicinal raw materials.*

### *Sales*

In 2015, the Company made full use of its own abundant varieties of resources and products of broad therapeutic scope to implement the marketing ideas of “one policy for one product” and continued to treat the satisfaction of customers’ needs as the pivot point. Through establishing marketing strategic alliance with major distributors, strengthening the cooperation with the medical product distributors of Tong Ren Tang brand and other chain medical product retail terminals, the steady growth of product sales was further enhanced. During the year, by integrating the seasonal, regional, consumption capacity and such other factors, aiming at the characteristics of medicine usage by consumers in different seasons and on the basis of steady development of key varieties, we commenced marketing activities of four major seasonal themes throughout the year, namely “Enjoying Spring”, “Relaxing Summer”, “Appreciating Autumn” and “Caring Winter”, making full use of distributors and terminal networks in various regions, promoting vigorously cardiovascular, summer heat clearing, health building up, flu curing and such other product series to further explore the market potentials and improve the competitive advantages of products, thereby the overall sales amount increases continuously. Moreover, the profitability was enhanced constantly through comprehensive sorting and analyzing existing variety structures, grasping the overall layout of varieties and the market, and adjusting some of the self-pricing and low-price medical products.

We continued to launch interactive marketing with the internet as the carrier, narrowing the distance with our consumers. As at the date of this announcement, we have established four WeChat official accounts including Beijing Tong Ren Tang Technologies (北京同仁堂科技), Beijing Tong Ren Tang WM Cosmetics (北京同仁堂麥爾海化妝品), Tong Ren Tang Ejiao (同仁堂阿膠), Tong Ren Tang Haibao Task Force (同仁堂嗨寶戰隊) to continue to vigorously promote the Company’s products and healthcare and wellness knowledge through the WeChat platform, providing a professional and convenient personalized service experience to consumers. At the same time, we have opened a total of five food flagship stores in Tmall (天貓商城), JD.com (京東商城), www.YHD.com (1號店), amazon.cn (亞馬遜商城) and CCTVMALL.COM (央視商城), and the exploration of e-commerce platform is initially successful.

## Management Discussion and Analysis



By simultaneous implementation of multiple measures including optimizing and integrating marketing channels, strengthening the construction of Ejiao Fang (阿膠坊), widening the innovation of promotional media, the market influence of Tong Ren Tang Ejiao series products was enhanced, with the Ejiao series products developing rapidly. In the year, we continued to focus on establishing variety groups of Ejiao series products. The healthcare alcohol products of “Tong Ren Wine” series with Ejiao as the major raw material were rolled out successfully with the main idea of “homology of medicine and food”, having further enriched the scope of products. As at the date of this announcement, Ejiao series products of the Group have been developed into more than forty products, including, among others, medicinal Ejiao (藥用阿膠), Yongshenghe Ejiao (永盛合阿膠), Ejiao powder (阿膠粉), Ejiao cake (阿膠糕), Ejiao honey (阿膠蜂蜜膏), Ejiao wine (阿膠酒), realizing the steady growth in the competitiveness of Tong Ren Tang Ejiao products in the market.

In 2015, the Group produced and sold more than four hundred kinds of products in total, of which eight kinds of products achieved a sales amount of more than RMB100 million; twenty-five kinds of products achieved a sales amount in the range from RMB10 million to RMB100 million; nineteen kinds of products achieved a sales amount in the range from RMB5 million to RMB10 million. The scale of the Group’s product portfolio was further enlarged. Among the major products of the Group, except that the sales amount of Ganmao Qingre Granules (感冒清熱顆粒) series declined to some extent as compared with the corresponding period of last year, the sales amount of Ejiao (阿膠) series products increased by 94.97%, the sales amount of Liuwei Dihuang Pills (六味地黃丸) series increased by 6.35%, the sales amounts of Jinkui Shenqi Pills (金匱腎氣丸) series increased by 2.02%, Niu Huang Jiedu Tablets (牛黃解毒片) series increased by 9.01%, the sales amounts of Xihuang Pills (西黃丸) series increased by 49.81%. Other products with obvious increase in sales amounts include Zhibai Dihuang Pills (知柏地黃丸) series, Buzhong Yiqi Pills (補中益氣丸) series, etc..

Tong Ren Tang WM always focuses on the inheritance and innovation of Chinese medicine, sticking to the principle of using old recipes and extracting natural plant extracts. In 2015, Tong Ren Tang WM continued to give impetus to channel building up. On one hand, it made full use of marketing on e-commerce platform on the one hand which led to the successful opening of “Tong Ren Tang Cosmetics Flagship Store” at amazon.cn and www.YHD.com so that the number of cosmetics online stores has increased to 3. On the other hand, the efforts of building strong terminals were enhanced continuously, trying to enter the mall and supermarket channels to gradually realize a layout of multiple networks. Moreover, in order to enhance the competitiveness of the product groups, Tong Ren Tang WM made use



of the branding advantages of Tong Ren Tang and the recognition by consumers of herbal and natural healthcare products. Sanqi gum care and tooth strengthening toothpaste, Sangju pure ice fresh toothpaste, mouthwash and many other oral care series products, and many products for men including face cleansing gel and nourishing cream were rolled out in succession, thereby forming diversified product groups, including lotion, cream, facial and eye masks, liposome skincare products and daily health products, oral care products and products for men, which have attracted different types of consumer groups with various needs. In 2015, Tong Ren Tang WM passed the high-tech enterprise certification once again and obtained the certificate of high-tech enterprise.

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Tong Ren Tang Xing An Meng continued the production and sales of foot pads, drinks, gel-patches series products. During the year, its successful development of five types of skin patch products including joint patches (關節舒貼) and back-pain (腰痛舒貼) patches were rolled out. At the same time, many herbal solid drinks named “office teas” specially for the working people, including Snow Pear Loquat Tea (雪梨枇杷茶), Cassia Chrysanthemum Tea (决明菊花茶), Herbal Tea (凉茶), were rolled out, transmitting the healthy life idea of “integration of nursery and nourishment” and continuously promoting the traditional Chinese health concepts.

## Management Discussion and Analysis

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 and adhered to the operating direction of “establishing itself as a top-notch drugstore selling quality medicines”, spreading Tong Ren Tang’s service culture of “Heal the world”.

Six subsidiaries producing Chinese medicinal raw materials strictly followed the planting and harvesting approach specific to places of origin and seasons, to provide the Company with various Chinese medicinal raw materials including cornel (山茱萸), Tuckahoe (茯苓), Cortex Moutan (牡丹皮) and so on. While the supply of Chinese medicinal materials is ensured, some of the subsidiaries made more efforts in the development of by-products of Chinese medicinal raw materials, thereby developing deep processed products of Chinese medicinal materials with authentic quality which meets the market demand. In order to support Tong Ren Tang Anhui, the Company entered into a capital increase agreement with Bozhou City Jingwan Plant of Prepared Chinese Medicine in Pieces (亳州市京皖中藥飲片廠) to jointly make an additional capital contribution of RMB20 million on a pro rata basis to it, mainly used for construction of production workshops of Chinese medicinal materials and trial development of fat and oil products so that new growth points will subsequently be sought.

### Production

The Company has carried out special works with a focus on improving the product first-pass yields. Such works include formulation and optimization of relevant assessment standards and measures; strengthen the management over changes and deviation through quality review and analysis on each link in the production chain; and step up its control and management throughout the whole process of production, including coordination in the production process, deployment of manpower and quality inspection. These may help to ensure the coordination and matching between each of the production



## Management Discussion and Analysis

procedure from manufacturing of dosage to packaging of products, so as to further improve the product first-pass yields. In addition, the Company continued to focus on cost reduction and efficiency enhancement in the production process. With the introduction of new equipment (e.g. large electronic counting and bottle packaging machine) and upgrade of existing equipment (e.g. automatic buckling machine and loading system), the Company continuously optimized the production procedures with a view to enhance the reliability of technology as well as reasonableness of the production procedures and to provide assurance of product quality.

In 2015, the Group further improved its industrial layout and enhance the Company's production capacity on an on-going basis in accordance with the development requirements under the "Beijing-Tianjin-Hebei Coordinated Development Plan" (京津冀協同發展規劃綱要). Pursuant to the requirements of adjustment on industrial layout in Beijing, Chinese medicine extraction, as an integral part in the production of Chinese patent medicines, has been categorized as industry forbidden to increase in Beijing. In this regard, the Company adjusted its investment plan for Da Xing Base by changing the construction of extracting and liquid dosage production workshop in the original plan into the construction of a production workshop for honeyed pills. The total investment was also adjusted from RMB1,088 million to RMB795 million. As at the end of 2015, RMB217.25 million has been invested in the Da Xing Base. As at the date of this report, the major construction of the R&D center and the solid dosage production workshop of Da Xing Base as well as the production workshop of honeyed pills has been completed, and the preparatory work for interior construction is undergoing. Upon completion of the construction, Da Xing Base will become an integrated industrial base focusing on the production of pills and R&D.

In line with the above adjustment, the Company established Tong Ren Tang Technologies Tangshan, a subsidiary, in Yutian County, Tangshan City, Hebei Province, where the Company acquired a piece of land occupying an area of 111,800 square meters for the construction of a production base for Chinese medicine products. The production base will be mainly used as extracting and liquid dosage production workshop. As at the end of 2015, RMB32.65 million has been invested into such base. Currently, the construction of the extraction and production workshop of the base has commenced.

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. As at the end of 2015, RMB98.76 million has been invested in the Bo Zhou base. Upon 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 further enhancing the production capacity of the Company and improving its supply chain.

In order to further enhance the Group's capability in Chinese medicine extraction, the Company obtained the control over Tong Ren Tang Chengdu (formerly known as "Chengdu Longquan High-Tech Natural Pharmaceutical Co. Ltd" (成都龍泉高科天然藥業有限公司)) by way of additional capital contribution of RMB38 million. As a High/New Technology Enterprise engaged in extraction of natural herbs and production of pharmaceutical ingredients, Tong Ren Tang Chengdu could provide the Company with the relevant Chinese medicinal raw materials, thereby effectively ensure the production and supply of the Company's Chinese medicine products.

Tong Ren Tang Tangshan, located in Tangshan City, Hebei Province, continued to optimize its production procedures through planning and deployment of resources, which in turn continued to increase its production capacity of glue product series so that it would be able to meet market demand. Meanwhile, it has expedited the construction of a food production workshop which is expected to commence production in 2016 and will further enhance the capability in supplying food products under Ejiao (阿膠) series.

## Management Discussion and Analysis

### *Management and Research and Development*

With a view to enhance the level of internal control and management and the ability in risk prevention and control as well as to ensure continuous and effective operation of the risk management and internal control system, the Group has established a task group for internal control and risk management in 2015. The group was responsible for the comprehensive management of the Group's internal control. On one hand, the Group further improved its risk management and internal control system by completing the preparation of relevant documents including the "Internal Control and Management Manual", developing systems and ancillary operating procedures regarding risk management and specifying the duties and approving power of management at all levels. On the other hand, the Group further strengthened its risk management ability and enhanced the risk prevention and control level by conducting risk rationalization and inspection on the Company and each of its subsidiaries and strengthening the cooperation of and supervision over every procedure and department. Besides, the Group also carried out tracking and audit on large construction projects throughout the whole process to ensure that the procedures are in compliance with the laws and regulations.

For research and development, the Company achieved a remarkable breakthrough in the research and development of new medicines. The Company has completed the pre-clinical research on a new medicine during the year. The medicine is mainly used for the treatment of acute respiratory infections of children, which features excellent anti-inflammatory and cooling effect. The research has been funded by "Ten Diseases Ten Drugs (十病十藥)" R&D project organized by Beijing Municipal Science & Technology Commission, which will provide product reserve for the Group's future development. At the same time, we were well aware of the vital role of follow-up scientific research in the development of Chinese medicines modernization. As such, we continued to promote the research on increasing indications and extending expiry date of existing products, so as to provide a solid foundation built on scientific research for enhancing the competitiveness of Chinese medicines.

### *Tong Ren Tang Chinese Medicine*

Tong Ren Tang Chinese Medicine has been committed to the development in overseas market since its establishment, during which it promoted the culture of Chinese medicine of China and thus continuously increase the influence of "Tong Ren Tang" brand around the world. In 2015, Tong Ren Tang Chinese Medicine deepened its exploration of the core value of "Tong Ren Tang" brand. By streamlining the internal product resources, stepping up the efforts in promotion of brand and product in an effective manner as well as various forms of promotional and marketing activities for products, Tong Ren Tang Chinese Medicine has boosted its overall revenue growth. In addition, Tong Ren Tang Chinese Medicine made targeted investment by adopting an effective business strategy to select and plan investment in accordance with different characteristics of the overseas markets. It has successfully acquired Honour Essence during the year and fully utilized its offline distribution network to keep enhancing its competitiveness in the market and increasing its market share. Meanwhile, it further improved its development pathway in Europe by establishing retail stores in the Netherlands, Sweden and the Czech Republic, which has enabled the promotion of Chinese medical health and wellness in a broader geographical area.

As of 31 December 2015, Tong Ren Tang Chinese Medicine has established 63 retail stores in 18 countries and regions outside Mainland China (Hong Kong, Macao, Malaysia, Canada, Indonesia, South Korea, Thailand, Australia, Singapore, Brunei, Cambodia, United Arab Emirates, Poland, the United Kingdom, New Zealand, the Netherlands, Sweden and the Czech Republic).

### ***Major Risks and Uncertainties***

The Group have examined all of the risks identified by the Group based on the risk management system and assessed the risks which may arise from the existing and new businesses. The major risks and uncertainties of the Group included market risk, strategic risk and policy risk.

#### ***Market Risk:***

The supply of Chinese medicinal raw materials for the Group's products is affected by factors such as cyclicity, climate environment and policy control. Following the changes in demand structure and amount of capital involved, volatility of the raw material market will cause a relatively impact on the Group's purchasing costs, especially bulk raw materials for products that account for a larger portion of the sales of the Group, which will in turn cause uncertainties regarding the Group's product costs.

#### ***Strategic Risk:***

The layout of the Group's production capacity is affected by national policies on the industry, for example, policies such as environmental protection and positioning of the region may lead to a large scale of adjustments on the layout of the Group's production capacity, increased pressure on the supply of products that used to support the rapid development of the Group, increase in the amount of investment and financing, increase in depreciation after the projects have been put into operation, all of the which may bring uncertainty risks to the supply of the Group's products, its cost structure and profitability.

#### ***Policy Risk:***

Adjustments on industry policies and changes in the market landscape of the industry, such as policy on medical-related tender indicating a cost reduction trend and ease of restrictions over prices of medicinal products, may have uncertain effects on the Group's sales pattern. There will be uncertainty risks that sales volume and revenue may be affected for a short period after the Group adjusted the retail price and selling prices of certain products.

### ***Compliance of Laws and Regulations***

In 2015, as far as the Directors are aware, there was no material impact on the Group resulting from non-compliance with any relevant laws and regulations.

### ***Environmental Policy and Performance***

The Group has been constantly committed to the philosophy of placing equal emphasis on development and environmental protection. Through rational utilization of various resources, the Group sought to minimize the impact of production and operation on ecosystem as far as possible.

In the course of daily operation, the Group was dedicated to maintaining and consolidating a healthy business environment in order to ensure the legitimacy of business conducts and thus steady and orderly development of the Group.

The Group also strived to improve the working environment of employees by promoting the concept of green office and green production, with a view to provide a safe, healthy and well-protected workplace for all employees.

# Management Discussion and Analysis

## FINANCIAL REVIEW

### *Liquidity and Financial Resources*

The Group has maintained a sound financial position. During the year of 2015, the Group's primary source of funds was cash generated from daily operating activities.

As at 31 December 2015, the Group's cash and cash equivalents amounted to RMB1,534,984,000 (31 December 2014: RMB1,774,389,000) in total, plus short-term bank borrowings of RMB181,500,000 (31 December 2014: RMB100,000,000), carrying an interest rate of 4.869% (2014: 5.456%) per annum and accounting for 17.62% of the total liabilities (2014: 9.12%), plus non-current borrowings amounted to RMB470,000 (31 December 2014: Nil), bearing interest at 1.5% plus the bank bill rate of the day in Australia per annum (2014: Nil) and accounting for 0.05% of the total liabilities (2014: Nil).

As at 31 December 2015, the total assets of the Group amounted to RMB6,182,253,000 (31 December 2014: RMB5,532,195,000). The funds comprised non-current liabilities of RMB93,991,000 (31 December 2014: RMB78,317,000), current liabilities of RMB936,227,000 (31 December 2014: RMB1,017,724,000), equity attributable to owners of the Company of RMB3,958,301,000 (31 December 2014: RMB3,549,588,000) and non-controlling interests of RMB1,193,734,000 (31 December 2014: RMB886,566,000).

### *Capital Structure*

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

In the year of 2015, the Group's funds were mainly used for production and operation activities, construction of engineering projects, purchase of non-current assets, repayment of borrowings and payment of cash dividends, etc.

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

The Group monitors its capital on the basis of the gearing ratio.

### *Liquidity*

As at 31 December 2015, the Group's liquidity ratio (the ratio of current assets to current liabilities) was 5.17 (31 December 2014: 4.36), reflecting that the Group had sufficient financial resources. The Group's quick ratio (the ratio of liquid assets to current liabilities) was 2.93 (31 December 2014: 2.50), reflecting that the Group remained liquid. The Group's trade receivable turnover ratio (the ratio of revenue to the average of trade receivable balance) was 17.90 (31 December 2014: 19.29), reflecting that the Group's trade receivables were liquid. The Group's trade payable turnover ratio (the ratio of revenue to the average of trade payable balance) was 10.21 (31 December 2014: 8.54), reflecting that the Group had a relatively strong ability to use funding from suppliers at nil consideration. The Group's inventory turnover ratio (the ratio of revenue to the average of inventory balance) was 2.15 (31 December 2014: 2.05), reflecting that the Group had a high turnover rate.

### *Gearing Ratios*

As at 31 December 2015, the Group's gearing ratio (the ratio of total borrowings to equity attributable to owners of the Company) was 0.05 (31 December 2014: 0.03).

### *Expense Ratio*

As of 31 December 2015, the expense ratio of the Group was 0.20 (31 December 2014: 0.19); the administrative expense ratio was 0.08 (31 December 2014: 0.08); the finance cost ratio was 0.01 (31 December 2014: 0.01).

### *Gross Margin and Net Profit Margin*

As of 31 December 2015, the gross margin of the Group was 49.94% (31 December 2014: 48.34%), while the net profit margin was 18.61% (31 December 2014: 18.45%).

### *Research and Development Expenses*

For the year ended 31 December 2015, the research and development expenses of the Group was RMB25,186,000 (31 December 2014: RMB19,528,000), accounting for 0.49% of net assets (31 December 2014: 0.44%) and 0.63% of revenue (31 December 2014: 0.58%), respectively.

### *Capital Expenditure*

For the year ended 31 December 2015, the Group's capital expenditure incurred amounted to RMB234 million (31 December 2014: RMB277 million), primarily used for the construction of production base and the establishment of new retail outlets.

### *Charges over Assets of the Group*

As at 31 December 2015, RMB2,228,000 of the Group's assets was pledged as security for short-term borrowing of RMB1,500,000 and RMB10,270,000 of the Group's assets was pledged as security for long-term borrowing of RMB470,000 (31 December 2014: Nil).

### *Contingent Liabilities*

The Group had no contingent liabilities as at 31 December 2015 (31 December 2014: Nil).

### *Foreign Currency Risk*

The Group operates internationally and foreign exchange risk arises from future merger and acquisitions, commercial business or recognised assets and liabilities and net investments in foreign operations, primarily with respect to the HKD. The Group currently does not have a foreign currency hedging policy. The Group mainly manages its foreign currency risk by closely monitoring the movement of the exchange rates.

## Management Discussion and Analysis

### *Capital Commitments*

As at 31 December 2015, 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 RMB156,650,000 (31 December 2014: RMB127,261,000).

### *Significant Investments*

During the year of 2015, the Group did not have any significant investment. As at the date of this report, the Group does not have any plan for material investments or purchase of capital assets.

### *Material Acquisition and Disposal of Subsidiaries, Joint Ventures and Associates*

The Group did not have any material acquisition and disposal of subsidiaries, joint ventures and associates during 2015.

