



Beijing Tong Ren Tang
Chinese Medicine Company Limited

北京同仁堂國藥有限公司

(incorporated in Hong Kong with limited liability)

Stock code: 8138

SHARE OFFER

Sole Sponsor, Sole Lead Manager, Sole Underwriter and Sole Bookrunner



Kim Eng

TONG REN TANG



IMPORTANT

If you are in any doubt about any of the contents to this prospectus, you should obtain independent professional advice.



BEIJING TONG REN TANG CHINESE MEDICINE COMPANY LIMITED

北京同仁堂國藥有限公司

(incorporated in Hong Kong with limited liability)

LISTING ON THE GROWTH ENTERPRISE MARKET OF THE STOCK EXCHANGE OF HONG KONG LIMITED BY WAY OF SHARE OFFER

Number of Offer Shares	:	200,000,000 Shares (subject to the Over-allotment Option)
Number of Reserved Shares	:	100,000,000 Shares (subject to adjustment)
Number of Placing Shares	:	100,000,000 Shares (subject to adjustment and the Over-allotment Option)
Maximum Offer Price	:	HK\$3.04 per Offer Share (payable in full in Hong Kong dollars on application plus brokerage of 1%, SFC transaction levy of 0.003% and Stock Exchange trading fee of 0.005% and subject to refund)
Nominal value	:	HK\$0.50 per Share
Stock code	:	8138

Sole Sponsor, Sole Lead Manager, Sole Underwriter and Sole Bookrunner



Hong Kong Exchanges and Clearing Limited, The Stock Exchange of Hong Kong Limited and Hong Kong Securities Clearing Company Limited take no responsibility for the contents of this prospectus, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this prospectus.

A copy of this prospectus, having attached thereto the documents specified under "Appendix VI – Documents delivered to the Registrar of Companies and Available for Inspection" to this prospectus, has been registered with the Registrar of Companies in Hong Kong as required by section 38D of the Companies Ordinance (Chapter 32 of the Laws of Hong Kong). The Securities and Futures Commission and the Registrar of Companies of Hong Kong take no responsibility as to the contents of this prospectus or any other documents referred to above.

The Offer Price is expected to be determined by agreement between us and the Sole Lead Manager on the Price Determination Date, which is scheduled on or about Tuesday, 30 April 2013, or such later date as may be agreed between the Company and the Sole Lead Manager. The Offer Price will be not more than HK\$3.04 per Share and is currently expected to be not less than HK\$2.59 per Share unless otherwise announced. The Sole Lead Manager may, with our consent, reduce the indicative Offer Price range and/or the number of Offer Shares stated in this prospectus at any time prior to the morning of the last day for lodging applications under the Preferential Offer. If this occurs, notice of reduction of the indicative Offer Price range and/or the number of Offer Shares will be published on the HKEx website and our website at www.tongrentangcm.com.

If, for any reason, the Offer Price is not agreed between us and the Sole Lead Manager on or before 30 April 2013 (or such other time as the Company or the Sole Lead Manager may agree), the Share Offer will not proceed and will lapse.

Prospective investors of the Share Offer should note that the Underwriter is entitled to terminate their obligations under the Underwriting Agreement by notice in writing to us given by the Sole Lead Manager upon the occurrence of any of the events set out under "Underwriting – Grounds for Termination" of this prospectus, at any time prior to 8:00 a.m. (Hong Kong time) on the Listing Date.

25 April 2013

CHARACTERISTICS OF GEM

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

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

The principal means of information dissemination on GEM is publication on the Internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspaper. Accordingly, prospective investors should note that they need to have access to the HKEx website at www.hkexnews.hk in order to obtain up-to-date information on GEM-listed issuers.

EXPECTED TIMETABLE⁽¹⁾

Despatch **BLUE** Application Forms to Qualifying TRT

Technologies Shareholders Thursday, 25 April 2013

Application lists open ⁽²⁾ 11:45 a.m. on Tuesday,
30 April 2013

Latest time for lodging **BLUE** Application Forms 12:00 noon on Tuesday,
30 April 2013

Application lists of the Preferential Offer close 12:00 noon on Tuesday,
30 April 2013

Expected Price Determination Date ⁽³⁾ Tuesday, 30 April 2013

Announcement of the Offer Price, the level of indication
of interest in the Placing, level of applications in
the Preferential Offer to be published on the Company's
website at www.tongrentangcm.com and the HKEx
website at www.hkexnews.hk on or before Monday, 6 May 2013

Results of applications and Hong Kong identity card/
passport/Hong Kong business registration certificate numbers of
successful applicants under the Preferential Offer to be available
as described under the section headed "How to apply for the
Reserved Shares – Publication of results" in this prospectus
including the Company's website at www.tongrentangcm.com,
the HKEx website at www.hkexnews.hk from on or before Monday, 6 May 2013

Despatch of share certificates on or before ⁽⁴⁾ & ⁽⁵⁾ Monday, 6 May 2013

Despatch of Refund cheques on or before ⁽⁶⁾ Monday, 6 May 2013

Dealings in the Shares on GEM to commence on 9:00 a.m. on Tuesday,
7 May 2013

EXPECTED TIMETABLE⁽¹⁾

Notes:

- (1) All times refer to Hong Kong local times and dates.
- (2) If there is a “black” rainstorm warning or a tropical cyclone warning signal number 8 or above in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Tuesday, 30 April 2013, the application lists will not open or close on that day. Please refer to the section headed “How to apply for the Reserved Shares – Effect of bad weather on the opening of the application lists” in this prospectus. If the application lists do not open and close on Tuesday, 30 April 2013, the dates mentioned in this section headed “Expected timetable” may be affected.
- (3) The Price Determination Date, being the date on which the Offer Price is to be determined, is expected to be on or before Tuesday, 30 April 2013. If, for any reason, the Offer Price is not agreed between the Sole Lead Manager and us by Tuesday, 30 April 2013 or such later date as may be agreed by the Sole Lead Manager and us, the Share Offer will not proceed and will lapse.
- (4) Share certificates for the Offer Shares will only become valid certificates of title at 8:00 a.m. on Tuesday, 7 May 2013 provided that (i) the Share Offer has become unconditional in all respects; (ii) the Reserved Shares allocated and issued to you have been allotted and issued to you on the register of members of the Company; and (iii) the Underwriting Agreement has not been terminated in accordance with its terms. If the Share Offer does not become unconditional or the Underwriting Agreement is terminated in accordance with its terms, we will make an announcement as soon as possible.
- (5) Applicants who have applied on the **Blue** Application Forms for 1,000,000 or more Reserved Shares under the Preferential Offer and have indicated in their Application Forms that they wish to collect any refund cheques and share certificates in person, may do so from our Hong Kong Share Registrar, Computershare Hong Kong Investor Services Limited, between 9:00 a.m. to 1:00 p.m. on Monday, 6 May 2013. Applicants being individuals who opt for personal collection must not authorise any other person to make collection on their behalf. Applicants being corporations who opt for personal collection must attend by their authorised representatives bearing letters of authorisation from their corporations stamped with the corporation’s chop. Both individuals and representatives of corporations must produce, at the time of collection, identification and (where applicable) documents acceptable to Computershare Hong Kong Investor Services Limited at the time of collection. Uncollected share certificates (if applicable) and refund cheques (if applicable) will be despatched by ordinary post at the applicants’ own risk to the addresses specified in the relevant Application Forms. Further information is set out under the section headed “How to apply for the Reserved Shares Despatch/collection of share certificates and refund of application money” in this prospectus.
- (6) Refund cheques will be issued in respect of wholly or partially unsuccessful applications pursuant to the Preferential Offer and also in respect of wholly or partially successful applications if the final Offer Price is less than the price payable on application. Refunds will be paid by a cheque crossed “Account Payee Only” made out to you, or if you are joint applicants, to the first named applicant on your Application Form. Part of your Hong Kong identity card number/passport number or if you are joint applicants, part of the Hong Kong identity card number/passport number of the first-named applicant, provided by you may be printed on your refund cheque, if any. Such data would also be transferred to a third party for refund purpose. Your banker may require verification of your Hong Kong identity card number/passport number before encashment of your refund cheque. Inaccurate completion of your Hong Kong identity card number/passport number may lead to delay in encashment of or may invalidate your refund cheque.

Particulars of the structure of the Share Offer, including the conditions thereto, are set out in the section headed “Structure of the Share Offer” in this prospectus.

CONTENTS

This prospectus is issued by the Company solely in connection with the Share Offer and does not constitute an offer to sell or a solicitation of an offer to buy any security other than the Offer Shares offered by this prospectus pursuant to the Share Offer. This prospectus may not be used for the purpose of, and does not constitute, an offer or invitation in any other jurisdiction or in any other circumstances. No action has been taken to permit a public offer of the Offer Shares or the distribution of this prospectus in any jurisdiction other than Hong Kong. You should rely only on the information contained in this prospectus and the Application Forms to make your investment decision. The Company, the Sole Sponsor, the Sole Bookrunner and Sole Lead Manager and the Underwriter have not authorised anyone to provide you with information that is different from what is contained in this prospectus. Any information or representation not made in this prospectus must not be relied on by you as having been authorised by the Company, the Sole Sponsor, the Sole Bookrunner and Sole Lead Manager, the Underwriter, any of their respective directors, officers, employees, agents or representatives or any other party involved in the Share Offer.

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SUMMARY

This summary aims to give you an overview of the information contained in this prospectus. As this is a summary, it does not contain all the information that may be important to you. You should read the entire prospectus before you decide to invest in our Offer Shares. There are risks associated with any investment. Some of the particular risks in investing in our Offer Shares are set out in the section headed “Risk Factors”. You should read this section carefully before you decide to invest in our Offer Shares.

BUSINESS OVERVIEW

We are a distributor engaged in both the retail and wholesale of Chinese Medicine Products, in Hong Kong, Macao and markets outside of the PRC (the “Non-PRC Markets”) operating under the “Tong Ren Tang” brand. We see ourselves as a channel for promoting Chinese medicine culture and services in Non-PRC Markets. We are the primary overseas distribution platform of the TRT Group. We operate the leading Chinese Medicine Products retail chain outside of the PRC in terms of number of jurisdictions present, according to Euromonitor.

Retail

As at the Latest Practicable Date, we have 36 retail stores in 11 overseas countries and regions, 30 of which also provide Chinese healthcare services such as Chinese Medical Consultation and diagnosis, medicine dispensing, acupuncture and Tui-Na therapy. Our retail stores are operated under the “Tong Ren Tang” brand. We offer around 2,000 Chinese Medicine Products including “Tong Ren Tang” branded products as well as non-“Tong Ren Tang” branded products and Chinese herbs in our retail stores. Our retail network principally adopts an integrated “consultation, products and services” model and aims to promote our expertise in these areas. The majority of our products offered are Chinese Medicine Products consisting of Chinese Medicines, Healthcare Products and Chinese herbs. Please refer to the paragraph headed “Business – Distribution in Non-PRC Markets – Retail” on page 179 in this prospectus for further discussion of our retail business.

Wholesale

We currently have wholesale operations in Hong Kong, Macao, Australia, Singapore, South Korea and Thailand. As at the Latest Practicable Date, we wholesale a total of over 260 products, the vast majority of which are “Tong Ren Tang” branded Chinese Medicines. Our wholesale customers include our Overseas Partners, third party local distributors, local drug stores and clinics. Please refer to the paragraph headed “Business – Distribution in Non-PRC Markets – Wholesale in Non-PRC Markets” on page 183 in this prospectus for further discussion of our wholesale business.

Manufacturing

We currently manufacture two products, namely Angong Niu Huang Pills and GLSPC in our facilities in Tai Po Industrial Estate, Hong Kong, which we distribute under the “Tong Ren Tang” brand ourselves through our own distribution network in Non-PRC Markets. Our Angong Niu Huang Pills is currently only registered, and sold, in Hong Kong and our GLSPC has complied with the registration or filing requirements and has been sold in Hong Kong, Macao, Australia, Cambodia, Brunei, Singapore and Taiwan. Please refer to the paragraph headed “Business – Manufacturing” on page 187 in this prospectus for further discussion of our manufacturing operation.

SUMMARY

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

The right to use the “Tong Ren Tang” trademark

TRT Holdings has granted us licences to use the “Tong Ren Tang” trademark in Non-PRC Markets, and for our self-manufactured products, at nil consideration up to 13 May 2021 for so long as the Parent Group directly or indirectly controls not less than 51% of the issued share capital of the Company. The licence will be automatically renewed on the same terms and conditions on a perpetual basis for terms of 10 years upon expiry on 13 May 2021. The use of the trademark is non-exclusive in Hong Kong, the Philippines, Taiwan, the U.K. and Japan. The particulars are set out below and in the paragraph headed “Relationship with Controlling Shareholders – Excluded business” on page 223 in this prospectus. Save for these users, TRT Holdings, the owner of the trademark, has agreed not to license the use of the trademark to any other parties in Non-PRC Markets.

Excluded business

The Parent Group has interests in other operations distributing Chinese Medicine Products in Non-PRC Markets which have not been injected into the Group. Our retail network does not include the 41 retail stores in Hong Kong, the one retail store in the U.K., the one retail counter in the Philippines and the one retail store and the two retail counters in Taiwan existing on the Latest Practicable Date which have been operated by the Parent Group or third parties under the “Tong Ren Tang” brand pursuant to non-exclusive licenses granted by TRT Holdings. The presence of these excluded business does not preclude us from establishing businesses in any of Hong Kong, U.K., Taiwan and the Philippines. Please refer to the paragraph headed “Relationship with Controlling Shareholders – Excluded business” on page 223 in this prospectus for further particulars.

Purchases from the Parent Group

The Group purchases “Tong Ren Tang” branded products from the Parent Group for our sole distribution operation and Angong Niu Huang Powder from the Parent Group. Following the recent business developments, our procurement from the Parent Group will continue to decrease and the percentage of purchase from the Parent Group as a percentage of total purchases will be capped at 28% for each of the two years ending 31 December 2014. Please refer to the sections headed “Relationship with Controlling Shareholders” and “Connected transactions” on pages 211 and 238 in this prospectus respectively, for further particulars.

RECENT DEVELOPMENTS

For the purpose of the Listing, we and the Parent Group underwent the following steps to better delineate us from other members of the Parent Group and to enhance our independence:

- (i) we had a PRC distribution operation during the Track Record Period selling mostly GLSPC. We have terminated our PRC distribution operation from November 2012. Please refer to the paragraph headed “Business – Discontinued operations – PRC distribution” on page 190 in this prospectus for further discussion of our discontinued PRC distribution. Besides, the Parent Group has undertaken not to engage in the manufacture and/or sale of products containing ganoderma lucidum or ganoderma lucidum spore as a raw material in Non-PRC Markets;
- (ii) we have manufactured Chinese Medicine Products other than Angong Niu Huang Pills and GLSPC during the Track Record Period mostly for our PRC distribution. We have terminated the manufacture of these Chinese Medicine Products in the first quarter of 2012 and the sale of such Chinese Medicine Products from November 2012;

SUMMARY

- (iii) the Parent Group sold its Angong Niu Huang Pills in Non-PRC Market during the Track Record Period. The Parent Group has ceased to sell its Angong Niu Huang Pills in Non-PRC Markets from 1 October 2012 and the Parent Group has undertaken not to sell its Angong Niu Huang Pills in Non-PRC Markets from 1 October 2012; and
- (iv) the Company was providing agency services to TRT Ltd. and TRT Technologies, during the Track Record Period. Each of TRT Ltd. and TRT Technologies has appointed TRT International Natural-Pharm, our wholly-owned subsidiary, as the sole distributor of their products in Non-PRC Markets with effect from 1 November 2012 and the agency arrangement expired in December 2012. Please refer to the paragraph head “Business – Distribution in Non-PRC Markets – Agency and sole distributorship of “Tong Ren Tang” branded products” on page 176 in this prospectus for discussion on their respective roles and responsibilities.

Accordingly, we are the only member of the TRT Group distributing PRC manufactured “Tong Ren Tang” branded Chinese Medicine Products in Non-PRC Markets (except for Japan). We do not have any distribution or sale activities in the PRC and all the distribution and sale of “Tong Ren Tang” branded Chinese Medicine Products in the PRC are carried out by the Parent Group. For the two “Tong Ren Tang” branded products we manufacture, we are the exclusive supplier of such products to Non-PRC Markets, and we will not sell such products to the PRC.

Our self manufactured products have a clear geographic delineation with products manufactured by the Parent Group and hence reduced potential competition with the Parent Group. We are also the only member of the TRT Group that manufactures “Tong Ren Tang” branded Chinese Medicine Products in Non-PRC Markets. The table below sets out the delineation analysis of the products manufactured by the Parent Group and us during the Track Record Period upon implementation of the above adjustments:

Products	Manufacturing entity	Geographic markets sold	
		Before the adjustments	After the adjustments
Chinese Medicine Products containing ganoderma lucidum or ganoderma lucidum spore as raw material	The Group	PRC and Non-PRC Markets	Non-PRC Markets ^(Note 1)
	The Parent Group	PRC	PRC
Angong Niu Huang Pills	The Group	Hong Kong	Non-PRC Markets ^(Note 1)
	The Parent Group	PRC ^(Note 3)	PRC
Other Chinese Medicine Products	The Group (Ceased manufacturing from first quarter of 2012)	PRC and Non-PRC Markets	Ceased selling since November 2012
	The Parent Group	PRC ^(Note 3)	PRC ^(Note 2)

Notes:

- Sales into additional jurisdictions and regions in the future are subject to successful registration and/or filing of the products.
- With us being the sole distributor in Non-PRC Markets, excluding products sold to two Japanese companies. Please refer to the paragraph headed “Relationship with Controlling Shareholders – Excluded business” on page 223 in this prospectus.
- With us being the sole distributor or providing agency services in Non-PRC Markets.

SUMMARY

The table below sets forth breakdowns of our revenue, gross profit and gross profit margin by the continuing operations and discontinued operations for each of the two years ended 31 December 2012:

HK\$'000	Year ended 31 December			
	2011		2012	
Revenue				
Distribution of Non-PRC Markets	171,293	61.0%	337,602	71.2%
Royalty fee income	898	0.3%	674	0.1%
Agency fee income	24,491	8.7%	20,645	4.4%
Discontinued operations.	84,300	30.0%	115,031	24.3%
	<u>280,982</u>	<u>100.0%</u>	<u>473,952</u>	<u>100.0%</u>
		<i>Gross profit margin</i>		<i>Gross profit margin</i>
Gross profit				
Distribution of Non-PRC Markets	106,367	62.1%	229,471	68.0%
Royalty fee income	898	100.0%	674	100.0%
Agency fee income	24,491	100.0%	20,645	100.0%
Discontinued operations.	71,986	85.4%	90,746	78.9%
	<u>203,742</u>	<u>72.5%</u>	<u>341,536</u>	<u>72.1%</u>

Further details on the impact of these recent developments on various aspects of the Group are set out in the paragraph headed “Business – Recent developments” on page 155 in this prospectus.

The Group purchased “Tong Ren Tang” branded products from the Parent Group pursuant to the sole distributorship arrangements between us and each of TRT Technologies and TRT Ltd. to satisfy orders from our customers. Such sales are being recognised as wholesale revenue since 1 January 2013.

Based on our unaudited management information, the table below sets forth breakdowns of our revenue, gross profit and gross profit margin for the two months ended 28 February 2013:

<i>HK'000</i>	Revenue (unaudited)	% to revenue	Gross profit (unaudited)	Gross profit margin
Retail	33,070	49.1%	22,849	69.1%
Wholesale	34,060	50.6%	24,871	73.0%
Distribution in Non-PRC Markets	67,130	99.7%	47,720	71.1%
Royalty fee income	208	0.3%	208	100.0%
	<u>67,338</u>	<u>100.0%</u>	<u>47,928</u>	<u>71.2%</u>

SUMMARY

The Group has adopted HKFRS 11 and HKAS 28 (revised 2011) since 1 January 2013. Accordingly, the accounting of the Group's investment in jointly controlled entities has changed from proportionate consolidation to equity method of accounting. The result for the two months ended 28 February 2013 presented above has reflected the adoption of HKFRS 11 and HKAS 28 (revised 2011) and excluded proportional contribution from the jointly controlled entities. If the equity method of accounting was used to account for the Group's investment in jointly controlled entities, for the year ended 31 December 2011 and 2012, net profit for the relevant years and net assets as at the relevant year end dates will remain unchanged. Its revenue and other income would be reduced by HK\$36,968,000 and HK\$28,809,000, respectively; its expenses (including cost of sales and tax expenses) would be reduced by HK\$33,223,000 and HK\$24,701,000, respectively, while its share of profit from jointly controlled entities would be increased by HK\$3,745,000 and HK\$4,108,000, respectively.

Our revenue and gross profit were approximately HK\$67.3 million and HK\$47.9 million for the two months ended 28 February 2013 respectively. The gross profit margin of distribution in Non-PRC Markets for the two months ended 28 February 2013 increased slightly over that for the year ended 31 December 2012 primarily owing to the increased contribution from sales of our Angong Niu Huang Pills. As of 28 February 2013, (i) HK\$20.1 million, or 23.0% of our inventories as of 31 December 2012 were subsequently consumed or sold; (ii) HK\$21.6 million, or 96.8% of our trade receivables as of 31 December 2012 were subsequently settled; and (iii) HK\$30.0 million, or 62.2% of our trade payables as of 31 December 2012 were subsequently settled.

Our Directors confirm that, up to the date of this prospectus, there was no material adverse change in our financial or trading position or prospects since 31 December 2012, being the date to which our latest audited financial statements were prepared. Our business, financial condition and results of operations are influenced by, among other things, the general macroeconomic condition and the market and regulatory measures undertaken by the Non-PRC Markets. There is no assurance that our business will continue to grow at the levels that we achieved during the Track Record Period. As far as we are aware, there was no material change in the general economic and market conditions in the PRC and Non-PRC Markets that had materially and adversely affected our business operations or financial conditions since 31 December 2012 and up to the Latest Practicable Date.

LISTING EXPENSES

The total amount of listing expenses, commissions, SFC transaction levy and Stock Exchange trading fee in connection with the Share Offer is estimated to be approximately HK\$50.3 million (with the underwriting commission being calculated in the reserves based on the mid-range of the Offer Price of HK\$2.82). For the year ended 31 December 2012, HK\$4.7 million has already been capitalised in the reserves and HK\$11.2 million included the listing expenses of HK\$12.8 million net with the write back of the provision for listing expense in relation to the previous attempt for listing in 2011 of HK\$1.6 million has been charged to our income statements. An additional HK\$23.1 million will be capitalised in reserves and HK\$9.7 million will be charged to an income statement upon Listing.

OUR STRENGTHS

The Company believes the following competitive strengths contribute to its success and distinguish it from its competitors:

- Strong “Tong Ren Tang” brand and parentage
- Leading international distribution network with an integrated “consultation, products and services” model
- Outstanding product sourcing ability
- Unique self-manufactured Angong Niu Huang Pills
- Effective development of the distribution network
- We have an experienced and dedicated management team

SUMMARY

OUR STRATEGIES

It is the Company's goal to continue strengthening its leading position as a channel for promoting Chinese Medicine culture as well as marketing and sales of quality Chinese Medicine Products to overseas markets, and to accomplish this goal, it plans to implement the following:

- Continue to promote the Chinese medicine culture and improve the market recognition of Chinese Medicine Products and Chinese Medical Consultation in Non-PRC Markets
- Continue to expand and optimise our overseas distribution network by entering into new overseas markets, and increase the number of retail stores and wholesale customers in existing markets
- Continue to explore opportunities to broaden our services
- Continue to broaden our product offerings for our overseas distribution business
- Continue to promote the sales of Angong Niu Huang Pills and GLSPC and increase the manufacturing capacity of Angong Niu Huang Pills
- To build up effective logistics and financial information system to improve cost and operating efficiency

FINANCIAL INFORMATION

The following tables set forth, for the periods indicated, our summary consolidated financial information derived from the Accountant's Report in Appendix I to this prospectus. The summary consolidated financial information should be read together with the Accountant's Report, including the notes thereto.