### *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 RMB931,740,000. 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 2015, the use of proceeds from the aforesaid placing of approximately RMB909,740,000 (31 December 2014: RMB879,250,000) was as follows:

1. approximately RMB82,660,000 (31 December 2014: RMB82,660,000) were used for the acquisition of 68% equity interest in Tangshan Company.
2. RMB15,000,000 (31 December 2014: RMB15,000,000) were used for liquidity repayment of bank loans.
3. approximately RMB522,300,000 (31 December 2014: RMB522,300,000) were used for purchase of Chinese medicinal raw materials, auxiliary ingredients and packaging materials.
4. approximately RMB52,560,000 (31 December 2014: RMB52,560,000) were used for construction projects at Daxing and Bozhou.
5. approximately RMB13,650,000 (31 December 2014: RMB13,650,000) were used for replacement of production equipment and infrastructure maintenance.
6. approximately RMB123,650,000 (31 December 2014: RMB122,350,000) were used for daily operating expenses.
7. approximately RMB99,920,000 (31 December 2014: RMB70,730,000) were used for distribution of H share dividends.

As at 31 December 2015, approximately RMB22,000,000 of the proceeds was not yet used.

### FUTURE PROSPECTS

2016 is a crucial year for seizing opportunities and overcoming challenges while making steady development. We aim to establish the guiding principle to achieve comprehensive economic development and whole-process cost control and quality management over various systems, at the same time focusing on total-solution products and encouraging the active participation of all staff. Through these efforts, we will continue to consolidate our existing advantages in the development of Chinese patent medicines and constantly look out for new development opportunities to build a new pathway for diversified development.

On one hand, we will fully utilize the unique advantages of Chinese medicines in preventive treatment as well as curing chronic diseases and senile diseases. Using our brand and products as the focal points, we will establish accurate positioning in terms of function, market positioning and customer and continue to implement scientific and highly effective strategies for market operation and marketing, which will help to consolidate the sales share of major products, broaden the saleable markets for our key nurtured products, refine the sales strategies for products with huge potential, with an aim to maintain a diversified product structure and market layout and to build up an inter-connected and infiltrative network for development and enhancing our core competitiveness.

On the other hand, we will continue to take innovation as our driving force to keep exploring new areas and developing new products as well as cultivating and strengthening the development of our subsidiaries. We will keep on consolidating and expanding the market network and seek for innovations and breakthroughs in areas such as cosmetics, food and healthcare food, so as to identify new growth drivers for the development of the Group.

# Report of the Board of Directors

The Board is pleased to present the 2015 annual report together with the audited financial statements of the Group for the year ended 31 December 2015.

## 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:

	2015 RMB'000	2014 RMB'000
<b>Sales of Chinese medicine products</b>		
– Mainland China	3,275,146	2,807,902
– Outside Mainland China	649,409	477,972
	<b>3,924,555</b>	3,285,874
<b>Advertising services</b>		
– Mainland China	34,186	32,604
<b>Chinese medical consultation services</b>		
– Outside Mainland China	27,752	22,134
<b>Royalty fee</b>		
– Outside Mainland China	631	554
	<b>3,987,124</b>	3,341,166

## MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2015, revenue from sales of goods to the five largest customers and the largest customer of the Group accounted for 41.16% and 17.58% (2014: both less than 30%) of the Group's total revenue from sales, respectively.

Tong Ren Tang Holdings and its subsidiaries and associated companies and joint ventures (excluding the Group) (the “**Tong Ren Tang Group**”) was the largest customer of the Group. As at 31 December 2015, the revenue from sales of goods to this customer was RMB700,879,000, accounting for 17.58% of the Group's total revenue from sales of goods of this year.

For the year ended 31 December 2015, purchases from the five largest suppliers and the largest supplier of the Group accounted for 29.29% and 15.01% (2014: both less than 30%) of the total purchases of the Group, respectively.

Tong Ren Tang Group was the second largest supplier of the Group. As at 31 December 2015, the amount of purchase by the Group from this supplier was RMB140,737,000, accounting for 7.26% of the Group's total amount of purchase in this year.

Save as disclosed in this report, none of Directors, their close associates, or any shareholder (which to the knowledge of the Directors owns more than 5% of the issuers' share capital) has any interest in the five largest customers.

### RELATIONSHIP WITH EMPLOYEES, SUPPLIERS AND CUSTOMERS

The Group understands that employees are valuable resources and the realisation and promotion of employees' value will help to achieve the Group's overall goals. Remunerations of the Group's employees 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 during the year will also be paid to the employees as recognition of and a reward for their contributions to the Group. The Group attaches great importance to development and growth of talents and provides employees with skill training, career planning and development opportunities, seeking to create a platform for mutual growth and sharing of success between the Group and employees.

The Group also understands that maintaining good relationships with suppliers and customers is essential for the Group's overall development. The Group exercises a high level of scrutiny over the selection of suppliers and encourages them to compete fairly and openly, so as to establish long-term and cooperative relationships with quality suppliers for mutual benefit. With an aim to maintain the competitiveness of the Group's brands and products, the Group endeavors to provide customers with quality products and services we have always been known for and seek to build up a trustworthy service ecosystem for them by upholding the principle of honesty and trustworthiness. During the year ended 31 December 2015, there was no material and significant dispute between the Group and its suppliers and/or customers.

### RESULTS

The results and financial position of the Group for the year ended 31 December 2015 are set out on pages 75 to 152 of this report.

### FINAL DIVIDEND AND TAX

The Board proposed a final dividend for the year ended 31 December 2015 (the "Final Dividend") of RMB0.15 (tax inclusive) 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 2015, totaling RMB192,117,600 (2014: a final dividend for the year ended 31 December 2014 of RMB0.14 (tax inclusive) per share based on the total number of the Company's issued and fully paid-up shares of 1,280,784,000, totaling RMB179,309,760). The profit distribution proposal is subject to the approval by the shareholders at the 2015 annual general meeting.

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.

## Report of the Board of Directors

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 report, no arrangement was reached pursuant to which the shareholders waived or agreed to waive any dividend.

### SHARE CAPITAL

There was no movement in the share capital of the Company during the year of 2015. The details are set out in Note 15 to the Consolidated Financial Statements.

### PUBLIC FLOAT

During the year of 2015 and as at the date of this report, based on the public information available to the Company and as far as the Directors are aware, the Company has satisfied the public float requirement under Rule 8.08 of the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange (the “Listing Rules”).

### DISTRIBUTABLE RESERVES

As at 31 December 2015, the reserves of the Company available for distribution amounted to approximately RMB1,287,003,000 (31 December 2014: approximately RMB1,062,184,000).

### PROPERTY, PLANT AND EQUIPMENT

Details of movement in property, plant and equipment of the Group for the year of 2015 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 Note 29 to the Consolidated Financial Statements.

### EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2015, the Group had a total of 3,766 employees (31 December 2014: 3,595 employees), of which 2,117 are employees of the Company (31 December 2014: 2,086 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 of 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 2015, as approved by the Board, the Company paid a total of RMB3,872,000 incentive fund for the year of 2014 to the members of the senior management according to the Incentive Plan.

### STAFF QUARTERS

For the year ended 31 December 2015:

1. the Company did not provide quarters to any of its staff (2014: nil);
2. the Company made annual contributions to the housing fund based on certain percentages of the salaries for employees; and
3. the Company provided housing allowance to its staff at an average of RMB80 per person per month (2014: RMB80 per person per month).

### DIRECTORS’ AND SUPERVISORS’ SERVICE CONTRACTS

Each of the Directors and the supervisors of the Company (each the “**Supervisor**”) has entered into a service contract with the Company for a term commencing on their respective appointment dates to the date of the annual general meeting convened by the Company in 2018.

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 TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

Saved as disclosed in the non-exempt continuing connected transactions and the non-exempt connected transactions as set out in this report, none of the Directors and Supervisors or their connected entities (within the meaning under section 486 of the Company Ordinance) still had or has had a material interest, either directly or indirectly, in any significant transactions, arrangements or contracts 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.

## Report of the Board of Directors

### MANAGEMENT CONTRACT

During the year of 2015, the Company had not entered into nor was there any contract relating to the management and administration of the whole or any substantial 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 53 to 56 of this report.

### CHANGE OF DIRECTORS AND SUPERVISORS

At the date of the 2014 AGM, Mr. Mei Qun retired from his position as the executive Director and the Chairman of the Board, Mr. Wang Quan retired from his position as the executive Director and the Vice-Chairman of the Board, and Mr. Bai Jian retired from his position as the employee representative Supervisor, each with effect from the date of the 2014 AGM.

At the 2014 AGM, Mr. Gao Zhen Kun, Mr. Gu Hai Ou and Mr. Li Bin were appointed as the executive Directors of the sixth session of the Board; Mr. Gong Qin, Mr. Wang Yu Wei and Ms. Fang Jia Zhi were re-elected as the executive Directors of the sixth session of the Board; Miss Tam Wai Chu, Maria, Mr. Ting Leung Huel, Stephen and Mr. Jin Shi Yuan were re-elected as the independent non-executive Directors of the sixth session of the Board; Ms. Ma Bao Jian and Mr. Wu Yi Gang were re-elected as the shareholder representative Supervisors of the sixth session of the Supervisory Committee, each with a term commencing from the conclusion of the 2014 AGM to the date of the annual general meeting to be convened in 2018. Ms. Ding Guo Ping was elected as the employee representative Supervisor of the sixth session of the Supervisory Committee at the employee representatives' general meeting of the Company held on 20 March 2015, with a term commencing from the conclusion of the 2014 AGM to the date of the general meeting to be convened in 2018.

The Board resolved on 9 June 2015 to elect Mr. Gao Zhen Kun, an executive Director, as the Chairman of the Board and Mr. Gong Qin, an executive Director, as the Vice-Chairman of the Board, and the Supervisory Committee also resolved on the same day to elect Ms. Ma Bao Jian as the chief Supervisor, each with immediate effect. For details of the aforesaid changes, please refer to the circular of the Company dated 15 April 2015 and the announcement of the Company dated 9 June 2015.

## EMOLUMENTS OF DIRECTORS AND SUPERVISORS

Directors and Supervisors are subject to the election at the general meeting or the employee representatives' general meetings. The Board is authorized by the general meeting to fix the remuneration of every Director or Supervisor. The remuneration of Directors or Supervisors includes four parts, namely 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 the 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 2015, Mr. Gao Zhen Kun, Mr. Gong Qin, Mr. Gu Hai Ou, Mr. Li Bin, Mr. Wang Yu Wei, Ms. Fang Jia Zhi, Mr. Mei Qun and Mr. Wang Quan (each an executive Director) in their capacity as Directors, did not receive any remuneration from the Group. Ms. Ma Bao Jian, Ms. Ding Guo Ping 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), Ms. Ding Guo Ping (employee representative Supervisor) 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' salaries or salaries received corresponding to their management positions in the Group for the years of 2015 and 2014 are set out in Note 28 to the Consolidated Financial Statements.

Miss Tam Wai Chu, Maria, Mr. Ting Leung Huel, Stephen and Mr. Jin Shi Yuan, each as an independent non-executive Director, and Mr. Wu Yi Gang as a Supervisor will receive a director or supervisor remuneration from the Company, at the amount of HKD240,000 (tax inclusive), HKD240,000 (tax inclusive), RMB100,000 (tax inclusive) and RMB100,000 (tax inclusive), respectively since the year of 2015.

## EMOLUMENTS OF SENIOR MANAGEMENT

The emoluments before tax paid to the senior management of the Company whose names are listed in this report are set out by band as follows:

Emoluments Grade	<b>2015</b> <b>number of</b> <b>senior</b> <b>management</b>	2014 number of senior management
RMB 0-500,000	–	–
RMB 500,001-1,000,000	<b>6</b>	6
RMB 1,000,001-1,500,000	<b>2</b>	1
RMB 1,500,001-2,000,000	–	–
RMB 2,000,001-2,500,000	<b>1</b>	1

## Report of the Board of Directors

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

As at 31 December 2015, 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*

##### **Tong Ren Tang Ltd.**

<b>Name</b>	<b>Type of interests</b>	<b>Capacity</b>	<b>Number of shares</b> <small>(Note 1)</small>	<b>Percentage of total issued voting shares</b>
Mr. Gong Qin	Personal	Beneficial owner	34,965	0.003%

*Note 1: All represented A shares.*

Save as disclosed above, as at 31 December 2015, 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.

## Report of the Board of Directors

### SUBSTANTIAL SHAREHOLDERS

As at 31 December 2015, 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 issued voting shares
Tong Ren Tang Ltd. <sup>(Note 2)</sup>	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%
Total:		609,480,000	93.467%	–	47.586%
Yuan Sai Nan <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	69,260,000(L) <sup>(Note 1)</sup>	–	11.016%	5.408%
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%

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.

Notes:

- (1) (L) – Long position (S) – Short position
- (2) 600,000,000 shares held by Tong Ren Tang Holdings were held through Tong Ren Tang Ltd.. As at 31 December 2015, Tong Ren Tang Ltd. was owned as to 52.45% by Tong Ren Tang Holdings. Upon completion of the capitalisation issue of shares of the Company on 3 July 2014 and as at 31 December 2015, Tong Ren Tang Holdings was deemed to be interested in the 600,000,000 shares held by Tong Ren Tang Ltd.. Besides, upon completion of the capitalisation issue of shares of the Company on 3 July 2014 and as at 31 December 2015, Tong Ren Tang Holdings also directly held 9,480,000 shares.
- (3) As was 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 shares of the Company on 3 July 2014 and as at 31 December 2015, this shareholder held 36,720,000 H shares of the Company.
- (4) As at 31 December 2015, Commonwealth Bank of Australia indirectly held 69,260,000 H shares of the Company in long position through a series of corporations under its control.

## Report of the Board of Directors

- (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 of the Company in long position held by Gaoling Fund, L.P. and 777,000 H shares of the Company in long position held by YHG Investment, L.P.. Upon completion of the capitalisation issue of the Company on 3 July 2014 and as at 31 December 2015, this shareholder was indirectly interested in 46,182,000 H shares of the Company in long position held by Gaoling Fund, L.P. and 1,554,000 H shares of the Company 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 of the Company. Upon completion of the capitalisation issue of the Company on 3 July 2014 and as at 31 December 2015, this shareholder held 46,182,000 H shares of the Company.

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Save as disclosed above, as at 31 December 2015, 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.

As at 31 December 2015, save as Mr. Gao Zhen Kun, Mr. Gu Hai Ou, Mr. Gong Qin and Mr. Li Bin, there is no other Director is a director or employee of a company which has an interest or short position in the shares and underlying shares of the Company which would fall to be disclosed to the issuer under the provisions of Divisions 2 and 3 of Part XV 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 water-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.

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 (the "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 or bear the same names with different dosage 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 other 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, 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, both Tong Ren Tang Ltd. and Tong Ren Tang Holdings or their respective subsidiaries are not allowed to manufacture any of such new products. In the event the Company develops any new product based on the existing products of Tong Ren Tang Holdings, Tong Ren Tang Ltd. or their respective subsidiaries, and such new product is one of the major forms of products of the Company, the Company will be entitled to manufacture 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 undertaking would clarify that both Tong Ren Tang Ltd. and Tong Ren Tang Holdings would support the Company in its development of such 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 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 2015, 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. NansanhuanZhonglu  
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 2015;
- 4 We also agree this confirmation to be disclosed in the Company’s 2015 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.  
18 March 2016

### DECLARATION

**To: TONG REN TANG TECHNOLOGIES CO. LTD.**  
No 20. NansanhuanZhonglu  
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 2015;
- 4 We also agree that this confirmation to be disclosed in the Company’s 2015 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  
18 March 2016

# 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 caps 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 published by the Company on 10 October 2013 on the websites of the Hong Kong Stock Exchange and the Company for details.

In 2015, the rental fee paid by the Company to Tong Ren Tang Holdings amounted to RMB2,364,000, which did not exceed the relevant annual cap.

#### (ii) Storage and Custody Agreement

On 10 October 2013, the Company renewed 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 all be RMB7,000,000. Please refer to the announcement published by the Company on 10 October 2013 on the websites of the Hong Kong Stock Exchange and the Company for details.

In 2015, the storage fee paid by the Company to Tong Ren Tang Holdings amounted to RMB2,916,000, which did 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 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 has 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.

On 20 March 2015, the Board resolved to revise the existing 2015 and 2016 annual caps amounting to RMB910,000,000 and RMB1,300,000,000 for the continuing connected transactions contemplated under the distribution framework agreement. The revised 2015 and 2016 annual caps for the continuing connected transactions contemplated under the distribution framework agreement were approved by the independent shareholders of the Company on 9 June 2015. Please refer to the announcements dated 20 March 2015 and the circular dated on 15 April 2015, each of which was published by the Company on the websites of the Hong Kong Stock Exchange and the Company for details.

In 2015, sales by the Group via the Tong Ren Tang Group amounted to RMB700,879,000, which did not exceed the relevant annual cap.

(iv) **Master Procurement Agreement**

On 10 October 2013, the Company and Tong Ren Tang Holdings 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 has 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 2015, purchase of the Relevant Products by the Group from the Tong Ren Tang Group amounted to RMB110,355,000, which did not exceed the relevant annual cap.

## Report of the Board of Directors

### (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 Holdings 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 Holdings 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 published by the Company on 20 March 2014 on the websites of Hong Kong Stock Exchange and the Company for details.

In 2015, 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 RMB34,081,000, which did 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.

### ***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 entrusted Zhongyan Company to conduct quality research on the products as specified by the Company and is responsible for corresponding research and development expenses incurred by Zhongyan Company. The research and development expenses shall be determined based on the costs and expenditures incurred by Zhongyan Company for completion of the research work under the framework agreement on technology research and development cooperation. The annual caps for the total amount payable by the Company to Zhongyan Company for the continuing connected transactions contemplated under the framework agreement on technology research and development cooperation for each of the period from 19 March 2013 to 31 December 2013 and the two years ending 31 December 2015 shall all be RMB8,000,000.

For the year ended 31 December 2015, the actual research and development expenses paid by the Company to Zhongyan Company for the continuing connected transactions under the framework agreement on technology research and development cooperation amounted to RMB5,509,000, which did 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.

### *Continuing Connected Transactions with Tong Ren Tang Chinese Medicine*

#### **Exclusive Distributorship Framework Agreements**

On 28 October 2014, the Company renewed the exclusive distributorship framework agreement with Tong Ren Tang Chinese Medicine, for a term of three years from 1 January 2015 to 31 December 2017. Pursuant to the agreement, the Company appoints 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 and associates, excluding Tong Ren Tang Chinese Medicine and its subsidiaries 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 its wholesale customers in the PRC. The annual caps for the continuing connected transactions contemplated under the renewed exclusive distributorship framework agreements for the three years ending 31 December 2017 shall be RMB19,900,000, RMB23,400,000 and RMB27,600,000, respectively.

On the same day, Tong Ren Tang Ltd. renewed the Tong Ren Tang exclusive distributorship framework agreement with Tong Ren Tang Chinese Medicine, for a term of three years from 1 January 2015 to 31 December 2017. 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. and its subsidiaries and associates, excluding the Company and its subsidiaries and associates (the “**Tong Ren Tang Ltd. Group**”) 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. The annual caps for the continuing connected transactions contemplated under the renewed Tong Ren Tang exclusive distributorship framework agreements for the three years ending 31 December 2017 shall be RMB51,900,000, RMB61,200,000, and RMB72,000,000, respectively.

For the year ended 31 December 2015, total amount paid to the Group and Tong Ren Tang Ltd. Group by International Pharm for the continuing connected transactions under the exclusive distributorship framework agreement and Tong Ren Tang exclusive distributorship framework agreement amounted to RMB12,748,000 and RMB30,383,000 respectively, neither of which exceeds the relevant annual caps.

## Report of the Board of Directors

As at 31 December 2015, Tong Ren Tang Ltd. is the intermediate controlling shareholder of the Company, which holds 46.85% direct interest in the Company, and 33.62% 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.

- 38 The Company has confirmed that the execution and enforcement of the implementation agreements under the continuing connected transactions set above in the year of 2015 has followed the pricing principles of such continuing connected transactions.

### *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 2015 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 any material respect, 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 any material respect, in accordance with the relevant agreements governing such transactions; and
- (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 has reviewed the above-mentioned continuing connected transactions and confirmed that in the year of 2015:

- (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 did not exceeded the annual caps as set out in the relevant announcements of the Company.

## NON-EXEMPT CONNECTED TRANSACTIONS

### *Formation of the Joint Venture*

On 30 October 2015, the Company, Tong Ren Tang Ltd., Mr. Liu Hongzhu and Mr. Liu Yaming have entered into the joint venture agreement to establish the joint venture in Shaanxi Province, the PRC, pursuant to which the parties contributed RMB8.7 million, RMB9.3 million, RMB6 million and RMB6 million by cash respectively, and to engage in manufacturing of musk. Upon the establishment of the joint venture, the Company, Tong Ren Tang Ltd., Mr. Liu Hongzhu and Mr. Liu Yaming will be interested in 29%, 31%, 20% and 20% of the registered capital of the joint venture, respectively. The joint venture will be principally engaged in manufacturing of musk in the PRC and will provide musk raw materials in line with the national pharmacopoeia to Tong Ren Tang Ltd. and the Company in preference to third parties in order to satisfy the production demands. The establishment of the joint venture will ensure the supply of the musk raw materials in the production of the Company and accelerate the development of the Company. The joint venture has obtained was named Tong Ren Tang Shaanxi Sheye Co., Ltd. (北京同仁堂陕西麝业有限公司) and obtained its business license on 14 December 2015.

Tong Ren Tang Ltd. is the intermediate controlling shareholder of the Company and is therefore a connected person of the Company. Accordingly, the formation of the joint venture constitutes a connected transaction for the Company for the purpose of the Listing Rules. For details about the above-mentioned transactions, please refer to the relevant announcement of the Company dated 30 October 2015.

Save as disclosed above, there is no related party transaction or continuing related party transaction set out in Note 32 to the financial statements that falls into the category of connected transaction or continuing connected transaction that needs 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 2015, 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.

## DONATIONS

Cash charitable donations made by the Group for the year ended 31 December 2015 amounted to RMB80,000 (2014: RMB900,000).

## Report of the Board of Directors

### PERMITTED INDEMNITY PROVISION

Subject to the applicable laws and the coverage of the director liability insurance the Company placed for the Directors, every Director shall be entitled to be indemnified against all costs, charges, losses, expenses and liabilities incurred by him or her in the execution and discharge of his or her duties or in relation thereto. Such provisions were in force during the course of the year ended 31 December 2015 and remained in force as of the date of this report.

### INDEPENDENT AUDITOR

The accompanying financial statements were audited by PricewaterhouseCoopers. The Company did not change its auditor in any of the past three years. The Audit Committee was satisfied with the work of the independent auditor, its independence and objectivity. PricewaterhouseCoopers was re-appointed as the independent auditor of the Company for the year of 2016 which is subject to approval at annual general meeting of 2015 of the Company.

### SUBSEQUENT EVENT

On 12 January 2016, the Board resolved to propose the issue of corporate bonds of no more than RMB1.2 billion in the PRC in order to further adjust the debt structure of the Company, widen finance channels, satisfy the Company's mid-term and long-term capital needs, and decrease the finance costs. On 23 March 2016, the proposed issue of the corporate bonds was approved by the extraordinary general meeting of the Company. For details, please refer to the announcements of the Company dated 12 January 2016 and 23 March 2016, and the circular of the Company dated 1 February 2016.

By the Order of the Board  
**Tong Ren Tang Technologies Co. Ltd.**  
**Gao Zhen Kun**  
*Chairman*

Beijing, the PRC  
18 March 2016

# Report of the Supervisory Committee

To the shareholders:

The Supervisory Committee of Tong Ren Tang Technologies Co. Ltd. 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 2015 annual general meeting. We are of the opinion that the Directors, general manager and other senior management of the Company have strictly complied with the principle of good faith, and have worked diligently, exercised their authority faithfully in the best interests of the Company, and executed various tasks pursuant to the Articles of Association so that the Company is operated within the regulatory framework, and the internal control regime is increasingly improving. The transactions between the Company and associated companies were executed on terms in the interests of the shareholders of the Company as a whole and at fair and reasonable prices. Up till now, none of the Directors, general manager or senior management of the Company has been found to have abused their authority, damaged the interests of the Company or infringed upon the interests of the shareholders and employees of the Company, or to have been in breach of any laws or regulations or the Articles of Association.

The Supervisory Committee is satisfied with the various tasks carried out by the Company in 2015 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  
18 March 2016

# 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.

The Board convenes meetings regularly and when significant decision has to be made. The Board convened six meetings in 2015 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 meetings, committee meetings, general meetings, and conferences between the chairman and independent non-executive Directors in the year of 2015:

The number of times of attendance/meeting

Directors	Board meeting	Audit Committee meeting	Remuneration Committee meeting	Nomination Committee meeting	General meeting	Conference between the Chairman and independent non-executive Directors
<b>Executive Directors</b>						
Gao Zhen Kun (Chairman) <sup>1</sup>	4/4		1/1			1/1
Gong Qin	6/6				1/1	
Gu Hai Ou <sup>1</sup>	4/4					
Li Bin <sup>1</sup>	4/4					
Wang Yu Wei	6/6				1/1	
Fang Jia Zhi	6/6				1/1	
Mei Qun <sup>2</sup>	2/2		1/1	1/1	1/1	1/1
Wang Quan <sup>3</sup>	2/2				0/1	
<b>Independent non-executive Directors</b>						
Tam Wai Chu, Maria	6/6	2/2		1/1	1/1	2/2
Ting Leung Huel, Stephen	6/6	2/2	2/2		1/1	2/2
Jin Shi Yuan	6/6	2/2	2/2	1/1	1/1	2/2

*Note 1: Mr. Gao Zhen Kun, Mr. Gu Hai Ou and Mr. Li Bin were appointed as executive Directors on 9 June 2015.*

*Note 2: Mr. Mei Qun retired from the position of executive Director, the member of Remuneration Committee and the chairman of Nomination Committee on 9 June 2015. Mr. Mei Qun attended all two meetings of the Board, one meeting of the Remuneration Committee, one meeting of the Nomination Committee and one conference between the Chairman and independent non-executive Directors in person during his tenure.*

*Note 3: Mr. Wang Quan retired from the position of executive Director on 9 June 2015. Mr. Wang Quan attended all two meetings of the Board in person during his tenure.*

*Note 4: All of the Directors attended all of the board meetings during their terms of office in person rather than by proxy.*

### **Composition of the Board of Directors**

The Directors are elected at the general meetings for a term of office of three years, and can be re-elected when the term expires. All the Directors of the sixth session of the Board were elected at the 2014 AGM with the term of office ending upon the conclusion date of the annual general meeting to be convened in 2018.

The independent non-executive Directors are independent from 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 dispatched to the shareholders on 15 April 2015 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 2014 AGM by a separate resolution. Please refer to the circular of the Company dated 15 April 2015 and the announcement of the Company dated 9 June 2015 for details.

According to the requirements of the Listing Rules, the Company has received a written confirmation of the independence from each of such independent non-executive Directors for the year of 2015. The Company considers that all independent non-executive Directors are independent from the Company.

At any time during the year ended 31 December 2015, 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 of directors, 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 other than working relationship in the Company.

# Corporate Governance Report

## *Responsibilities of the Board and the Management*

According to the requirements of the Articles of Association, the Board is responsible to 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 plans for increase or decrease of the registered capital of the Company and issue of corporate bonds;
- to formulate plans for merger, division and dissolution of the Company;
- to determine the establishment of the Company's internal management structure;
- to appoint or remove the manager of the Company and to appoint or remove the deputy manager and chief financial officer of the Company based on the nomination by the manager and to determine their remunerations;
- to formulate the basic management system of the Company;
- to formulate proposals for amendment to the Articles of Association; and
- to determine the establishment of specific committees and to appoint and remove the relevant persons in charge.

Pursuant to the provisions of the Code, the 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 requirements 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, and to organize the implementation of 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. Gao Zhen Kun (Mr. Mei Qun was the chairman of the Board before the day of 9 June 2015) 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.

### *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. The Company is responsible for arranging appropriate training and providing relevant funding with appropriate emphasis on the roles, functions and duties of a director of the Company. In the year ended 31 December 2015, New Directors have participated in induction programs, covering the continuing obligations of the Directors, code of conduct and corporate governance, etc., so as to ensure that they have knowledge and understanding of the Group's operation as well as their relevant roles and duties. All of the Directors were arranged to participate in trainings in relation to responsibility for disclosure of interests, disclosure of inside information and transactions of securities by the Directors. The Company also issued compliance memorandum for daily work of the Directors, Supervisors and members of the senior management to all of the Directors, so that they can continue to familiarize themselves during their performance of duties. In addition, the Directors also participated in relevant trainings or studied reading materials according to the actual needs for performance of their duties. These materials includes information in respect of inside information, connected transactions, corporate internal control and risk management, which may deepen the Directors' understanding and get them informed of the regulation and standardized operation of listing companies and in turn effectively facilitate the improvement of duty performance.

# Corporate Governance Report

## Directors' Attendance to Training Courses and Reading/Studying Training Materials

Directors	Responsibilities of directors	Corporate governance	Legal/regulatory requirements	Inauguration training	Other
<b>Executive Directors</b>					
Gao Zhen Kun	✓	✓	✓	✓	✓
Gong Qin	✓	✓	✓	✓	✓
Gu Hai Ou	✓	✓	✓	✓	✓
Li Bin	✓	✓	✓	✓	✓
Wang Yu Wei	✓	✓	✓	✓	✓
Fang Jia Zhi	✓	✓	✓	✓	✓
Mei Qun	-	-	-	-	-
Wang Quan	-	-	-	-	-
<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.

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.

### RISK MANAGEMENT AND INTERNAL CONTROL

The Board is responsible for evaluating and determining the nature and extent of the risks the Company is willing to take in achieving its strategic goals, so as to ensure that the Company establishes and maintains appropriate and effective risk management and internal control systems, and oversees management in the design, implementation and monitoring of the risk management and internal control systems. The Company have established its risk management and internal control system and issued the relevant reports with reference to certain documents, including the Basic Standard for Corporate Internal Control, the Guidelines for Corporate Internal Control Assessment, the Rules for the Preparation and Reporting of Information Disclosure by Listed Issuers of Securities No. 21 — General Provisions on the Annual Internal Control Assessment Report and the Internal Control Evaluation Manual.

The Board resolved to amend the terms of reference of the Audit Committee on 30 October 2015 by supplementing its duties in respect of risk management, including supervision of relevant risk management system to ensure that the system conforms to the strategies and risk tolerance of the Company.

The Company has a series of risk management and internal control systems as well as relevant ancillary operational guidelines in place to safeguard the Group's assets and the shareholders' interests by establishing standardized and effective risk management and internal control system.

The Company has established its internal audit function. The dedicated internal audit department conducts regular and independent reviews on the operation of each of the department of the Group, so as to identify any non-compliance activities and risks and thus make relevant recommendations to address the identified risks. In addition, it will explain any material findings as well as the process and results of internal audit to the Audit Committee in a separate report. During the year, the Company has adopted corresponding measures to actively address various identified risks, such as gathering and collecting market information through the system on a timely basis, enhancing market sensitivity, predicting the condition in advance, establishing an emergency procurement mechanism and building strategic reserves for bulky raw materials promptly in order to cope with the market risk. The Company has also implemented a number of measures to address its strategic risk, including sufficient argumentation on and scientific design as well as tracking and auditing throughout budgeting construction projects and feasibility of the industrial layout. For the year ended 31 December 2015, the management has confirmed and represented that the risk management and internal control system of the Group are effective and sufficient.

The Board has reviewed the matters in relation to the risk management and internal control systems covering the period from 1 January 2015 to 31 December 2015 at the Board meeting held on 18 March 2016. During which, it has, through its chief auditor, designated internal audit department and the Audit Committee, reviewed the effectiveness of the Group's risk management and internal control systems, covering financial, operational, compliance and risk management procedures. In addition, the review of the Directors will also take into account the adequacy of resources, staff qualification and experience, and training programs and the relevant budgets of the Company's accounting and financial reporting function. The Board is satisfied that the Group's risk management and internal control systems are working effectively and on an ongoing basis. It will continue to improve the internal control system and strengthen the risk management function as necessary, so as to continuously optimize the risk management and internal control system.

## 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, risk management 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.

During the year of 2015, the Audit Committee convened two meetings. The first meeting was held on 11 March 2015 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 2014 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 2014 annual report. The second meeting was held on 12 August 2015 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 2015 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 2015 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 12 March 2016, 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 2015, as well as matters in relation to risk management, legal compliance and internal audit, and reviewed the effectiveness of risk management and internal control systems as well as internal audit, and to listened to the results of audit reported by the auditors. The Audit Committee concurred in the contents of the 2015 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. Gao Zhen Kun, 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 2015, two meetings have been held by the Remuneration Committee. At the meeting held on 11 March 2015, the Remuneration Committee reviewed and discussed the matters including the Directors', Supervisors' and senior management' emoluments for the year ended 31 December 2014 as well as the Directors' and Supervisors' relevant service contracts. At the meeting held on 9 June 2015, the Remuneration Committee discussed matters including the remuneration and related services contracts of newly appointed Directors and Supervisors, and made recommendations to the Board.

### 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 (among others):

- 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 and educational background as well as 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. Gao Zhen Kun, 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 2015, one meeting was held by the Nomination Committee. At the meeting held on 11 March 2015, 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 of the new session, 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.

## Corporate Governance Report

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 relevant targets to the Board for adoption.

### COMPLIANCE WITH THE CODE

For the year ended 31 December 2015, the Company had always strictly complied with the code provisions contained in the Code.

During the year of 2015, the Board reviewed the Company’s compliance with the Code and other rules related, formulated and revised the 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 SUPERVISORS’ DEALINGS IN SECURITIES

The Company has adopted a Code of Conduct formulated on the basis of the Model Code 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 in the year ended 31 December 2015.

### INDEPENDENT AUDITOR’S REMUNERATION

PricewaterhouseCoopers was the independent auditor of the Company for the year ended 31 December 2015. Other than annual auditing services, PricewaterhouseCoopers also provided non-audit services, mainly including letters on continuing connected transactions and other consultancy services. Save as disclosed above, PricewaterhouseCoopers did not provide any other non-audit services to the Company or any other member of the Group during the year of 2015.

The independent auditor’s remuneration in respect of its audit and non-audit services for the year ended 31 December 2015 is set out in the section “auditor’s remuneration” of Note 23 to the Consolidated Financial Statements.

### 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 chapters of “Shareholders’ Rights and Obligations” and “Shareholders’ 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 periodical reports such as 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 2015, the Company made great efforts to hold conferences and/or conference calls, as well as arranged field trips for investors.

The Company encourages the shareholders to involve in the Company's affairs and to discuss the corporate business and prospects directly at the annual general meetings or extraordinary general meetings.

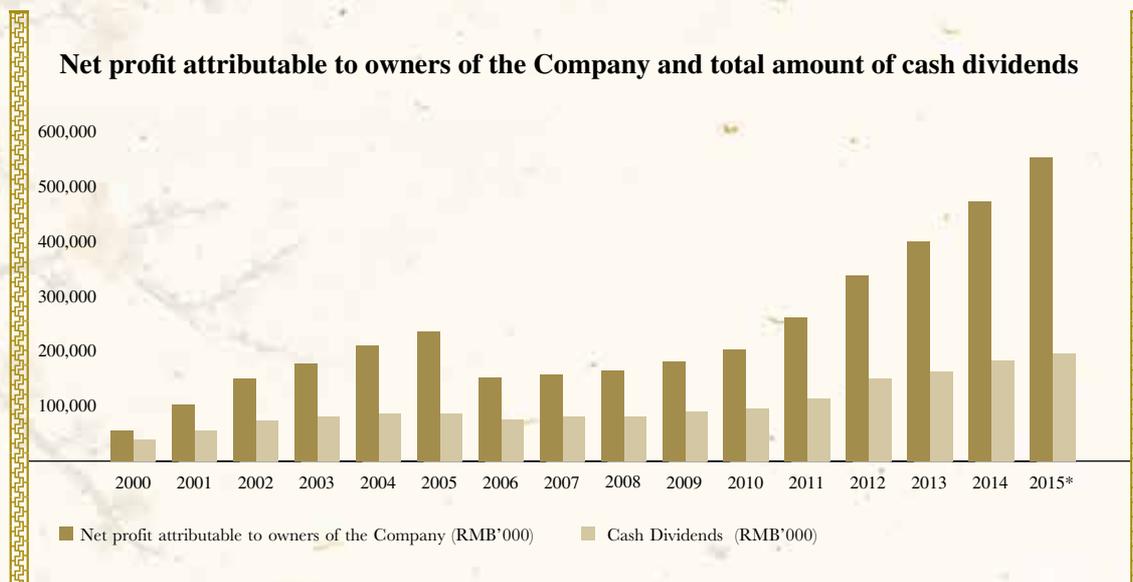
Pursuant to the Articles of Association, two or more shareholders together holding 10% or more of the shares conferring the right to vote at extraordinary general meeting can sign and submit one or more written requests in the same format and content to the Board to request the convening of an extraordinary general meeting, with the issues to be discussed clearly stated. The Board shall convene an extraordinary general meeting 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 extraordinary general meeting 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 annual general meeting 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 section of this report or directly by raising questions at annual general meeting or extraordinary general meeting.

# Corporate Governance Report

Sticking to the principle of sustainable returns to the shareholders, the Company has been distributing cash dividends each year since its listing. As at 31 December 2015, the Company has distributed cash dividends totaling approximately RMB1.422 billion. Set out below are the net profits attributable to owners of the Company and the total amount of cash dividends since the Company's listing.



\* The cash dividend is subject to the shareholders' approval at the 2015 annual general meeting

## ARTICLES OF ASSOCIATION

At the 2014 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 chemicals reagents, chemical raw medicine, antibiotics, biochemical drugs, medical devices, food, dairy products, liquor (rice wine), healthcare food and commodity; wholesale pre-packaged food; retail pre-packaged food; 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. Gao Zhen Kun**, aged 52, the chairman of the Company, is a senior accountant with a postgraduate qualification. He previously served in Beijing Tong Ren Tang Medicinal Materials as the general manager, in Beijing Tong Ren Tang Drug Store as the manager and the Party Branch secretary, and in Tong Ren Tang Ltd. as the chief accountant, the deputy general manager, the Party Committee secretary and the general manager. Mr. Gao is currently a director, the general manager and the vice secretary of the Party Committee of Tong Ren Tang Holdings, the chairman of Tong Ren Tang Ltd., the chairman of Beijing Tong Ren Tang Commercial Investment Group Co., Ltd., and Beijing Tong Ren Tang Investment Development Co., Ltd. and the director of Chinese Medicine Group. Mr. Gao was appointed as a Director at the 2014 AGM.

**Mr. Gong Qin**, aged 58, the vice-chairman of the Company, 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 appointed as a Director at the annual general meeting held in 2014 and was re-elected as a Director at the 2014 AGM.

**Mr. Gu Hai Ou**, aged 50, is a licensed pharmacist and a senior engineer with a master's degree in medical science. He was formerly the vice general manager, the chief engineer and the chairman of Beijing Tong Ren Tang Company Limited. Mr. Gu is currently the vice general manager of Tong Ren Tang Holdings, a director of Tong Ren Tang Ltd. and the chairman of Beijing Tong Ren Tang Cosmetics Co., Limited. Mr. Gu was appointed as a Director at the 2014 AGM.

**Mr. Li Bin**, aged 42, is an engineer with a university qualification. He formerly served as the head of the general manager office of the Company and the deputy head of the manager office, the assistant to the chairman of Tong Ren Tang Holdings. Mr. Li is currently the deputy general manager and the secretary to the board of directors of Tong Ren Tang Holdings. Mr. Li was appointed as a Director at the 2014 AGM.

**Mr. Wang Yu Wei**, aged 48, is a senior engineer with a postgraduate qualification. He formerly served as the deputy officer of the new technology development center 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 director of Tong Ren Tang Tangshan, Tong Ren Tang Technologies Tangshan, Chinese Medicine Group and Tong Ren Tang Second Traditional Chinese Medicine Hospital and the executive director of Nansanhuan Zhonglu Drugstore. He is also a member of the Fengtai District's 14th, 15th and 16th National People's Congress of Beijing. Mr. Wang was appointed as a Director on 25 June 2009 and was re-elected as a Director at the annual general meeting held in 2012 and the 2014 AGM.

**Ms. Fang Jia Zhi**, aged 49, 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 Tong Ren Tang Yanbian, Tong Ren Tang Anhui, Tong Ren Tang Zhejiang, Tong Ren Tang Hebei, Tong Ren Tang Hubei, Tong Ren Tang Nanyang, Tong Ren Tang Tongke, Tong Ren Tang WM, Tong Ren Tang Xing An Meng, Tong Ren Tang Tangshan, Tong Ren Tang Technologies Tangshan and Tong Ren Tang Chengdu, and the supervisor of Nansanhuan Zhonglu Drugstore. Ms. Fang was appointed as a Director on 25 June 2009 and was re-elected as a Director at the annual general meeting held in 2012 and the 2014 AGM.