Selected consolidated income statements and balance sheet line items

<i>HK\$'000</i>	Year ended 31 December	
	2011	2012
Continuing operations		
Revenue	196,682	358,921
Gross profit	131,756	250,790
Operating profit	14,231	118,421
Profit before income tax	13,737	118,234
Profit for the year from continuing operations	4,690	92,161
Profit for the year	60,153	159,114
	At 31 December	
	2011	2012
	<i>HK\$'000</i>	<i>HK\$'000</i>
Non-current assets	224,704	144,218
Current assets	261,291	536,420
EQUITY		
Capital and reserves attributable to the Company's equity holders	341,723	494,883
Non-controlling interests	68,042	72,805
Total equity	409,765	567,688
Non-current liabilities	24,911	3,997
Current liabilities	51,319	108,953
Net current assets	209,972	427,467
Total assets less current liabilities	434,676	571,685

SUMMARY

Revenue by segments

The tables below set forth our revenue by segments for each of the two years ended 31 December 2012:

HK\$'000	Year ended 31 December			
	2011		2012	
<i>Total revenue by products and services</i>				
Self-manufactured products^(Note)	126,574	45.1%	268,956	56.7%
GLSPC	75,757	27.0%	108,076	22.8%
Angong Niuhuang Pills	37,711	13.4%	147,801	31.2%
Others	13,106	4.7%	13,079	2.7%
Non self-manufactured				
Chinese Medicines				
and Healthcare Products^(Note)	44,662	15.9%	79,145	16.7%
Chinese herbs	64,835	23.1%	78,044	16.5%
Chinese Medical Consultation	19,522	6.9%	26,488	5.6%
Agency fee	24,491	8.7%	20,645	4.4%
Royalty fee.	898	0.3%	674	0.1%
Total.	280,982	100.0%	473,952	100.0%
<i>Note:</i>				
<i>Our revenue from self-manufactured products and non-self manufactured Chinese Medicines and Healthcare Products by product brands</i>				
“Tong Ren Tang” brand	156,557	91.4%	328,100	94.3%
Self-manufactured products	126,574	73.9%	268,956	77.3%
Non self-manufactured products.	29,983	17.5%	59,144	17.0%
Other brands	14,679	8.6%	20,001	5.7%
	171,236	100.0%	348,101	100.0%
<i>Total revenue by business segments</i>				
Distribution in Non-PRC Markets				
Retail				
– Product sales	112,425	40.0%	174,493	36.8%
– Chinese Medical Consultation	19,522	7.0%	26,488	5.6%
Sub-total	131,947	47.0%	200,981	42.4%
Wholesale	39,346	14.0%	136,621	28.8%
Sub-total	171,293	61.0%	337,602	71.2%
Royalty fee income.	898	0.3%	674	0.1%
Agency fee income.	24,491	8.7%	20,645	4.4%
PRC distribution ^{Note} (i.e. our discontinued operations)	84,300	30.0%	115,031	24.3%
	280,982	100.0%	473,952	100.0%

Note: Included our PRC distribution which is a wholesale business.

SUMMARY

HK\$'000	Year ended 31 December			
	2011		2012	
<i>Total revenue generated from the Parent Group and other customers</i>				
Parent Group	102,183	36.4%	128,004	27.0%
Other customers	178,799	63.6%	345,948	73.0%
	<u>280,982</u>	<u>100.0%</u>	<u>473,952</u>	<u>100.0%</u>
<i>Our distribution revenue in Non-PRC Markets (retail and wholesale)</i>				
Hong Kong	58,330	34.1%	183,879	54.5%
Australia	32,660	19.1%	36,213	10.7%
Singapore	28,453	16.6%	30,099	8.9%
Macao	16,850	9.8%	43,995	13.0%
Canada	13,427	7.8%	17,159	5.1%
Malaysia	8,544	5.0%	7,907	2.3%
Thailand	5,238	3.1%	6,288	1.9%
Other countries	7,791	4.5%	12,062	3.6%
Total	<u>171,293</u>	<u>100.0%</u>	<u>337,602</u>	<u>100.0%</u>

PROPOSED SPIN-OFF OF THE GROUP FROM TRT TECHNOLOGIES

The separate listing of the Company is a spin-off by TRT Technologies under the Listing Rules (the “Spin-off”).

The business of TRT Technologies and its subsidiaries (including the Group) (collectively “TRT Technologies Group”) includes the production and sale of Chinese Medicines and Healthcare Products. The total assets of the Group accounted for approximately 17.3% of the total assets of the TRT Technologies Group as at 31 December 2012. The revenue and profit before income tax of the Group accounted for approximately 15.8% and 33.7% of the revenue and profit before income tax of the TRT Technologies Group for the year ended 31 December 2012 respectively.

In view of the continuing growth of our business, TRT Technologies concluded that our business has grown to a size sufficient to merit a separate listing on GEM and that such listing will be beneficial to us as (i) it enables the Group to attract new investors who are seeking investments in the industries of overseas distribution of Chinese Medicine Products; (ii) it is expected to enhance our profile amongst customers, suppliers and other business partners, as well as our ability to recruit good talents available; (iii) it is expected to enable us to directly and independently access to both

SUMMARY

equity and debt capital markets, as well as facilitate the securing of bank credit facilities; (iv) it is expected to lead to a more direct alignment of our management's responsibilities and accountability with our operating and financial performance as a result of heightened scrutiny of the investor community. We anticipate that this will result in an enhanced management focus, which should in turn lead to improved decision-making processes, faster response-time to market changes and increased operational efficiency. Further, it will be relatively easier to measure their performance against our stock market performance in comparison to our industry peers listed on the Stock Exchange. It is also possible to link management incentives to such performance, thereby increasing management motivation and commitment; and (v) it provides clarity of our credit profile for rating agencies and financial institutions that wish to analyse and lend against a company engaged in the overseas distribution of Chinese Medicine Products.

Our PRC legal advisor has confirmed that it is not necessary to obtain any approval or consent from the PRC regulatory authorities for the Spin-off. Further, the Spin-off is not subject to any approval by the shareholders of TRT Ltd. and TRT Technologies.

There is a Preferential Offer to Qualifying TRT Technologies Shareholders under the Share Offer. Please refer to the paragraph headed "Structure of the Share Offer – The Preferential Offer" on page 333 in this prospectus for further particulars.

SHARE OFFER STATISTICS

	Based on an Offer Price of HK\$2.59 per Share	Based on an Offer Price of HK\$3.04 per Share
Our market capitalisation upon completion of the Share Offer ⁽¹⁾⁽²⁾	HK\$2,072 million	HK\$2,432 million
Unaudited pro forma net tangible assets per Share ⁽³⁾	HK\$1.23	HK\$1.34

Notes:

- (1) No data in this table takes into account any Shares which may be issued upon the exercise of the Over-allotment Option.
- (2) The calculation of market capitalisation is based on 800,000,000 Shares expected to be in issue immediately upon completion of the Share Offer and the Capitalisation Issue.
- (3) The unaudited pro forma net tangible assets per Share includes adjustments referred to in the paragraph headed "Financial Information – Unaudited pro forma statement of adjusted net tangible assets" in this prospectus and on the basis of 800,000,000 Shares in issue at the Offer Price of HK\$2.59 and HK\$3.04 per Share immediately following the completion of the Share Offer and the Capitalisation Issue.

REASONS OF THE SHARE OFFER AND USE OF PROCEEDS

The Directors believe that the Listing could enhance the Group's profile and the net proceeds from the Share Offer will strengthen the Group's financial position and enable the Group to implement its business plans set out in this section. Furthermore, a public listing status on GEM will offer the Group access to capital market for future corporate finance exercises to assist in future business development and strengthen its competitiveness.

SUMMARY

Based on the Offer Price of HK\$2.82 per Share, being the mid-point of the range of the Offer Price stated in this prospectus, we estimate that the net proceeds of the Share Offer excluding the exercise of the Over-allotment Option and after deduction of underwriting fees and expenses payable by the Company in relation to the Share Offer, are estimated to be approximately HK\$528.0 million.

The Company currently intends to use the net proceeds from the Share Offer as follows:

- approximately HK\$140.6 million, or 26.6% of the net proceeds, to expand the retail network in the jurisdictions we currently have operation in;
- approximately HK\$95.4 million, or 18.1% of the net proceeds, to expand our distribution into new jurisdictions;
- approximately HK\$90.0 million, or 17.1% of the net proceeds, to establish a Chinese medical healthcare centre in Hong Kong;
- approximately HK\$76.0 million, or 14.4% of the net proceeds, for mergers and acquisitions;
- approximately HK\$35.5 million, or 6.7% of the net proceeds, to upgrade, expand and operate the production facilities for Angong Niu Huang Pills;
- approximately HK\$29.0 million, or 5.5% of the net proceeds, for product development and registration of the Angong Niu Huang Pills, GLSPC and non self-manufactured “Tong Ren Tang” branded products in Non-PRC Markets;
- approximately HK\$9.5 million, or 1.8% of the net proceeds, to build up effective logistics and financial information system to improve cost and operating efficiencies; and
- approximately HK\$52.0 million, or 9.8% of the net proceeds, for funding of our working capital and general corporate purposes.

Please refer to the section headed “Statement of business objectives” on pages 318 to 322 in this prospectus for further details on the use of proceeds. To the extent that the net proceeds of the Share Offer derived from unused capital are not immediately applied to the above purposes, we intend to deposit the proceeds in interest-bearing bank accounts.

RISK FACTORS

There are risks associated with any investment. Some of the particular risks in investing in the Share Offer are set out in the section headed “Risk factors” on pages 26 to 47 in this prospectus. You should read that entire section carefully before you decide to invest in the Share Offer.

DEFINITIONS

In this prospectus, unless the context otherwise requires, the following terms and expressions have the meanings set below.

“A\$”	Australian Dollars, the lawful currency of Australia
“AED”	UAE Dirham, the lawful currency of the UAE
“Angong Niuhuang Pills”	pills manufactured by us and/or the Parent Group from, among others, Angong Niuhuang Powder
“Angong Niuhuang Powder”	the principal raw material for the Angong Niuhuang Pills (安宮牛黃丸)
“Application Form(s)” or “Blue Application Form(s)”	the form of application for the Reserved Shares for use by the Qualifying TRT Technologies Shareholders under the Preferential Offer
“Articles of Association” or “Articles”	the articles of association of the Company approved on 28 March 2013 by its Shareholders and as amended from time to time, a summary of which is set out in the section headed “Summary of the Articles of Association” in Appendix IV to this prospectus
“associate(s)”	has the meaning ascribed thereto under the GEM Listing Rules
“Assured Entitlement”	the entitlement of Qualifying TRT Technologies Shareholders to apply for the Reserved Shares and the Preferential Offer to be determined on the basis of 170 Reserved Shares for every whole multiple of 1,000 TRT Technologies Shares as at 5:00 p.m. on the Record Date
“Beijing Tai Yi Tang Technologies Development”	Beijing Tai Yi Tang Technologies Development Co., Ltd.* (北京泰頤堂科技發展有限公司), a company incorporated in the PRC on 22 June 2009 and an Independent Third Party
“BMI Trading”	BMI Trading Company Limited* (華京國際貿易有限公司), a company incorporated in Macao on 13 February 1997 and our connected person at subsidiary level for the purpose of the GEM Listing Rules
“BN\$”	Brunei Dollars, the lawful currency of Brunei
“Board” or “Board of Directors”	the board of Directors of the Company
“Business Day”	any day other than a Saturday or a Sunday or a public holiday

DEFINITIONS

“CAGR”	compound annual growth rate
“Canadian dollars” or “CAD”	Canadian dollars, the lawful currency of Canada
“Capitalisation Issue”	the issue of 197,139,054 new Shares upon capitalisation of certain sums standing to the credit of the share premium account of the Company referred to in the section headed “Written resolutions of the Shareholders of the Company passed on 28 March 2013 – Further Information about the Company” in Appendix V to this prospectus
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“CCASS Clearing Participant”	a person admitted to participate in CCASS as a direct clearing participant or general clearing participant
“CCASS Custodian Participant”	a person admitted to participate in CCASS as a custodian participant
“CCASS Investor Participant”	a person admitted to participate in CCASS as an investor participant who may be an individual or joint individuals or a corporation
“CCASS Participant”	a CCASS Clearing Participant, a CCASS Custodian Participant or a CCASS Investor Participant
“Chairman”	the chairman of our Board
“Chinese Medical Consultation”	the consultation services offered by the Group in the jurisdictions where it operates which may refer to Chinese medical consultation or Chinese healthcare consultation, as the case may be, where the local laws and regulations so recognised
“Chinese Medicine(s)” (中成藥)	readily processed Chinese medicine in various intake forms (such as pills, granules and soft capsules) based on the prescription, nature and functions of Chinese medicine
“Chinese Medicine Practitioner(s)”	those personnel of the Group providing Chinese Medical Consultation work

DEFINITIONS

“Chinese Medicine Products”	any or a combination of any of Chinese Medicines, Healthcare Products and Chinese herbs
“Chinese Medicine Ordinance”	the Chinese Medicine Ordinance (Chapter 549 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Chuan Chiong”	Chuan Chiong Co., Ltd. (泉 昌 有 限 公 司), a company incorporated in Hong Kong with limited liability on 29 August 1935, and our connected person at subsidiary level for the purpose of GEM Listing Rules
“Companies Ordinance”	the Companies Ordinance (Chapter 32 of the Laws of Hong Kong) as amended, supplemented or otherwise from time to time
“Company”	Beijing Tong Ren Tang Chinese Medicine Company Limited 北京同仁堂國藥有限公司, a company incorporated in Hong Kong with limited liability on 18 March 2004
“connected person(s)”	has the meaning ascribed thereto under the GEM Listing Rules
“Controlling Shareholders”	has the meaning ascribed thereto under the GEM Listing Rules, and, in the context of this prospectus, means the controlling shareholders of the Company, namely TRT Technologies, TRT Ltd. and TRT Holdings and “Controlling Shareholder” means any one of them
“CPC”	The Communist Party of China
“Deed of Non-competition”	a deed of non-competition entered into between TRT Holdings, TRT Ltd., TRT Technologies and the Company on 18 April 2013, particulars of which are summarized in the section “Relationship with Controlling Shareholders” in this prospectus
“Director(s)”	the director(s) of the Company
“Domestic Shareholder(s)”	holder(s) of domestic shares of TRT Technologies
“E-jiao” (阿 膠)	colla corii asini
“Emirates China Group L.L.C.”	Emirates China Group L.L.C., a company incorporated in the UAE on 8 July 2008 and our connected person at subsidiary level for purpose of GEM Listing Rules

DEFINITIONS

“Excluded Business”	has the meaning as defined in the Deed of Non-competition, which is set out in the section “Relationship with Controlling Shareholders – Excluded Business” in this prospectus
“Finchdene”	Finchdene Investments Inc., a company incorporated in Canada on 1 October 2009, and our connected person at subsidiary level for the purpose of GEM Listing Rules
“GEM”	the Growth Enterprise Market of the Stock Exchange
“GEM Listing Rules”	the Rules Governing the Listing of Securities on GEM, as amended from time to time
“GFA”	gross floor area
“GLSPC”	ganoderma lucidum spores powder capsule (靈芝孢子粉膠囊) manufactured by the Group
“GMP”	the Good Manufacturing Practice in respect of proprietary Chinese medicine under the Chinese Medicine Ordinance (Cap. 549 of the Laws of Hong Kong)
“Group”, “us” or “we” or “our”	the Company and its subsidiaries and jointly controlled entities, or where the context so requires in respect of the period before the Company became the holding company of its present subsidiaries and jointly controlled entities, the present subsidiaries and jointly controlled entities of the Company
“Hai-O”	Hai-O Enterprise Berhad, a company incorporated in Malaysia on 14 April 1975, and our connected person at subsidiary level for the purpose of GEM Listing Rules
“H Shareholder(s)”	holder(s) of TRT Technologies H Shares
“Healthcare Products” (保健品)	Chinese herbs based edible products manufactured which serve to enhance the function of human body for certain group of people but are not used for medical treatment and excluding Chinese Medicines

DEFINITIONS

“Hebei Tang Shan Jiayi Packaging Industry”	Hebei Tang Shan Jiayi Packaging Industry Co., Ltd.* (河北省唐山佳億包裝工業有限公司), a company incorporated in the PRC on 4 August 1997 and an Independent Third Party
“HK\$” or “HK dollars” and “cents”	Hong Kong dollars and cents, respectively, the lawful currency of Hong Kong
“HKEx website”	http://www.hkexnews.hk , being the website operated by the Stock Exchange
“HKFRS”	Hong Kong Financial Reporting Standards
“HKSCC”	Hong Kong Securities Clearing Company Limited
“HKSCC Nominees”	HKSCC Nominees Limited, a wholly-owned subsidiary of HKSCC
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Share Registrar”	Computershare Hong Kong Investor Services Limited
“Independent Third Party(ies)”	an individual(s) or a company(ies) who or which is/are independent of and not connected with (within the meaning of the GEM Listing Rules) the Directors, chief executive and substantial shareholders (within the meaning of the GEM Listing Rules) of the Company, its subsidiaries, jointly controlled entities or any of their respective associates, and not a connected person of the Company
“Kim Eng”	Kim Eng Securities (Hong Kong) Limited, a licensed corporation to carry on business in type 1 (dealing in securities), type 4 (advising on securities) and type 6 (advising on corporate finance) regulated activities under the SFO, acting as the Sole Sponsor, Sole Lead Manager, Sole Underwriter and Sole Bookrunner in relation to the Share Offer
“Korea Boryung”	Boryung Drugs Company Limited*, a company incorporated in South Korea on 1 October 1988, and our connected person at subsidiary level for the purpose of GEM Listing Rules
“KRW”	South Korean Won, the lawful currency of the Republic of Korea
“Latest Practicable Date”	15 April 2013, being the latest practicable date for the purpose of ascertaining certain information contained in this prospectus prior to its publication

DEFINITIONS

“Lingzhi” (靈芝)	ganoderma lucidum
“Listing”	listing of the Shares on GEM
“Listing Date”	the date, expected to be on or about 7 May 2013, on which dealings in the Shares on GEM first commence
“Listing Division”	the Listing Division of the Stock Exchange
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Macao”	the Macao Special Administrative Region of the PRC
“Main Board”	the stock market operated by the Stock Exchange, which exclude, the option market and which continues to be operated by the Stock Exchange in parallel with GEM and which, for the avoidance of doubt, excludes GEM
“Memorandum of Association” or “Memorandum”	the memorandum of association of the Company (as amended from time to time)
“MOF”	The Ministry of Finance of the PRC (中華人民共和國商務部)
“MOP\$”	Macao Pataca, the lawful currency of Macao
“MYR”	Malaysian Ringgit, the lawful currency of Malaysia
“NPC”	The National People’s Congress of the PRC (中華人民共和國全國人民代表大會), the national legislative body of the PRC
“Offer Price”	the final offer price per Offer Share (exclusive of brokerage fee of 1.0%, SFC transaction levy of 0.003% and Stock Exchange trading fee of 0.005%) of not more than HK\$3.04 and expected to be not less than HK\$2.59, such price to be agreed upon by the Company and the Sole Lead Manager on or around the Price Determination Date
“Offer Shares”	the Placing Shares and the Reserved Shares
“Over-allotment Option”	the option granted by the Company to the Underwriter pursuant to the Underwriting Agreement, exercisable by the Stabilisation Manager, from the date of this prospectus to the 30th day after the date of this prospectus, whereby the Company may be required to allot and issue up to 30,000,000 additional new Shares representing up to 15% of the Shares initially available under the Share Offer, at the Offer Price solely to cover over-allocations in the Placing, subject to the terms of the Underwriting Agreement, details of which are set out in the section headed “Structure of the Share Offer” in this prospectus

DEFINITIONS

“overseas”	markets outside of the PRC but including Hong Kong and Macao
“Overseas Associates”	the 12 joint venture companies the Company formed with local partners, the particulars of which are set out in the section “History and corporate structure – the Group” in this prospectus
“Overseas Partners”	the local shareholders or interest holders, as the case may be, of the Overseas Associates
“Overseas TRT Technologies Shareholders”	registered holders of TRT Technologies Shares whose addresses on the register of members of TRT Technologies were outside Hong Kong, PRC and Macao as at 5:00 p.m. on the Record Date
“Parent Group”	TRT Holdings, TRT Ltd., TRT Technologies and their respective subsidiaries and excluding the Group (including their respective predecessors)
“Placing”	the conditional placing by the Underwriter of the Placing Shares at the Offer Price with professional, institutional or private investors, details of which are described in the section headed “Structure of the Share Offer” in this prospectus
“Placing Shares”	the 100,000,000 Offer Shares initially being offered at the Offer Price for subscription under the Placing as described in the section headed “Structure of the Share Offer” in this prospectus, together, where relevant, with any additional new Shares which may be issued by the Company upon exercise of the Over-allotment Option (subject to reallocation)
“PRC” or “China”	the People’s Republic of China excluding, for the purpose of this prospectus, Hong Kong, Macao and Taiwan
“Preferential Offer”	the preferential offer to Qualifying TRT Technologies Shareholders for subscription of the Reserved Shares on an assured basis at the Offer Price on and subject to the terms and conditions stated in this prospectus and in the Blue Application Form
“Price Determination Agreement”	the agreement to be entered into between us and the Sole Lead Manager on the Price Determination Date to record and fix the Offer Price
“Price Determination Date”	the date on which the Offer Price will be determined for the purposes of the Share Offer, expected to be on or around 30 April 2013 (Hong Kong time) (such later time as the Sole Lead Manager and us may agree)

DEFINITIONS

“Property Valuation Report”	the text of the letter, summary of values and valuation certificates from LCH (Asia-Pacific) Surveyors Limited, as set out in Appendix III to this prospectus
“Pt Saras”	P.T. SARAS SUBUR AYOE, a company incorporated in Indonesia on 5 July 2001, and an Independent Third Party for the purpose of GEM Listing Rules
“Qualifying TRT Technologies Shareholders”	registered holders of TRT Technologies Shares, whose shareholders’ names appear on the register of members of TRT Technologies as holdings 1,000 or more TRT Technologies Shares as at 5:00 p.m. on the Record Date, other than the Overseas TRT Technologies Shareholders
“Record Date”	22 April 2013, being the record date for ascertaining the Assured Entitlement
“Regulation S”	Regulation S under the US Securities Act
“Reserved Shares”	the 100,000,000 Offer Shares being offered pursuant to the Preferential Offer, representing approximately 50% of the Shares initially available under the Share Offer, subject to the re-allocation to the Placing as described in the section “Structure of the Share Offer” in this prospectus
“RMB” and “Renminbi”	Chinese Yuan Renminbi, the lawful currency of the PRC
“S\$”	Singapore Dollars, the lawful currency of Singapore
“Science Arts”	Science Arts Co Pte. Ltd, a company incorporated in Singapore on 22 December 1990 and our connected person at subsidiary level for the purpose of the GEM Listing Rules
“Securities and Futures Ordinance” or “SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“SFC”	The Securities and Futures Commission of Hong Kong
“Share(s)”	ordinary shares in the Company with a nominal value of HK\$0.50 each
“Share Offer”	the Preferential Offer and the Placing
“Shareholder(s)”	holder(s) of the Share(s) from time to time

DEFINITIONS

“Sole Sponsor” or “Sole Bookrunner” or “Sole Lead Manager” or “Sole Underwriter”	Kim Eng
“sq.m.”	square metre
“Stabilisation Manager”	Kim Eng
“State Council”	The State Council of the PRC (中華人民共和國國務院)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited, a wholly-owned subsidiary of Hong Kong Exchanges and Clearing Limited
“subsidiary(ies)”	has the meaning ascribed thereto under section 2 of the Companies Ordinance
“substantial shareholder(s)”	has the meaning ascribed thereto in the GEM Listing Rules
“Takeovers Code”	the Codes on Takeovers and Mergers and Share Repurchases issued by the SFC, as amended, supplemented or otherwise modified from time to time
“Thai Boon Roong Co., Ltd.”	Thai Boon Roong Co., Ltd., a company incorporated in Cambodia on 3 February 1993, and our connected person at subsidiary level for purpose of GEM Listing Rules
“THB”	Thai Baht, the lawful currency of Thailand
“Track Record Period”	the two years ended 31 December 2012
“TRT (Australia)”	Beijing Tong Ren Tang Australia Pty. Ltd., a company incorporated in Australia with limited liability on 20 May 2004, which is held as to 75%, 15% and 10% by the Company, Ma An Yang and Zhang Bei respectively, and is a non-wholly-owned subsidiary of the Company. Each of Ma An Yang and Zhang Bei is our connected person at subsidiary level for the purpose of GEM Listing Rules