## Directors, Supervisors and Senior Management

### INDEPENDENT NON-EXECUTIVE DIRECTORS

**Miss Tam Wai Chu, Maria**, aged 70, GBM, GBS, JP, LL.D (Honoris Causa), LL.B (Honours), barrister, is currently also an independent non-executive director of other 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), Hong Kong Affairs Advisor (PRC) and a member of the Operations Review Committee of the ICAC. She is currently the chairman of the Operations Review Committee, a member of the Witness Protection Review Board and the ex-officio member of the Advisory Committee on Corruption of the ICAC (effective from January 2015). She is a member of the National People's Congress of The People's Republic of China and a member of the Hong Kong Basic Law Committee. Miss Tam was appointed as an independent non-executive Director on 11 October 2000 and was re-elected at the annual general meetings held in 2003, 2006, 2009, 2012 and the 2014 AGM.

**Mr. Ting Leung Huel, Stephen**, aged 62, MH, FCCA, FCPA (Practising), ACA, CTA (HK), FHKIoD, is the chairman of the Audit Committee and a member of the Remuneration Committee of the Company. He is a non-executive director of Chow Sang Sang Holdings International Limited and an independent non-executive director of other six listed companies namely Tongda Group Holdings Limited, New Silkroad Culturaltainment Limited Company Limited, Computer And Technologies Holdings Limited, Texhong Textile Group Limited, Dongyue Group Limited and China SCE Property Holdings Limited respectively. Mr. Ting is a member of the 9th, 10th and 11th Chinese People's Political & Consultative Conference, Fujian. Mr. Ting is an accountant in public practice and the managing partner of Messrs. Ting Ho Kwan & Chan, Certified Public Accountants (Practising). Mr. Ting was appointed as an independent non-executive Director on 11 October 2000 and was re-elected at the annual general meetings held in 2003, 2006, 2009, 2012 and the 2014 AGM.

**Mr. Jin Shi Yuan**, aged 89, 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 of China Academy of Chinese Medical Sciences, 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, Capital Renowned Expert of Chinese Medicine and the technical consultant of China National (Group) Corporation of Traditional & Herbal Medicine. He was appointed as an independent non-executive Director on 16 October 2000 and re-elected at the annual general meeting held in 2003, 2006, 2009, 2012 and the 2014 AGM.

## Directors, Supervisors and Senior Management

### SUPERVISORS

**Ms. Ma Bao Jian**, aged 52, 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. and Beijing Tong Ren Tang Traditional Chinese Medicine Hospital, the chairman of Beijing Tong Ren Tang Biological Product Development Co., 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 annual general meeting held in 2014 and was re-elected at the 2014 AGM.

**Mr. Wu Yi Gang**, aged 57, 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 annual general meeting held in 2006, 2009, 2012 and the 2014 AGM.

**Ms. Ding Guo Ping**, aged 52, is an assistant accountant with a university qualification. She previously served as deputy head of the investment and audit department as well as the subsidiary management department of the Company. Ms. Ding is currently the vice chairman of the labor union of the Company.

### SENIOR MANAGEMENT

**Mr. Bai Jian**, aged 56, 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, a director of each of Tong Ren Tang Yanbian, Tong Ren Tang Anhui, Tong Ren Tang Zhejiang, Tong Ren Tang Hebei, Tong Ren Tang Hubei, Tong Ren Tang Nanyang and the chairman of Tong Ren Tang WM.

**Mr. Li Da Ming**, aged 58, 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, the chairman of Tong Ren Tang Tangshan, Tong Ren Tang Tongke, and the chairman and the general manager of Tong Ren Tang Technologies Tangshan.

**Ms. Liu Cun Ying**, aged 51, is a senior accountant with a university qualification. 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 and the chairman of Tong Ren Tang Xing An Meng.

## Directors, Supervisors and Senior Management

**Ms. Guo Gui Qin**, aged 51, 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, and the director of Tong Ren Tang Xing An Meng, Tong Ren Tang Tongke, Tong Ren Tang Tangshan and Tong Ren Tang Technologies Tangshan.

**Mr. Yang De Chun**, aged 52, 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, the chairman of Tong Ren Tang Chengdu, and the director of Tong Ren Tang Technologies Tangshan.

**Mr. Chen Jia Fu**, aged 47, 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 42, 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 2015 to 31 December 2015. 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 Criteria*

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, age, race, religion, cultural and educational background and any other factors, and seeks to provide an equal growth platform for all employees, safeguard all kinds of legitimate interests of the employees and strive to build up a healthy and harmonious working environment.

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 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

In 2015, the Company did not violate any of the abovementioned laws and regulations.

# Environmental, Social and Governance Report

## *Employee Policy*

To maintain a rational and adequate personnel structure, the Company has established qualifications and requirements specific to different posts, 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.

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.

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.

## *Structure of Employees*

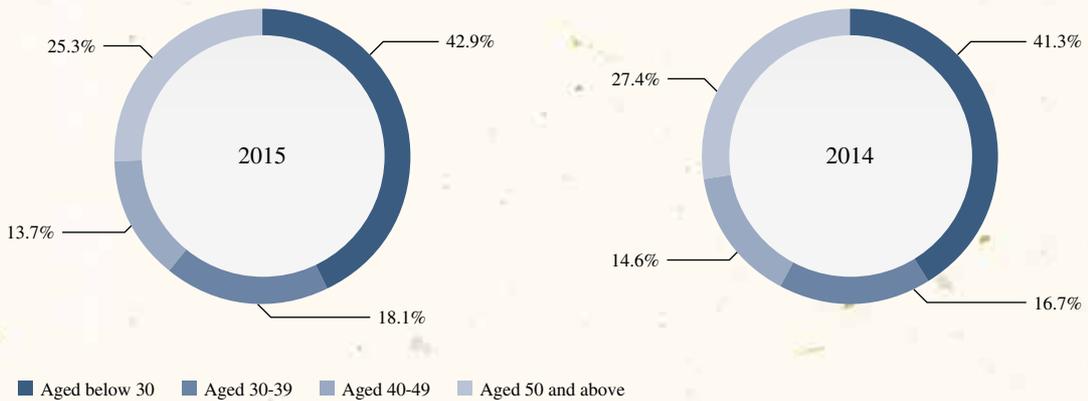
The Company understands and recognizes the benefits of the diversity of staff, which is regarded as one of the key elements to maintaining its competitive strengths in the long run. A company with a wide diversity of cultures should be inclusive of employees with different genders, ages, skills, educational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

# Environmental, Social and Governance Report

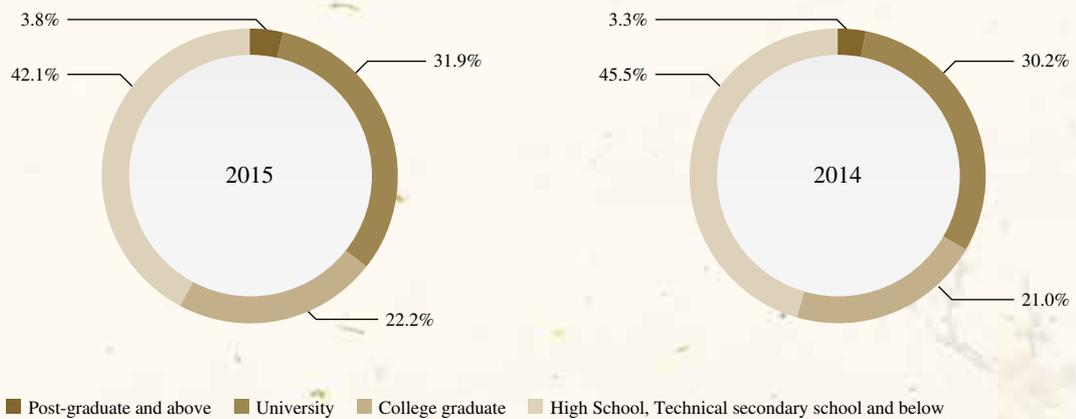
As at 31 December 2015, the Company had 2,117\* employees in total (2014: 2,086).

The Company had a male/female composition ratio of 1.6:1 (2014: 1.6:1), 129 (2014:138) employees with intermediate or senior titles which accounted for 6.1% (2014: 6.6%) of the total headcount, 117 (2014: 116) ethnic minority employees which accounted for 5.5% (2014: 5.6%) of the total headcount, and 22 (2014: 23) handicapped employees which accounted for 1.0% (2014: 1.1%) of the total headcount. The Company's employees by age and academic qualification are illustrated as below:

### Employees by age



### Employees by academic qualification

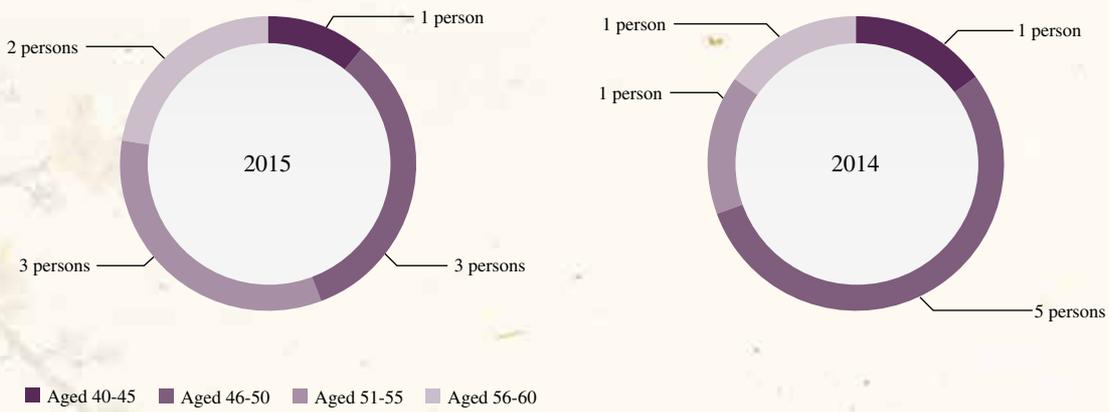


\* Excluding 176 dispatched workers.

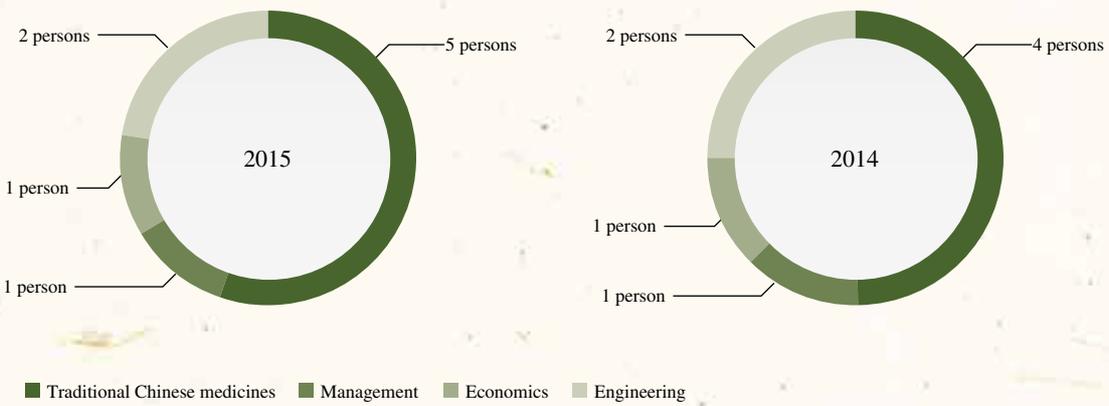
# Environmental, Social and Governance Report

The diversity policy for employees also applies to the Company's senior management. As at 31 December 2015, the Company had a male/female composition of 5:4 for senior management contained in this report, with the breakdowns by age and specialty illustrated as below:

**Senior management by age**



**Senior management by specialty**



## 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 134 (2014: 182) persons, representing an inflow ratio of 6.38% (2014: 8.85%); a personnel outflow of 103 (2014: 121) persons, representing an outflow ratio of 4.90% (2014: 5.89%), and a personnel loss of 39 (2014: 25) persons, representing a loss ratio of 1.86% (2014: 1.22%). Details of the personnel loss are set out below:

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%

2015	Number of person loss	Loss ratio
Aged 50 and above	3	0.6%
Aged 40-49	1	0.3%
Aged 30-39	8	2.2%
Aged 18-29	27	3.1%
Total number of person loss	39	1.9%

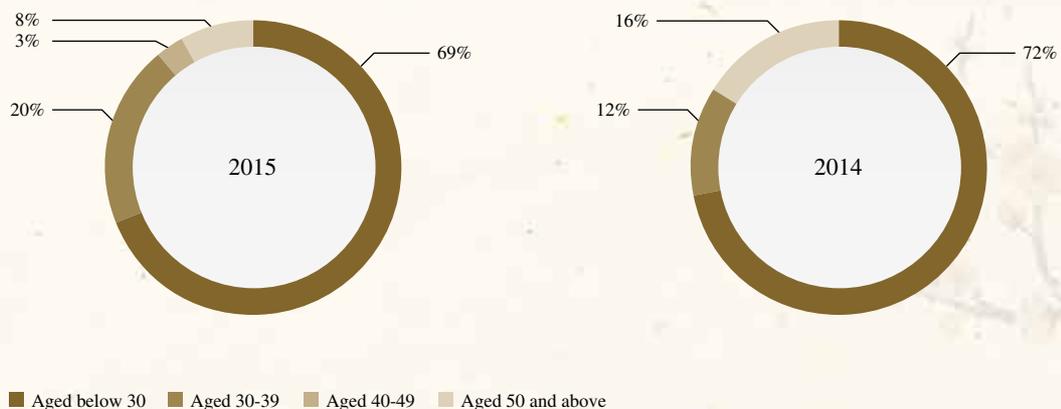
*Notes:*

*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); and*

*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).*

**Personnel loss by age**



# 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 and it has a multi-layer system with diversified format of training in place. Upon joining the Company, new employees must participate in pre-service training in relation to the Company's 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 anti-corruption practices of leaders as well as trainings for middle and senior management in listed companies. The Company will evaluate the training effects subsequently, so as to enhance the pertinence and effectiveness of training, which has further enhanced the technical skills and professional literacy of the Company's employees of each level with satisfactory results. During the Reporting Period, the Company organized more than 140 training sessions according to different needs, with total participation of over 8,000 attendees and more than 20 training hours per person.



Set out below is the record of major training sessions of the Company in 2015:

Category of training	Name of training session	Training hours
Quality management	ISO9001 Training Class	16
	Understanding the Pharmacopoeia of the PRC (2015 Edition)	12
Financial	Training on New Accounting Principles	16
	Reporting and Management of Duty Stamp	16
	Special Training on Audit Report of Listed Companies	6
Management	Training for Senior Management and Middle Management of the Company	12
New employee orientation	Training for New Employees	32

The Company, based on the nature and job characteristics of each position, has identified three career advancement pathways, namely operation management, professional technique and technical operation. The Company encourages and organizes qualified employees to participate in professional technical training programs and examinations, and issues letters of appointment as appropriate to qualified employees who passed the examinations and obtained certificates based on the actual work requirements. They are also entitled to allowances for the corresponding positions. 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.

## Environmental, Social and Governance Report

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 supported by a pool of backup talents at different levels to serve at various positions, such as scientific research, quality, production, sales and management. 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 2015, a total of 196 employees (2014: 180 employees) were included into the “Pyramid Talent Project”, including 16 members newly added in the year.

### *Employee Rights and Benefits*

The Company actively guarantees and safeguards the rights and interests of employees, and lays stress on enhancing the sense of belonging of employees, and improves all kinds of employee benefits on an ongoing basis.



The Company’s Supervisors as employee representatives account for one-third of the members of the Supervisory Committee, with an aim to protect all kinds of interests of all employees. Meanwhile, the Company lays



## Environmental, Social and Governance Report



emphasis on employees' rights to know and to speak. For this purpose, it has established the system for employee representatives' meetings as well as labor union in accordance with the law, which has provided smooth and effective communication channels to the employees. Moreover, the Company delivered latest corporate news to all staff in a timely manner through various means, such as the Office Automation Platform ("OA Platform"), internal publications, advertising board and questionnaires. We also 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, 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.

The Company takes efforts to promote the balance between life and work 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 30 variegated events, including basketball competitions, table tennis matches, funny sports galas, photography classes, etc., with participations of over 3,000 attendees. These activities not only helped the employees to relieve stress and enjoy an enriched lifestyle, but also established a platform for employees to express themselves and communicate with each other.

### *Employee Health and Safety*

Employees are our most important asset and resource, therefore, the health and safety of employees is always the top priority of the Company. The Company is committed to protecting the employees with production safety while providing healthy cares for them in a safe, healthy and guaranteed workplace.



## Environmental, Social and Governance Report

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 according to strict requirements. Production staffs are provided with worker-protection item such as protective articles with a view to minimize the negative 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.

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.



### 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 great emphasis on sustainable and effective supply chain management in order to ensure compliant operation of the Company. 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.



# Environmental, Social and Governance Report

## 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 raw materials, auxiliary ingredients and packaging, 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 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”.

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.

In 2015, the Company purchased raw materials, auxiliary ingredients and packaging materials from 208 suppliers (2014: 206), which are mainly situated in northern China. The geographical distribution of suppliers are as follows:

**Geographical distribution of suppliers**



Note: Based on the registered address of suppliers

# Environmental, Social and Governance Report

## *Product Liability*

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.

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

Meanwhile, the Company carried out advertisement promotion in accordance with the law, further protected the rights and interests of consumers and safeguarded the brand image of "Tong Ren Tang". The Company strictly complied with the relevant laws and regulations, including Advertising Law of the People's Republic of China, Measures for the Administration of Medical Advertisement, Drug Administration Law of the People's Republic of China, Measures on the Review of Drug Advertisements, and formulated internal management systems of the Company such as Measures for Administration of Advertisement Promotion (《廣告宣傳管理辦法》) and Administration System for Internal Review on Dissemination of Online Information (《網絡信息發布內部審核管理制度》). It has also established systems for management procedures, review and filing of advertisements. The Company strictly implemented the above measures to ensure the legal compliance of the Company's advertisement promotion and stringently prohibited any acts that would cause damage to the image of the Company and the brand such as illegal advertisements.

# Environmental, Social and Governance Report

## *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 operational procedures which are strictly implemented for handling pharmaceutical enquires and complaints. The after-sales service inspection department of the Company will record consumers' visits and incoming calls in detail, and patiently explain and reply their enquiries. In case of product complaints, the department will carry out investigation promptly and handle the cases properly. During the Reporting Period, the Company received over 2,000 cases of consumer enquires and complains through its customer service hotline with a handling ratio of 100%, effectively safeguarding the legitimate interests of each consumer.

The Company placed great emphasis on safe medication of patients and attached great importance to the monitoring and reporting of adverse drug reaction. We strictly complied with the relevant laws and regulations, including Administration Measures on Reporting and Monitoring of Adverse Drug Reaction, Rules for Implementation of Administration Measures on Reporting and Monitoring of Adverse Drug Reaction in Beijing. The Company has also developed relevant management regulations for reporting and monitoring of adverse drug reaction as well as the processes thereof, enabling the Company to monitor adverse reaction proactively and report the results to the National Center for Adverse Drug Reaction Monitoring (國家藥品不良反應監測中心) in a timely manner.

The Company has also established a market observer patrol system. The market observers paid visits to various provinces and cities such as Guangdong and Zhejiang in the PRC in 2015, 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.

## *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-blew 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 to participate in supervision by giving feeding backs and reporting any internal operational defects or irregularities through multiple channels, thus strictly prohibiting any forms of illegal operation activities such as bribery, fraud and corruption, at the same time promoting compliance operation of the Company. During the Reporting Period, these rules and systems played a sound control and preventive role in risk control and anti-corruption management of the Group, and no material defect 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 2015. 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.

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 activities including “Angel’s Home Operation”, “Benevolent Salary Program”, “Warm Clothes in Winter” and “Donate our Love”, through which we sent materials such as medicines and daily necessities to people in special needs, poverty-stricken areas and orphanages, trying our best to lend them a helping hand and show them our cares, thereby putting our cultural connotation of “Righteousness” into physical actions.



The Company also encourages all employees to actively participate in volunteer activities and environmental protection activities, which allow our employees to take part in social

services and promote the public welfare culture and spirit incorporating interaction, cares and understanding. During the year, a number of young volunteers from the Company participated in the volunteer service for VIP stands during the Military Parade in celebration of the 70th Anniversary of the victory of the anti-fascist war, in an effort to ensure that the anniversary celebration would be held smoothly. Meanwhile, the Company continued to be committed to public environmental activities. We actively organized tree-planting activities with “Care for Our Living Environment, Strive to be a Green Pioneer” as the theme, and continued to promote the green concept of low carbon living, so as to live up to Tong Ren Tang’s cultural motto of “Be Kind to the Society”



# Environmental, Social and Governance Report

## ENVIRONMENTAL PROTECTION AND NATURAL RESOURCES

The major raw materials used by the Company for production are various kinds of Chinese herbal medicine, the production and operation of which may have slight impacts on the environment and natural resources. As a part of its social responsibility, the Company attaches equal importance to development and environmental protection through rational resource utilization and practices of environmental protection. The Company strictly complied with the Laws on Promoting Clean Production of the PRC, and developed the relevant rules, including the Management System on Clean Production and the Management Procedures for Environmental Protection, with a view to further our objectives to achieve energy conservation, consumption reduction, pollution reduction and efficiency enhancement, thereby minimizing the impact of production and operation on the ecosystem.