DEFINITIONS

“TRT (Boryung)”	Beijing Tong Ren Tang (Boryung) Co., Ltd.*, a company incorporated in South Korea with limited liability on 5 December 2002, which is held as to 51% and 49% by the Company and Korea Boryung* respectively, and a jointly controlled entity of the Company from accounting perspective
“TRT (Brunei)”	Beijing Tong Ren Tang (B) Sdn Bhd, a company incorporated in Brunei with limited liability on 20 May 2009, which is held as to 51%, 20%, 20% and 9% by the Company, Ang Ju Ming, Lim Yee Suan and Ang Bee Fong respectively, and a non-wholly-owned subsidiary of the Company. Each of Ang Ju Ming and Lim Yee Suan is our connected person at subsidiary level and Ang Bee Fong is an Independent Third Party for the purpose of GEM Listing Rules
“TRT (Canada)”	Beijing Tong Ren Tang Canada Co., Ltd., a company incorporated in Canada with limited liability on 11 January 2002, which is held as to 51% and 49% by the Company and Chuan Chiong respectively, and a jointly controlled entity of the Company from accounting perspective
“TRT Commercial Investment”	Beijing Tong Ren Tang Commercial Investment Development Co., Ltd.* (北京同仁堂商業投資發展有限責任公司), a company incorporated in the PRC with limited liability on 5 June 2003, which is held as to 51.98% by TRT Ltd., 31.69% by TRT Holdings 6.97% by 北京首創科技投資有限公司, 4.8% by 深圳市海王星辰醫藥有限公司 and 4.56% by individuals, holding 10% interest in TRT Health Preserving and Culture
“TRT Chinese Medicine Holdings”	Beijing Tong Ren Tang Chinese Medicine (Hong Kong) Group Co., Ltd., a company incorporated in Hong Kong with limited liability on 1 March 2012, which is held as to 46.90% and 53.10% by TRT Ltd. and TRT Technologies respectively
“TRT Consulting Services”	Beijing Tong Ren Tang Consulting Services Co., Ltd.* (北京同仁堂諮詢服務有限公司), a company incorporated in the PRC with limited liability on 30 March 2010, which is wholly-owned by TRT International Natural-Pharm and an indirect wholly-owned subsidiary of the Company
“TRT Group”	TRT Holdings, TRT Ltd., TRT Technologies and their respective subsidiaries, including the Group (including its predecessors)

DEFINITIONS

“TRT Health Preserving and Culture”	Beijing Tong Ren Tang Health Preserving and Culture Co., Ltd.* (北京同仁堂養生文化有限公司), a company incorporated in the PRC with limited liability on 24 May 2010, and is held as to 41%, 29%, 10%, 10%, 5% and 5% by TRT International Natural-Pharm, Li Kai Yu (李凱鈺), Beijing Tai Yi Tang Technologies Development, TRT Commercial Investment, Zhang Yan (章硯) and Zhu Dan (朱丹) respectively, and an associate company of the Company. Each of Li Kai Yu, Beijing Tai Yi Tang Technologies Development Co., Ltd., Zhang Yan and Zhu Dan is an Independent Third Party for the purpose of GEM Listing Rules
“TRT Holdings”	China Beijing Tong Ren Tang (Holdings) Corp.* (中國北京同仁堂(集團)有限責任公司), a state-owned enterprise established in the PRC on 17 August 1992 and one of the Controlling Shareholders
“TRT Hong Kong Medicine”	Beijing Tong Ren Tang Hong Kong Medicine Management Limited, a company incorporated in Hong Kong on 5 October 1990 and is held as to 65% by C.T.E. Holdings Limited, 25% by TRT Holdings and 10% by Beijing Holdings Limited respectively
“TRT (Indonesia)”	PT. Beijing Tong Ren Tang Indo*, a company incorporated in Indonesia with limited liability on 27 June 2003, and is held as to 50% and 50% by the Company and Pt Saras respectively, and a jointly controlled entity of the Company from accounting perspective
“TRT International”	Beijing Tong Ren Tang International Co., Ltd. (北京同仁堂國際有限公司), a company incorporated in Hong Kong with limited liability on 19 May 2003, and is held as to 99.5%, 0.125%, 0.25% and 0.125% by TRT Holdings, Yin Shun Hai (殷順海), Mei Qun (梅群) and Ding Yong Ling (丁永玲) respectively
“TRT International Natural-Pharm”	Beijing Tong Ren Tang International Natural-Pharm Co., Ltd.* (北京同仁堂國際藥業有限公司), a company incorporated in the PRC with limited liability on 6 March 2006, and is wholly-owned by the Company
“TRT Ltd.”	Beijing Tong Ren Tang Co., Ltd.* (北京同仁堂股份有限公司), a joint stock limited company established in the PRC on 18 June 1997, the shares of which have been listed on the Shanghai Stock Exchange since 1997, and is a Controlling Shareholder

DEFINITIONS

“TRT (Macau)”	Beijing Tong Ren Tang (Macau) Company Limited*, a company incorporated in Macao with limited liability on 6 November 2002, which is held as to 51%, 44% and 5% by the Company, BMI Trading and Ho Family (namely, Ho Cheung Lai Kwan; Ho Eric King Fung; Ho Kevin King Lun; Ho Wing Yiu and Ho Wing Yee, Queenie) respectively, and a non-wholly-owned subsidiary of the Company. Each of Ho Cheung, Lai Kwan, Ho Eric King Fung, Ho Kelvin King Lun, Ho Wing Yiu and Ho Wing Yee, Queenie is an Independent Third Party for the purpose of the GEM Listing Rules
“TRT (Malaysia)”	Peking Tongrentang (M) SDN. BHD, a company incorporated in Malaysia with limited liability on 19 January 2001, which is held as to 60% and 40% by the Company and Hai-O respectively, and a jointly controlled entity of the Company from accounting perspective
“TRT (Poland)”	Beijing Tong Ren Tang Poland sp.zo.o.*, a company incorporated in Poland on 26 July 2012, which is wholly owned by the Company
“TRT (Singapore)”	Beijing Tong Ren Tang Science Arts (Singapore) Co Pte. Ltd, a company incorporated in Singapore with limited liability on 1 December 2003, which is held as to 51% and 49% by the Company and Science Arts respectively, and a non-wholly-owned subsidiary of the Company
“TRT (Taiwan)”	Beijing Tong Ren Tang Tai Fong Co., Ltd. (北京同仁堂太豐股份有限公司), a company incorporated in Taiwan on 6 November 2003, which is held as to approximately 53% and 47% by TRT Holdings and Independent Third Parties respectively
“TRT (Tang Shan)”	Beijing Tong Ren Tang (Tang Shan) Nutrition and Healthcare Co., Ltd.* (北京同仁堂(唐山)營養保健品有限公司), a company incorporated in the PRC with limited liability on 13 September 2010, which will be held as to 68%, 6%, 6% and 20% by TRT Chinese Medicine Holdings, TRT Technologies, TRT Technologies Bozhou Jingqiao Pharmaceutical and Hebei Tang Shan Jiayi Packaging Industry respectively, upon completion of our disposal of 68% equity interest to TRT Chinese Medicine Holdings
“TRT Technologies”	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 established in the PRC on 22 March 2000, the H shares of which have been listed on GEM since 2000 and have been transferred to the Main Board since July 2010, and is a Controlling Shareholder

DEFINITIONS

“Bozhou Jingqiao Pharmaceutical”	Bozhou Jingqiao Pharmaceutical Co., Ltd.* (亳州市京樵醫藥有限公司), a company incorporated in the PRC on 7 December 1999 and owned by Independent Third Parties
“TRT Technologies Domestic Shares”	ordinary shares of nominal value of RMB1.00 each in the share capital of TRT Technologies, which are subscribed for or credited as paid up in Renminbi by PRC nationals and/or PRC incorporated entities
“TRT Technologies H Shares”	overseas-listed foreign invested ordinary shares of nominal value of RMB1.00 each in the share capital of TRT Technologies which are subscribed for and traded in Hong Kong dollars and listed on the Main Board and for the avoidance of doubt exclude TRT Technologies Domestic Shares
“TRT Technologies Shares”	TRT Technologies Domestic Shares and/or TRT Technologies H Shares
“TRT (Thai Boon Roong)”	Beijing Tong Ren Tang (Thai Boon Roong) Company Limited*, a company incorporated in Cambodia with limited liability on 8 December 2005, which is held as to 51% and 49% by the Company and Thai Boon Roong Co., Ltd. respectively, and a jointly controlled entity of the Company from accounting perspective
“TRT (Thailand)”	Beijing Tong Ren Tang (Thailand) Co., Ltd.*, a company incorporated in Thailand with limited liability on 23 March 2000, which is held as to 49% and 51% by the Company and V.P. Pharmacy Registered Ordinary Partnership* (through 11 individual nominees) respectively, and a jointly controlled entity of the Company from accounting perspective
“TRT (Toronto)”	Beijing Tong Ren Tang (Toronto) Inc., a company incorporated in Ontario, Canada with limited liability on 24 June 2010, and is held as to 51% and 49% by the Company and Finchdene respectively, and is a non-wholly-owned subsidiary of the Company
“TRT (UAE)”	Beijing Tong Ren Tang Gulf FZLLC, a company incorporated under the laws of United Arab Emirates on 8 June 2011, which is held as to 51% and 49% by the Company and Emirates China Group L.L.C., respectively, and a non-wholly-owned subsidiary of the Company

DEFINITIONS

“TRT (UK)”	Beijing Tong Ren Tang (UK) Limited, a company incorporated in the United Kingdom on 14 December 1993 and is held as to 65% by C.T.E. Holdings Ltd., 25% by TRT Holdings and 10% by Beijing Holdings Ltd. respectively
“Underwriter”	the Sole Underwriter in respect of the Share Offer named in the section headed “Underwriting” in this prospectus
“Underwriting Agreement”	the underwriting and placing agreement dated 24 April 2013 relating to the Share Offer and entered into by, among others, the Sole Sponsor, the Sole Lead Manager, the Sole Underwriter and Sole Bookrunner and the Company, as further described in the section headed “Underwriting” in this prospectus
“UAE”	the United Arab Emirates
“U.K.”	the United Kingdom
“U.S.” or “United States”	the United States of America, its territories, its possessions and all areas subject to its jurisdiction
“US\$” or “U.S. dollars”	United States dollars, the lawful currency of the United States
“US Securities Act”	the United States Securities Act of 1933 (as amended from time to time)
“V.P. Pharmacy Registered Ordinary Partnership*”	V.P. Pharmacy Registered Ordinary Partnership*, a partnership registered in Thailand on 1 June 1951 and an Independent Third Party
“zloty”	Polish zloty, the lawful currency of Poland
“%”	per cent

* For identification purpose only

Certain amounts and percentage figures included in this prospectus have been subject to rounding adjustments. Accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures preceding them.

In this prospectus, if there is any inconsistency between the Chinese names of the titles, entities or enterprises established or used as the case may be in the PRC and their English translations, the Chinese names shall prevail. The English names of PRC and overseas entities or titles mentioned in this prospectus may not be their official names in their respective locality and are used for identification only.

FORWARD-LOOKING STATEMENTS

This prospectus contains many statements that are “forward-looking”. You can identify these statements by the use of terms such as “believe”, “anticipate”, “expect”, “estimate”, “future”, “intend”, “may”, “ought to”, “plan”, “should”, “will”, “seek”, “aim”, “continue”, “predict”, “would”, negatives of such terms or other similar statements. You should not place undue reliance on any of these forward-looking statements. Although we believe our assumptions in making these forward-looking statements are reasonable, our assumptions may prove to be incorrect and you are cautioned not to place undue reliance on such statements. The forward-looking statements in this prospectus include, but are not limited to, statements relating to:

- our goals and strategies and our various measures to implement such strategies;
- our future business development, results of operations and financial condition;
- expected growth of and changes in the local and global financial markets;
- projected revenues, profits, earnings and other estimated financial information;
- our ability to capture future market share;
- our ability to maintain strong relationships with our customers and suppliers;
- our planned use of proceeds; and
- government policies regarding the finance industry.

The forward-looking statements included in this prospectus are subject to risks, uncertainties and assumptions about our businesses and business environments. These statements reflect our current views with respect to future events and are not a guarantee of future performance. Actual results of our operations may differ materially from information contained in the forward-looking statements as a result of many factors, including but not limited to the following:

- competition in the Chinese Medicine Products and healthcare services markets;
- our ability to introduce new products to respond to consumer demands and preferences;
- our production capabilities;
- relationships with the Parent Group and our joint venture partners;
- economic conditions in the PRC and Non-PRC Markets;
- our liquidity and financial condition.

We undertake no obligation to publicly update or revise any forward-looking statements contained in this prospectus, whether as a result of new information, future events or otherwise, except as required by law and the GEM Listing Rules. All forward-looking statements contained in this prospectus are qualified by reference to this cautionary statement.

RISK FACTORS

Potential investors should consider carefully all the information set out in this prospectus and, in particular, should consider and evaluate the following risks associated with an investment in the Company before making any investment decision in relation to the Company.

RISKS RELATED TO OUR BUSINESS

We cannot guarantee that our operation will not be affected by cessation of business in the PRC and change of business direction.

We have made a few adjustments to our business model recently. We have terminated the PRC distribution of all of our self-manufactured products, including GLSPC, from 1 November 2012. For the two years ended 31 December 2012, the revenue generated from PRC distribution was approximately HK\$84.3 million and HK\$115.0 million respectively, accounting for approximately 66.6% and 42.8% of the total revenue attributable to the sales of our self-manufactured business for the respective periods and approximately 30.0% and 24.3% of our total revenue for the respective year. As we ceased our self-manufactured products distribution in PRC, we cannot assure you that we can maintain the same level of sales by selling our self-manufactured products in Non-PRC Markets.

The PRC distribution operation and agency fee income have accounted for a significant portion of our revenue, gross profit and operating cashflow. We have lost a significant portion of our revenue, gross profit and operating cashflow under the cessation of these operations. For the two years ended 31 December 2012, the revenue generated from our agency fee income was approximately HK\$24.5 million and HK\$20.6 million respectively, accounting for approximately 8.7% and 4.4% of our total revenue respectively. As the discontinued businesses had higher gross profit margin than our continuing businesses, our gross profit margin in the future will be significantly adversely affected. For the two years ended 31 December 2012, the gross profit margin of our discontinued businesses was 85.4% and 78.9% respectively, and the gross profit margin of our continuing businesses was 67.0% and 69.9% respectively. There is no assurance that we can recover these losses from the future contribution from the continuing businesses and the recently established sole distribution operation.

Except for the exclusive distributorship framework agreements with our connected persons, details of which are set out in the section headed “Connected transactions” in this prospectus, we have not entered into any long-term sales agreement or commitment with our major customers. There is no assurance that such customers will continue to purchase or maintain their purchase volumes of our products in the future. The demand for our products by such customers and other customers may change due to a number of factors, some of which may be outside our control such as changes in their businesses, personnel and sourcing policies. In the event that any of our major customers cease to purchase from us or reduce the purchase volume of orders placed with us and we are unable to obtain replacement orders, our business and profitability may be adversely affected.

Furthermore, the Parent Group has terminated all the sale of its Angong Niu Huang Pills in Non-PRC Markets from 1 October 2012. There is no guarantee that we can increase our sales of Angong Niu Huang Pills to satisfy demand for “Tong Ren Tang” branded Angong Niu Huang Pills previously met by the Parent Group’s Angong Niu Huang Pills.

RISK FACTORS

The cessation of sales of the Parent Group's Angong Niu Huang Pills in Non-PRC Markets will significantly impact the performance of our Overseas Associates which have sold the products, most noticeably TRT (Macau). There is no assurance that these Overseas Associates can recover the lost revenue from increasing sales of other products, or when our Angong Niu Huang Pills are registered in their respective jurisdictions.

We have ceased to be an agent but have become the sole distributor for TRT Ltd. and TRT Technologies of their products in Non-PRC Markets for orders placed from 1 November 2012. Accordingly, we will be responsible for the payment of purchases of "Tong Ren Tang" branded products from the Parent Group for sales in these markets and thus an increase in cash outflow and the collection of related sales proceeds from the customers. However, there is no assurance that we will have sufficient cash flow to meet settlement requisition that we will be able to collect payment from customer on time to meet our corresponding payment obligations. This may increase the need of our working capital and accounts receivable and may materially and adversely affect our financial position. In addition, the purchases of products from the Parent Group are subject to annual caps. Accordingly, we may not be able to satisfy our customers' demand for the Parent Group's products as the purchases may then exceed these annual caps. Our business, financial condition and results of operations may be materially and adversely affected by the aforementioned changes in our business model. There is no assurance that we can increase the revenue of our other operations to maintain our total revenue growth or that our profit margins will not be adversely affected.

Under our new operation model, we will be procuring part of the raw materials of Angong Niu Huang Powder and will be using them for the manufacturing of Angong Niu Huang Powder under the procuring arrangement. As the new operation model requires us to stock part of the raw materials of Angong Niu Huang Powder, in the event that the raw materials prices fluctuate to a material extent, it may have a material impact on our cost of goods sold, in which case our business, financial condition and results of operation may be materially and adversely affected.

We may not be able to effectively manage our expansion of operations and may not yield the desired result

We plan to expand our business significantly to capture new opportunities. In particular, we intend to use net proceeds of approximately HK\$326 million that we receive from the Share Offer to establish domestic and/or overseas retail and/or wholesale businesses to expand our operations, coverage and network of our distribution in our existing and future target markets. We also plan to invest HK\$90 million in the establishment of a Chinese medical healthcare centre in Hong Kong in the second half of 2013. In addition, we may continue to identify, pursue and consummate joint venture projects in the future.

Although we will conduct detailed research on the relevant market conditions, competitive landscape, industry trends, consumer demand and other important factors, there exist uncertainties, risks and difficulties such as greater entry barriers, failure to secure new locations for retail outlets, failure to expand product portfolio, unavailability of suitable joint venture partners, lack of understanding of the local competitive environment, financial and management system or legal system, volatility in currency exchange rates, potentially more stringent product liability requirements, cultural differences,

RISK FACTORS

changes in political, regulatory or economic conditions in the foreign countries or regions, restrictions on foreign trade, as well as possible difficulties in the anticipation of new trends, understanding customers' needs and management of overseas personnel, joint ventures and our business operations. In addition, international acquisitions also involve takeovers, mergers and acquisitions, anti-trust and other laws and regulations of other jurisdictions and there may be difficulties in meeting applicable regulatory requirements. Moreover, there can be no assurance that we will have sufficient management experience, expertise and/or financial resources to successfully adapt to new trends and developments and compete successfully against companies with a longer operating history in these segments or the revenue generated will be as projected. In the event that we are unable to manage any of the above risks effectively to develop such new market segments into sources of profit growth for the Group, our expansion strategies even implemented may not yield the desired results, which may in turn have a material and adverse effect on our business prospects, results of operations and financial condition.

The successful implementation of the strategies and plans we have developed to grow our business depends on a number of factors including, amongst other things, growth of the relevant industries in Non-PRC Markets and changes in the competitive landscape including similar products introduced by competitors, our ability to improve our operational and financial systems, procedures and controls, increase our annual production capacity and output, and recruit and train our employees. Furthermore, we need to maintain and strengthen our existing relationships with customers, suppliers and other third parties while developing new business relationships. We cannot assure you that our current and planned operations, personnel, systems and internal control measures will be adequate to support our future growth. If we are unable to manage our growth effectively, we may not be able to take advantage of market opportunities, execute our business strategies or respond to competitive pressures in a timely manner.

There are risks associated with our reliance on, and our relationship with, our Parent Group.

The Group had been operated as an integral part of the Parent Group. During the Track Record Period, the Group had sold its Healthcare Products to, and had sourced Chinese herbs, raw materials from the Parent Group for its manufacturing and sales. The risks relating to the Group in view of its historical reliance and relationship with the Parent Group are highlighted below:

The success of our business depends on our reputation and product brand name which may be adversely affected by counterfeit products

We believe that the “Tong Ren Tang” brand name plays an important role in our positioning and marketing as all our retail stores are operated under it. During the Track Record Period, we derived a substantial portion of our revenue from the sales of “Tong Ren Tang” branded products, the sales of our self-manufactured “Tong Ren Tang” branded products accounted for 45.1% and 56.7% and the sales of our non self-manufactured products accounted for 15.9% and 16.7% of our total revenue for the two years ended 31 December 2012 respectively. Agency income from the Parent Group accounted for 8.7% and 4.4% of our total revenue for the two years ended 31 December 2012 respectively.

RISK FACTORS

Our products under the “Tong Ren Tang” brand name, are subject to competition from counterfeits, which are products without proper licences or approvals and are fraudulently mislabelled with respect to their content and/or manufacturer. Counterfeiters may illegally manufacture, market and sell their products under the “Tong Ren Tang” or similar brand names. Counterfeit products are generally sold at lower prices than the authentic products due to their lower production costs, and in some cases, are very similar in appearance to the authentic products. Counterfeit products may or may not have the same chemical content as their authentic counterparts. If counterfeit products illegally sold under the “Tong Ren Tang” or similar brand names result in adverse side effects to end-users, we may be associated with negative publicity resulting from such incidents, regardless of its veracity, relating to the Company or products we carry. In addition, consumers may purchase counterfeit products that are directly competing with our products, which could have an adverse impact on our business and results of operations. There may not be an effective counterfeit enforcement system in the markets we operate, and the proliferation of counterfeit products in recent years may continue to grow in the future, which could in turn materially and adversely affect our reputation, business and results of operations.

We also sell Chinese herbs through retail sales and through the prescriptions of our Chinese Medicine Practitioners. There are counterfeit herbs produced by fake raw materials or having misdeeds during the processing of herbs in the market which we may encounter. If such counterfeit herbs are sold in our outlets, we may also be associated with any negative publicity resulting from such incidents.

We rely on the trademark license agreement and the authorization letter from TRT Holdings for the use of “Tong Ren Tang” trademarks for our production of products and the right to use the “Tong Ren Tang” trademarks for retail operations outside of the PRC

The Company signed a trademark license agreement dated 16 November 2006 with TRT Holdings for the licensed use of “Tong Ren Tang” trademark for its production subject to the terms of the agreement for a term from 26 November 2006 to 16 November 2016. Pursuant to an authorization letter dated 28 September 2010, TRT Holdings further licensed the Company for the right to use the “Tong Ren Tang” trademarks in Non-PRC Markets including but not limited to the right to sub-license the said trademark at nil consideration from 1 October 2010 to 30 September 2013. Pursuant to a revised trademark license agreement and authorization letter (the “Trademark License Agreement and Authorization Letter”) dated 15 April 2013, the term of the licensed use and authorisation of the “Tong Ren Tang” trademark is renewed at nil consideration up to 13 May 2021. According to the Trademark License Agreement and Authorization Letter, the Company is not subject to any fee or charges for use of the trademark as long as TRT Holdings directly or indirectly controls 51% or more equity interest of the Company. The trademark licence and authorisation will be automatically renewed on the same terms and conditions for a further term on a perpetual basis for terms of 10 years upon expiry on 13 May 2021.

Please refer to the section headed “Business – Intellectual property” in this prospectus for further details of the Trademark License Agreement and Authorization Letter.

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There can be no assurance that we will be able to maintain or renew the licensed use and authorisation of the “Tong Ren Tang” trademark from TRT Holdings under the same or similar terms upon its expiration.

If we fail to maintain the licensed use and authorisation of the “Tong Ren Tang” trademark from TRT Holdings, we will be unable to continue the production of products under the “Tong Ren Tang” brand and the use of the “Tong Ren Tang” brand in Non-PRC Markets, and our business, financial condition and results of operations will be materially and adversely affected.