The Company advocates a green office concept which integrates a low-carbon operation principle into production and operation, with an aim to develop towards paperless, energy-saving and low-carbon offices, and minimize the consumption of fossil fuel, wood, water, electricity and other natural resources and energy. In 2015, the Company recorded total carbon dioxide emission of approximately 45,000 tonnes (2014 (restated): approximately 46,000 tonnes). The Company adopted OA, ERP and other information management platforms at all levels and tapped on electronic communication means including teleconferencing and video conferencing. The Company also exercised stringent control on the consumption of paper, portfolios, crates and other paper products, and made strenuous efforts in reducing the use of non-biodegradable articles such as plastics, inks, chemical fiber, electronic equipment and other consumables.

The Company is also in light of the green production concept, achieving the purpose of energy conservation, consumption reduction and pollution reduction. The Company seeks to improve production process and upgrade its technical expertise during the course of production and an array of measures, including energy-saving LED lighting, steam timer switch, is 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.

The Company actively promotes clean production and strictly controls its pollutant emissions and waste discharges. The Company reduces exhaust emission from the source through a combination of initiatives including use of natural gas, solar energy and other clean energy sources; while the noise level is minimized to avoid environmental pollution. During the year, the sewage treatment plants of some branch factories of the Company were upgraded and renovated to further reduce the impacts on the environment. During the Reporting Period, the Company engaged third-party inspectors to carry out inspections on the wastewater, boiler exhaust and noise for certain branch factories, and all items inspected have 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 (10,000 m <sup>3</sup> /year)	Power (10,000 kWh/year)	Raw coal (tonne/year)	Liquefied petroleum gas* (tonne/year)	Natural gas (10,000 m <sup>3</sup> /year)	Steam (million kJ/year)
2015	39	2,634	15,636	0	118	33,995
2014	49	2,637	15,747	11	117	29,222

*\*Note: Some of the canteens of the Company have switched to adopt natural gas as source of energy. As such, the consumption of liquefied petroleum gas in 2015 was nil.*

## 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 electronic and consumables waste 
5. Use energy-saving lamps, etc. 
6. Promote the use of and provide reusable shopping bags 
7. Reduce use of papers and promote the use of e-mails and electronic office platform, etc. 

## Emissions

The Company continuously keeps a close eye on the pollutant emission in the course of production and operation, and strictly complies with the national laws and regulations. It has also developed relatively complete rules and regulations for this aspect, including Management System on Environmental Protection and the Management Procedures for Environmental Protection, with a view to maximize its control over the emission of various pollutants.

The Company lays stress on the detection of pollutant concentrations. Online pollution source monitoring system has been installed at the wastewater discharge conduit of certain production units, so as to ensure that pollutant emissions are in compliance with the national and local environmental protection regulations. Meanwhile, dedusting and desulphurization devices have been installed for all coal-fired boilers of the Company and clean energies such as natural gas were gradually employed to reduce the consumption of coal fuel, with a view to minimize the impacts of exhaust on the environment. During the year, emissions from the Company's production process mainly include carbon dioxide, sulfur dioxide, nitrogen oxides, wastewater (mainly containing such pollutants as COD, BOD, ammonia nitrogen and suspended substances), etc.

## Environmental, Social and Governance Report

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

Type	Pollutant <sup>1</sup>	Emission of 2015 (tonne)	Emission of 2014 (tonne)
Wastewater	Total wastewater emission	313,947	388,053
	Chemical Oxygen Demand (COD <sub>cr</sub> )	58	44
	Five-day Biochemical Oxygen Demand (BOD <sub>5</sub> )	16	15
	Ammonia nitrogen	1	1
	Suspended Substance (SS)	13	10
Exhaust gas <sup>2</sup>	Soot	14	14
	Sulfur dioxide	10	10
	Nitrogen oxides	58	58

Note 1: Pollutant emissions are in compliance with Beijing local standards (DB11/139-2015 and DB11/307-2013)

Note 2: As there is a change in the method of calculation, the data of year 2014 have been restated.

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 2015 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 set out on pages 75 to 152, which comprise the consolidated balance sheet as at 31 December 2015, 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 judgement, 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 financial position of the Company and its subsidiaries as at 31 December 2015, and of their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

## OTHER MATTERS

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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, 18 March 2016

# Consolidated Balance Sheet

As at 31 December 2015

	Note	As at 31 December	
		2015 RMB'000	2014 RMB'000
<b>Assets</b>			
<b>Non-current assets</b>			
Leasehold land and land use rights	6	152,258	146,523
Property, plant and equipment	7	1,052,598	890,411
Intangible assets	8	61,268	1,876
Investments accounted for using the equity method	10	21,339	22,396
Prepayments for purchase of property, plant and equipment		25,188	21,075
Deferred income tax assets	14	29,165	17,536
		<b>1,341,816</b>	1,099,817
<b>Current assets</b>			
Inventories	13	1,958,202	1,749,835
Trade and bills receivables	12	378,293	290,488
Amounts due from related parties	32(e)	109,478	98,856
Prepayments and other current assets		135,219	142,610
Short-term bank deposits	31(b)	724,261	376,200
Cash and cash equivalents	31(b)	1,534,984	1,774,389
		<b>4,840,437</b>	4,432,378
<b>Total assets</b>		<b>6,182,253</b>	5,532,195
<b>Equity and liabilities</b>			
<b>Equity attributable to owners of the Company</b>			
Share capital	15	1,280,784	1,280,784
Reserves	16	2,677,517	2,268,804
		<b>3,958,301</b>	3,549,588
<b>Non-controlling interests</b>		<b>1,193,734</b>	886,566
<b>Total equity</b>		<b>5,152,035</b>	4,436,154

# Consolidated Balance Sheet

As at 31 December 2015

	Note	As at 31 December	
		2015 RMB'000	2014 RMB'000
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
Borrowings	18	470	–
Deferred income tax liabilities	14	7,267	4,264
Deferred income – government grants	17	86,254	74,053
		<b>93,991</b>	<b>78,317</b>
<b>Current liabilities</b>			
Trade and bills payables	19	372,067	421,924
Salary and welfare payables	20	22,626	19,845
Advances from customers		70,859	164,235
Amounts due to related parties	32(e)	43,524	84,118
Current income tax liabilities		49,667	26,940
Other payables		195,984	200,662
Borrowings	18	181,500	100,000
		<b>936,227</b>	<b>1,017,724</b>
<b>Total liabilities</b>		<b>1,030,218</b>	<b>1,096,041</b>
<b>Total equity and liabilities</b>		<b>6,182,253</b>	<b>5,532,195</b>

The notes on pages 82 to 152 are an integral part of these financial statements.

The financial statements on pages 75 to 152 were approved by the Board of Directors on 18 March 2016 and were signed on its behalf.

**Gao Zhen Kun**  
Director

**Fang Jia Zhi**  
Director

# Consolidated Income Statement

For the year ended 31 December 2015

	Note	2015 RMB'000	2014 RMB'000
Revenue	21	3,987,124	3,341,166
Cost of sales		(1,995,851)	(1,725,965)
<b>Gross profit</b>		<b>1,991,273</b>	1,615,201
Distribution expenses		(803,458)	(638,608)
Administrative expenses		(306,848)	(264,977)
<b>Operating profit</b>		<b>880,967</b>	711,616
Finance income	22	24,024	32,387
Finance costs	22	(2,627)	(3,591)
Finance income– net	22	21,397	28,796
Share of (loss)/profit of investments accounted for using the equity method	10	(3,534)	188
<b>Profit before income tax</b>		<b>898,830</b>	740,600
Income tax expense	25	(156,800)	(124,242)
<b>Profit for the year</b>		<b>742,030</b>	616,358
<b>Profit attributable to:</b>			
Owners of the Company		540,481	462,187
Non-controlling interests		201,549	154,171
		<b>742,030</b>	616,358
<b>Earnings per share for profit attributable to owners of the Company during the year</b>			
– Basic and diluted	26	<b>RMB0.42</b>	RMB0.36

The notes on pages 82 to 152 are an integral part of these consolidated financial statements.

# Consolidated Statement of Comprehensive Income

For the year ended 31 December 2015

	2015 RMB'000	2014 RMB'000
<b>Profit for the year</b>	<b>742,030</b>	616,358
<b>Other comprehensive income</b>		
<i>Items that may be reclassified to profit or loss</i>		
Foreign currency translation differences		
– Group	78,534	(6,128)
– Joint ventures and associates	(673)	(532)
<b>Other comprehensive income/(loss) for the year, net of tax</b>	<b>77,861</b>	(6,660)
<b>Total comprehensive income for the year</b>	<b>819,891</b>	609,698
<b>Attributable to:</b>		
Owners of the Company	570,272	460,633
Non-controlling interests	249,619	149,065
<b>Total comprehensive income for the year</b>	<b>819,891</b>	609,698

The notes on pages 82 to 152 are an integral part of these consolidated financial statements.

# Consolidated Statement of Changes in Equity

For the year ended 31 December 2015

	Attributable to owners of the Company								Non-	Total	
	Share capital	Capital reserve	Statutory surplus reserve fund	Statutory public welfare fund	Tax reserve	Foreign currency translation differences	Other reserve	Retained earnings	controlling interests	equity	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
Balance as at 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
<b>Comprehensive income</b>											
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)
<b>Transactions with owners in their capacity as owners</b>											
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 15)	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
Others	-	-	-	-	-	-	(8,224)	-	(8,224)	8,224	-
Balance as at 31 December 2014	1,280,784	414,100	294,709	45,455	102,043	(31,349)	139,047	1,304,799	3,549,588	886,566	4,436,154

# Consolidated Statement of Changes in Equity

For the year ended 31 December 2015

	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			
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
Balance as at 1 January 2015	1,280,784	414,100	294,709	45,455	102,043	(31,349)	139,047	1,304,799	3,549,588	886,566	4,436,154
<b>Comprehensive income</b>											
Profit for the year	-	-	-	-	-	-	-	540,481	540,481	201,549	742,030
Foreign currency translation differences											
- Group	-	-	-	-	-	30,464	-	-	30,464	48,070	78,534
- Joint ventures and associates	-	-	-	-	-	(673)	-	-	(673)	-	(673)
<b>Transactions with owners in their capacity as owners</b>											
Appropriation from retained earnings	-	-	44,904	-	-	-	-	(44,904)	-	-	-
Dividends paid to shareholders of the Company relating to 2014	-	-	-	-	-	-	-	(179,310)	(179,310)	-	(179,310)
Dividends paid to non-controlling interests relating to 2014	-	-	-	-	-	-	-	-	-	(50,820)	(50,820)
Acquisition of subsidiaries											
- non-controlling interests arising	-	-	-	-	-	-	-	-	-	106,880	106,880
- dilution gain upon share issuance (Note 35(a))	-	-	-	-	-	-	17,720	-	17,720	(17,720)	-
Capital contribution to the newly formed subsidiaries	-	-	-	-	-	-	-	-	-	7,278	7,278
Capital injection from non-controlling interests	-	-	-	-	-	-	-	-	-	9,800	9,800
Disposal of partial interests in subsidiaries	-	-	-	-	-	-	31	-	31	2,131	2,162
Balance as at 31 December 2015	1,280,784	414,100	339,613	45,455	102,043	(1,558)	156,798	1,621,066	3,958,301	1,193,734	5,152,035

The notes on pages 82 to 152 are an integral part of these consolidated financial statements.

# Consolidated Statement of Cash Flows

For the year ended 31 December 2015

	Note	2015 RMB'000	2014 RMB'000
<b>Cash flows from operating activities:</b>			
Cash generated from operations	31	455,183	462,178
Interest paid		(2,627)	(3,591)
Income tax paid		(151,357)	(124,712)
Net cash generated from operating activities		301,199	333,875
<b>Cash flows from investing activities:</b>			
Purchase of property, plant and equipment		(173,500)	(262,435)
Purchase of land use rights		(3,441)	(14,582)
Purchase of other long-term assets		(7,711)	(610)
Proceeds from government grants relating to property, plant and equipment		19,279	5,910
Proceeds from disposal of property, plant and equipment		368	1,542
Proceeds from short-term bank deposits		376,200	398,990
Increase in short-term bank deposits		(719,261)	(376,200)
Proceeds from structured deposits		25,000	–
Increase in structured deposits		(15,000)	(25,000)
Acquisition of subsidiaries, net of cash acquired	35	3,203	–
Dividend received		–	219
Interest received		22,911	28,596
Others		(3,150)	(9,606)
Net cash used in investing activities		(475,102)	(253,176)
<b>Cash flows from financing activities:</b>			
Proceeds from borrowings		199,470	110,000
Repayments of borrowings		(122,000)	(204,310)
Capital injection from non-controlling interests		17,078	18,096
Dividends paid to shareholders of the Company		(179,310)	(160,098)
Dividends paid to non-controlling interests		(50,820)	(40,159)
Disposal of partial interests in subsidiaries		2,162	–
Net cash used in financing activities		(133,420)	(276,471)
Net decrease in cash and cash equivalents		(307,323)	(195,772)
Cash and cash equivalents at beginning of the year		1,774,389	1,967,919
Exchange gains on cash and cash equivalents		67,918	2,242
<b>Cash and cash equivalents at end of the year</b>	31(b)	<b>1,534,984</b>	<b>1,774,389</b>

The notes on pages 82 to 152 are an integral part of these consolidated financial statements.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

## 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 18 March 2016.

The following is a list of principal subsidiaries as at 31 December 2014 and 2015:

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
		2015	2014		
<i>Subsidiaries:</i>					
Beijing Tong Ren Tang Nanyang Shanzhuyu Co., Limited (“Tong Ren Tang Nanyang”)	Henan, PRC 24 October 2001 Limited liability company	51%*	51%*	RMB4,000,000	Cultivating and selling of Chinese medicinal raw materials Henan, PRC
Beijing Tong Ren Tang Hubei Chinese Medicinal Raw Materials Co., Limited (“Tong Ren Tang Hubei”)	Hubei, PRC 26 October 2001 Limited liability company	51%*	51%*	RMB3,000,000	Cultivating, purchasing and selling of Chinese medicinal raw materials Hubei, PRC
Beijing Tong Ren Tang Zhejiang Chinese Medicinal Raw Materials Co., Limited (“Tong Ren Tang Zhejiang”)	Zhejiang, PRC 31 October 2001 Limited liability company	51%*	51%*	RMB10,000,000	Cultivating, purchasing and selling of Chinese medicinal raw materials Zhejiang, PRC

\* Equity interests directly held by the Company

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

## 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
		2015	2014		
<i>Subsidiaries: (Cont'd)</i>					
Beijing Tong Ren Tang Hebei Chinese Medicinal Raw Materials Technologies Co., Limited ("Tong Ren Tang Hebei")	Hebei, PRC 19 November 2001 Limited liability company	51%*	51%*	RMB8,000,000	Cultivating, purchasing and selling of Chinese medicinal raw materials Hebei, PRC
Beijing Tong Ren Tang Tongke Pharmaceutical Company Limited ("Tong Ren Tang Tongke")	Beijing, PRC 4 November 2003 Limited liability company	95%*	95%*	RMB75,000,000	Production of ointment, and medical research and development Beijing, PRC
Beijing Tong Ren Tang Technologies (Tangshan) Co., Ltd ("Tong Ren Tang Technologies Tangshan")	Hebei, PRC 17 June 2015 Limited liability company	100%*	–	RMB50,000,000	Production (including extraction) of Chinese medicine, food and healthcare products Hebei, PRC
Beijing Tong Ren Tang Technologies Chengdu Co., Ltd ("Tong Ren Tang Chengdu")	Sichuan, PRC 26 February 2003 Limited liability company	51%*	–	RMB53,060,000	Production and processing of biochemical products and Chinese medicine, extraction and processing of plants Sichuan, PRC
Beijing Tong Ren Tang Chinese Medicine Company Limited <sup>(1)</sup> ("Tong Ren Tang Chinese Medicine")	Hong Kong, PRC 18 March 2004 Limited liability company	38.05%*	38.38%*	HKD867,363,000	Production and sales of Chinese medicine Hong Kong, PRC
Beijing Tong Ren Tang Nanshuan Zhonglu Drugstore Co., Limited ("Nanshuan Zhonglu Drugstore")	Beijing, PRC 28 April 2004 Limited liability company	90%*	90%*	RMB500,000	Sales of medicinal products Beijing, PRC
Beijing Tong Ren Tang Yanbian Chinese Medicinal Raw Materials Co., Limited ("Tong Ren Tang Yanbian")	Jilin, PRC 24 September 2004 Limited liability company	51%*	51%*	RMB4,000,000	Cultivating and selling of Chinese medicinal raw materials Jilin, PRC

\* Equity interests directly held by the Company

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

## 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
		2015	2014		
<i>Subsidiaries: (Cont'd)</i>					
Beijing Tong Ren Tang Anhui Chinese Medicinal Raw Materials Co., Limited (“Tong Ren Tang Anhui”)	Anhui, PRC 18 October 2004 Limited liability company	51%*	51%*	RMB24,000,000	Cultivating, purchasing and selling of Chinese medicinal raw materials Anhui, PRC
Beijing Tong Ren Tang WM Dianorm Biotech Co., Limited (“Tong Ren Tang WM”)	Beijing, PRC 20 February 2001 Sino-foreign equity joint venture	60%*	60%*	USD3,000,000	Technological development and sales of biological products, Chinese and western medicines and cosmetics Beijing, PRC
Beijing Tong Ren Tang Chinese Medicine (Hong Kong) Group Co., Ltd., (“Chinese Medicine Group”)	Hong Kong, PRC 1 March 2012 Limited liability company	53.09%*	53.09%*	HKD10,000	Investment holding Hong Kong, PRC
Beijing Tong Ren Tang Xing An Meng Chinese Medicinal Raw Materials Co., Limited (“Tong Ren Tang Xing An Meng”)	Inner Mongolia, PRC 14 April 2004 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 Inner Mongolia, PRC
Beijing Tong Ren Tang Century Advertising Co., Limited (“Tong Ren Tang Century Advertising”)	Beijing, PRC 25 September 2013 Limited liability company	100%*	100%*	RMB1,000,000	Advertisement services Beijing, PRC
Beijing Tong Ren Tang (Tangshan) Nutrition and Healthcare Co., Ltd (“Tong Ren Tang Tangshan”)	Hebei, PRC 13 September 2010 Limited liability company	74%*	74%*	RMB120,000,000	Production and sales of healthcare products and Chinese medicine Hebei, PRC

\* Equity interests directly held by the Company

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

## 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
		2015	2014		
<i>Subsidiaries: (Cont'd)</i>					
Beijing Tong Ren Tang International Natural-Pharm Co., Ltd. ("International Pharm")	Beijing, PRC 6 March 2006 Limited liability company	100%	100%	HKD10,000,000	Sale and distribution of Chinese medicine and healthcare products Beijing, PRC
Beijing Tong Ren Tang (Australia) Pty Ltd ("Tong Ren Tang Australia")	Sydney, Australia 20 May 2004 Limited liability company	75%	75%	AUD1,000,000	Wholesale and retail of Chinese medicine and healthcare products and provision of Chinese medical consultation and treatment Sydney, Australia
Beijing Tong Ren Tang Science Arts (Singapore) Co Pte. Ltd ("Tong Ren Tang Singapore")	Singapore 1 December 2003 Limited liability company	51%	51%	SGD857,000	Wholesale and retail of Chinese medicine and healthcare products and provision of Chinese medical consultation and treatment Singapore
Beijing Tong Ren Tong (B) Sdn Bhd ("Tong Ren Tang Sdn Bhd")	Bandar Seri Begawan, Brunei 20 May 2009 Limited liability company	51%	51%	BND725,000	Retail of Chinese medicine and healthcare products Bandar Seri Begawan, Brunei
Beijing Tong Ren Tong (Toronto) Inc. ("Tong Ren Tang Toronto")	Toronto, Canada 24 June 2010 Limited liability company	51%	51%	CAD100	Retail of Chinese medicine and healthcare products and provision of Chinese medical consultation and treatment Toronto, Canada

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

## 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
		2015	2014		
<i>Subsidiaries: (Cont'd)</i>					
Beijing Tong Ren Tang (Macau) Company Limited ("Tong Ren Tang Macau")	Macau, PRC 6 November 2002 Limited liability company	51%	51%	MOP1,000,000	Wholesale and retail of Chinese medicine and healthcare products and provision of Chinese medical consultation and treatment Macau, PRC
Beijing Tong Ren Tang Gulf FZLLC ("Tong Ren Tang Dubai")	Dubai, United Arab Emirates 8 June 2011 Limited liability company	51%	51%	AED1,920,000	Retail of Chinese medicine and healthcare products and provision of Chinese medical consultation and treatment Dubai, United Arab Emirates
Beijing Tong Ren Tang Poland sp.zo.o. ("Tong Ren Tang Poland")	Warsaw, Poland 26 July 2012, Limited liability company	100%	100%	Zloty50,000	Retail of healthcare products and provision of Chinese medical consultation and treatment Warsaw, Poland
Beijing Tong Ren Tang Canada Co., Ltd. ("Tong Ren Tang Canada")	Vancouver, Canada 11 January 2002 Limited liability company	51%	51%	CAD1,000,000	Retail of Chinese medicine and healthcare products and provision of Chinese medical consultation and treatment Vancouver, Canada

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

## 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
		2015	2014		
<i>Subsidiaries: (Cont'd)</i>					
Beijing Tong Ren Tang (Leeds) Company Limited ("Tong Ren Tang Leeds")	Leeds, United Kingdom 17 October 2013 Limited liability company	51%	51%	GBP1,000	Retail of Chinese medicine and healthcare products and provision of Chinese medical consultation and treatment Leeds, United Kingdom
Beijing Tong Ren Tang Melbourne Company Limited ("Tong Ren Tang Melbourne")	Melbourne, Australia 4 September 2014 Limited liability company	51%	51%	AUD100,000	Retail of Chinese medicine and healthcare products and provision of Chinese medical consultation and treatment Melbourne, Australia
Beijing Tong Ren Tang Seoul Company Limited ("Tong Ren Tang Seoul")	Seoul, Korea 10 March 2014 Limited liability company	51%	51%	WON1,052,000,000	Wholesale of Chinese medicine and healthcare products Seoul, Korea
Beijing Tong Ren Tang Auckland Company Limited ("Tong Ren Tang Auckland")	Auckland, New Zealand 2 May 2014 Limited liability company	51%	60%	NZD2,000,000	Retail of Chinese medicine and healthcare products and provision of Chinese medical consultation and treatment Auckland, New Zealand
Beijing Tong Ren Tang Tong Xin Tong Le Company Limited ("Tong Ren Tang Tong Xin Tong Le")	Hong Kong, PRC 24 June 2014 Limited liability company	100%	100%	HKD10,000	Retail of Chinese medicine and healthcare products and provision of Chinese medical consultation and treatment Hong Kong, PRC

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

## 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
		2015	2014		
<i>Subsidiaries: (Cont'd)</i>					
Honour Essence Trading Limited ("Honour Essence")	Hong Kong, PRC 10 March 1997 Limited liability company	51%	–	HKD2,000	Wholesale of Chinese medicine and healthcare products Hong Kong, PRC
Beijing Tong Ren Tang Europe Holding B.V. ("Tong Ren Tang Europe Holding")	Den Haag, the Netherlands 29 May 2015 Limited liability company	75%	–	EUR4	Investment holding Den Haag, Netherlands
Beijing Tong Ren Tang USA, Inc ("Tong Ren Tang US Holding")	Arcadia, United States 6 January 2015 Limited liability company	85%	–	USD1,000,000	Investment holding Arcadia, United States
Beijing Tong Ren Tang Pudu Health Centre B.V. ("Tong Ren Tang Pudu")	Den Haag, the Netherlands 6 August 2015 Limited liability company	60%	–	Euro650,000	Retail of healthcare products and provision of Chinese medical consultation and treatment Den Haag, Netherlands
Beijing Tong Ren Tang Czech Republic SE ("Tong Ren Tang Czech")	Prague, Czech Republic 5 December 2015 Limited liability company	60%	–	Euro120,000	Retail of healthcare products and provision of Chinese medical consultation and treatment Prague, Czech Republic
Beijing Tong Ren Tang Sweden AB ("Tong Ren Tang Sweden")	Stockholm, Sweden 18 September 2015 Limited liability company	60%	–	SEK50,000	Retail of healthcare products and provision of Chinese medical consultation and treatment Stockholm, Sweden

<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%. On 27 February 2015, Tong Ren Tang Chinese Medicine completed the purchase of 51% of the issued share capital of Honour Essence by the issue of its 7,100,000 ordinary shares to an independent third party. As a result, the percentage of equity interest held by the Company was further diluted from 38.38% to 38.05% (Note 35(a)). Although the Group owns less than half of the equity interest, it is able to gain power over more than half of the voting rights by virtue of an agreement with Beijing Tong Ren Tang Company Limited ("Parent Company"). Consequently, the Group consolidates Tong Ren Tang Chinese Medicine.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

## 1. GENERAL INFORMATION (CONT'D)

The following is a list of joint ventures as at 31 December 2014 and 2015:

Name	Place/date of incorporation/ kind of legal entity	Percentage of equity interest held	Issued/ registered and paid-up capital	Principal activities
		<b>2015</b>	2014	
<i>Joint ventures:</i>				
Beijing Tong Ren Tang Bozhou Chinese Medicinal Raw Materials and Logistics Co., Limited <sup>(1)</sup> ("Tong Ren Tang Bozhou")	Anhui, PRC 12 July 2011 Limited liability company	<b>40%*</b>	40%* RMB5,000,000	Purchasing, processing and selling of Chinese medicinal raw materials, storage and logistics
Peking Tong Ren Tang (M) SDN. BHD. <sup>(1)</sup> ("Tong Ren Tang Malaysia")	Kuala Lumpur, Malaysia 19 January 2001 Limited liability company	<b>60%</b>	60% MYR1,900,000	Retail of Chinese medicine and healthcare products and provision of Chinese medical consultation and treatment
PT. Beijing Tong Ren Tang Indo. ("Tong Ren Tang Indonesia")	Jakarta, Indonesia 22 September 2003 Limited liability company	<b>50%</b>	50% USD1,000,000	Investment holding
Beijing Tong Ren Tong (Thailand) Company Limited <sup>(1)</sup> ("Tong Ren Tang Thailand")	Bangkok, Thailand 23 March 2000 Limited liability company	<b>49%</b>	49% 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. <sup>(1)</sup> ("Tong Ren Tang Boryung")	Boryung, Korea 10 May 2002 Limited liability company	<b>51%</b>	51% WON1,829,835,000	Wholesale of Chinese medicine and healthcare products

\* *Equity interests directly held by the Company*

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

## 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	
		<b>2015</b>	2014		
<i>Joint ventures: (Cont'd)</i>					
Beijing Tong Ren Tong (Thai Boon Roong) Company Limited <sup>(1)</sup> ("Tong Ren Tang Thai Boon Roong")	Phnom Penh, Cambodia 29 December 2005 Limited liability company	<b>51%</b>	51%	USD500,000	Retail of Chinese medicine and healthcare products
Union Health International Limited ("Union Health")	Hong Kong, PRC 3 May 2004 Limited liability company	<b>50%</b>	50%	HKD10,000	Retail of Chinese medicine and healthcare products and provision of Chinese medical consultation and treatment

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

The following is a list of associate (held indirectly) as at 31 December 2014 and 2015:

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>					
Beijing Tong Ren Tang (Hong Kong) Ltd.	Hong Kong, PRC 2 April 2015 Limited liability company	<b>30%</b>	–	HKD10,000	E-commerce

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2015



## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

### 2.1 *Basis of preparation*

The consolidated financial statements of Tong Ren Tang Technologies Co. Ltd. have been prepared in accordance with all applicable 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 1 January 2015:

Annual Improvements Project	Annual Improvements 2010-2012 Cycle and 2011-2013 Cycle
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The adoption of above new standards and amendments to standards does not have any significant financial effect on these consolidated financial statements.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

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

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

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

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

The following are new/revised standards and amendments to existing standards that have been published and are relevant and mandatory for the Group's accounting periods beginning on or after 1 January 2016 or later periods, but have not been early adopted by the Group.

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

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

<sup>(2)</sup> Effective for the accounting period beginning on 1 January 2018

<sup>(3)</sup> Effective for the accounting period beginning on 1 January 2019

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.

##### (c) New Hong Kong Companies Ordinance (Cap.622)

In addition, the requirements of Part 9 "Accounts and Audit" of the new Hong Kong Companies Ordinance (Cap. 622) come into operation during the financial year, as a result, there are changes to presentation and disclosures of certain information in the consolidated financial statements.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

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

### 2.2 Subsidiaries

#### 2.2.1 Consolidation

A subsidiary is an entity (including a structured entity) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

Subsidiaries are consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

##### (a) *Merger accounting for common control combinations*

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

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

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

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

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

## 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*

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.

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 unless the transaction provides evidence of an impairment of the transferred asset. When necessary, amounts reported by subsidiaries have been adjusted to conform with the Group's accounting policies.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

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

### 2.2 *Subsidiaries* (Cont'd)

#### 2.2.1 Consolidation (Cont'd)

##### (c) *Changes in ownership interests in subsidiaries without change of control*

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

#### 2.2.2 Separate financial statements

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

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

### 2.3 *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.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

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

### 2.3 *Associates (Cont'd)*

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)/profit of investments accounted for using the equity method' in the income statement.

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

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

### 2.4 *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.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

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

### 2.4 *Joint ventures (Cont'd)*

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.

### 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'.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

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

### 2.6 Foreign currency translation (Cont'd)

#### (c) Group companies

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

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and
- all resulting exchange differences are recognised in other comprehensive income.

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

### 2.7 Leasehold land and land use rights

Leasehold land and land use rights are stated at cost less accumulated amortisation and impairment losses. Cost represents consideration paid for the rights to use the land for periods varying from 10 to 50 years. Amortisation of leasehold land and land use rights are calculated on a straight-line basis over the period of the leasehold land and land use rights.

### 2.8 Property, plant and equipment

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

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

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

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

### 2.8 *Property, plant and equipment* (Cont'd)

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

Buildings and leasehold land held under finance lease	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 2.11).

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 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.

### 2.9 *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 2.11.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

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

### 2.10 Intangible assets

#### (a) Goodwill

Goodwill arises on the acquisition of subsidiaries represents 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 identified net assets acquired.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units ("CGUs"), or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of the CGU containing the goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs of disposal. Any impairment is recognised immediately as an expense and is not subsequently reversed.

#### (b) Contractual customer relationships

Contractual customer relationships acquired in a business combination are recognised at fair value at the acquisition date. The contractual customer relations have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method by ten years over the expected life of the customer relationships.

#### (c) Patented technology and computer software

Costs associated with maintaining patented technology and computer software programmes are recognised as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique patented technology and software products controlled by the Group are recognised as intangible assets when the following criteria are met:

- it is technically feasible to complete the product so that it will be available for use;
- management intends to complete the product and use or sell it;
- there is an ability to use or sell the product;
- it can be demonstrated how the product will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the product are available; and
- the expenditure attributable to the product during its development can be reliably measured.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

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

### 2.10 Intangible assets (Cont'd)

#### (c) Patented technology and computer software (Cont'd)

Directly attributable costs that are capitalised as part of the patented technology and software product include the development employee costs and an appropriate portion of relevant overheads.

Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

Patented technology and computer software development costs recognised as assets are amortised over their estimated useful lives, which does not exceed ten years.

### 2.11 Impairment of non-financial assets

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

### 2.12 Financial assets

#### 2.12.1 Classification

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

#### *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for the amounts that are settled or expected to be settled more than 12 months after the end of the reporting period. These are classified as non-current assets. The Group's loans and receivables comprise 'trade and bill receivables', 'amounts due from related parties', 'short-term bank deposits' and 'cash and cash equivalents' in the balance sheet (Notes 2.15 and 2.16).

#### 2.12.2 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

For the year ended 31 December 2015

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

### 2.13 *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.

### 2.14 *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.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

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

### 2.15 Trade and other receivables

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

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

### 2.16 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.

### 2.17 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.

### 2.18 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.

### 2.19 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.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

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

### 2.20 *Borrowing costs*

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

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

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

### 2.21 *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, joint ventures 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.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

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

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

#### (b) Deferred income tax (Cont'd)

##### *Outside basis differences*

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

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

#### (c) Offsetting

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income 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.

### 2.22 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.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

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

### 2.22 *Employee benefits (Cont'd)*

#### (b) Termination benefits

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

### 2.23 *Provision*

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

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

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

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

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

### 2.24 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) Advertising services

The Group provides advertising services. Advertising 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.

#### (c) Chinese medical consultation services

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.

#### (d) Royalty fee

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

For the year ended 31 December 2015

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

### 2.25 *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.

### 2.26 *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.

### 2.27 *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.

### 2.28 *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

For the year ended 31 December 2015

## 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

The Group operates internationally and foreign exchange risk arises from commercial transactions, recognised assets and liabilities and net investments in foreign operations, 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 2015 and 2014 would increase/decrease as follows:

The Group	2015		2014	
	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
HKD	19,099	(19,099)	17,449	(17,449)

##### (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 at 31 December 2015 and 2014, the Group's borrowings were at fixed rates. The interest rates and repayment terms of the Group's borrowings are disclosed in Note 18. The Group has not used any interest rate swaps to hedge its exposure to interest rate risk. However, the current debt level of the Group is relatively low and the exposure to the fair value interest rate risk is limited for the Group. The management of the Group monitors the interest rate exposure regularly.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

## 3. FINANCIAL RISK MANAGEMENT (CONT'D)

### 3.1 Financial risk factors (Cont'd)

#### (b) Credit risk

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

Cash at bank and short-term bank deposits are deposited with high-credit-quality financial institutions. The Group has policies that limit the amount of credit exposure to any financial institution. As at 31 December 2015, majority of the bank deposits are placed with state-owned banks and listed financial institutions, which are at lower credit risk.

	As at 31 December	
	2015 RMB'000	2014 RMB'000
State-owned banks and listed financial institutions (Note 31(b))	2,157,544	2,130,608
Other banks	96,128	17,283
	<b>2,253,672</b>	<b>2,147,891</b>

#### (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 33.

Substantially all of the Group's borrowings will mature within one year (Note 18). Also, the trade and bills payables, amounts due to related parties and other 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 financial liabilities approximate their fair values as the impact of discounting is not significant.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

## 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	
	2015 RMB'000	2014 RMB'000
Total borrowings	181,970	100,000
Total equity	5,152,035	4,436,154
Gearing ratio	3.5%	2.3%

### 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.

### (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.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

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

### (ii) *Estimated provision for impairment of receivables*

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

### (iii) *Income taxes*

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

## 5. SEGMENT INFORMATION

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

The Directors in the Board of Directors consider the business from an operational entity perspective. Generally, the Directors in the Board of Directors 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) Tong Ren Tang Chinese Medicine engaged in manufacturing, retail and wholesale of Chinese medicine products and healthcare products, and provision of Chinese medical consultation and treatments outside Mainland China and wholesale of healthcare products in Mainland China ("Tong Ren Tang Chinese Medicine" Segment).

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.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

## 5. SEGMENT INFORMATION (CONT'D)

The segment information provided to the Directors in the Board of Directors for the reportable segments for the year ended 31 December 2015 is as follows:

	The Company RMB'000	Tong Ren Tang Chinese Medicine RMB'000	All other segments RMB'000	Total RMB'000
Segment revenue	2,925,362	783,125	723,659	4,432,146
Inter-segment revenue	(16,792)	–	(428,230)	(445,022)
Revenue from external customers	2,908,570	783,125	295,429	3,987,124
Profit after income tax	418,085	301,535	22,410	742,030
Interest income	13,816	7,551	1,544	22,911
Interest expense	(916)	(173)	(1,538)	(2,627)
Depreciation of property, plant and equipment	(31,716)	(17,379)	(18,509)	(67,604)
Amortisation of prepaid operating lease payments	(2,101)	(436)	(913)	(3,450)
Provision for impairment of inventories	(22,426)	–	–	(22,426)
Provision for impairment of receivables	(3,508)	–	–	(3,508)
Share of profit/(loss) of investments accounted for using the equity method	5	(3,539)	–	(3,534)
Income tax expense	(66,310)	(66,039)	(24,451)	(156,800)
Segment assets and liabilities				
Total assets	3,730,543	1,698,168	753,542	6,182,253
Investments accounted for using the equity method	2,000	19,339	–	21,339
Additions to non-current assets (other than deferred tax assets)	113,309	74,008	81,208	268,525
Total liabilities	691,174	98,842	240,202	1,030,218

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

## 5. SEGMENT INFORMATION (CONT'D)

The segment information for the year ended 31 December 2014 is as follows:

	The Company RMB'000	Tong Ren Tang Chinese Medicine RMB'000	All other segments RMB'000	Total RMB'000
Segment revenue	2,493,608	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)
Amortisation of prepaid operating lease payments	(2,100)	(430)	(644)	(3,174)
(Provision for)/reversal of provision for impairment of inventories	(5,540)	92	–	(5,448)
Provision for impairment of receivables	(543)	–	–	(543)
Share of (loss)/profit of investments accounted for using the equity method	(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
Investments accounted for using the equity method	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

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

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

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

## 5. SEGMENT INFORMATION (CONT'D)

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

The total of the non-current assets other than deferred income tax assets located in Mainland China is RMB1,007,469,000 (2014: RMB840,851,000), and the total of these non-current assets located in other countries and regions is RMB305,182,000 (2014: RMB241,430,000).

During the year revenue from two customers each accounted for ten percent or more of the Group's total external revenue. These revenues are mainly attributable to The Company Segment and Tong Ren Tang Chinese Medicine Segment. The revenues from these customers are summarised below:

	2015 RMB'000
Entities under control of ultimate holding company	700,879
Customer A	561,892
	<hr/> 1,262,771 <hr/>

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## 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:

	2015 RMB'000	2014 RMB'000
At 1 January	146,523	137,693
Additions	3,441	11,952
Acquisition of subsidiaries (Note 35)	4,900	–
Amortisation	(3,450)	(3,174)
Exchange differences	844	52
At 31 December	<hr/> 152,258 <hr/>	<hr/> 146,523 <hr/>

As at 31 December 2015, bank borrowings are secured on land use right for the carrying amount of RMB436,000 (2014: Nil) (Note 18).

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

## 7. PROPERTY, PLANT AND EQUIPMENT

	Buildings and leasehold land held under finance lease RMB'000	Equipment and machinery RMB'000	Motor vehicles RMB'000	Office equipment RMB'000	CIP RMB'000	Total RMB'000
<b>At 1 January 2014</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)
<b>Net book amount</b>	<b>324,897</b>	<b>132,497</b>	<b>13,764</b>	<b>14,294</b>	<b>170,578</b>	<b>656,030</b>
<b>Year ended 31 December 2014</b>						
Opening net book amount	324,897	132,497	13,764	14,294	170,578	656,030
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)
Exchange differences	(2,251)	(271)	87	(6)	–	(2,441)
<b>Closing net book amount</b>	<b>441,265</b>	<b>181,579</b>	<b>14,204</b>	<b>14,473</b>	<b>238,890</b>	<b>890,411</b>
<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)
<b>Net book amount</b>	<b>441,265</b>	<b>181,579</b>	<b>14,204</b>	<b>14,473</b>	<b>238,890</b>	<b>890,411</b>
<b>Year ended 31 December 2015</b>						
Opening net book amount	441,265	181,579	14,204	14,473	238,890	890,411
Additions	16,375	3,069	776	7,158	169,289	196,667
Acquisition of subsidiaries (Note 35)	9,416	3,778	865	220	13,134	27,413
Transferred from CIP	2,267	46,791	1,144	1,539	(51,741)	–
Disposals	(5)	(891)	(23)	(399)	(1,714)	(3,032)
Depreciation	(23,578)	(34,258)	(3,435)	(6,333)	–	(67,604)
Exchange differences	7,873	687	36	147	–	8,743
<b>Closing net book amount</b>	<b>453,613</b>	<b>200,755</b>	<b>13,567</b>	<b>16,805</b>	<b>367,858</b>	<b>1,052,598</b>
<b>At 31 December 2015</b>						
Cost	630,453	535,905	33,282	43,984	367,858	1,611,482
Accumulated depreciation	(176,840)	(322,882)	(19,715)	(27,179)	–	(546,616)
Accumulated impairment	–	(12,268)	–	–	–	(12,268)
<b>Net book amount</b>	<b>453,613</b>	<b>200,755</b>	<b>13,567</b>	<b>16,805</b>	<b>367,858</b>	<b>1,052,598</b>

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

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

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

	2015 RMB'000	2014 RMB'000
Cost of sales	47,141	40,086
Distribution expenses	9,257	6,666
Administrative expenses	11,206	9,360
	<b>67,604</b>	<b>56,112</b>

During the year, the Group has capitalised borrowing costs amounting to RMB4,900,000 (2014: RMB5,613,000) on qualifying assets. Borrowing costs were capitalised at the weighted average rate of its general borrowings of 4.91% (2014: 5.27%).