Parent Group has not registered the “Tong Ren Tang” trademarks in some jurisdictions

As of the Latest Practicable Date, the Parent Group has not registered the “Tong Ren Tang” trademarks or the relevant trademark may have been registered by others under classes relevant to our operation in some of the countries that our Group carry out business. Any registration and use of such marks or any unauthorized use of such trademarks and other related intellectual property rights by others in their corporate names or brands could harm our image and competitive advantages. If the trademarks are applied in jurisdictions which registration has not been made, we may use the trademarks until and unless our right to use the trademarks are challenged by other persons.

Certain trademarks containing the “Tong Ren Tang” logo or brand name have been registered by certain third parties in Indonesia, and the Parent Group is undergoing litigation process to object to such trademark registration. The objection may or may not be successful. In the event the objection is not successful, we may face legal proceedings and be subject to liabilities arising from the use of such trademarks in Indonesia.

We may encounter future litigation by third parties based on claims that our products or activities infringe upon the intellectual property rights of others or that we, our employees or Chinese Medicine Practitioners have misappropriated the trade secrets of others. It is difficult to predict how such disputes would be resolved. The defence and prosecution of intellectual property rights are costly and will divert technical and management personnel from their normal responsibilities. Furthermore, we may not prevail in any such litigation or proceedings. An adverse decision with respect to any litigation or proceedings against us or a judgment resulting in a finding of non-infringement by others or invalidity of our patents, may result in competitors selling generic substitutes of our products. In addition, a determination that we have infringed the intellectual property rights of another party may require us to do one or more of the following:

- pay monetary damages to settle the results of such adverse determination, which could adversely affect our business, financial condition and results of operations;
- cease selling, incorporating or using any of our products that incorporate the challenged intellectual property, which would adversely affect our turnover or costs, or both;
- obtain a licence from the holder of the infringed intellectual property right, which might be costly or might not be available on reasonable terms, or at all; or
- redesign our products to make them non-infringing, which would be costly and time consuming, or may not be possible at all.

RISK FACTORS

If such a claim is alleged, there can be no assurance that the resolution of the claim would permit us to continue producing the product in question on commercially reasonable terms. In addition, there is a risk that some of our confidential information could be compromised by mandatory disclosure during intellectual property litigation. Furthermore, there could be public announcements throughout the course of intellectual property litigation or proceedings as to the results of hearings, motions or other interim proceedings or developments in the litigation. Such public announcements could materially and adversely impact our product image or corporate reputation, thereby affecting the trading price of our Offer Shares.

TRT Ltd. and TRT Technologies may terminate our exclusive distributorship framework agreements for the distribution of their products in Non-PRC Markets

We entered into an exclusive distributorship framework agreement with each of TRT Ltd. and TRT Technologies for the distribution of the products of TRT Ltd. and TRT Technologies in Non-PRC Markets. Subject to the terms of both agreements, both agreements are for a term from 1 November 2012 to 31 December 2014. Both agreements may be terminated or partly terminated by either party if, among other things, the other party gives at least one month prior notice to the other party informing the details of the product to be terminated and the date of termination of the agreement or the effective date of such termination. Please refer to the section headed “Business – Agency and sole distributorship of “Tong Ren Tang” branded products” in this prospectus for further details of the exclusive distributorship framework agreements with TRT Ltd. and TRT Technologies.

There can be no assurance that each of TRT Ltd. and TRT Technologies will not attempt to terminate the exclusive distributorship framework agreements, or that we will be able to renew the exclusive distributorship framework agreements on the same or similar terms or at all. Besides, each of TRT Ltd. and TRT Technologies may modify the terms of the exclusive distributorship framework agreements upon renewal to make them less favourable to us.

Should any of the exclusive distributorship framework agreements with TRT Ltd. and TRT Technologies be terminated or fail to renew upon its expiration, our business, financial condition and results of operations will be materially and adversely affected.

Reliance on the Parent Group for the supply of raw materials and merchandise

We source certain of our raw materials, principally Angong Niu Huang Powder, from the Parent Group for production of our self-manufactured products. Our Parent Group is the sole supplier of our Angong Niu Huang Powder. In addition, we procure “Tong Ren Tang” branded Chinese Medicines from the Parent Group for our distribution operations. For the two years ended 31 December 2012, purchases from the Parent Group accounted for approximately 35.1% and 29.9% of our total purchases respectively.

RISK FACTORS

Procurement of raw materials and merchandise from the Parent Group constitute continuing connected transactions of the Company upon Listing. We have entered into exclusive distributorship framework agreement with each of TRT Ltd. and TRT Technologies in this respect for a term commencing from 1 November 2012 and ending on 31 December 2014. There is no certainty or guarantee that such agreement will not be terminated prior to the expiration of its term or will be renewed. If such agreement is prematurely terminated or is not renewed, or if the Parent Group fails to supply to us those raw materials and merchandise which it is the sole supplier, we have to cease production of the relevant self-manufactured products and/or sales of the relevant merchandise. There is no guarantee that we will be able to find an alternate source of supply of these raw materials and merchandise on commercially acceptable terms and in a timely manner. In any of such event, our business operation and profitability could be adversely affected.

Our inability to hold our interests directly in the operating entity

We conduct our business through our joint ventures, subsidiaries and/or associates in overseas jurisdictions. In jurisdictions where the operation entity is not permitted to be held by foreign investor entity, we may appoint nominee(s) to hold on behalf of its interest in that operation entity.

The operations of TRT (Indonesia) in Indonesia are operated by PT. KLINIK BEIJING TONGRENTANG, a company incorporated in Indonesia which is held by four individual shareholders. Pursuant to certain conditional sale and purchase agreements between TRT (Indonesia) and the four individual shareholders of PT. KLINIK BEIJING TONGRENTANG (the “Transfer Agreement”), the four individual shareholders (“Nominees”) agreed to transfer their shareholding in PT. KLINIK BEIJING TONGRENTANG to TRT (Indonesia). Such transfer has not been effected yet as the current Indonesian laws do not allow the foreign invested entity to own shares in retail business. Please refer to the notes under the section headed “History and corporate structure – Before the Share Offer” in this prospectus for further details.

Should the Nominees fail to honour their obligations under the Transfer Agreement or otherwise deal with the interest in PT. KLINIK BEIJING TONGRENTANG unfaithfully, our business, financial condition and results of operations may be materially and adversely affected. For the two years ended 31 December 2012, revenue from the operations of TRT (Indonesia) in Indonesia amounted to approximately HK\$3.3 million and HK\$3.9 million and accounted for approximately 1.7% and 1.1% of our revenue from continuing operations respectively.

In addition, some of our joint venture partners also supply products (including “Tong Ren Tang” branded products) to us. Any discontinuation of their business relationship will also affect the range of products we can sell at our stores and our business, financial condition and results of operations will be materially and adversely affected.

We rely on cooperation with our joint venture partners

We established our overseas distribution network through the setting up of companies with local joint venture partners in different jurisdictions for the operation of our retail stores and wholesale operations. For the two years ended 31 December 2012, revenue contributed from our joint ventures amounted to approximately HK\$39.2 million and HK\$29.5 million and accounted for approximately

RISK FACTORS

19.9% and 8.2% of our revenue from continuing operations respectively, and the expansion of operations, maintaining the relationships between us and our joint venture partners is important to us. Besides, we do not have absolute control over these joint ventures as we do not wholly own their equity interests. If any of our joint venture partners terminates its business relationship with us, we may not be able to find a substitute partner with the same strategic fit into our operations or, where we are able to find such a substitute, enter into a similar agreement with such replacement partner on commercially acceptable terms and in a timely manner, or at all. The continued expansion of our distribution network is also dependent on our success in finding new joint venture partners that are willing to cooperate with us. If we are unable to successfully exercise control over our joint ventures, maintain our business relationships with our existing joint venture partners, or develop business relationships with new joint venture partners, our business, financial condition and results of operations could be materially and adversely affected.

Further, our ability to successfully cooperate with our joint venture partners and realize the benefits of the relevant joint venture depends upon, among other things, successful integration of our partners' expertise into our business, which can be particularly difficult due to cultural differences, geographic obstacles and other intangible factors. There can be no assurance that our joint ventures will generate the expected benefits. If we fail to realise the expected benefits from our joint ventures, our financial condition and results of operations may be materially and adversely affected.

Our insurance coverage may not be sufficient to cover the risks relating to our operations

We have procured insurance coverage for our operations in Hong Kong, including but not limited to, property insurance, product liability insurance and transportation insurance, which we believe is in line with the industry practice in jurisdictions where we operate. However, we only maintain minimum insurance coverage as required under the relevant laws and regulations of the jurisdictions other than Hong Kong in which we have operations and we do not maintain full scale product liability insurance for third party liability claims. Further particulars on our insurance policies are set out in the section headed "Business – Insurance" in this prospectus. In the event of allegations that any of our products are harmful or that we have violated governmental regulations, we may be exposed to adverse publicity and experience reduced consumer demand for our products, or our products may have to be recalled from the market. Besides damage to our brand recognition, a product recall could result in substantial and unexpected expenditures, which would reduce our operating profit and cash flow. In addition, a product recall may require significant management attention. Product recalls may also lead to increased scrutiny of our operations by regulatory agencies.

Further, there can be no assurance that we will not experience difficulty in receiving compensation from the insurance companies, or the processing time will not be lengthy or that we will be able to receive sufficient compensation to cover our liability or damages in full. We may also be forced to defend compensation claims and, if unsuccessful, pay a substantial amount in damages. Losses suffered or costs incurred as a result of any claims brought against us for which we may not be able to recover under our insurance policies or for which we have not bought any relevant insurance, may have a material and adverse effect on our business, financial condition and results of operations. Consequently, we may suffer loss in our market share, and our business, financial condition and results of operation may be materially and adversely affected.

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We are exposed to the risk of product liability claims that is inherent in the manufacture and sales of our self-manufactured products and third party merchandise which we source for sale in our retail stores. Products we distribute or sell may contain contaminated substances unidentified during our production process and cause adverse reactions from human consumption of these ingredients. We could also be subject to product liability claims if we purchase defective raw materials from third parties as these raw materials are typically sold to us with no warranties as to quality or suitability for their intended use. Any litigation or actions initiated against us may divert the attention of our management from our business strategies and may be costly to defend.

We recorded long inventory turnover days during the Track Record Period.

Our inventories comprise of our raw materials, work-in-progress, finished goods and trading merchandise. We had inventories in the amount of HK\$62.1 million and HK\$87.2 million as at 31 December 2012 respectively. During the Track Record Period, we typically maintained an inventory level of three to six months for raw materials, three months to one year for finished goods and trading merchandise and more than one year for certain Chinese medicines. For the two years ended 31 December 2012, our inventory turnover days were 222 and 206 days, respectively. If we fail to effectively manage our inventory levels or otherwise have significant levels of obsolete or excessive inventories, our business, results of operations and financial condition could be materially and adversely affected.

We may receive poor quality raw materials and Chinese Medicines from our suppliers.

Although we have a strict quality control system for the procurement of our raw materials and Chinese Medicines, we cannot assure you that our suppliers will not intentionally or inadvertently contaminate the raw materials or Chinese Medicines or provide us with substandard raw materials or Chinese Medicines that adversely impact the quality of our products. Some of the raw materials we use in our production may contain harmful chemicals or substances of which we are not aware and may cause undesirable side effects or injuries to our consumers. If in the future we experience any quality or safety problems in relation to the raw materials or Chinese Medicines we sourced, or in relation to the Healthcare Products we manufacture, our product quality, reputation, market position and business could be materially and adversely affected.

We rely on our major suppliers for our supplies of raw materials and merchandise.

Our major supplies are raw materials and packaging materials for production of our Healthcare Products and Angong Niu Huang Pills as well as merchandise for our distribution operations. For the two years ended 31 December 2012, our total purchase amounted to approximately HK\$82.1 million and HK\$135.0 million respectively. We rely on a few suppliers including the Parent Group and other connected persons for supplies of our raw materials and merchandise. For the two years ended 31 December 2012, purchases from our five largest suppliers accounted for approximately 48.7% and 61.3% of our total purchase, respectively, while purchases from our largest supplier accounted for approximately 28.9% and 25.9% of our total purchase respectively. TRT Ltd., TRT Technologies and Science Arts, who are our connected persons, are among our five largest suppliers during the Track Record Period. As the Parent Group is also one of our major suppliers, please also refer to the section

RISK FACTORS

headed “Risks related to our business – There are risks associated with our reliance on, and our relationship with, our Parent Group – Reliance on the Parent Group for the supply of raw materials and merchandise” above for details of the risks associated.

We mainly source raw materials and packaging materials for the production of our self-manufactured products, such as ganoderma lucidum spores powder, and Angong Niu Huang Powder. The packaging materials we use are principally metal boxes to contain our products and these are mainly supplied by an Independent Third Party.

In addition, we source other non self-manufactured products for our distribution operations. These include Chinese Medicine Products and Chinese herbs. Due to medicine registration requirements in some jurisdictions in which we operate, there may be restrictions imposed on the importation of Chinese Medicine Products such as the requirement of relevant licences. In such circumstances, we may have to purchase “Tong Ren Tang” branded products in these jurisdictions from our joint venture partners or our suppliers, who possess the relevant import licences. We do not enter into any long-term purchase agreement with our suppliers but purchase our supplies on an ad hoc basis.

If any supplier fails to supply to us raw materials and merchandise, we may have to cease production of the relevant self-manufactured products and/or sales of the relevant merchandise. In addition, there is no guarantee that we will be able to find an alternative source on commercially reasonable terms in a timely manner, or at all, if any supplier is unwilling or unable to provide us with the raw materials and merchandise in required quantities and at acceptable costs. Moreover, some of our suppliers may fail to meet standards required by us or by our customers now or in the future, which could impact our ability to source raw materials and merchandise. Our inability to find or develop alternative supply sources could result in delays or reductions in our operations. If any of these events occur, our business and financial results could be materially and adversely affected.

We may face shortages in the supply and fluctuations in prices of raw materials for our production and third party merchandise for sale in our retail stores.

The production of our self-manufactured products requires certain key raw materials such as Angong Niu Huang Powder (the principal ingredients of which is natural musk) and ganoderma lucidum spores powder. Most of the raw materials used in our products are imported from China and are subject to various PRC governmental permit requirements and approval procedures, and may also, from time to time, be subject to various export controls. We have not entered into any long term agreements with our suppliers. To the extent permissible, we try to avoid reliance on a single supplier. Save for Angong Niu Huang Powder, we have a portfolio of alternative suppliers for our major supplies. We also keep close contact with our key suppliers which allow us to obtain up-to-date information of the availability of supplies and manage the potential shortage in advance. We may experience a shortage in the supply or fluctuation in prices of certain raw materials in the future, which could materially and adversely affect our production. In addition, we source third party merchandise, including Healthcare Products, Chinese Medicines and Chinese herbs, for sales in our retail stores. We may also be unable to continue securing merchandise from third parties for sale in our retail stores. If we are unable to obtain high quality raw materials for our production or products for sale in our retail stores from

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our current suppliers, there can be no assurance that we will be able to find alternative sources or replacement products (where the products are subject to import licences) at commercially acceptable prices, on satisfactory terms, in a timely manner, or at all. Our inability to find or develop alternative sources or replacement products (where the products are subject to import licences) could result in delays, reductions in production or a reduction in our profit margins, in which case, our business, financial condition and results of operations would be materially and adversely affected.

Our self-manufactured products amounted to approximately HK\$126.6 million and HK\$269.0 million, which accounted for approximately 45.1% and 56.7% of our total revenue for each of the two years ended 31 December 2012 respectively. The distribution of our self-manufactured products also offered a higher gross profit margin. For the two years ended 31 December 2012, the gross profit margin of our self-manufactured products was 79.9% and 78.9% respectively, and the gross profit margin of our non self-manufactured products (excluding Chinese herbs) was 40.2% and 43.6% respectively.

Raw materials of our self-manufactured products represents 46.9% and 54.7% of the total production cost of our self-manufactured products for the two years ended 31 December 2012, respectively. Price fluctuation of our major raw materials, in particular natural musk, natural bezoar and ganoderma lucidum spores powder, which had an increasing trend during the Track Record Period, will affect our gross profit margin accordingly.

There is no assurance that we can maintain or increase the revenue contribution from or control the supply or fluctuations of raw materials for our self-manufactured products or third party merchandise, and the failure of which may in turn result in a material and adverse effect on our business prospects, results of operations and financial conditions.

Our existing Shareholders have substantial influence over the Company, and their interests may not be aligned with the interests of our other Shareholders.

Assuming the Over-allotment Option is not exercised, immediately following the completion of the Share Offer, TRT Technologies and TRT Ltd. will hold approximately 39.82% and 35.18% of our share capital. As such, each of them has substantial influence over our business, including decisions regarding mergers, consolidations and the sale of all or substantially all of our assets, election of directors and other significant corporate actions. This concentration of ownership may discourage, delay or prevent a change in control of the Company, which could deprive the Shareholders of an opportunity to receive a premium for their Shares as part of a sale of the Company and might reduce the price of our Shares.

We may be unable to extend or renew the leases of our leased properties.

As at the Latest Practicable Date, we were leasing 65 properties. Among these 65 properties, seven are located in Australia, two in Brunei, one in Cambodia, five in Canada, 22 in Hong Kong, one in Indonesia, two in South Korea, five in Macao, one in Malaysia, six in the PRC, seven in Singapore, two in Thailand, two in the UAE and two in Poland. These properties we leased are primarily used as our retail stores, wholesale office, warehouse and residential unit. The range of terms of these leases is from one to ten years.

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There can be no assurance that we can renew these leases on similar or favourable terms or in a timely manner, or at all, once any of these leases expires. If any of these leases expires and is not renewed, or can only be renewed at such rental which exceeds the Group's budget the Group may need to seek alternative locations for its retail and wholesale business and incur additional costs relating to such relocation. This could result in disruptions to the Group's business operations and may have a material adverse effect on the Group's business, financial condition or results of operations. Please refer to the section headed "Business – Properties – Leased properties" in this prospectus.

Our production facilities are located at one single location, and any natural disaster or other event affecting these facilities may severely disrupt our business.

Our production facilities are located at a single location in Hong Kong and we have not provided for any backup facilities. We also do not have a formal business continuity or disaster recovery plan. In the event of an earthquake, fire, drought, flood and/or any other natural disaster, political instability, extended outages of critical utilities or transportation systems, terrorist attack, or other event that limits our ability to operate these facilities, we may need to incur substantial additional expenses to repair or replace the damaged production equipment or facilities, or even evacuate the current premises and relocate our production facilities to an alternative location. We may also have to outsource part or all of our production operations. Any significant delays in our production or extended disruptions of our operations in the future would affect our ability to produce and supply products as well as our ability to meet our delivery obligations to our distributors. This may cause an adverse impact on our relationships with our distributors, suppliers and business partners, in which case, our business, financial condition and results of operations would be materially and adversely affected.

Further, our production is subject to risks such as fire, theft, machinery breakdown, sub-standard performance of our production equipment, shortage of water and fuel. Although we maintain insurance coverage for certain of our production equipment and machinery, there can be no assurance that such insurance will adequately compensate us for any loss arising from any damage or disruption relating to our production. Our self-manufactured products amounted to approximately HK\$126.6 million and HK\$269.0 million which accounted for approximately 45.1% and 56.7% of our total revenue for each of the two years ended 31 December 2012 respectively.

Our business partly relies on services provided by our Chinese Medicine Practitioners.

The procurement of Chinese healthcare services is one of the services provided by us. 30 out of 36 of our retail stores provide Chinese healthcare services such as Chinese Medical Consultation and diagnosis, medicine dispensing, acupuncture and Tui-Na therapy. The Chinese Medicine Practitioners employed by us may not renew their service agreements upon expiry and/or that their service agreements with us may be terminated prior to the expiry. There is also no assurance that we can employ suitable Chinese Medicine Practitioners when we open new retail stores offering Chinese healthcare services. In the event that we are unable to find suitable replacements because local immigration rules hinder or prolong the visa applications for our selected Chinese Medicine Practitioners to enter and practice in jurisdiction which we operate or have new hires, the business of the Group may be adversely affected as such Chinese healthcare services complement the sales of our other products. For the two years ended 31 December 2012, our Chinese healthcare services amounted to approximately HK\$19.5 million and HK\$26.5 million which accounted for approximately 6.9% and 5.6% of our total revenue respectively.

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Our business depends substantially on the continuing efforts of our executive officers, senior management, and other key personnel, and our business may be severely disrupted if we lose their services.

Our business depends on the continued contributions from and our ability to retain the services of our key personnel. In particular, we depend on Ding Yong Ling, our vice chairman, general manager and executive Director and those personnel in each jurisdiction in which we operate. Our executive Directors possess specific expertise and industry experience that may be difficult to replace. The loss of our key employees could be harmful to our business. The implementation of our business strategies and our future success will depend in large part on our continued ability to attract and retain experienced, technical and management personnel. We face competition for personnel from other nutritional supplement companies, pharmaceutical companies, universities, public and private research institutions and other organisations. The process of hiring suitably qualified personnel may be lengthy. If our recruitment and retention efforts are unsuccessful in the future, it may be more difficult for us to execute our business strategies in a timely manner.

We do not maintain key employee insurance for our Directors and key personnel. If one or more of our executive officers, research personnel or other key personnel are unable or unwilling to continue in their present positions, we may not be able to replace them readily, if at all. Therefore, our business may be severely disrupted, and we may incur additional expenses to recruit and retain replacements. In addition, if any of our executive officers or key personnel joins a competitor or forms a competing company, we may lose some of our customers or other business partners. The employment contract of each of our executive officers, key research personnel and marketing managers contains a confidentiality and non-competition clause. However, if any disputes arise between our executive officers, key research personnel and marketing managers and us, we cannot assure you the extent to which any of these agreements could be enforced in Hong Kong, where some of our executive officers reside and hold some of their assets.

Present and future non-exclusive operations

Our holding company, TRT Holdings, has licensed the “Tong Ren Tang” trademark to TRT Hong Kong Medicine in Hong Kong for the sale of “Tong Ren Tang” products in Hong Kong. We do not control or influence its operations. Accordingly, we may face competition with regard to our Hong Kong operations due to such non-exclusive arrangement entered into by TRT Holdings with TRT Hong Kong Medicine. Moreover, there is no assurance that this party may not perform better than the Group. If we are unable to manage such co-existence and compete effectively, our business, results of operations and prospects may be materially and adversely affected.

TRT Holdings has licensed the “Tong Ren Tang” trademark to TRT (UK) in the United Kingdom for the sale of “Tong Ren Tang” products in the U.K. and we do not control its operations. Despite the expiry of the joint venture agreement in April 2011, for the purpose of maintaining the market reputation and goodwill of the “Tong Ren Tang” brand, TRT (UK) has remained in operation in accordance with the joint venture terms and the Parent Group has not acted against the use of the “Tong Ren Tang” trademark by TRT (UK). As such, we may not be able to operate competitively with regard to our future operations in U.K., if any, due to such non-exclusive arrangement entered into by TRT Holdings with TRT (UK).

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TRT (Taiwan) in which the Parent Group has approximately 53% interest operates certain retail business in Taiwan under the “Tong Ren Tang” brand. As such, we may not be able to operate competitively with regard to our future operations in Taiwan, if any, due to such non-exclusive arrangement in Taiwan.

In addition, TRT Holdings has also granted franchise rights to a company in the Philippines to distribute “Tong Ren Tang” products in the Philippines. Please refer to the section headed “Relationship with Controlling Shareholders – Excluded business” in this prospectus for details.

We consider the formulae of our GLSPC and technical know-how in our production processes to be important trade secrets, and our ability to compete could be harmed if any such trade secrets are disclosed to third parties.

GLSPC is manufactured using our own proprietary formula and production processes which we keep as trade secrets. As at the Latest Practicable Date, we have not made any patent applications for our formula because patent registration in Hong Kong requires publication of the relevant details of the subject of the patent. We believe that such disclosure would provide our competitors with details of our formulae and would therefore enable them to imitate our production methods or refine their own production accordingly.

We have entered into confidentiality agreements with all personnel who have knowledge of our proprietary formula and production process of our Angong Niu Huang Pills. In addition, our employee handbook, which is distributed to all of our employees, sets forth the employee’s obligation to keep confidential all our trade secrets and proprietary information including our proprietary formula. We are only entitled to terminate any employee that materially breaches his or her obligations under the employee handbook. While we use reasonable efforts (including the foregoing measures) to protect our proprietary formula, our employees may unintentionally or wilfully disclose our proprietary formula to third parties, including our competitors. In the event of any such unauthorised use or disclosure, our proprietary formula may be obtained by third parties, including our competitors, or products based on our formula may be developed or marketed by such third parties. Our self-manufactured products contributed approximately HK\$126.6 million and HK\$269.0 million which amounted to approximately 45.1% and 56.7% of our total revenue for each of the two years ended 31 December 2012 respectively. Consequently, we may suffer loss in our market share, and our business, financial condition and results of operation may be materially and adversely affected.

The ingredients of producing the Angong Niu Huang Pills is public information and there may be substitutions in the market

The ingredients of producing Angong Niu Huang Pills, one of our self-manufactured flagship products, is public information and within the knowledge of market participants. There are other manufacturers selling their own brands of angong niu huang pills which compete with ours. Other pharmaceutical manufacturers may also produce similar products to the Angong Niu Huang Pills in the future. The availability of these substitutes with prices comparable to or even lower than those manufactured by us may have an adverse impact on our business, financial condition or results of operations. Additionally, TRT Group is the only entity in the PRC that is approved to process natural musk for the manufacturing of Angong Niu Huang Pills. There is no assurance that such policy of the relevant PRC authority would not change in the future. In such event our business, financial condition and results of operation may be materially and adversely affected. Further, our product reputation may be damaged if the pills produced by these manufacturers have quality issues. Our self-manufactured

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Angong Niu Huang Pills contributed approximately HK\$37.7 million and HK\$147.8 million which amounted to approximately 13.4% and 31.2% of our total revenue for each of the two years ended 31 December 2012 respectively. Consequently, we may suffer loss in our market share, and our business, financial condition and results of operation may be materially and adversely affected.

We are exposed to the risk of foreign exchange fluctuations.

We operate in multiple jurisdictions and each individual group entity has its own functional currency. Foreign exchange risk arises when future commercial transactions or recognised assets or liabilities are denominated in a currency that is not our entities' functional currencies. Entities of the Group are mainly operating in their functional currencies, except for certain bank deposits and payables to suppliers denominated in foreign currencies. We are exposed to foreign exchange risk primarily arising from HK dollars, U.S. dollars and Renminbi and have recognised exchange loss of HK\$254,000 and exchange gain of HK\$289,000 for the two years ended 31 December 2012 respectively. The fluctuation of exchange rate of Hong Kong dollar against other currencies is depending on the political and economic conditions. We currently do not have a foreign currency hedging policy. We manage our foreign currencies risk by closely monitoring the movement of the foreign currency rates.

RISKS RELATED TO OUR INDUSTRY

The Chinese Medicine Products industry is heavily regulated.

We are required to obtain and maintain different licences and permits for the production, import and export, sales and distribution of Chinese Medicine Products in the normal course of our business in the relevant jurisdictions we operate. Loss of or failure to renew or obtain or maintain the relevant licences and permits and necessary approvals could lead to temporary or permanent suspension of our business operations in the relevant jurisdiction(s) we operate. Further, if we fail to comply with licensing or other regulatory requirements, we may have to cease operation in the relevant jurisdiction(s). In such events, our business, financial condition and results of operations may be materially and adversely affected.

Registration of our products (either our self-manufactured products or the products we distribute) in the respective markets we operate in or intend to expand to may subject to local laws and regulations and procedures, there is no assurance that in the actual application for registration that we will be able to successfully register them, if at all, and in time, to meet our business plans. In such events, our business, financial condition and results of operations may be materially and adversely affected.

The production of Chinese Medicine Products in Hong Kong and provision of healthcare services in Hong Kong and overseas jurisdiction are subject to the compliance of various laws and regulations. In addition, the processing, formulation, manufacturing, packaging, labelling, advertising and sales of Chinese Medicine Products are subject to regulation by several Hong Kong authorities, including the Food and Environmental Hygiene Department and the Department of Health. Any changes in relevant government regulations may result in adverse consequences for the industry and therefore us. For example, due to additional new regulatory requirements with which we have to comply, we

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may experience delays in or disruptions of our production or timely launches of our new products into the market, which could result in additional costs to us. Any such occurrence may affect our market reputation, which could in turn have a material and adverse effect on our prospects.

Additional or more stringent regulations of Chinese Medicine Products and healthcare services or price control on pharmaceutical products may be adopted from time to time in Hong Kong and other overseas jurisdictions. Such developments could require reformulation of certain products to meet new standards, recalls or discontinuance of certain products not able to be reformulated, additional record-keeping requirements, increased documentation of the properties of certain products, additional or different labelling, additional scientific substantiation, adverse event reporting or other new requirements or adjustment of our pricing downwards. Any such developments could increase materially and adversely affect our business and results of operations.

As at the Latest Practicable Date, TRT (Malaysia) has not obtained approval from the Ministry of Domestic Trade, Co-operatives and Consumerism (“Ministry”) in compliance with the Guideline on Foreign Participation in the Distributive Trade Services Malaysia (“DT Guidelines”). As TRT (Malaysia) possesses all the required business licences during the Track Record Period and up to the Latest Practicable Date, our Malaysian legal advisor advised that the business of TRT (Malaysia) in Malaysia during the Track Record Period was legal. For the two years ended 31 December 2012, the percentage of the Group’s revenue from continuing operations attributable to TRT (Malaysia) was 4.3% and 2.2%, respectively. Our Malaysian legal advisor has also advised that the DT Guidelines provide that in the event of non-compliance of the DT Guidelines, the Ministry has the right to reject any application to the Ministry by business operators to open any new branch or revoke any approval granted by the Ministry on the grounds of national security or non-compliance of the DT Guidelines. Further, we may face risk of indirect sanction if the Ministry persuades other relevant authorities to refuse the grant of any approval, licence or permit that may be legally required for the business and operations of TRT (Malaysia).

Market receptiveness of Chinese Medicine Products and Chinese healthcare services.

Our continued success depends upon the popularity of and demand for Chinese Medicine Products and Chinese healthcare services. However, consumer preferences and demand may shift away from Chinese Medicine Products and Chinese healthcare services for various reasons including but not limited to:

- a change in consumers’ belief that Chinese Medicine Products and Chinese healthcare services may be effective in achieving their claimed benefits;
- a general change in consumer preferences for Chinese Medicine Products as compared to other types of products that claim similar benefits, such as western healthcare products; and
- negative publicity regarding Chinese Medicine Products and Chinese healthcare services or other products and services associated with our products and services.

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We believe that the Chinese Medicine Products market is highly dependent upon consumer perception regarding the safety, efficacy, level of side effects and quality of Chinese Medicine Products. Consumer perception of our products can be significantly influenced by scientific research or findings, national media attention and other publicity regarding nutritional supplements and healthcare products. There can be no assurance that future scientific research, findings or publicity will be favourable to any particular product, or consistent with favourable research, findings or publicity. Future research reports, findings or publicity that are perceived as less favourable or that question such earlier research reports, findings or publicity could have a material adverse effect on the demand for our products and on our business, results of operations, financial condition and cash flows. Scientific research reports, findings or publicity, whether or not accurate, may associate illness or other adverse effects with the consumption of Chinese Medicine Products in general, our products or any similar products distributed by other companies, question the safety, efficacy or benefits of our or similar products, or claim that any such products are unsafe or ineffective. Such adverse publicity could arise even if the adverse effects associated with such products resulted from consumers' failure to consume such products appropriately or as directed. Any such reports, findings or publicity may have a material adverse effect on us, the demand for our products, and our business, results of operations, financial condition and cash flows.

Furthermore, the relevant advertising laws, rules and regulations in markets we operate may require advertising content to be fair and accurate, not misleading, and in full compliance with applicable laws and regulations. Violation of these laws or regulations may result in penalties, including fines, orders to cease dissemination of the advertisements, orders to publish an advertisement correcting the misleading information, and even criminal liabilities. In addition, we cannot assure you that regulators will not interpret such laws and regulations differently than we do, or that regulators will deem our advertising content to be fair and accurate. If we are found to have committed any additional violations, regulators may, among other things, discontinue certain of our advertising activities, or restrict us from broadcasting and/or publishing new advertisements of our products in a timely manner and our business, financial condition and results of operations will be materially and adversely affected.

The Directors believe that the Chinese Medicine Products industry is characterised by rapid changes in technologies, constant enhancement of industrial know-how and frequent emergence of new products. Future technological improvements and continual product developments in the Chinese Medicine Products industry may render our existing products obsolete or affect our viability and competitiveness.

If we fail to respond to this environment by adjusting our product portfolio in a timely fashion, or if future products we carry do not achieve adequate market acceptance, our business and profitability may be materially and adversely affected.

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RISKS RELATED TO CONDUCTING BUSINESS IN JURISDICTIONS IN WHICH WE HAVE OPERATIONS

Our results of operations and financial condition are highly susceptible to changes in the political, economic and social conditions in jurisdictions in which we have operation.

As we conduct our business in Hong Kong, the PRC, Australia, Singapore, Macao, Malaysia, Canada, Thailand, Indonesia, Brunei, UAE, Cambodia and South Korea, our results of operations and financial condition are highly subject to economic, political, social and legal developments in each of these jurisdictions. There can be no assurance that developments in each of these jurisdictions will not materially and adversely affect our performance and profitability. The economy in each of these jurisdictions may differ in many respects, including the degree of government involvement and control of capital investment as well as the overall level of development. Any changes in the political, economic and social conditions, as well as the laws, regulations and policies, of any of these jurisdictions may have a material and adverse effect on our present and future business operations, results of operations and financial condition.

Uncertainties in the legal systems of Hong Kong, the PRC and relevant overseas jurisdictions could have a material adverse effect on us.

We conduct our business through our joint ventures and subsidiaries in overseas markets, which are generally subject to applicable local laws and regulations. However, as the legal systems of Hong Kong, the PRC and relevant overseas jurisdictions continue to evolve, the interpretations of many laws, regulations and rules are not always uniform and enforcement of these laws, regulations and rules involves uncertainties, which may limit legal protections available to us. In addition, some regulatory requirements issued by certain government authorities may not be consistently applied.

For example, we may have to resort to court proceedings to enforce the legal protection that we enjoy either by law or contract in Hong Kong, the PRC, or other overseas jurisdictions. However, since court authorities may have discretion in interpreting and implementing statutory and contractual terms, it may be more difficult to evaluate the outcome of administrative and court proceedings and the level of legal protection we enjoy.

These uncertainties may impede our ability to enforce the contracts we have entered into with our business partners, customers and suppliers. In addition, such uncertainties, including the inability to enforce our contracts, together with any development or interpretation of laws that are adverse to us, could materially and adversely affect our business and operations. We cannot predict the effect of future developments in the legal systems of Hong Kong, the PRC and relevant overseas jurisdictions, including the promulgation of new laws, changes to existing laws or the interpretation or enforcement thereof, or the pre-emption of local regulations by national laws. These uncertainties could limit the legal protections available to us and other investors, including you. In addition, any litigation in Hong Kong, the PRC or overseas may be protracted and may result in substantial costs and diversion of our resources and management attention.

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The outbreak of any communicable disease or occurrence of any similar adverse public health developments may severely disrupt our business and operations.

The outbreak of any communicable disease or occurrence of any adverse public health developments could have a material and adverse effect on the overall business sentiment and economic environment in Hong Kong, the PRC and overseas, which in turn may have a material and adverse impact on domestic consumption in, and possibly the overall GDP growth of, the relevant jurisdictions.

As our revenue is derived in Hong Kong, the PRC and overseas, any contraction or slowdown in the growth of domestic consumption and possible slowdown in the GDP growth of the relevant jurisdictions will adversely affect our prospects, future growth and overall financial condition. In addition, if any of our employees are affected by any communicable disease outbreaks, we may be required to temporarily shut down the affected offices and quarantine all staff working in those offices to prevent the spread of the disease. This could adversely affect and/or disrupt our business operations and the relevant facilities and impact our results of operations and financial condition.

For example, the outbreak of Influenza A (H1N1), commonly known as the “swine flu”, has caused an alarming number of deaths worldwide. The significant number of Influenza A (H1N1) cases in certain Asian countries and territories such as the PRC could indicate that it is gradually developing into a pandemic disease, which could threaten human lives and hinder local and cross-border business activities and affect the prospects of economic recovery in those areas. It is unclear whether the epidemic will become more aggressive or will wane in the near future. Any prolonged outbreak of Influenza A (H1N1) or other communicable disease or occurrence of any similar adverse public health developments in Hong Kong, the PRC or elsewhere overseas could have a material adverse effect on our business, prospects, financial condition or results of operations.

RISKS RELATED TO THE SHARE OFFER

Regulatory requirements imposed on TRT Technologies and TRT Ltd. by Hong Kong and PRC regulatory bodies may affect our operations

TRT Technologies and TRT Ltd. are listed on the Main Board and the Shanghai Stock Exchange, respectively, and hence subject to the requirements under the Main Board Listing Rules, the Rules Governing the Listing of Stock under the Shanghai Stock Exchange and the requirements of the relevant regulatory authorities having competent jurisdiction over TRT Ltd. and TRT Technologies. Assuming the Over-allotment Option is not exercised, immediately following the completion of the Share Offer, TRT Ltd. and TRT Technologies will directly beneficially hold 35.18% and 39.82% of our share capital, respectively. Therefore, the Company and the Group may also be affected by the requirements, governance and limitations imposed by the Stock Exchange and the Shanghai Stock Exchange, which may include rules in relation to connected transactions, dividends and distributions, acquisition or disposal of assets, and/or issuance and allotment of Shares and debt securities.

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There has been no prior public market for our Shares.

Prior to the Listing, there has been no public market for our Shares. The initial Offer Price range to the public for the Offer Shares will be the result of negotiations between the Company and the Sole Lead Manager. You should not view the Offer Price as any indication of the price that will prevail in any trading market which may develop for our Shares.

The market price for our Shares may be lower than the Offer Price. We have applied to and deal in our Shares on GEM. However, a listing on GEM does not guarantee that an active and liquid trading market for our Shares will develop or be sustained following the Share Offer or in the future.

The market price for our Shares may be volatile.

The market price for our Shares could be subject to significant volatility in response to factors, including but not limited to, the following:

- announcements of technological or competitive developments;
- regulatory developments in the PRC or any other relevant jurisdiction affecting us, our customers or our competitors;
- announcements regarding intellectual property litigation or the grant of entitlement of intellectual property rights to us or our competitors;
- actual or anticipated fluctuations in our quarterly operating results;
- changes in financial estimates by securities research analysts;
- changes in the economic performance or market valuations of other nutritional supplement companies;
- addition or departure of our executive officers and key research personnel;
- release or expiry of lock-up or other transfer restrictions on our Shares; and
- sales or perceived sales of additional Shares.

In addition, the securities market has from time to time experienced significant price and volume fluctuations that are not related to the operating performance of particular companies. These market fluctuations may also have a material adverse effect on the market price of our Shares.

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As the Offer Price is substantially higher than our net tangible asset value per Share, you will experience immediate dilution.

The Offer Price of our Shares is higher than the net tangible asset value per Share immediately prior to the Share Offer. Therefore, purchasers of our Shares in the Share Offer will experience an immediate dilution in the unaudited pro forma adjusted net tangible asset value of HK\$1.28 per Share, assuming an Offer Price of HK\$2.82, being the mid-point of our indicative Offer Price range. In order to raise capital and expand our business, we may consider offering and issuing additional Shares in the future. We may also allot and issue additional Shares pursuant to the exercise of options. Purchasers of our Shares may experience dilution in the net tangible asset value per share of their Shares if we allot and issue additional Shares in the future at a price which is lower than the net tangible asset value per Share. Please refer to the section headed “Financial Information – Unaudited Pro Forma Statement of Adjusted Net Tangible Assets” in this prospectus for details.

There can be no assurance that we will declare dividends in the future.

During the two years ended 31 December 2012, we did not declare and pay any dividends to the Shareholders. On 15 April 2013, a dividend of HK\$100 million was declared and to be paid out of the Company’s accumulated profits to the Shareholders whose names appeared on the register of members of the Company on 15 April 2013 in proportion to the number of shares held by them. For further details of our dividend policy, please refer to the section headed “Financial Information – Dividend and Dividend Policy” in this prospectus. However, there is no assurance that future dividends will be declared or paid in an amount equivalent to or exceeding historical dividends declared or at all. Therefore, investors are cautioned not to use historical dividends as an indication of the amount of future dividends to be declared or paid. The declaration, payment and amount of any future dividends are subject to the discretion of our Directors depending on, among other things, our earnings, financial condition, cash requirements, our profit, our Memorandum and Articles of Association, applicable law and other relevant factors.

Substantial future sales or potential sales of our Shares in the public market may affect the prevailing market price of our Shares and our ability to raise capital in the future.

Sales of our Shares in the public market after the Share Offer, or the perception that these sales could occur, may cause fluctuations in the market price of our Shares, and may materially and adversely affect our ability to raise capital at a time and at a price as we see fit in the future. Our Shares publicly held by investors after completion of the Share Offer will be eligible for immediate resale in the public market in Hong Kong without restrictions, while the Shares privately held by our existing Shareholders may be sold in the public market in Hong Kong subject to the disposal restrictions under the GEM Listing Rules (including but not limited to, the lock-up requirements during the period commencing on the date by reference to which disclosure of their shareholding is made in this prospectus and ending on the date which is six months after the Listing Date). If our existing Shareholders sell, or are expected to sell, a substantial amount of our Shares, the prevailing market price for our Shares could be materially and adversely affected.

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Prospective investors are cautioned not to place undue reliance on any forward-looking statements contained in this prospectus.

This prospectus contains certain statements that are forward-looking, often indicated by the use of words such as “believe”, “anticipate”, “expect”, “estimate”, “future”, “intend”, “may”, “ought to”, “plan”, “should”, “will”, “seek”, “aim”, “continue”, “predict”, “would”, negatives of such terms or other similar statements. Prospective investors are cautioned that reliance on any forward-looking statements involves risks and uncertainties, and that any or all of the assumptions or judgments on which such statements are based could prove to be incorrect, and as a result, the forward-looking statements could also be incorrect. In light of these and other uncertainties, the forward-looking statements in this prospectus should not be regarded as representations by us that our plans, expectations or objectives will be achieved, and investors should not place undue reliance on such statements.

The information contained in the section headed "Industry Overview" of this prospectus is derived from the report commissioned from Euromonitor. We believe the source of this information is an appropriate source for such information and have taken reasonable care in extracting and reproducing such information. We have no reason to believe that such information is false or misleading or that any fact has been omitted that would render such information false or misleading. The information has not been independently verified by us, the Sole Sponsor, the Underwriter or any other party involved in the Share Offer and no representation is given to its accuracy.

There can be no assurance that statistics, data and information in the section headed “Industry Overview” derived from the report by Euromonitor and the sources of the statistics, data and information contained in the report have been prepared on a comparable basis or that such statistics, data and information have been stated or prepared at the same standard or level of accuracy as, or in a manner consistent with, those in other publications inside or outside the PRC. Accordingly, such statistics, data and information may not be accurate and should not be unduly relied upon.

Investors should not rely on any information contained in press articles or other media regarding the Group or the Share Offer

Prior to the publication of this prospectus, there has been press and media coverage regarding the Group and the Share Offer. Such press and media coverage may include references to certain events or information that do not appear in this prospectus, including certain business and financial information, financial projections, valuations and other information. The Group has not authorised the disclosure of any such information in the press or media coverage and do not accept responsibility for any such press or media coverage or the accuracy or completeness of any such information. The Group makes no representation as to the appropriateness, accuracy, completeness or reliability of any such information or publication. To the extent such statements are inconsistent with, or conflict with, the information contained in this prospectus, the Group disclaims responsibility for them. Accordingly, prospective investors should not rely on any such information and should only rely on information included in this prospectus in making any decision as to whether to subscribe for the Shares.

WAIVER FROM STRICT COMPLIANCE WITH THE GEM LISTING RULES

For the purpose of the Listing, the Company has sought a waiver, as described below, from the Stock Exchange in relation to certain requirements under the GEM Listing Rules. Details of the waiver are described below.

CONNECTED TRANSACTIONS

Certain members of the Group have entered into and are expected to continue certain transactions, which will constitute continuing connected transactions of the Company under the GEM Listing Rules upon the Listing. The Company has applied to the Stock Exchange for a waiver from strict compliance with the requirements regarding the announcements and/or independent Shareholders' approval in respect of such non-exempt continuing connected transactions under Chapter 20 of the GEM Listing Rules. Details of these transactions are set out in the section headed "Connected Transactions" in this prospectus.

The Stock Exchange has granted a waiver from strict compliance with the applicable requirements under the GEM Listing Rules as mentioned above and the Company will comply with relevant requirements of Chapter 20 of the GEM Listing Rules. Further details of such waiver are set out in the section headed "Connected Transactions" in this prospectus.

INFORMATION ABOUT THIS PROSPECTUS AND THE SHARE OFFER

DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS

This prospectus, for which the Directors of the Company collectively and individually accept full responsibility, includes particulars given in compliance with the Companies Ordinance, the Securities and Futures (Stock Market Listing) Rules and the GEM Listing Rules for the purposes of giving information to the public with regard to the Group. Our Directors collectively and individually accept full responsibility for the accuracy of the information contained in this prospectus and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief:

1. the information contained in this prospectus is accurate and complete in all material respects and not misleading or deceptive;
2. there are no other matters the omission of which would make any statement herein or this prospectus misleading; and
3. all opinions expressed in this prospectus have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

INFORMATION ON THE SHARE OFFER

The Offer Shares are offered solely on the basis of the information contained and the representations made in this prospectus and the Application Forms. So far as the Share Offer is concerned, no person is authorised to give any information or to make any representation not contained in this prospectus and the Application Forms, and any information or representation not contained herein must not be relied upon as having been authorised by us, the Sole Sponsor, the Sole Lead Manager, the Underwriter, any of their respective directors (where applicable) or any other parties involved in the Share Offer.

UNDERWRITING

This prospectus is published solely in connection with the Share Offer. The Share Offer comprises the Placing and the Preferential Offer and are subject, in each case, to re-allocation and the Placing is also subject to the Over-allotment Option, which are described in the section headed "Structure of the Share Offer" in this prospectus.

The Listing is sponsored by the Sole Sponsor and the Share Offer is lead managed by the Sole Lead Manager. Subject to the terms of the Underwriting Agreement (including the determination of the final Offer Price by agreement between the Company and the Sole Lead Manager on or before Tuesday, 30 April 2013, being the expected Price Determination Date or such later time as may be agreed by the Company and the Sole Lead Manager), the Offer Shares are fully underwritten by the Underwriter. For particulars of the Underwriter and the underwriting arrangements, please refer to the section headed "Underwriting" in this prospectus.

INFORMATION ABOUT THIS PROSPECTUS AND THE SHARE OFFER

DETERMINATION OF THE OFFER PRICE

The Offer Price is expected to be fixed by agreement among the Sole Lead Manager and the Company on the Price Determination Date. The Price Determination Date is expected to be on or before 30 April 2013. If, for whatever reason, the Company and the Sole Lead Manager are not able to agree on the Offer Price, the Share Offer will not proceed and will lapse.

SELLING RESTRICTIONS

No action has been taken to permit a public offering of the Offer Shares or the general distribution of this prospectus and/or the Application Forms in any jurisdiction other than Hong Kong. Accordingly, this prospectus may not be used for the purpose of, and does not constitute, an offer or invitation in any jurisdiction or in any circumstances in which such an offer or invitation is not authorised or to any person to whom it is unlawful to make such an offer or invitation.

Each person acquiring the Offer Shares will be required to confirm and is deemed by his acquisition of the Offer Shares to have confirmed that he is aware of the restrictions on offers of the Offer Shares described in this prospectus and that he is not acquiring, and has not been offered any Offer Shares in circumstances that contravene any such restrictions.

Prospective applicants for Offer Shares should consult their financial advisors and take legal advice, as appropriate, to inform themselves of, and to observe, all applicable laws and regulations of any relevant jurisdiction. Prospective applicants for the Offer Shares should inform themselves as to the relevant legal requirements of applying for the Offer Shares and any applicable exchange control regulations and applicable taxes in the countries of their respective citizenship, residence or domicile.