As at 31 December 2015, bank borrowings are secured by land and buildings with carrying amount of RMB12,062,000 (2014: Nil) (Note 18).

## 8. INTANGIBLE ASSETS

	Goodwill RMB'000	Contractual customer relationships RMB'000	Patented technology and computer software RMB'000	Total RMB'000
<b>At 1 January 2014</b>				
Cost	–	–	3,603	3,603
Accumulated amortisation	–	–	(1,529)	(1,529)
Net book amount	–	–	2,074	2,074
<b>Year ended 31 December 2014</b>				
Opening net book amount	–	–	2,074	2,074
Additions	–	–	610	610
Amortisation	–	–	(808)	(808)
Closing net book amount	–	–	1,876	1,876
<b>At 31 December 2014</b>				
Cost	–	–	4,213	4,213
Accumulated amortisation	–	–	(2,337)	(2,337)
Net book amount	–	–	1,876	1,876
<b>Year ended 31 December 2015</b>				
Opening net book amount	–	–	1,876	1,876
Additions	–	–	2,411	2,411
Acquisition of subsidiaries (Note 35)	42,307	10,305	3,550	56,162
Amortisation	–	(872)	(1,087)	(1,959)
Exchange differences	2,228	550	–	2,778
Closing net book amount	44,535	9,983	6,750	61,268
<b>At 31 December 2015</b>				
Cost	44,535	10,855	10,174	65,564
Accumulated amortisation	–	(872)	(3,424)	(4,296)
Net book amount	44,535	9,983	6,750	61,268

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

## 8. INTANGIBLE ASSETS (CONT'D)

The goodwill acquired in the acquisitions of Honour Essence and Tong Ren Tang Chengdu (Note 35) is allocated to each unit respectively. The recoverable amounts of these CGUs are determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using estimated growth rates of 3% and 0% for Honour Essence and Tong Ren Tang Chengdu respectively. Other key assumptions used for value-in-use calculations include 20% and 12% discount rates applied to the cash flow projections of Honour Essence and Tong Ren Tang Chengdu respectively.

Management determined annual volume growth rate covering over the five-year forecast period to be a key assumption. The volume of sales in each period is the main driver for revenue and costs. The annual volume growth rates are based on past performance and management's expectations of market development. The discount rates used are pre-tax and reflect specific risks relating to the relevant business.

Amortisation expenses were charged to the consolidated income statements under administrative expenses.

## 9. SUBSIDIARIES

### *Material non-controlling interests*

As at 31 December 2015, the total non-controlling interest is RMB1,193,734,000 (2014: RMB886,566,000), of which RMB1,020,449,000 (2014: 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*

	Tong Ren Tang Chinese Medicine As at 31 December	
	2015 RMB'000	2014 RMB'000
<b>Current</b>		
Assets	1,385,848	1,041,073
Liabilities	(94,433)	(71,794)
Total current net assets	1,291,415	969,279
<b>Non-current</b>		
Assets	312,320	246,839
Liabilities	(4,483)	(3,688)
Total non-current net assets	307,837	243,151
Non-controlling interests	(78,087)	(40,323)
Net assets	1,521,165	1,172,107

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

## 9. SUBSIDIARIES (CONT'D)

### *Summarised statement of comprehensive income*

	Tong Ren Tang Chinese Medicine	
	2015 RMB'000	2014 RMB'000
Revenue	783,125	603,895
Profit before income tax	367,574	281,476
Income tax expense	(66,039)	(47,957)
Profit for the year	301,535	233,519
Other comprehensive income/(loss)	74,572	(4,226)
<b>Total comprehensive income</b>	<b>376,107</b>	<b>229,293</b>
Total comprehensive income allocated to non-controlling interests	16,546	1,952
Dividends paid to non-controlling interests	4,900	2,291

### *Summarised statement of cash flows*

	Tong Ren Tang Chinese Medicine	
	2015 RMB'000	2014 RMB'000
Cash generated from operations	343,858	247,269
Income tax paid	(59,227)	(53,342)
Net cash generated from operating activities	284,631	193,927
Net cash used in investing activities	(79,883)	(57,752)
Net cash used in financing activities	(65,327)	(44,462)
Net increase in cash and cash equivalents	139,421	91,713
Cash and cash equivalents at beginning of year	444,453	357,142
Exchange gain/(loss) on cash and cash equivalents	52,721	(4,402)
<b>Cash and cash equivalents at end of year</b>	<b>636,595</b>	<b>444,453</b>

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

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

## 10. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

	As at 31 December	
	2015 RMB'000	2014 RMB'000
Joint ventures	21,339	22,396
Associates	–	–
	<b>21,339</b>	<b>22,396</b>

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

	2015 RMB'000	2014 RMB'000
(Loss)/profit for the year	(379)	188
Other comprehensive loss		
– Currency translation difference	(678)	(532)
Total comprehensive loss	<b>(1,057)</b>	<b>(344)</b>
The Group's share of joint ventures' commitments	<b>2,384</b>	<b>2,810</b>

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.

The following amounts represent the Group's share of the results of the associates.

	2015 RMB'000	2014 RMB'000
Loss for the year	(3,155)	–
Other comprehensive income		
– Currency translation difference	5	–
Total comprehensive loss	<b>(3,150)</b>	<b>–</b>

Notes:

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

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

## 11. FINANCIAL INSTRUMENTS BY CATEGORY

	Loans and receivables As at 31 December	
	2015 RMB'000	2014 RMB'000
<b>Assets as per consolidated balance sheet</b>		
Trade and bills receivables	378,293	290,488
Amounts due from related parties	109,478	98,856
Other current assets		
– deposits and structured deposits	29,864	41,509
Short-term bank deposits	724,261	376,200
Cash and cash equivalents	1,534,984	1,774,389
<b>Total</b>	<b>2,776,880</b>	<b>2,581,442</b>

	Financial liabilities at amortised cost As at 31 December	
	2015 RMB'000	2014 RMB'000
<b>Liabilities as per consolidated balance sheet</b>		
Trade and bills payables	372,067	421,924
Amounts due to related parties	43,524	84,118
Other payables	195,984	200,662
Borrowings	181,970	100,000
<b>Total</b>	<b>793,545</b>	<b>806,704</b>

## 12. TRADE AND BILLS RECEIVABLES

	As at 31 December	
	2015 RMB'000	2014 RMB'000
Trade receivables	283,296	201,221
Bills receivables	116,329	107,057
	<b>399,625</b>	<b>308,278</b>
Less: provision for impairment	(21,332)	(17,790)
<b>Trade and bills receivables, net</b>	<b>378,293</b>	<b>290,488</b>

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

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

## 12. TRADE AND BILLS RECEIVABLES (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 at 31 December 2015 and 2014, the ageing analysis of trade and bills receivables based on invoice date was as follows:

	As at 31 December	
	2015 RMB'000	2014 RMB'000
Within 4 months	356,298	281,799
Over 4 months but within 1 year	32,063	20,874
Over 1 year but within 2 years	5,742	274
Over 2 years but within 3 years	211	20
Over 3 years	5,311	5,311
	<b>399,625</b>	<b>308,278</b>

As at 31 December 2015, trade receivables of RMB71,357,000 (2014: RMB97,371,000) were past due but not impaired. These relate to a number of independent customers for whom there is no significant financial difficulty and based on past experience, the overdue amounts can be recovered. The ageing analysis of these trade receivables is as follows:

	As at 31 December	
	2015 RMB'000	2014 RMB'000
Over 4 months but within 1 year	65,308	96,900
Over 1 year but within 2 years	5,594	219
Over 2 years but within 3 years	203	–
Over 3 years	252	252
	<b>71,357</b>	<b>97,371</b>

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

## 12. TRADE AND BILLS RECEIVABLES (CONT'D)

As at 31 December 2015, trade receivables of RMB21,332,000 (2014: RMB17,790,000) 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:

	As at 31 December	
	2015 RMB'000	2014 RMB'000
Within 4 months	9,611	10,360
Over 4 months	11,721	7,430
	<b>21,332</b>	17,790

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

	2015 RMB'000	2014 RMB'000
At 1 January	17,790	17,247
Provision for impairment	3,508	543
Acquisition of subsidiaries (Note 35)	34	–
At 31 December	<b>21,332</b>	17,790

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:

	As at 31 December	
	2015 RMB'000	2014 RMB'000
RMB	308,213	248,430
HKD	89,041	55,299
United States Dollar	1,185	2,158
Korean Won	898	1,872
Australian Dollar	188	253
Polish Zloty	21	114
New Zealand Dollar	25	99
Macanese Pataca	43	34
Brunei Ringgit	7	19
UAE Dirham	4	–
	<b>399,625</b>	308,278

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

## 13. INVENTORIES

	As at 31 December	
	2015 RMB'000	2014 RMB'000
Raw materials	626,056	617,115
Work-in-progress	369,005	323,299
Finished goods	992,785	825,767
	<b>1,987,846</b>	1,766,181
Less: provision for impairment	(29,644)	(16,346)
	<b>1,958,202</b>	1,749,835

The cost of inventories recognised as expense and included in 'cost of sales' amounted to RMB969,634,000 (2014: RMB952,667,000).

## 14. DEFERRED INCOME TAX

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

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

	As at 31 December	
	2015 RMB'000	2014 RMB'000
Deferred tax assets:		
– Deferred tax assets to be recovered after 12 months	2,560	3,049
– Deferred tax assets to be recovered within 12 months	26,605	14,487
	<b>29,165</b>	17,536
Deferred tax liabilities:		
– Deferred tax liabilities to be settled after 12 months	(5,288)	(2,845)
– Deferred tax liabilities to be settled within 12 months	(1,979)	(1,419)
	<b>(7,267)</b>	(4,264)
Deferred tax assets, net	<b>21,898</b>	13,272

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

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

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

### *Deferred income tax assets*

	2015 RMB'000	2014 RMB'000
Beginning of the year	17,536	14,051
Credited to income statement	11,389	3,485
Exchange differences	240	–
End of the year	29,165	17,536

	Provision for termination benefits RMB'000	Other provisions and amortisation RMB'000	Unrealised profit resulting from intragroup transactions RMB'000	Deferred income arising from government grant RMB'000	Others RMB'000	Total RMB'000
At 1 January 2014	308	5,178	7,167	1,329	69	14,051
(Charged)/credited to income statement	(82)	(590)	4,253	(27)	(69)	3,485
At 31 December 2014	226	4,588	11,420	1,302	–	17,536
(Charged)/credited to income statement	(82)	1,820	9,679	(28)	–	11,389
Exchange differences	–	9	231	–	–	240
<b>At 31 December 2015</b>	<b>144</b>	<b>6,417</b>	<b>21,330</b>	<b>1,274</b>	<b>–</b>	<b>29,165</b>

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

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

### *Deferred income tax liabilities*

	2015 RMB'000	2014 RMB'000
Beginning of the year	4,264	3,340
(Credited)/charged to income statement	(1,928)	924
Acquisition of subsidiaries (Note 35)	4,712	–
Exchange differences	219	–
<b>End of the year</b>	<b>7,267</b>	<b>4,264</b>

	Accelerated tax depreciation allowance RMB'000	Deferred income tax liabilities arising from business combination RMB'000	Total RMB'000
At 1 January 2014	2,781	559	3,340
Charged/(credited) to income statement	1,123	(199)	924
At 31 December 2014	3,904	360	4,264
Credited to income statement	(729)	(1,199)	(1,928)
Acquisition of subsidiaries (Note 35)	–	4,712	4,712
Exchange differences	151	68	219
<b>At 31 December 2015</b>	<b>3,326</b>	<b>3,941</b>	<b>7,267</b>

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 RMB6,326,000 (2014: RMB3,092,000) in respect of losses amounting to RMB35,736,000 (2014: RMB16,243,000) at 31 December 2015. At 31 December 2015, these tax losses have no expiry dates except for the tax losses of RMB11,438,000 (2014: RMB6,503,000) which will expire between 2016 and 2020 (2014: between 2015 and 2019).

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

## 15. SHARE CAPITAL

	As at 31 December			
	2015		2014	
	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>	1,280,784,000	1,280,784
Issued and fully paid				
– Domestic shares with a par value of RMB1 per share	<b>652,080,000</b>	<b>652,080</b>	652,080,000	652,080
– H shares with a par value of RMB1 per share	<b>628,704,000</b>	<b>628,704</b>	628,704,000	628,704
	<b>1,280,784,000</b>	<b>1,280,784</b>	1,280,784,000	1,280,784

	2015			2014		
	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>652,080</b>	<b>628,704</b>	<b>1,280,784</b>	326,040	314,352	640,392
Capitalisation of the reserve	–	–	–	326,040	314,352	640,392
At 31 December	<b>652,080</b>	<b>628,704</b>	<b>1,280,784</b>	652,080	628,704	1,280,784

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

For the year ended 31 December 2015

## 16. RESERVES

### (a) *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.

### (b) *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 RMB44,904,000 (2014: RMB39,686,000), 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 2015.

In accordance with the amendment of the Company Law of the PRC on 27 October 2005 effective from 1 January 2006, it is not required 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.

### (c) *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.

### (d) *Foreign currency translation differences*

Foreign currency translation differences reserve arises from currency translations of all group entities that have a functional currency different from the RMB being translated into the Group’s presentation currency of RMB.

### (e) *Other reserve*

Other reserve mainly includes reserves arising from the issuance of additional shares by subsidiaries and disposals to non-controlling interests without change in control.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

## 17. DEFERRED INCOME - GOVERNMENT GRANTS

	2015 RMB'000	2014 RMB'000
Beginning of the year	74,053	75,567
Government grants received	19,429	6,960
Amortisation in the income statement (Note 23)	(7,228)	(8,474)
End of the year	86,254	74,053

The ending balance of the government grants are relating to:

	As at 31 December	
	2015 RMB'000	2014 RMB'000
Research and development expenditure	25,598	11,568
Property, plant and equipment	19,727	17,795
Land use rights	23,612	24,133
Other expenditures	17,317	20,557
Total	86,254	74,053

## 18. BORROWINGS

	As at 31 December	
	2015 RMB'000	2014 RMB'000
<b>Non-current</b>		
Bank borrowings		
– Secured	470	–
<b>Current</b>		
Bank borrowings		
– Secured	4,500	–
– Unsecured	177,000	100,000
Total borrowings	181,970	100,000

Certain secured bank borrowings are secured by land and buildings of carrying amounts of RMB12,498,000 (2014: Nil) (Notes 6 and 7) of the Group.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

## 18. BORROWINGS (CONT'D)

(a) At 31 December 2015, the Group's borrowings would be repayable as follows:

	As at 31 December	
	2015 RMB'000	2014 RMB'000
Within 1 year	181,500	100,000
Between 2 and 5 years	470	–
	<b>181,970</b>	100,000

(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:

	As at 31 December	
	2015 RMB'000	2014 RMB'000
RMB	181,500	100,000
Australian Dollar	470	–
	<b>181,970</b>	100,000

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

	2015	2014
Bank borrowings		
– RMB	4.869%	5.456%
– Australian Dollar	6.260%	–

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

## 19. TRADE AND BILLS PAYABLES

As at 31 December 2015, the ageing analysis of trade and bills payables based on invoice date was as follows:

	As at 31 December	
	2015 RMB'000	2014 RMB'000
Within 4 months	348,042	357,113
Over 4 months but within 1 year	21,493	63,400
Over 1 year but within 2 years	2,532	1,411
	<b>372,067</b>	<b>421,924</b>

## 20. SALARY AND WELFARE PAYABLES

	As at 31 December	
	2015 RMB'000	2014 RMB'000
Salary payable	16,339	15,805
Welfare payable	6,287	4,040
	<b>22,626</b>	<b>19,845</b>

## 21. REVENUE

	As at 31 December	
	2015 RMB'000	2014 RMB'000
Sales of Chinese medicine products		
– Mainland China	3,275,146	2,807,902
– Outside Mainland China	649,409	477,972
	<b>3,924,555</b>	<b>3,285,874</b>
Advertising services		
– Mainland China	34,186	32,604
Chinese medical consultation services		
– Outside Mainland China	27,752	22,134
Royalty fee		
– Outside Mainland China	631	554
	<b>3,987,124</b>	<b>3,341,166</b>

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

## 22. FINANCE INCOME AND COSTS

	2015 RMB'000	2014 RMB'000
<b>Finance income</b>		
Interest income	22,911	28,596
Exchange gains, net	1,113	3,791
	<b>24,024</b>	<b>32,387</b>
<b>Finance costs</b>		
Interest on bank borrowings	(7,527)	(9,204)
Less: amounts capitalised on qualifying assets (Note 7)	4,900	5,613
	<b>(2,627)</b>	<b>(3,591)</b>
<b>Finance income – net</b>	<b>21,397</b>	<b>28,796</b>

## 23. EXPENSE BY NATURE

Operating profit was arrived at after charging/(crediting) the following:

	2015 RMB'000	2014 RMB'000
Raw materials and consumables used	1,182,358	1,190,196
Change in inventories of finished goods and work-in-progress	(212,724)	(237,529)
Employee benefit expense (Note 24)	630,535	504,493
Depreciation of property, plant and equipment (Note 7)	67,604	56,112
Amortisation of prepaid operating lease payments (Note 6)	3,450	3,174
Amortisation of intangible assets (Note 8)	1,959	808
Amortisation of other long-term assets	1,185	446
Provision for impairment of inventories	22,426	5,448
Provision for impairment of receivables (Note 12)	3,508	543
Operating lease rental	102,318	87,505
Auditor's remuneration		
– Audit services	5,282	4,843
– Non-audit services	323	515
Research and development costs	25,186	19,528
Loss on disposal of property, plant and equipment	950	518
Amortisation of deferred income – government grants (Note 17)	(7,228)	(8,474)
Processing costs	219,142	191,527
Advertising and promotion expenses	244,006	185,536
Transportation	81,049	57,278
Repair and maintenance	49,127	40,081
Utilities	58,144	57,648
Other taxes	45,249	39,207

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

## 24. EMPLOYEE BENEFIT EXPENSE

	2015 RMB'000	2014 RMB'000
Salary and wages	465,410	373,678
Staff welfare	55,473	42,624
Housing fund	27,004	21,884
Contribution to pension schemes	82,648	66,307
	<b>630,535</b>	<b>504,493</b>

The five individuals whose emoluments before individual income tax were the highest in the Group for the year include one (2014: one) director and one (2014: one) supervisor whose emoluments are reflected in the analysis presented in Note 28. The emoluments payable to the remaining three (2014: three) individuals during the year are as follows:

	2015 RMB'000	2014 RMB'000
Basic salaries, allowances and bonuses	4,686	4,503
Contribution to pension scheme	103	39
	<b>4,789</b>	<b>4,542</b>

The emoluments fell within the following band:

	2015	2014
RMB805,001-RMB1,207,500 (Equivalent to HKD1,000,001-HKD1,500,000)	1	-
RMB1,207,501-RMB1,610,000 (Equivalent to HKD1,500,001-HKD2,000,000)	1	2
RMB1,610,001-RMB2,012,500 (Equivalent to HKD2,000,001-HKD2,500,000)	-	-
RMB2,012,501-RMB2,415,000 (Equivalent to HKD2,500,001-HKD3,000,000)	-	1
RMB2,415,001-RMB2,817,500 (Equivalent to HKD3,000,001-HKD3,500,000)	1	-

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

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

## 25. INCOME TAX EXPENSE

Pursuant to the Corporate Income Tax Law of the PRC effective from 1 January 2008, enterprises with a High/New Technology Enterprise (“HNTE”) status are able to enjoy a preferential tax rate of 15%. For the entities without the HNTE status, the PRC income tax rate is 25% (2014: 25%). As of 31 December 2015 and 2014, the Company has obtained the HNTE certificate. Consequently, the applicable income tax rate of the Company in 2015 is 15% (2014: 15%).

Hong Kong profits tax has been provided at the rate of 16.5% (2014: 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.

	2015 RMB'000	2014 RMB'000
Current income tax expense		
– Mainland China	105,986	83,607
– Hong Kong	59,657	40,197
– Overseas	4,474	2,999
	170,117	126,803
Deferred income tax credit	(13,317)	(2,561)
	156,800	124,242

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:

	2015 RMB'000	2014 RMB'000
Profit before income tax	898,830	740,600
Tax calculated at domestic tax rates applicable to profits in the respective countries	203,534	164,143
Tax effects of:		
– Income not subject to tax	(2,255)	(2,223)
– Expenses not deductible for tax purposes	1,300	858
– Utilisation of previously unrecognised temporary differences	–	(561)
– Tax losses and temporary differences for which no deferred income tax assets were recognised	6,190	3,571
– Effect of preferential income tax treatments	(52,708)	(46,822)
– Final settlements and payments	739	5,276
Income tax expense	156,800	124,242

The weighted average applicable tax rate was 22.6% (2014: 22.2%).