APPLICATION FOR LISTING ON GEM

Application has been made to the Listing Division for the listing of, and permission to deal in, our Shares in issue and to be issued pursuant to the Share Offer and as otherwise described in this prospectus on GEM (including any Shares to be issued pursuant to the exercise of the Over-allotment Option).

No part of our Share or loan capital of the Company is listed, traded or dealt in on any stock exchange. At present, the Company is not seeking or proposing to seek listing of, or permission to deal in, our securities on any other stock exchange.

HONG KONG SHARE REGISTER AND STAMP DUTY

All of our Shares will be registered on the Company's register of members to be maintained in Hong Kong by our Hong Kong Share Registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

INFORMATION ABOUT THIS PROSPECTUS AND THE SHARE OFFER

Dealings in our Shares registered in the register of members of the Company in Hong Kong will be subject to Hong Kong stamp duty.

Unless determined otherwise by the Company, dividends payable in HK dollars in respect of our Shares will be paid to the Shareholders listed on the Company's register of members to be maintained in Hong Kong, by ordinary post, at the Shareholders' risk, to the registered address of each Shareholder or if joint Shareholders, to the first-named therein in accordance with the Articles.

SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

Subject to the granting of listing of, and permission to deal in, our Shares on GEM and the Company's compliance with the stock admission requirements of HKSCC, our Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in our Shares on GEM or any other date as HKSCC chooses. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second Business Day after any trading day. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time. All necessary arrangements have been made for the Shares to be admitted into CCASS.

PROFESSIONAL TAX ADVICE RECOMMENDED

Applicants for the Offer Shares are recommended to consult their professional advisors if they are in any doubt as to the taxation implications of holding and dealing in our Shares. It is emphasised that none of the Company, the Sole Lead Manager, the Underwriter, the Sole Sponsor, any of their respective directors, supervisors, agents or advisors or any other person involved in the Share Offer accepts responsibility for any tax effects or liabilities of holders of our Shares resulting from the subscription, purchase, holding or disposal of our Shares.

COMMENCEMENT OF DEALINGS IN THE SHARES

Dealings in the Shares on GEM are expected to commence at 9:00 a.m. on 7 May 2013. Shares will be traded in board lots of 1,000 each.

The stock code for the Shares is 8138.

The Company will not issue any temporary documents of title.

Dealings in the Shares on GEM will be effected by participants of GEM whose bid and offer quotations will be available on the GEM's teletext page information system. Delivery and payment for Shares dealt on GEM will be effected two trading days following the transaction date. Settlement of transactions between participants of the GEM is required to take place in CCASS on the second Business Day after any trading day. Only certificates for Shares registered on the share register of the Company will be valid for delivery in respect of transactions effected on GEM. If you are unsure about the procedures for dealings and settlement arrangement on GEM on which the Shares are listed and how such arrangements will affect your rights and interests, you should consult your stockbroker or other professional advisors.

INFORMATION ABOUT THIS PROSPECTUS AND THE SHARE OFFER

PROCEDURES FOR APPLICATION FOR THE RESERVED SHARES

The procedures for applying for the Reserved Shares are set out in the section headed “How to apply for the Reserved Shares” in this prospectus and in the relevant Applications Forms.

STRUCTURE OF THE SHARE OFFER

Details of the structure of the Share Offer, including its conditions, are set out in the section headed “Structure of the Share Offer” in this prospectus.

ROUNDING

Any discrepancies in any table between totals and sums of individual amounts listed in any table are due to rounding.

EXCHANGE RATE CONVERSION

Solely for your convenience, this prospectus contains translations of the various currencies as set out in the table below into Hong Kong dollar amounts or vice versa at specified rates. You should not construe these translations as representations that those currencies could actually be converted into Hong Kong dollar amounts or vice versa at the rates indicated or at all on such date or any other date. For the purpose of this prospectus and for reference only, unless we indicate otherwise, the translations of the various currencies into Hong Kong dollar amounts have been made at the rates as set out as follows:

Currencies	Exchange rates to HK\$
A\$1.00	HK\$8.15
BN\$1.00	HK\$6.27
CAD1.00	HK\$7.64
KRW10,000	HK\$68.00
MOP\$1.00	HK\$0.97
MYR1.00	HK\$2.55
RMB1.00	HK\$1.25
S\$1.00	HK\$6.27
THB1.00	HK\$0.26
US\$1.00	HK\$7.75

Note: The above currencies exchange rates were quoted from the official website of The Hong Kong Association of Banks as of the Latest Practicable Date and it is the average of selling, buying demand draft and buying telegraphic transfer (except for MOP\$ which was computed with reference to the closing price quoted from Bloomberg).

DIRECTORS AND PARTIES INVOLVED IN THE SHARE OFFER

DIRECTORS

Name	Residential Address	Nationality

Executive Directors

Ding Yong Ling (丁永玲)	No. 7, Lane 1 Dongdadi Street Dong Cheng District Beijing PRC	Chinese
Zhang Huan Ping (張煥平)	16E Riviera Lodge 61 Ting Kok Road Tai Po New Territories Hong Kong	Chinese
Lin Man (林曼)	22A Kai Tien Mansion Horizon Gardens Taikoo Shing Hong Kong	Chinese

Non-executive Director

Yin Shun Hai (殷順海)	Room 1601, No. 2 Building No. 18 Wanming Road Xi Cheng District Beijing PRC	Chinese

Independent non-executive Directors

Leung, Oi Sie Elsie (梁愛詩)	Flat A, 4/F, Hoover Mansion 16 Oaklands Path Hong Kong	Hong Kong
Chan Ngai Chi (陳毅馳)	Flat D, 32/F, Block 7 Island Harborview 11 Hoi Fai Road Mong Kok, Kowloon Hong Kong	Hong Kong
Zhao Zhong Zhen (趙中振)	Flat A, 18/F, Tower 6 One Silversea 18 Hoi Fai Road Mong Kok, Kowloon Hong Kong	Hong Kong

DIRECTORS AND PARTIES INVOLVED IN THE SHARE OFFER

PARTIES INVOLVED

Sole Sponsor, Sole Bookrunner,
and Sole Lead Manager

Kim Eng Securities (Hong Kong) Limited
30/F Three Pacific Place
1 Queen's Road East
Admiralty
Hong Kong

Legal Advisors to the Company

As to Hong Kong law:
DLA Piper Hong Kong
17th Floor, Edinburgh Tower
The Landmark, 15 Queen's Road
Central
Hong Kong

Ling Chun Wai
Hong Kong barrister at-law
38/F Gloucester Tower
The Landmark, Central
Hong Kong

As to PRC Law:
Bei Jing Tian Yin Law Firm
15F, Zhong Kun Mansion
No.59, Gaoliangqiao Byway
Haidian District, Beijing
PRC

As to Australian law:
Moisson Legal
Level 3, 88 Pitt Street
Sydney NSW 2000
Australia

As to Singapore law:
Straits Law Practice LLC
36 Robinson Road
#18-00
City House
Singapore 068877

As to Brunei law:
Cheok Advocates & Solicitors
14, Level 1, Jaya Setia
Square, Spg 13,
Kg Jaya Setia,
Berakas BB2713
Brunei Darussalam

DIRECTORS AND PARTIES INVOLVED IN THE SHARE OFFER

As to Korean law:

Yulchon LLC

Textile Center 12F
518 Teheran-ro,
Daechi-dong
Gangnam-gu
Seoul 135-713
Korea

As to Thai law:

Dherakupt International Law Office Ltd.

900 Tonson Tower
12F Ploenchit Road
Lumpini, Patumwan
Bangkok 10330 Thailand

As to Malaysian law:

Raja, Darryl & Loh

18th Floor Wisma Sime Darby
Jalan Raja Laut 50350
Kuala Lumpur

As to Canadian law:

Davis LLP

Suite 2800 Park Place
666 Burrard Street
Vancouver, BC, Canada
V6C 2Z7

As to Macao law:

C&C Lawyers

Avenida da Praia Grande
759-3 Floor
Macao SAR, China

As to Indonesian law:

Koemala & Partners

Jalan Pangeran
Jayakarta Nomor
7 Blok A-19
Jakarta Barat 11110
Indonesia

DIRECTORS AND PARTIES INVOLVED IN THE SHARE OFFER

As to Cambodian law:

Cambodia Legal Affairs Office

No. 101-103

St 193, Sang Kat Tomnup

Khan Chamkarmorn

Phnom Penh, Cambodia

As to UAE laws:

DLA Piper Middle East LLP

PO Box 121662

Level 6, Building 6

Emaar Square

Dubai

UAE

Legal Advisors to the Sole Sponsor
and the Underwriter

As to Hong Kong law:

P. C. Woo & Co.

12th Floor, Prince's Building

10 Chater Road

Central

Hong Kong

As to PRC Law:

Commerce & Finance Law Offices

6th Floor NCI Tower

A12 Jianguomenwai Avenue

Beijing 100022

PRC

Reporting Accountant

PricewaterhouseCoopers

Certified Public Accountants

22nd Floor, Prince's Building

Central

Hong Kong

Professional Surveyor

LCH (Asia-Pacific) Surveyors Limited

17th Floor, Champion Building

Nos. 287-291, Des Voeux Road Central

Hong Kong

CORPORATE INFORMATION

Registered Office and Headquarters	3 Dai King Street, Tai Po Industrial Estate New Territories Hong Kong
Company's Website	http://www.tongrentangcm.com <i>(None of this website nor information contained in this website forms part of this prospectus)</i>
Company Secretary	Lin Man (HKICPA)
Compliance Officer	Ding Yong Ling
Authorised Representatives	Ding Yong Ling No. 7, Lane 1 Dongdadi Street Dong Cheng District Beijing PRC Lin Man 22A Kai Tien Mansion Horizon Gardens Taikoo Shing Hong Kong
Members of the Audit Committee	Chan Ngai Chi (<i>Chairman</i>) Leung, Oi Sie Elsie Zhao Zhong Zhen
Members of the Nomination Committee	Leung, Oi Sie Elsie (<i>Chairman</i>) Chan Ngai Chi Ding Yong Ling
Members of the Remuneration Committee	Zhao Zhong Zhen (<i>Chairman</i>) Chan Ngai Chi Ding Yong Ling
Hong Kong Share Registrar	Computershare Hong Kong Investor Services Limited Shops 1712-1716 17th Floor, Hopewell Centre 183 Queen's Road East Wanchai, Hong Kong

CORPORATE INFORMATION

Compliance Advisor

Kim Eng Securities (Hong Kong) Limited
30/F Three Pacific Place
1 Queen's Road East
Admiralty
Hong Kong

Principal Banker

Bank of China (Hong Kong) Limited
Bank of China Tower
1 Garden Road, Hong Kong

INDUSTRY OVERVIEW

The information presented in this section is derived from the Euromonitor Report, as well as various official or publicly available publications and such information may not be consistent with other information compiled within or outside the PRC. We believe that the sources of this information are appropriate sources for such information and have taken reasonable care in extracting and reproducing such information. We have no reason to believe that such information is false or misleading or that any fact has been omitted that would render such information false or misleading. The information has not been independently verified by the Company and the Sole Sponsor or any other party involved in the Share Offer and no representation is given as to its accuracy. We make no representation as to the completeness, accuracy, or fairness of such information, and accordingly, such information should not be unduly relied upon.

ABOUT EUROMONITOR

We commissioned Euromonitor, an independent third party to prepare a report on Chinese Medicine Products (“Euromonitor Report”) at a total fee of US\$171,151. Headquartered in London, United Kingdom, with more than 800 analysts, Euromonitor has in-depth research experience and market knowledge in 80 countries worldwide researching and tracking FMCG, industrial, service and B2B markets and has been actively researching the China market in the last 15 years. Till date, Euromonitor has completed more than 250 custom research studies for China in station industries. This study has been championed by the Euromonitor’s Singapore and Shanghai regional offices.

In preparing the report, Euromonitor collected and reviewed publicly available data including research reports, press release, government derived statistics, industry association publications, public filings and annual report of listed manufacturers and distributors of Chinese Medicine Products. In addition, primary research was conducted that included personal interviews with industry experts and representatives of manufacturers and distributors of Chinese Medicine Products. Euromonitor used multiple secondary and primary sources to validate all data and information collected with no reliance on any single-source. Furthermore, a test of each respondent’s information and views against those of others is applied to ensure reliability and to eliminate bias from these sources. To ensure forecasting accuracy, Euromonitor adopted its standard practice of quantitative and qualitative analyses’ of the market size, growth trends, etc., on the basis of a comprehensive and in-depth review of the market’s historical development; Data was cross-checked with established government/industry figures and/or trade interviews, as well as statistical tools (e.g.: regression analysis, time-series analysis, data modelling) where possible.

DEFINITION AND CLASSIFICATION OF CHINESE MEDICINE PRODUCTS

Chinese Medicine Products, also known as traditional Chinese medicine are products that have a long tradition of use in China, a long established reputation in China, and are considered alternative remedies to standard healthcare products in China. Chinese Medicine Products are perceived to have certain elements that separate it from western medicine, and make it an interesting alternative. For example, users of Chinese medicine treatment or products believe that Western medicine focuses on eliminating symptoms, while Chinese medicine focuses on curing the root cause of the illness.

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Western medicine treatment or products are usually more expensive than Chinese medicine treatment or products, making Chinese medicine a cost-effective alternative. Chinese Medicine Products are typically made with natural herbs and animals, which are considered by users of traditional Chinese medicines to be easier for the body to take than Western medicine products. Chinese Medicine Products include Chinese Medicines (“中成藥”), Chinese herbs (“中藥材及飲片”) and Healthcare Products (“中式保健品”).

Chinese Medicines

Chinese Medicines are medicines developed by using the raw materials of traditional Chinese Medicines. They have been investigated, observed in studies and through clinical experiences, have received general approval as being safe for consumption. Chinese Medicines can take a variety of forms, such as: capsules, pellets, powders, granules, pastes, and pills.

Chinese herbs

Chinese herbs are traditional Chinese medicines which are processed according to traditional Chinese medicine theory, such as: steaming, boiling, frying, chopping, slicing, dehairing, etc. They generally need to be cooked by consumers before consumption.

Healthcare Products

Healthcare Products are healthcare products which use raw traditional Chinese Medicine ingredients or traditional Chinese Medicine extracts as its functional ingredients. Healthcare Products are functional foods which have health benefits beyond what a normal healthy diet can provide. Functions provided by healthcare products include: immune system maintenance, improving energy and stamina, controlling weight, etc.

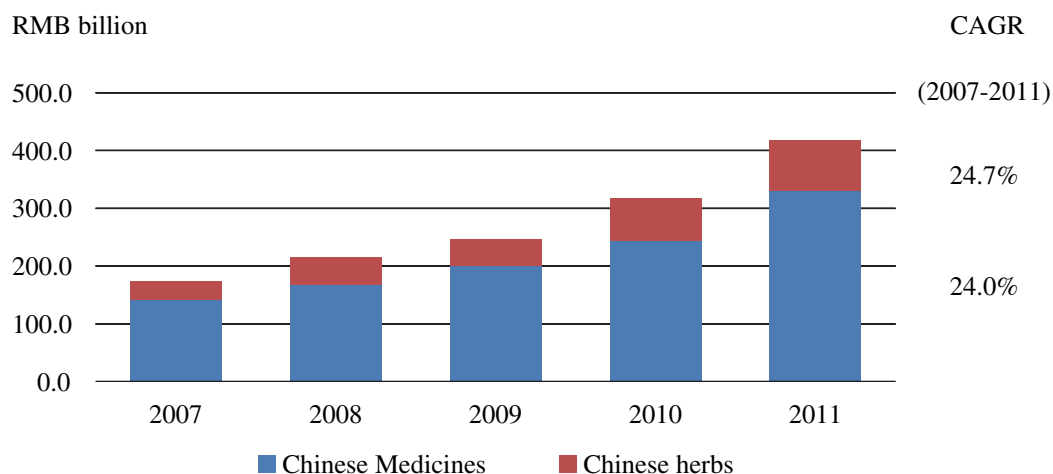
CHINESE MEDICINE INDUSTRY IN CHINA

According to the Euromonitor report, as at the end of 2011, there were over 2,300 manufacturers engaged in producing Chinese Medicine Products in China.

According to the Euromonitor report, the Chinese medicine industry had been growing at a rapid pace over the past few years. By 2011, the value of total industrial output of Chinese Medicines and Chinese herbs reached approximately RMB417.9 billion, representing approximately 31.7% growth over 2010. The contribution of Chinese Medicines and Chinese herbs together to the China’s gross domestic product (“GDP”) had also been increasing over the past few years, and reached approximately

INDUSTRY OVERVIEW

0.9% in 2011. The growth is driven by both the growing domestic and international demand. The chart below shows the overall industry output of Chinese Medicines and Chinese herbs in China according to National Development and Reform Commission of China (中華人民共和國國家發展和改革委員會) provided by the Euromonitor report:



Source: Euromonitor Report

As shown above, the Chinese medicine industry has experienced stable growth from 2007 to 2011, and it is expected that the industry will continue to grow for the foreseeable future. According to estimates by industry exports from the China Association of Traditional Chinese Medicine (“中國中藥協會”), the industry output of Chinese Medicines, Chinese herbs and Healthcare Product is likely to exceed RMB1,000 billion by 2015. We believe such growth has been, and will continue to be, driven by the improving recognition of the Chinese medicine industry as a result the following key factors:

- **Improving regulation and supervision of the Chinese medicine industry**

The improving Chinese medicine industry standards in China contributed to the increasing confidence and acceptance of Chinese medicine treatment and products, and as a result, an enlarged customer base. Counterfeit medicines and poor-quality medicines in the market have long caused consumers to refrain from adopting Chinese medicine treatment and products. More stringent regulation and supervision of quality control was imposed by the Chinese government in recent years in an attempt to solve the problem. Relevant regulations included “Drug Administration Law of the PRC”, “Regulations of the PRC on Traditional Chinese Medicine”, “Proposal on Implementation of National Essential Drug System” and “Notice on Strengthening Supervision and Administration of Chinese herbs”.

- **Modernisation and globalisation of the Chinese medicine industry**

The modernisation and globalisation of the Chinese medicine industry has been the prominent trends of recent industry development. Modernization of the Chinese medicine industry is primarily reflected in that more modern scientific technologies are applied to develop and produce Chinese Medicine Products that are safe, effective, viable for bulk production, easy for

INDUSTRY OVERVIEW

intake, with more persistent result. More stringent regulation and supervision of quality control imposed on the Chinese medicine industry in recent years contributed to the modernization of Chinese Medicine Products. We believe that the intense competition in low value-added Chinese Medicine Products market such as Chinese herbs drove some scaled manufacturers to invest into the research and development of Chinese Medicines and Healthcare Products to enhance their competitiveness. Well-known companies include the TRT Group, Player 4 and others.

To expand into overseas markets, more Chinese Medicine Products manufacturers register their products according to relevant regulations in overseas countries and regions where applicable.

Since the 12th Five-Year Plan has highlighted the importance of expanding the export of Chinese Medicine Products, it is anticipated that modernization and globalization of Chinese Medicine Products will continue in the future.

- **Government support for the development of the Chinese medicine industry**

The Chinese government support is another primary driver of the Chinese medicine industry. The Chinese government assists the development of the industry through direct investments and creating favorable policies for the industry. In April of 2009, the government proposed an RMB850 billion three-year spending plan to improve the healthcare infrastructure and expand insurance coverage in China. These types of investments into the healthcare sector gave a direct boost to the growth of the entire healthcare industry, of which the Chinese medicine industry forms an important part. The Chinese government also reinforced a series of Chinese medicine industry favoring policies, some of which provided support for the construction of Chinese medicine hospitals, which increased the number of Chinese medicine prescriptions and consequently contributed to the growth of demand of Chinese Medicine Products. In early 2012, Proposal on Promoting the Development of Traditional Chinese Medicine Trade in Services was established and issued by 14 ministries of China which contained a package of measures, including financial investment, taxation support, financial subsidy and measures to improve international recognition, to be introduced to support the development of the Chinese medicine industry. We believe that with the implementation of such favoring and promoting policies, the Chinese medicine industry will continue to grow in the foreseeable future.

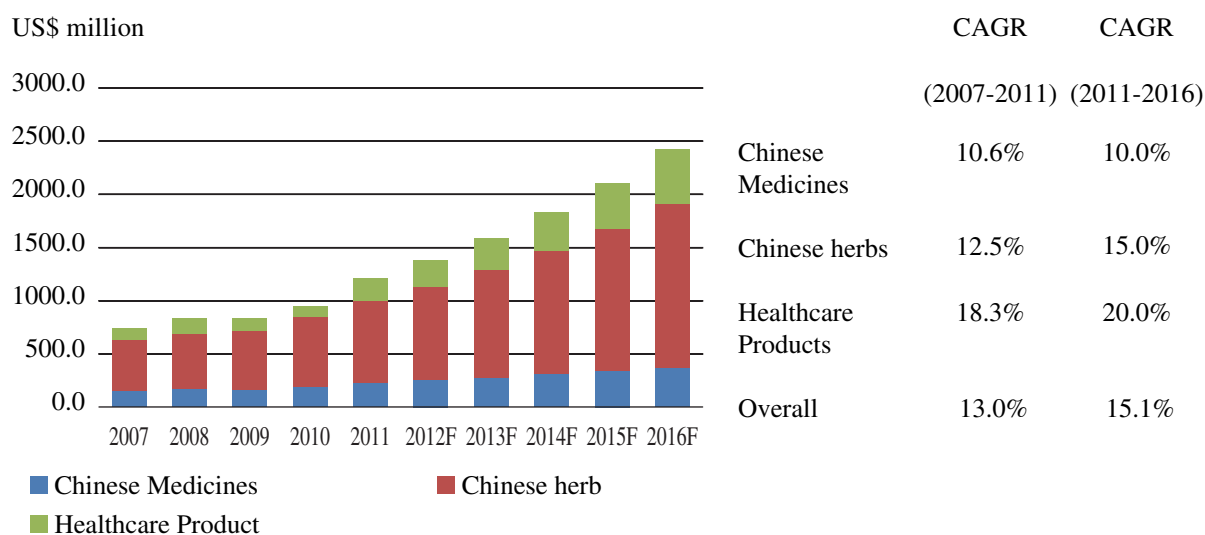
INDUSTRY OVERVIEW

EXPORTATION OF CHINESE MEDICINE PRODUCTS

According to the Euromonitor report, the export of Chinese Medicine Products had been steadily growing over the years and amounted to approximately US\$1,202.2 million in 2011, representing a growth of approximately 27.9% from 2010, and a CAGR of approximately 13.0% from 2007.

Benefitting from the supportive government policies and regulations, active overseas expansion of domestic manufacturers of Chinese Medicine Products and the increasing demand from the overseas markets with improved recognition of Chinese Medicine Products, the export of Chinese Medicine Products from China is expected to grow further in the foreseeable future and reach approximately US\$2,425.5 million in 2016, representing a CAGR of approximately 15.1% from 2011.

The chart below shows estimates by the China Chamber of Commerce for Import & Export of Medicine & Health Products for the exportation of Chinese Medicine Products during the period indicated:



Source: China Chamber of Commerce for Import and Export of Medicine and Health Products

Chinese Medicines

Although accounting for only approximately 19.1% of the total export value of Chinese Medicine Products in 2011, we believe Chinese Medicines are an important indicator of the globalization of Chinese Medicine Product because it is more difficult to register and promote compared with Chinese herbs and Healthcare Products in societies with different cultural background due to its pharmaceutical nature. According to the Euromonitor report, the export of Chinese Medicines reached approximately US\$229.8 million in 2011, representing a growth of approximately 18.6% from 2010 and a CAGR of approximately 10.6% from 2007. It is estimated that the export value of Chinese Medicines will reach approximately US\$370.1 million in 2016, representing a CAGR of approximately 10.0% from 2011.