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

## 26. EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the profit attributable to owners of the Company of approximately RMB540,481,000 by the weighted average number of 1,280,784,000 shares in issue during the year.

The Company had no dilutive potential shares in 2015 and 2014.

	2015 RMB'000	2014 RMB'000
Profit attributable to owners of the Company	540,481	462,187
Weighted average number of ordinary shares in issue (thousands)	1,280,784	1,280,784
Earnings per share	RMB0.42	RMB0.36

## 27. DIVIDENDS

The cash dividends paid in 2015 and 2014 were RMB179,310,000 (RMB0.14 (including tax) per share based on the total share capital of 1,280,784,000 shares) and RMB160,098,000 (RMB0.25 (including tax) per share based on the total share capital of 640,392,000 shares) respectively.

On 18 March 2016, the Board of Directors proposed a cash dividend in respect of the year ended 31 December 2015 of RMB0.15 (including tax) per share based on the total share capital of 1,280,784,000 shares, amounting to a total of RMB192,117,600, which is subject to the shareholders' approval at the 2015 annual general meeting to be held on Thursday, 16 June 2016. These financial statements do not reflect this dividend payable.

	2015 RMB'000	2014 RMB'000
Interim dividend paid of RMB nil (2014: RMB nil) per ordinary share	-	-
Proposed final cash dividend of RMB0.15 (including tax) (2014: RMB0.14 (including tax)) per ordinary share	192,118	179,310
	192,118	179,310

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

## 28. BENEFITS AND INTERESTS OF DIRECTORS AND SUPERVISORS

### *Directors' and supervisors' emoluments*

For the year ended 31 December 2015:

	Emoluments paid or receivable in respect of a person's services as a director/supervisor, whether of the Company or its subsidiary undertaking				Total RMB'000
	Fees RMB'000	Salary RMB'000	Discretionary bonuses <sup>(3)</sup> RMB'000	Employer's contribution to retirement benefit scheme RMB'000	
<b>Directors:</b>					
Mr. Gao Zhen Kun <sup>(1)</sup>	-	-	-	-	-
Mr. Mei Qun <sup>(2)</sup>	-	-	-	-	-
Mr. Wang Quan <sup>(2)</sup>	-	-	-	-	-
Mr. Gong Qin	-	-	-	-	-
Mr. Gu Hai Ou <sup>(1)</sup>	-	-	-	-	-
Mr. Li Bin <sup>(1)</sup>	-	-	-	-	-
Mr. Wang Yu Wei <sup>(4)</sup>	-	1,270	847	44	2,161
Ms. Fang Jia Zhi	-	508	242	44	794
Miss Tam Wai Chu, Maria	193	-	-	-	193
Mr. Ting Leung Huel, Stephen	193	-	-	-	193
Mr. Jin Shi Yuan	100	-	-	-	100
<b>Supervisors:</b>					
Ms. Ma Bao Jian	-	-	-	-	-
Mr. Wu Yi Gang	100	-	-	-	100
Mr. Bai Jian <sup>(2)</sup>	-	762	484	44	1,290
Ms. Ding Guo Ping <sup>(1)</sup>	-	269	-	43	312

Notes:

- (1) Appointed on 9 June 2015
- (2) Retired on 9 June 2015
- (3) Bonuses are accrued according to current year's results, which will be paid in the following year after Board of Directors approves.
- (4) Chief executive of the Company

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

## 28. BENEFITS AND INTERESTS OF DIRECTORS AND SUPERVISORS (CONT'D)

### *Directors' and supervisors' emoluments (CONT'D)*

For the year ended 31 December 2014:

	Emoluments paid or receivable in respect of a person's services as a director/supervisor, whether of the Company or its subsidiary undertaking		Emoluments paid or receivable in respect of director's/supervisor's other services in connection with the management of the affairs of the Company or its subsidiary undertaking		Total RMB'000
	Fees RMB'000	Salary RMB'000	Discretionary bonuses <sup>(3)</sup> RMB'000	Employer's contribution to retirement benefit scheme RMB'000	
<b>Directors:</b>					
Mr. Mei Qun	-	-	-	-	-
Mr. Wang Quan <sup>(1)</sup>	-	-	-	-	-
Mr. Gong Qin <sup>(1)</sup>	-	-	-	-	-
Mr. Wang Yu Wei <sup>(4)</sup>	-	1,270	770	40	2,080
Ms. Fang Jia Zhi	-	508	220	40	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 <sup>(2)</sup>	-	-	-	-	-
Mr. Xie Zhan Zhong <sup>(2)</sup>	-	-	-	-	-
<b>Supervisors:</b>					
Ms. Ma Bao Jian <sup>(1)</sup>	-	-	-	-	-
Mr. Wu Yi Gang	80	-	-	-	80
Mr. Bai Jian	-	762	440	40	1,242
Mr. Zhang Xi Jie <sup>(2)</sup>	-	-	-	-	-

Notes:

- (1) Appointed on 12 June 2014
- (2) Resigned on 12 June 2014
- (3) Bonuses are accrued according to current year's results, which will be paid in the following year after Board of Directors approves.
- (4) Chief Executive of the Company

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

## 28. BENEFITS AND INTERESTS OF DIRECTORS AND SUPERVISORS (CONT'D)

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

No payments or benefits in respect of termination of directors' and supervisors' services were paid or made, directly or indirectly, to or receivable by any director or supervisor; nor are any payable.

No consideration was provided to or receivable by third parties for making available directors' or supervisors' services.

There are no loans, quasi-loans or other dealings in favour of the directors and supervisors, their controlled bodies corporate and connected entities.

Saved as disclosed in Note 32 and elsewhere in these financial statements, none of the directors and supervisors had a material interest, either directly or indirectly, in any transactions, arrangements and contracts 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 at the end of the year or at any time during the year.

## 29. RETIREMENT AND TERMINATION BENEFITS

Pursuant to the PRC laws and regulations, the Group is required to make monthly contributions to various retirement benefit schemes organised by the relevant provincial and municipal governments for the Group's employees in the PRC at rates ranging from 28% to 32% (2014: 28% to 32%) of the employees' standard salaries, of which 20% to 24% (2014: 20% to 24%) is borne by the Group and the remaining portion is borne by the employees.

The Group's subsidiaries in Hong Kong participate 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 Group provides termination benefits to certain employees up to their normal retirement age as set out in Note 2.22(b). Carrying amounts of the relevant provision included in "Other payables" as at 31 December 2015 and 2014, were approximately RMB960,000 and RMB1,509,000 respectively.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

## 30. HOUSING FUND

The Group's full-time employees in the PRC participate in a state-sponsored housing fund ("Fund"). The housing fund can be used by the Group's employees for purchasing houses, or withdrawn upon their retirement. The Group is required to make annual contributions to the Fund based on certain percentages of the employees' salaries. The Group's liability in respect of the housing fund is limited to the contributions payable in each period. For the year ended 31 December 2015, the Group contributed approximately RMB27,004,000 (2014: RMB21,884,000) to the Fund.

## 31. CASH GENERATED FROM OPERATIONS

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

	2015 RMB'000	2014 RMB'000
Profit before income tax	898,830	740,600
Adjustments for:		
Depreciation of property, plant and equipment (Note 7)	67,604	56,112
Amortisation of prepaid operating lease payments (Note 6)	3,450	3,174
Amortisation of intangible assets (Note 8)	1,959	808
Amortisation of other long-term assets	1,185	446
Provision for impairment of inventories	22,426	5,448
Provision for impairment of receivables (Note 12)	3,508	543
Loss on disposal of property, plant and equipment	950	518
Amortisation of deferred income – government grants (Note 17)	(7,228)	(8,474)
Interest income (Note 22)	(22,911)	(28,596)
Interest expense (Note 22)	2,627	3,591
Exchange gains (Note 22)	(1,113)	(3,791)
Share of loss/(profit) of investments accounted for using the equity method	3,534	(188)
Operating profit before working capital changes	974,821	770,191
Changes in:		
Inventories	(196,638)	(244,267)
Trade and bills receivables	(58,989)	(46,224)
Amounts due from related parties	(10,622)	(20,603)
Prepayments and other current assets	5,258	(31,257)
Trade and bills payables	(80,832)	61,180
Other current liabilities	(156,650)	(34,728)
Amounts due to related parties	(40,594)	926
Proceeds from government grants	19,429	6,960
Cash generated from operations	455,183	462,178

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

## 31. CASH GENERATED FROM OPERATIONS (CONT'D)

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

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

	As at 31 December	
	2015 RMB'000	2014 RMB'000
Cash at bank and in hand		
RMB	834,043	1,213,152
HKD	637,135	505,658
Macanese Pataca	15,979	14,513
Australian Dollar	5,206	12,056
Singapore Dollar	9,728	9,818
Canadian Dollar	8,644	5,145
United States Dollar	8,342	4,581
UAE Dirham	2,064	3,853
New Zealand Dollar	5,196	1,694
Great British Pound	907	1,435
Brunei Ringgit	1,292	1,423
Polish Zloty	171	385
Korean Won	321	353
European Dollar	2,094	323
Czech Koruna	784	–
Swedish Krona	3,078	–
	<b>1,534,984</b>	<b>1,774,389</b>

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

	As at 31 December	
	2015 RMB'000	2014 RMB'000
RMB	288,275	5,000
HKD	429,606	359,850
Singapore Dollar	6,131	6,245
Australian Dollar	209	3,745
Canadian Dollar	–	1,360
European Dollar	40	–
	<b>724,261</b>	<b>376,200</b>

The weighted average effective interest rate on short-term bank deposits was 1.76% (2014: 0.61%) per annum. Cash at bank earns interest at floating rates based on daily bank deposit rates.

As at 31 December 2015, the cash in hand balance of the Group was RMB5,573,000 (2014: RMB2,698,000). Cash at bank and short-term bank deposits balance of the Group was RMB2,253,672,000 (2014: RMB2,147,891,000). Management did not expect any losses from non-performance by those banks.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

## 32. 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.

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.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

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

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

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

	2015 RMB'000	2014 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 2015 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

For the year ended 31 December 2015

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

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

	2015 RMB'000	2014 RMB'000
Sales of Chinese medicine related products (Note (i))	700,879	436,366
Purchases of Chinese medicine related products (Note (ii))	110,355	84,125
Sole overseas exclusive distributorship (Note (iii))	30,383	26,165
Research and development expense (Note (iv))	5,509	6,249
Advertising services income (Note (v))	34,081	32,571
Rental expense	1,449	1,426

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

For the year ended 31 December 2015

## 32. 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 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 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 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.

### (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.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

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

### (d) Key management compensation

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

	As at 31 December	
	2015 RMB'000	2014 RMB'000
Salaries and other short-term employee benefits	9,579	7,981
Pension costs – defined contribution plans	396	320
	<b>9,975</b>	<b>8,301</b>

### (e) Balances with related parties

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

	As at 31 December	
	2015 RMB'000	2014 RMB'000
<b>Amounts due from related parties (Note(i)):</b>		
Subsidiaries and joint ventures of the ultimate holding company	76,111	76,696
Other state-owned enterprises	33,367	22,160
	<b>109,478</b>	<b>98,856</b>
<b>Amounts due to related parties (Note(i)):</b>		
Subsidiaries and joint ventures of the ultimate holding company	31,044	60,597
Other state-owned enterprises	12,480	23,521
	<b>43,524</b>	<b>84,118</b>
<b>Borrowings from a related party (Note(ii)):</b>		
Ultimate holding company	32,000	–

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

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

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

Notes:

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

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

	As at 31 December	
	2015 RMB'000	2014 RMB'000
Within 4 months	87,190	87,218
Over 4 months but within 1 year	19,256	10,180
Over 1 year	3,032	1,458
	<b>109,478</b>	<b>98,856</b>

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

	As at 31 December	
	2015 RMB'000	2014 RMB'000
Within 4 months	35,757	77,978
Over 4 months but within 1 year	6,019	4,903
Over 1 year	1,748	1,237
	<b>43,524</b>	<b>84,118</b>

- (ii) Borrowings from a related party are in the form of entrusted loans which are unsecured, bear interest by reference to benchmark lending interest rate published by the People's Bank of China and repayable within one year.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

## 33. BANKING FACILITIES

As at 31 December 2015, the Group had aggregated banking facilities of RMB930,000,000 (2014: RMB300,000,000) for loan and other trade financing. As at 31 December 2015, the unutilised banking facilities amounted to RMB770,000,000 (2014: RMB200,000,000).

## 34. COMMITMENTS

### (a) Capital commitments

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

	As at 31 December	
	2015 RMB'000	2014 RMB'000
Property, plant and equipment	156,650	127,261

### (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:

	As at 31 December	
	2015 RMB'000	2014 RMB'000
Not later than one year	52,494	62,477
Later than one year and no later than five years	66,511	71,099
Later than five years	2,743	10,416
	121,748	143,992

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

## 35. BUSINESS COMBINATIONS

The following table summarises the considerations paid for the acquirees in business combinations during 2015, with the fair value of assets acquired, liabilities assumed and the non-controlling interests at respective acquisition dates:

	<b>Honour Essence</b> As at 27 February 2015 RMB'000	<b>Tong Ren Tang</b> <b>Chengdu</b> As at 31 December 2015 RMB'000
<b>Consideration:</b>		
– Cash	–	27,061
– Other payables	–	10,939
– Equity instruments	56,619	–
	<b>56,619</b>	<b>38,000</b>
<b>Recognised amounts of identifiable assets acquired and liabilities assumed:</b>		
Leasehold land and land use rights	–	4,900
Property, plant and equipment	304	27,109
Intangible assets	10,305	3,550
Inventories	26,840	7,315
Trade receivables and other current assets	24,503	21,627
Cash and cash equivalents	2,534	27,730
Trade and other payables	(25,922)	(15,045)
Borrowings	–	(4,500)
Current income tax liabilities	(2,899)	(1,066)
Deferred income tax liabilities	(1,459)	(3,253)
<b>Total identifiable net assets</b>	<b>34,206</b>	<b>68,367</b>
Non-controlling interests	(16,761)	(33,500)
Goodwill	39,174	3,133
	<b>56,619</b>	<b>38,000</b>
<b>Net cash acquired/(paid) for acquisitions</b>		
		<b>RMB'000</b>
Cash and cash equivalents acquired		30,264
Cash paid for acquisition		(27,061)
		<b>3,203</b>

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

## 35. BUSINESS COMBINATION (CONT'D)

### (a) *Honour Essence*

On 27 February 2015, Tong Ren Tang Chinese Medicine completed the purchase of 51% of the issued share capital of Honour Essence, a limited company incorporated in Hong Kong which is principally engaged in the distribution of Chinese medicine products in Hong Kong, at the total consideration of HKD71,426,000 (approximately RMB56,619,000) which was settled by the issue of 7,100,000 ordinary shares by Tong Ren Tang Chinese Medicine to an independent third party of the Company. As a result, Honour Essence became a subsidiary of the Company.

Upon completion of the business combination, the percentage of equity interest held by the Company in Tong Ren Tang Chinese Medicine was diluted from 38.38% to 38.05%. As a result, the Group recognised a dilution gain of RMB17,720,000 in other reserve.

Acquisition-related costs of HKD343,000 (equivalent to RMB271,000) have been charged to administrative expenses in the consolidated income statement for the year ended 31 December 2015.

Honour Essence contributed revenue of RMB116,566,000 and profit of RMB20,659,000 to the Group for the period from 27 February 2015 to 31 December 2015.

If the acquisition had occurred on 1 January 2015, the consolidated revenue and profit of the Group for the year ended 31 December 2015 would be RMB4,002,754,000 and RMB744,099,000 respectively.

### (b) *Tong Ren Tang Chengdu*

On 31 December 2015, the Company completed the purchase of 51% of equity interests of Chengdu Longquan High-Tech Natural Pharmaceutical Co., Ltd., a limited company incorporated in China which is principally engaged in production and processing of biochemical products and Chinese medicine, extraction and processing of plants in PRC, and renamed it to Beijing Tong Ren Tang Technologies Chengdu Co., Ltd, at the total cash consideration of RMB38,000,000. As a result, Tong Ren Tang Chengdu became a subsidiary of the Company. As at 31 December 2015, RMB27,061,000 of the total consideration has been paid.

Acquisition-related costs of RMB189,000 have been charged to administrative expenses in the consolidated income statement for the year ended 31 December 2015.

If the acquisition had occurred on 1 January 2015, the consolidated revenue and profit of the Group for the year ended 31 December 2015 would be RMB4,017,554,000 and RMB744,610,000 respectively.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

## 36. BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY

### *Balance sheet of the Company*

	As at 31 December	
	2015 RMB'000	2014 RMB'000
<b>Assets</b>		
<b>Non-current assets</b>		
Leasehold land and land use rights	89,896	91,997
Property, plant and equipment	584,893	490,505
Intangible assets	1,473	1,491
Investments in subsidiaries	439,926	341,726
Investments accounted for using the equity method	2,000	2,000
Prepayments for purchase of property, plant and equipment	21,844	21,000
Deferred income tax assets	6,191	4,710
	<b>1,146,223</b>	<b>953,429</b>
<b>Current assets</b>		
Inventories	1,800,685	1,635,428
Trade and bills receivables	255,240	216,706
Amounts due from related parties	37,280	35,441
Amounts due from subsidiaries	4,539	21,912
Prepayments and other current assets	64,627	61,822
Short-term bank deposits	283,275	–
Cash and cash equivalents	658,419	1,167,544
	<b>3,104,065</b>	<b>3,138,853</b>
<b>Total assets</b>	<b>4,250,288</b>	<b>4,092,282</b>

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

## 36. BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY (CONT'D)

### *Balance sheet of the Company (Cont'd)*

	As at 31 December	
	2015 RMB'000	2014 RMB'000
<b>Equity and liabilities</b>		
<b>Equity attributable to owners of the Company</b>		
Share capital	1,280,784	1,280,784
Reserves (Note (a))	2,188,214	1,918,491
<b>Total equity</b>	<b>3,468,998</b>	3,199,275
<b>Liabilities</b>		
<b>Non-current liabilities</b>		
Deferred tax liabilities	–	576
Deferred income – government grants	71,134	58,597
	<b>71,134</b>	59,173
<b>Current liabilities</b>		
Trade and bills payables	260,500	343,801
Salary and welfare payables	2,443	3,954
Advances from customers	56,337	139,135
Amounts due to related parties	28,199	54,362
Amounts due to subsidiaries	86,160	40,820
Current income tax liabilities	12,793	7,822
Other payables	131,724	143,940
Borrowings	132,000	100,000
	<b>710,156</b>	833,834
<b>Total liabilities</b>	<b>781,290</b>	893,007
<b>Total equity and liabilities</b>	<b>4,250,288</b>	4,092,282

The balance sheet of the Company was approved by the Board of Directors on 18 March 2016 and was signed on its behalf.

**Gao Zhen Kun**  
Director

**Fang Jia Zhi**  
Director

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

## 36. BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY (CONT'D)

### *Balance sheet of the Company (Cont'd)*

#### (a) Reserve movement of the Company

	Capital reserve (Note 16(a)) RMB'000	Statutory surplus reserve fund (Note 16(b)) RMB'000	Statutory public welfare fund (Note 16(b)) RMB'000	Tax reserve (Note 16(c)) RMB'000	Retained earnings RMB'000	Total RMB'000
Balance as at 1 January 2014	1,054,492	255,023	45,455	102,043	865,093	2,322,106
Profit for the year	-	-	-	-	396,875	396,875
Appropriation from retained earnings	-	39,686	-	-	(39,686)	-
Dividends paid to shareholders of the Company relating to 2013	-	-	-	-	(160,098)	(160,098)
Capitalisation of the reserve (Note 15)	(640,392)	-	-	-	-	(640,392)
Balance as at 31 December 2014	414,100	294,709	45,455	102,043	1,062,184	1,918,491
<b>Balance as at 1 January 2015</b>	<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>
Profit for the year	-	-	-	-	449,033	449,033
Appropriation from retained earnings	-	44,904	-	-	(44,904)	-
Dividends paid to shareholders of the Company relating to 2014	-	-	-	-	(179,310)	(179,310)
<b>Balance as at 31 December 2015</b>	<b>414,100</b>	<b>339,613</b>	<b>45,455</b>	<b>102,043</b>	<b>1,287,003</b>	<b>2,188,214</b>



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