INDUSTRY OVERVIEW

Chinese herbs

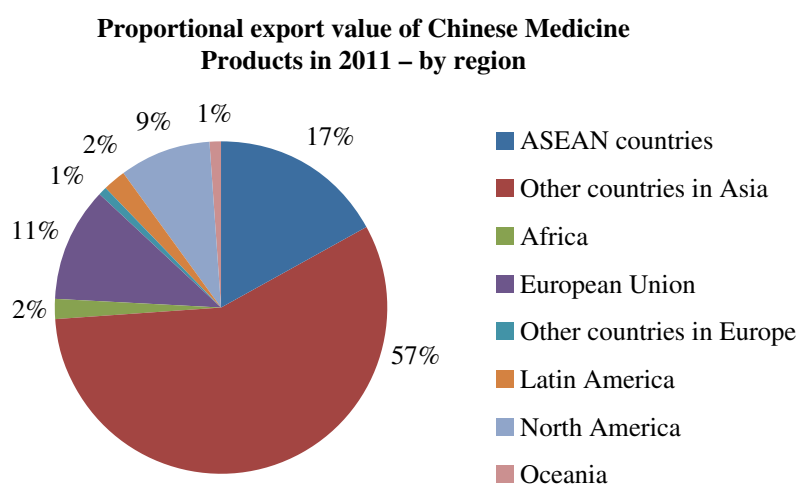
Chinese herb constitutes the largest part of export of Chinese Medicine Products from China, it accounted for approximately 63.8% of the total export value of Chinese Medicine Products. According to the Euromonitor report, the export of Chinese herbs reached approximately US\$766.9 million in 2011, representing a growth of approximately 17.8% from 2010 and a CAGR of approximately 12.5% from 2007. The growth of Chinese herbs was mainly attributable to the increasing product selling sale prices. In 2011, the average price of exported Chinese herbs increased by approximately 33.6%, and for specific Chinese herb products, for example, ginseng (“人參”), poria (“茯苓”), pinellia ternate (“半夏”), the price increase was over 80%. It is estimated that the export value of Chinese herbs will reach approximately US\$1,542.5 million, representing a CAGR of approximately 15.0% from 2011.

Healthcare Products

Healthcare Products realised the fastest export value growth during 2007 to 2011. According to Euromonitor report, the export of Healthcare Products reached US\$206.1 million in 2011, accounting for approximately 17.1% of the total export value of Chinese medicine products and representing a growth of approximately 115.0% from 2010 and a CAGR of approximately 18.3% from 2007. It is estimated that the export value of Healthcare Products will more than double the export value of 2011 and reach approximately US\$512.9 million, representing a CAGR of approximately 20.0% from 2012.

Principle export country destinations

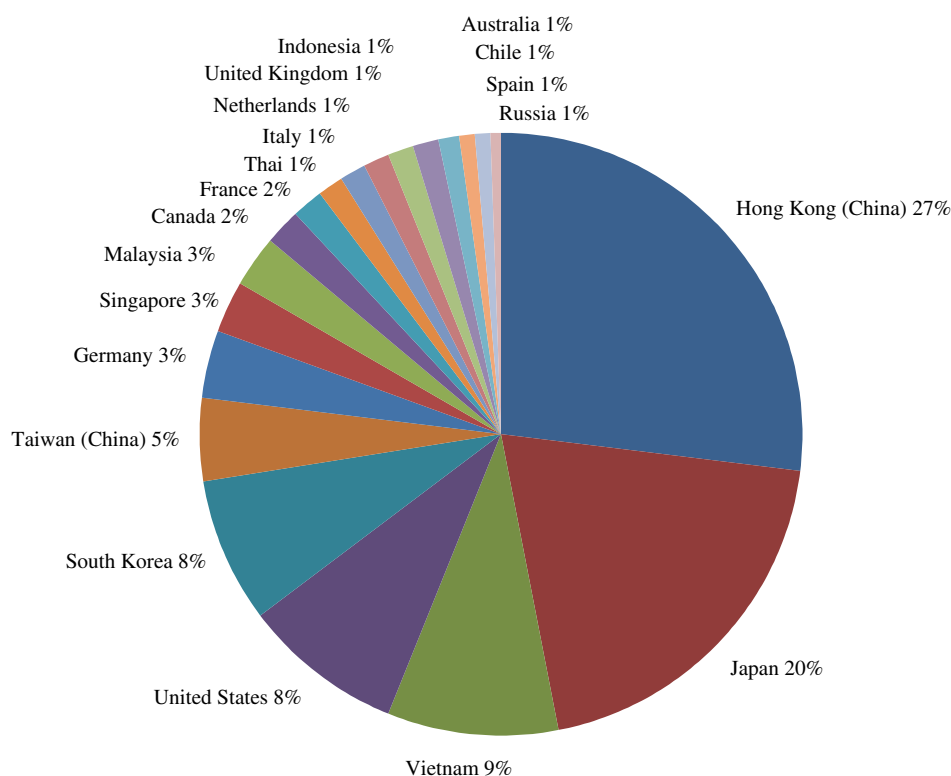
Due to increased awareness of Chinese Medicine Products around the world, the export market has been prosperous and continues to grow, especially in Asia where the largest Chinese population lives. The chart below shows the export value of Chinese Medicine Products to top 20 export destinations (country/region) in terms of export value in 2011:



Source: Euromonitor report

INDUSTRY OVERVIEW

**Proportional export value of Chinese Medicine Products in 2011
– top 20 country**



Source: Euromonitor report

As shown in the charts above, Asia was the top exportation destination of Chinese Medicine Products from China in terms of export value, accounting for approximately 73.5% of total export value of Chinese Medicine Products of China in 2011. Within the top 20 export destinations (country/region) in terms of export value in 2011, together contributing over 90% of total export value in 2011, 9 were Asian countries/regions, namely, Hong Kong, Japan, Vietnam, South Korea, Taiwan, Singapore, Malaysia, Thailand, and Indonesia. Hong Kong, Japan and Vietnam were the three countries/regions which recorded highest export value, and together accounted for approximately 51.8% of the total export.

Manufacturers of Chinese Medicine Products and their exportation business model

In general, three models are adopted by manufacturers of Chinese Medicine Products in China to export their products: via trading company or overseas agencies, via traditional corporation with local partners and the business model of TRT Group which is to promote business through setting up overseas “Tong Ren Tang” branded retail stores. If via trading company, the manufacturers do not need to engage in the communication with other overseas distributors. The trading company or overseas agencies are responsible for all exportation related affairs and the on sale in the overseas markets. Using this model, minimum personnel, cost, and knowledge of overseas market is required

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as the manufacturers do not need their own exportation department and do not need to explore or maintain any overseas distribution network. If via traditional cooperation with local partners, the manufacturers will collaborate directly with selected local partners who are equipped with wide distribution network in desired export destination through establishing overseas branches or joint ventures. The manufacturers can leverage on the overseas partners for profound knowledge of local markets, and the established local distribution network, but compared with via trading company, this model require more effort and resources from the manufacturers. There are a number of manufacturers adopting this model. The last model, according to the Euromonitor report, was firstly and only adopted by TRT Group, can be regarded as an evolved form of the traditional cooperation with local partners. Based on traditional cooperation model, TRT Group did not only rely on the distribution network of the local partners, it made more effort in setting up its “Tong Ren Tang” branded stores to provide Chinese Medicine Products and Chinese medicine healthcare services. Compared with the traditional cooperation model, the model adopted by the TRT Group can help to achieve better brand recognition and product promotion. Although more human and financial resources is required under this model, this model is believed to have long term benefits.

Leading exporters of Chinese Medicine Products

According to the Euromonitor report, in 2011, the export value of the top ten exporters (including trading companies and manufacturers) of Chinese Medicine Products was approximately US\$314.8 million, with a total market share of approximately 26.2% of total export value. The table below sets forth the top five exporting companies of Chinese Medicine Products and their respective export value in 2011:

Name of the Company	US\$ million	% of total export value
Player 1	85.6	7.1%
Player 2	47.8	4.0%
Player 3	37.2	3.1%
TRT Ltd.	36.9	3.1%
Player 4	23.4	1.9%
Total	<u>230.9</u>	<u>19.2%</u>

Source: China Chamber of Commerce for Import & Export of Medicine & Health Products

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The TRT Group was the largest Chinese Medicines exporter in 2011 according to the China Chamber of Commerce for Import & Export of Medicine & Health Products. Among the top five exporting companies of Chinese Medicine Products in 2011, the top three exporting companies primarily focused on the exportation of Chinese herbs and TRT Ltd. and Player 4 primarily focused on exportation of Chinese Medicines. The table below lists out the top five exporting companies of Chinese Medicines and their respective relevant export value in 2011:

Name of the Company	US\$ million	% of total export value
TRT Ltd.	36.6	15.9%
Player 4	23.4	10.2%
TRT Technologies	7.5	3.3%
Player 5	7.2	3.1%
Player 6	6.5	2.8%
Total	<u>81.2</u>	<u>35.3%</u>

Source: China Chamber of Commerce for Import & Export of Medicine & Health Products

As shown in the above table, TRT Ltd. was the top exporting company, and TRT Technologies was the third exporting company, of Chinese Medicines in China in terms of export value in 2011, and together contributed to approximately 19.2% of total export value of Chinese Medicines.

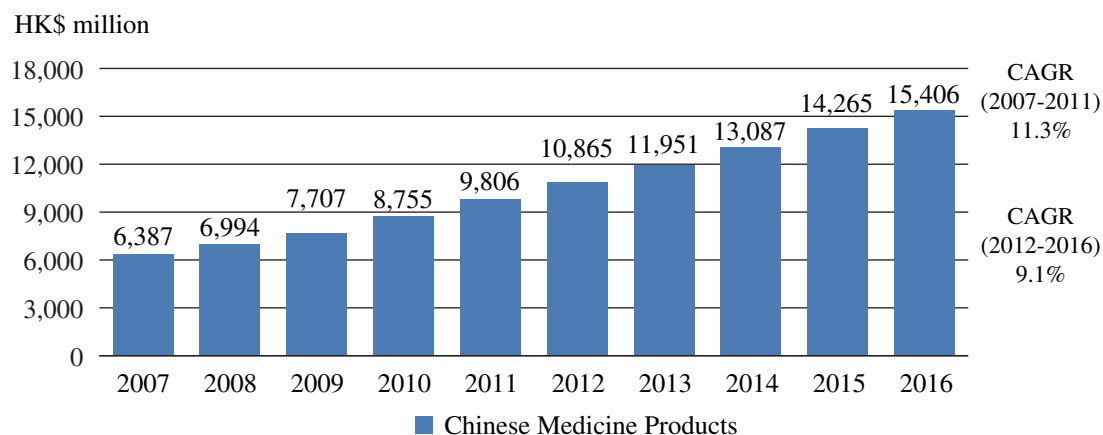
CHINESE MEDICINE INDUSTRY IN HONG KONG

The Chinese Medicine Division (CMD) under the Department of Health and Chinese Medicine Council of Hong Kong (CMCHK) were designated to regulate, monitor and promote the use of Chinese Medicine in Hong Kong. CMD and CMCHK has also taken on measures to support the long-term development of Chinese medicines in Hong Kong.

Popular consumable Chinese Medicine Products in Hong Kong includes raw Birdnest, Lingzhi, Cordyceps, E-Jiao while topical Chinese Medicine Products considered include oil ointments. According to the Chinese Medicine Council of Hong Kong, there are 293 manufactures of proprietary Chinese medicines, 855 wholesalers of Chinese herbal medicine and 4,468 licensed retailers for Chinese Herbal medicine in Hong Kong in 2012.

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The chart below shows the historical and estimated retail value sales (“RVS”) of Chinese Medicine Products in Hong Kong during the period indicated:



Source: Euromonitor Report

Key Drivers to the growth of Chinese Medicine Products in Hong Kong

Government support on Chinese Medicine Products in Hong Kong

The Chinese Medicine Division (CMD) under the Department of Health and Chinese Medicine Council of Hong Kong (CMCHK) are designated to regulate, monitor and promote the use of Chinese Medicine in Hong Kong. CMD and CMCHK have also taken on measures to support the long-term development of Chinese medicines in Hong Kong since 1999. Such measures include creation of a network of institutions of high standing for research and development work; development of new drugs for enhancement of the competitiveness of the Chinese medicine industry; and setting up of research funds for support of research in Chinese medicine.

Changing consumer's perceptions towards Chinese Medicine Products

Since 2003, the government has implemented a registration system for proprietary Chinese medicine. Manufacturers and importers are required to obtain license from the Chinese Medicine Board of the Chinese Medicine Council before any Chinese medicine products could be imported or sold in the market. The approval of license is given to products that can pass certain safety test and efficacy proof. At present, all Chinese Medicine Products sold in Hong Kong are required to display the license number on the packaging. The regulation and standardization of Chinese Medicine Products has greatly enhanced consumers' confidence in Chinese Medicine Products. At the same time, the increased number of professional Chinese Medicine Practitioners in Hong Kong led to more openings of modern Chinese Medicine clinics, where not only elder but younger consumers are targeted. The Chinese Medicine Products markets continued to experience positive growth and development as consumers are increasingly aware of the various healthcare benefits related to Chinese Medicine Products in Hong Kong.

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Increasing availability of Chinese Medicine Products in Hong Kong

The increasing availability of Chinese Medicine Products in retail channels has also contributed to its growth. The three major healthcare retailing chains in Hong Kong are very aggressive in building themselves as reliable Chinese Medicine Products retailers. During the historical period, the expansion of these retailers expanded aggressively in the Hong Kong territories with a strong growth in their outlet counts.

Although these healthcare and beauty specialist retailers carry mainstream Chinese Medicine Products brands (e.g. Brand 3, Beijing Tongren Tang, Brand 1 and Brand 2), the need for them to differentiate their Chinese Medicine Products offerings from competition has caused them to inject new or exclusive Chinese Medicine Products brands and products into their existing product range. This has caused a proliferation of Chinese Medicine Products brands and products in the Hong Kong market. At the same time, retailer chains are trying to differentiate from each other by selling exclusive brands or products that competitors do not carry. The outcome of such competition will make more Chinese Medicine Products brands available in the market, while retailers and leading brands will be more aggressive in advertising and in-store promotions.

Demand for Chinese Healthcare Products

The rising cost of medication and the negative health effects of a hectic work life and sedentary lifestyles have propelled a greater need for supplements that enhances general health and alleviates specific medical conditions. With more Hong Kong consumers taking a more active role to sift out products over-the-counter, to help enhance their general health and other ailments, Chinese healthcare products are believed to continue to form the foundation and key growth driver of demand for Chinese Medicine Products in Hong Kong.

Influx of mainland Chinese consumers

As consumers from Mainland China continue to enter Hong Kong in high numbers, they are expected to support and boost the sales of Chinese Medicine Products in the Hong Kong market. The Chinese government has also reduced the restrictions on mainland Chinese tourists visiting Hong Kong.

The implementation of this policy will encourage the middle class Mainland China consumers to come to Hong Kong, leading to the increase in demand for high value Chinese herbs and Hong Kong branded Chinese Medicine Products. According to the Euromonitor Report, mainland Chinese shoppers perceive Chinese Medicine Products sold in Hong Kong, Chinese herbs, in particular to have better qualities comparing to its import origin, mainland China. Premium Chinese herbs are often concentrated in Hong Kong market because growers of Chinese herbs in mainland China often pick out the top graded Chinese herbs for export in order to obtain a higher price comparing to local distribution. Moreover, the rising concern over product quality and safety issues will prompt more consumers from mainland China to purchase from Hong Kong, where Chinese Medicine Products are regulated to much higher safety standards. Notably, purchases made by mainland Chinese consumers are often in large volume as the cost of visiting Hong Kong is considerably high.

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Tightening regulations curb future growth

A business or operating license is required of all players throughout the supply chain of Chinese Medicine Products in Hong Kong; manufacturers, importers, wholesalers, and retailers are required to apply for their respective license from CMCHK before involving in the Chinese Medicine Products business. Besides registering as a licensed business entity, Chinese Medicine Products itself will face registration requirements as well. Approval of one product from CMCHK takes around one to two years with a minimum cost of HKD 50,000. The high cost and long lead time for Chinese Medicine Products registration has limited the expansion of local manufacturers, many of which are small to medium size companies, inherited from previous generations of families.

According to the Euromonitor Report, Hong Kong and the PRC (one of the important importing country for Chinese Medicine Products) have different quality standard for the production of Chinese Medicine Products. The higher quality standards in Hong Kong have cut many China Chinese Medicine Products out from the Hong Kong market. Currently, there are 36 types of Chinese herbal medicines that are not allowed for imports into Hong Kong. Products containing these herbs will be forbidden from entering the Hong Kong market.

Competitive landscape in Chinese Medicine Products in Hong Kong

According to the Euromonitor Report, the Chinese Medicine Products market in Hong Kong is fragmented due to the existence of numerous imported and local brands as well as non-branded products. Within the Chinese Medicine Products market, Chinese herbs are mainly by unpackaged and non-branded products, which are often sold in loose form through traditional Chinese medicines halls and modern health care chains. Although branded labels such as Tong Ren Tang, Brand 1 and Brand 2 do sell branded and packaged Chinese herbs, these are believed to be not making up a major component of the Chinese herbs market. Competition of Chinese Medicine Products is largely restricted in the realm of Chinese healthcare products and Chinese Medicines, where a mixture of local and imported brands is presented. Heritage brands such as Tong Ren Tang, Brand 1 and Brand 2 are ahead of the competition due to their long presence and premium brand image. Brand 3 and Brand 4, with strong presence in Chinese healthcare products also accounted for a sizable market share.

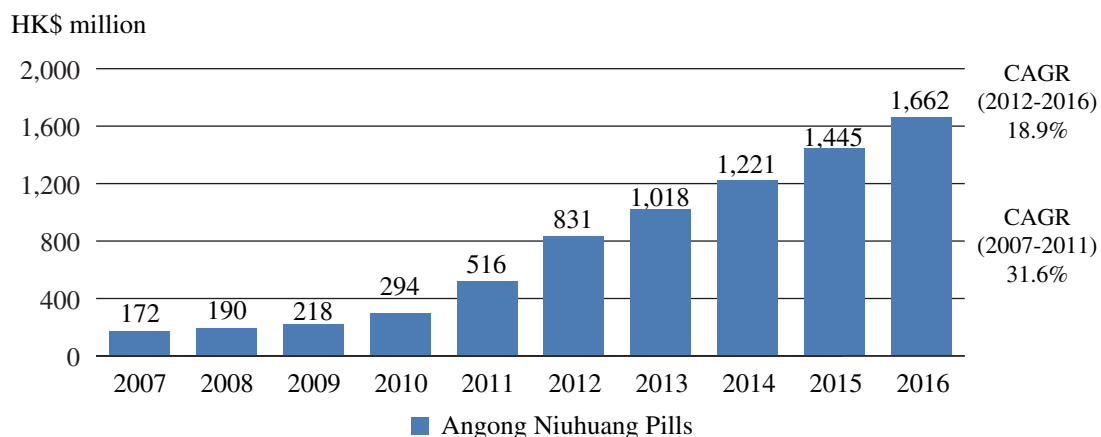
The table below sets forth the RVS of top five Chinese Medicine Products brands in Hong Kong in 2011:

Brand	HK\$ million	Market Share
Tong Ren Tang	607.5	6.2%
Brand 1	595.5	6.0%
Brand 2	407.8	4.2%
Brand 3	449.2	4.6%
Brand 4	208.1	2.1%
Others	7,537.8	76.9%
Total	9,805.9	100.0%

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Angong Niu Huang Pills in Hong Kong

Local consumer base for Angong Niu Huang Pill increased on the back of greater awareness and better recognition of the efficacy of Angong Niu Huang Pills. As Angong Niu Huang Pills are recognised mainly for the treatment of illness such as acute cerebrovascular diseases, including pyrexia with delirium and stroke. In recent years, Angong Niu Huang Pills are more widely available in Hong Kong, as an increasing number of retail outlets started to sell the product. The chart below shows the historical and estimated RVS of Angong Niu Huang Pills in Hong Kong during the period indicated:



Source: Euromonitor Report

The table below sets forth the RVS of Angong Niu Huang Pills in Hong Kong in 2011:

Brand	HK\$ million	Market share
Beijing Tong Ren Tang	486.0	94.2%
Brand 5	19.4	3.8%
Others	10.3	2.0%
Total	515.7	100.0%

Source: Euromonitor Report

According to Euromonitor Report, Angong Niu Huang Pills market in Hong Kong is dominated by TRT Group. Local brand Brand 5 and other small players made up the remaining of the market. The factors of success for TRT Group as a market leader includes its rich heritage in the production of Angong Niu Huang Pills as well as its ability to benchmark itself on a higher pricing because of the more exquisite ingredients used. The recommended retail price of Angong Niu Huang Pills from Tong Ren Tang was HK\$490 in 2011, while the retail price of Brand 5 Niu Huang pills was on HK\$108 in the same year.

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Key drivers to the growth of Angong Niuhuang Pills in Hong Kong

Greater recognition of Angong Niuhuang Pills among local consumers

Besides easy access of the product, rising retail presence of Angong Niuhuang Pills has helped to attract and educate the Hong Kong consumers about the benefits of Angong Niuhuang Pills, whom previously were not aware of. Gradually, the consumer base of Angong Niuhuang Pills has grown amongst the local consumers. Demand for Angong Niuhuang Pills will continue to grow as a result of increasingly ageing population.

Shopper from mainland China

Tourists from mainland China have injected growth to the sales of Angong Niuhuang Pills. With the release of the Individual Visit Scheme (IVS) in mainland China in 2003, especially in second-tier cities outside of the Guangdong provinces, the number of arrivals from China increased constantly from 2007 to 2011. Retail price of Angong Niuhuang Pills in Hong Kong is relatively lower than its retail price in the PRC driving the mainland China consumers to buy Angong Niuhuang Pills in Hong Kong.

Increase in recommended retail price of Angong Niuhuang Pills in the PRC

Growing with the recommended retail price of Angong Niuhuang Pill's largest brand in the market, the price of a pill has increased from HK\$435 at the end of the year 2010 to HK\$490 at the end of year 2011. Prices was further increased from HK\$490 (at the end of 2011) to HK\$670 by the end of year 2012. This has also caused a growth in the retail sales value for the product market. Despite the increased price of Angong Niuhuang Pill, an appreciation of the Renminbi (RMB) against the Hong Kong dollar (HK\$) still made it cheaper to buy Angong Niuhuang Pills in Hong Kong.

Wider distribution channels for Angong Niuhuang Pill in Hong Kong

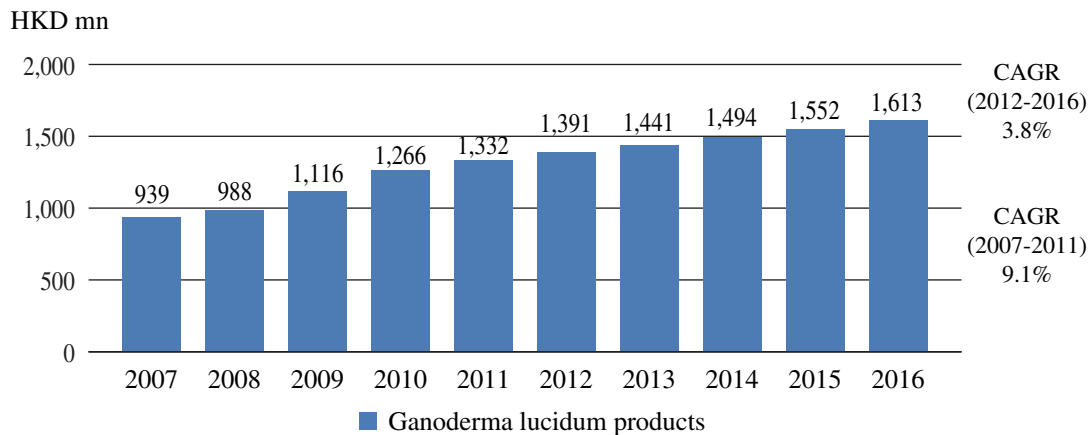
According to the Euromonitor Report, key manufacturers of Angong Niuhuang Pills in Hong Kong expressed interest to grow their retail presence in Hong Kong through the increase in their number of specialty outlet stores. These retail outlets are expected to serve as an effective marketing tool in the promotion of sales of Angong Niuhuang Pills, where the presence of knowledgeable in-house sales consultants will aid in the education of consumers about the benefits and efficacy of Angong Niuhang Pills. The growth however may be dampened by consumers' perception of the pill as a 'first aid' medicine for patients with Cerebral Vascular Accident (CVA) and the sales frequency of Angong Niuhuang Pills may thus be lower than other healthcare products.

Ganoderma lucidum products in Hong Kong

In Hong Kong, ganoderma lucidum has been widely accepted by the market as one of the most effective and common health supplement that can provide nourishment as well as support for the immune system. Although the product is much preferred by the elderly population, owing to its anti-aging property, more of the younger population is now taking the product because of the convenient

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formats that are introduced for ganoderma lucidum, such as capsules, powder etc. An increase in health issues resulting from a hectic lifestyle and unbalanced diet has also driven more consumers to seek for health supplement such as ganoderma lucidum which can replenish and nourish one's body condition. The chart below sets forth the historical and estimated RVS of ganoderma lucidum products in Hong Kong for the period indicated:



Source: Euromonitor Report

Ganoderma lucidum products are perceived to be supplement Healthcare Products and local consumers were the key customers to ganoderma products in Hong Kong. Accordingly, its growth from 2007 to 2008 was significantly lower than that of the entire historical period primarily due to the global financial crisis in 2008.

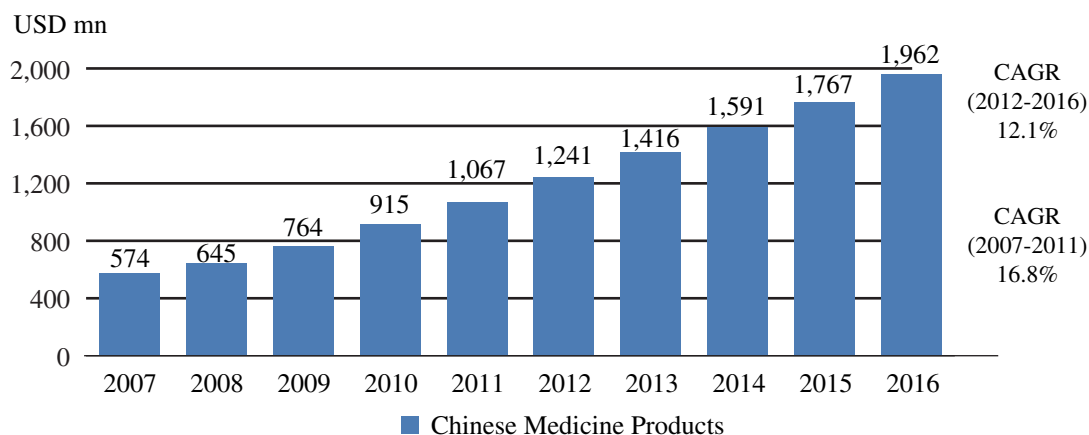
Active promotions by local players like Brand 3 and Brand 1 are pertinent to sustain growth as well as educating the younger consumers on the benefits of the product. As beauty and healthcare specialists continues to actively source and introduce exclusive brands and products into the market, it is anticipated that the ganoderma lucidum market will still be experiencing good growth over the forecast period. The market is postulated to reach a stage of maturity with forecast RVS CAGR of 3.9%.

CHINESE MEDICINE PRODUCTS INDUSTRY IN APAC

According to the Euromonitor Report, the APAC region imported a significant portion of its Chinese Medicine Products from the PRC, with the rest coming from other Asian countries such as Japan, South Korea, Taiwan, Malaysia and Hong Kong, resulting in a highly fragmented market with the presence of various brands. Ganoderma lucidum products, bird's nest and ginseng are commonly

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consumed in the APAC region. The chart below shows the historical and estimated RVS of Chinese Medicine Products in APAC during the period indicated:



Source: Euromonitor Report

Severe drought conditions in 2008 and 2010 in the PRC greatly impacted the supply of herbs harvested in these regions, in particular the Southwestern provinces of Yunnan, Guizhou and Gansu, causing the prices of Chinese herbs to rise.

Growing health consciousness and awareness about alternative medicine will see Chinese Healthcare Products like ganoderma lucidum-, bird's nest- and ginseng- related supplements, famed for their nutritional benefits, gaining popularity among consumers in the APAC region. Chinese Medicine derived from natural ingredients and raw herbs are also expected to gain appeal for consumers seeking natural remedies. Changing consumer perceptions towards TCM will also drive the growth in the Chinese Medicine Products market during the forecast period. According to the Euromonitor Report, sales of Chinese Medicine Products are no longer restricted to the Chinese population. This phenomenon is expected to continue into the forecast period and RVS of Chinese Medicine Products are expected to accelerate.

Key drivers to growth of Chinese Medicine Products in APAC

Increased recognition for TCM

Western medicine has been generally recognised and accepted as the main form of healthcare in the APAC region, while TCM has been considered as a complementary medicine. Medical certificates issued by TCM practitioners were not widely recognised by employers in APAC and TCM's acceptance was subjected to private negotiations between the employers and employees.

With various programmes offered by local TCM institutes and recognition by the local health departments, there is an increase in the legitimacy of TCM physicians in the eyes of consumers and helps to increase public recognition and acceptance of both TCM and Chinese Medicine Products, accordingly, Chinese herbs and Chinese Medicine will gain public recognition. Chinese herbs are an integral portion of any TCM prescription and, as greater numbers of consumers turn towards TCM, practitioners will increase the demand for Chinese herbs.

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Increase in demand of natural treatment such as TCM

A wider consumer base for TCM will also propel the Chinese Medicine Products market as interest in natural remedies has been growing and TCM, which takes a holistic approach in treating the body through the use of natural herbs and ingredients, has been gaining attention even among non-Chinese consumers in the APAC region.

Government sector plays a vital role in driving the industry

The Chinese Medicine Industry is regulated and government of each country plays a vital role in driving the industry. Although there are challenges for the industry players in some countries as its government is tightening and enhancing its regulations and registration requirements for drug manufacturers or retailers, in general, the governments within the APAC region are encouraging a safe Chinese Medicine Products consumption environment by recognising the TCM practices.

Increase in demand for Bird's nest

Demand for bird's nest has been driven largely by the growing trend of maintaining a youthful appearance and increasing health consciousness among consumers in the APAC region. Increasing marketing by bird's nest manufacturers touting the nutritional properties of bird's nest and its anti-ageing effects have led to the significantly growth in RVS of bird's nest over the historical period as consumers sought out bird's nest as the preferred health supplement. Other than marketing its anti-ageing benefits, bird's nest manufacturers have also introduced (i) various formats and convenient packaging to drive demand for the product; and (ii) various flavours and recipes for their bird's nest products to stimulate demand among younger consumers and respond to growing health consciousness among consumers.

Increase in the price of Chinese herbs

Rising international demand for Chinese herbs has also led to price hikes in the Chinese Medicine Products. According to the Euromonitor Report, domestic demand in the PRC rose over the historical period due to growing affluence among the mainland Chinese population, leading these increasingly health-conscious consumers with higher disposable income to buy more Chinese herbs and other forms of Chinese Medicine Products and supplements to boost and maintain their health. International demand for raw Chinese herbs has also increased in the face of public health scares. In 2009, the H1N1 epidemic sparked a surge in demand for Chinese herbs as traditional recipes were touted to be effective prevention and cures for the flu. In addition, pharmaceutical companies developed vaccines from the medicinal properties of Chinese herbs, leading to price hikes in Chinese herbs.

Competitive landscape in APAC

Companies having a big edge over other players due to their substantial research and development and marketing funds in introducing an extensive range of products. In general, the bird's nest manufacturers dominated the Chinese Medicine Products industry in APAC. According to the Euromonitor Report, the market is expected to gear towards further market consolidation.

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OVERSEAS LEADING CHINESE MEDICINE RETAILERS

Considering the different operating models especially that no other Chinese medicine players in China have set up a similar overseas retail business platform as that of the Group, we believe there is no direct competitor to the Group among domestic players as the Group is the only supplier of Angong Niu Huang Pills comprising of natural musk in Hong Kong. There are, however, several overseas players based in Singapore and Hong Kong, which adopt a similar business model and operate retail store chains of Chinese Medicine Products in overseas countries, which we regard as competitors of the Group. According to the Euromonitor report, the leading global retailers of Chinese Medicine Products include the Group, Brand 1, Brand 2 and Brand 6. The Group operates the top retail store chain of Chinese Medicine Products in overseas market in terms of geographic coverage among all the top global retailers of Chinese Medicine Products. The table below sets out the geographic coverage of the retail store chains of the leading global retailers of Chinese Medicine Products in 2011:

Name of the Company	Headquarter	Geographic coverage of the retail store chain (excluding Mainland China)
The Group	Hong Kong	11 countries and regions: Hong Kong, Brunei, Thailand, Malaysia, Canada, Indonesia, Macao, Singapore, Australia, Cambodia and Dubai
Brand 1	Singapore	5 countries and regions: Australia, Hong Kong, Macao, Malaysia, and Singapore
Brand 2	Hong Kong	One country and region: Hong Kong
Brand 6	Hong Kong	One country and region: Hong Kong

Our major competitor, Brand 1, had in total 290 retail stores as in 2011 in the five countries/regions it covered. Although its retail network in Southeast Asia is stronger than that of the Group, the Group distinguishes itself from Brand 1 mainly in terms of the branding and product offering: (i) “Brand 1” is a Malaysian brand while “Tong Ren Tang” is a Chinese brand; and (ii) Brand 1 primarily offers Healthcare Products including health food, dietary supplements, beverages, packaged tonic soups, and personal cares products while the Group primarily offers Chinese Medicines and Chinese herbs. Brand 2 and Brand 6 both have strong retail networks in Hong Kong, but no coverage in other overseas country/region, and we do not regard them as our major competitor due their geographic limitation.

Note:

1. Asia includes: Abkhazia, Afghanistan, Armenia, Azerbaijan, Bahrain, Bangladesh, Bhutan, Brunei, Cambodia, China, Cyprus, East Timor, Georgia, Hong Kong (China), India, Indonesia, Iran, Iraq, Israel, Jordan, Japan, Kazakhstan, Kyrgyzstan, Kuwait, Laos, Lebanon, Macao (China), Malaysia, Maldives, Mongolia, Myanmar, Nepal, North Korea, Oman, Pakistan, Palestine, Philippines, Qatar, Saudi Arabia, Singapore, South Korea, Sri Lanka, Syria, Taiwan (China), Tajikistan, Thailand, Turkey, Turkmenistan, United Arab Emirates, Uzbekistan, Vietnam and Yemen.

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Africa includes: Algeria, Angola, Benin, Botswana, Burkina Faso, Burundi, Cameroon, Canary Islands, Cape Verde, Central African Republic, Ceuta, Chad, Comoros, Cote d'Ivoire, Democratic Republic of the Congo, Djibouti, Egypt, Equatorial Guinea, Eritrea, Ethiopia, Gabonese, Gambia, Ghana, Guinea, Guinea-Bissau, Kenya, Lesotho, Liberia, Libya, Madagascar, Madere, Malawi, Mali, Mauritania, Mauritius, Mayotte, Melilla, Morocco, Mozambique, Namibia, Niger, Nigeria, Republic of the Congo, Reunion, Rwanda, Western Sahara, Saint Helena, Sao Tome and Principe, Senegal, Seychelles, Sierra Leone, Somali, Republic of South Africa, Sudan, Swaziland, Tanzania, Togolese, Tunisia, Uganda, Zambia, Zimbabwe.

Europe includes: Albania, Andorra, Austria, Belarus, Belgium, Bulgaria, Croatia, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Italy, Latvia, Liechtenstein, Lithuania, Luxembourg, Macedonia, Malta, Moldova, Monaco, The Republic of Montenegro, Netherlands, Norway, Poland, Portugal, Republic of Bosnia and Herzegovina, Romania, Russia, San Marino, Serbia, Slovakia, Slovenia, Spain, Sweden, Switzerland, Ukraine, United Kingdom and Vatican.

Latin America includes: Antigua, Argentina, Barbuda, Bahamas, Barbados, Belize, Bolivia, Brazil, Chile, Columbia, Costa Rica, Cuba, Dominica, Ecuador, Grenada, Guatemala, Guyana, Haiti, Honduras, Jamaica, Mexico, Nicaragua, Panama, Paraguay, Peru, St Kitts and Nevis, Saint Lucia, Saint Vincent and the Grenadines, Salvador, Surinam, The Dominican Republic, Trinidad and Tobago, Uruguay and Venezuela.

North America includes: Canada and United Sates.

Oceania includes: Australia, Fiji, Kiribati, Marshall Islands, Micronesia, Nauru, New Zealand, Palau, Papua New Guinea, Samoa, Solomon Islands, Tonga, Tuvalu and Vanuatu.

REGULATIONS

OVERVIEW

We have operations in multiple jurisdictions, including Hong Kong, the PRC and various overseas countries. Accordingly, our business is subject to the laws and regulations of these jurisdictions. Depending on the scope of our operations in each of these jurisdictions, the applicable laws and regulations govern a wide range of areas, including, among others, pharmaceuticals, healthcare, Chinese medicine, consultation services by Chinese physicians and healthcare practitioners as well as related advertising of such products and services. In this regard, this section summarises the major aspects of the main laws, rules and regulations that are directly relevant to our operations in each of these jurisdictions and may differ accordingly. For details of our regulatory compliance, please refer to the section “Business – Legal proceedings and regulations – Regulatory compliance” in this prospectus.

I HONG KONG

Regulation of Food Products

Food products sold in Hong Kong are regulated by different ordinances, depending on their ingredients. Food products which cannot be classified as Chinese medicines or western medicines are regulated under the Public Health and Municipal Services Ordinance (Cap. 132 of the Laws of Hong Kong) (the “Ordinance”). The Ordinance requires such food products to be suitable for human consumption and to comply with certain safety and labelling standards. No registration, licensing or permit is required for importing or selling such food products, and the Food and Environmental Hygiene Department is responsible for the enforcement of the relevant laws and regulations. However, under regulation 31 of the Food Business Regulation (Chapter 132X of the Laws of Hong Kong), a licence by the Director of Food and Environmental Hygiene is required to carry on certain specified types of “food businesses”, including a food factory, not being a milk factory or a frozen confection factory. It may take samples of all kinds of food products at their points of entry to Hong Kong and may prohibit or restrict importation of a food product if it is found to be harmful to public health. Chinese herbal medicines (中藥材) and food products containing proprietary Chinese medicines (中藥) are further regulated under the Chinese Medicine Ordinance (Cap. 549 of the Laws of Hong Kong). Food products containing proprietary Chinese medicines must be registered with the Medicines Board under the Chinese Medicine Council before they can be imported to and sold in Hong Kong and must meet certain safety, quality and efficacy standards. Wholesalers and manufacturers of such food products must also carry valid licences required by the relevant authorities.

Under the Public Health and Municipal Services Ordinance, food products must be suitable for human consumption and comply with certain safety and labelling standards. Further, the Food and Drugs (Composition and Labelling) Regulations (Cap. 132W of the laws of Hong Kong) prescribe certain standards of composition in respect of the foods and drugs specified in Schedule 1. Under regulation 5, any person who manufactures for sale any food or drug which does not conform to the relevant requirements as to composition commits an offence.

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No import or export licence is required for food products, except for restricted foods and foods of a perishable nature which are specifically regulated by various regulations made under the Public Health and Municipal Services Ordinance.

The maximum penalty for contravention of section 54(1) of the Public Health and Municipal Services Ordinance (food or drug unfit for human consumption), the composition and labelling requirements of the Food and Drugs (Composition and Labelling) Regulations and the Food Business Regulation is a fine ranging from levels 3 to 5, and a period of imprisonment ranging from 3 to 6 months. The maximum penalty for contravening the provisions of the Undesirable Medical Advertisement Ordinance (see below) is, on first conviction, a fine of \$10,000 and upon second or subsequent convictions, a fine of \$25,000 and imprisonment for 1 year. A person who is found guilty of an offence under the Pharmacy and Poisons Ordinance is liable to a fine of \$100,000 and to imprisonment for 2 years.

Food products containing western medicines are regulated under the Pharmacy and Poisons Ordinance (Cap. 138 of the Laws of Hong Kong), and must be registered with the relevant authorities before they can be sold in Hong Kong. Such food products must meet certain safety, quality and efficacy standards in order to be registered. Importers of such food products must also be registered and licensed with the relevant authorities. The labels of such food products are required to state the ingredients, dosage and method of usage. The Department of Health is generally responsible for the enforcement of the relevant laws and regulations.

Advertisements of food products must observe the Undesirable Medical Advertisement Ordinance (Cap. 231 of the Laws of Hong Kong), which prohibits advertisements from claiming curative or preventive effects on certain diseases, and the Public Health and Municipal Services Ordinance, which prohibits advertising which falsely describes any food or drug or is likely to be misleading as to the nature, substance or quality of any food or drug, as well as some other general regulations on advertisement.

A seller of food products may also be subject to tortious or contractual liabilities under common law for any negligence or breach of warranties or misrepresentation in relation to the sale of its products or in its advertisement.

Regulation of Chinese Medicine

Chinese medicines sold in Hong Kong are regulated by the Chinese Medicine Ordinance (Cap. 549 of the Laws of Hong Kong), and the various regulations made under it, including the Chinese Medicine Practitioners (Fees) Regulation, Chinese Medicine Practitioners (Registration) Regulation, Chinese Medicine Practitioners (Discipline) Regulation, Chinese Medicine (Fees) Regulation, Chinese Medicines Regulation and Chinese Medicines Traders (Regulatory) Regulation.

The Chinese Medicine Ordinance was enacted on 14 July 1999. The regulatory system for Chinese medicine established under the Chinese Medicine Ordinance is aimed at enhancing the protection of public health, according a professional status for Chinese Medicine Practitioners and ensuring the safety, quality and efficacy of Chinese medicines.

REGULATIONS

Regulatory measures relating to Chinese medicines are divided into three areas: the licensing of Chinese medicines traders, the registration of proprietary Chinese medicines, and the import and export control on Chinese medicines.

Under the Chinese Medicine Ordinance, Chinese medicines are classified into two categories, namely, Chinese herbal medicines and proprietary Chinese medicines. “Chinese herbal medicine” means any of the substances specified in the list of Chinese herbal medicines stipulated in Schedule 1 and 2 to the Chinese Medicine Ordinance. “Proprietary Chinese medicine” means any proprietary product which is (a) composed solely of any Chinese herbal medicines, or materials of herbal, animal or mineral origin customarily used by the Chinese, or medicines and material referred to above as active ingredients, (b) formulated in a finished dose form, and (c) known or claimed to be used for the diagnosis, treatment, prevention or alleviation of any disease or any symptom of a disease in human beings, or for the regulation of the functional states of the human body.

(i) Licensing of Chinese Medicines Traders

Under the Chinese Medicine Ordinance, Chinese medicines traders who wish to carry on a business in the retail of Chinese herbal medicines, wholesale of Chinese herbal medicines, wholesale of proprietary Chinese medicines or manufacture of proprietary Chinese medicines shall first obtain a licence issued by the Chinese Medicines Board.

Chinese medicines traders who have carried on a business in the retail or wholesale of Chinese herbal medicines or in the wholesale or manufacture of proprietary Chinese medicines in Hong Kong on or before 3 January 2000 shall apply for the licence under the transitional arrangements as stated in the Chinese Medicine Ordinance.

Available licences from the Chinese Medicines Board includes the Retailer Licence in Chinese herbal medicines, Wholesaler Licence in Chinese herbal medicines, the Wholesaler Licence in proprietary Chinese medicines, Manufacturer Licence in proprietary Chinese medicines, and the Certificate for Manufacturer (good manufacturing practice in respect of proprietary Chinese medicines). A brief description of each of these licences is as follows:–

- (1) For the purpose of Retailer Licences in Chinese herbal medicines, “retail” means the selling of any Chinese herbal medicines to a person who obtains the same other than for the purpose of wholesale and “dispense” means the preparation and supply of Chinese herbal medicines on or in accordance with a prescription given by a registered or listed Chinese medicine practitioner. Applicants who retail or dispense Chinese herbal medicines must first obtain a Retailer Licence in Chinese herbal medicines.
- (2) For the purpose of Wholesaler Licences in Chinese herbal medicines, “wholesale” means the importing and selling or the obtaining and selling of any Chinese herbal medicine to a manufacturer or a person who obtains such medicine for the purpose of selling again or supplying or causing to supply such medicine to a third party in the course of business or activity carried out by that person. Applicants who wholesale the Chinese herbal medicines must first obtain a wholesaler licence in Chinese herbal medicines.

REGULATIONS

- (3) For the purpose of Wholesaler Licences in proprietary Chinese medicines, “wholesale of proprietary Chinese medicines” means the obtaining or importing of any proprietary Chinese medicine to a manufacturer or a person who obtains such medicine for the purpose of selling again or supplying or causing to supply such medicine to a third party in the course of business or activity carried out by that person. Applicants who wholesale proprietary Chinese medicines must first obtain a wholesaler licence in proprietary Chinese medicines.
- (4) For the purpose of Manufacturer Licences in proprietary Chinese medicines, “manufacture of proprietary Chinese medicines” means the preparation, production, packing or re-packing of proprietary Chinese medicine for sale or distribution. Applicants who manufacture proprietary Chinese medicines must first obtain a manufacturer licence in proprietary Chinese medicines.
- (5) Licensed proprietary Chinese medicines manufacturers may apply to the Chinese Medicines Board for a certificate for manufacturer to certify that they follow the requirements of good practices in manufacture and quality control of proprietary Chinese medicines (GMP). The manufacturer must be licensed manufacturers in proprietary Chinese medicines. He must prove that they follow the requirements of good practices in manufacture and quality control of proprietary Chinese medicines. The applicant must be the holder of the licence or persons authorised by the companies. After receiving an application, the Chinese Medicine Division of the Department of Health in Hong Kong will send its officers to inspect the applicant’s business premises and prepare a report for assessment by the Chinese Medicines Board. The applicant will be notified in writing if the application is approved by the Board. The validity period will be shown on the certificate, and normally it will not be more than two years.

Any person who is found guilty of an offence under the Chinese Medicine Ordinance shall, unless a penalty is otherwise expressly provided, be liable to a fine at level 6 (\$100,000) and to imprisonment for 2 years.

(ii) Registration of Proprietary Chinese Medicines

According to the Chinese Medicine Ordinance, all kinds of proprietary Chinese medicines must first be registered by the Chinese Medicines Board before they can be imported, manufactured and sold in Hong Kong.

Application for registration of proprietary Chinese medicines manufactured in Hong Kong should be submitted by the relevant manufacturer, whilst application for registration of proprietary Chinese medicines manufactured outside Hong Kong should be submitted by the importer or the local representative or agent of the manufacturers. If the subject medicine was sold or manufactured in Hong Kong on 1 March 1999, the relevant traders may also apply for registration under transitional arrangements.

REGULATIONS

The requirements for registration of proprietary Chinese medicines are dependent on the classification category of the proprietary Chinese medicines under application, and the registration group selected by the applicant. Based on the composition, usage and sales history, proprietary Chinese medicines are classified into one of three different classification categories, namely the “Established medicines category”, “Non-established medicines category”, and “New medicines category”. “Health-preserving medicines” and “Other medicines” are the two sub-categories under the “Non-established medicines category”. The “Other medicines category” includes “Single Chinese medicine granules” that fall within the definition of proprietary Chinese medicines. The registration groups of proprietary Chinese medicines are Group I, Group II and Group III. Different registration groups have different registration requirements, and hence require different documents. For proprietary Chinese medicines under the “Established medicines category” and “Non-established medicines category”, applicants may choose to apply for registration in any of the three groups. However, for proprietary Chinese medicines in the “New medicines category”, as their compositions, routes of administration, indications or dose forms are different from traditional use, hence scientific evidence is essential to ensure their safety and efficacy and they must be registered according to Group III registration requirements.

Under the Chinese Medicine Ordinance, all proprietary Chinese medicines should be properly labelled and attached with package inserts. The label on a package of proprietary Chinese medicine shall usually include the following particulars: the name of the medicine; the name of each active ingredients used (if the proprietary Chinese medicine is composed of three or more kinds of active ingredients, the names of more than half of the active ingredients are required); the name of the country or territory in which the medicine is produced; the registration number on the certificate of registration; the name of the holder of the certificate of registration or the manufacturer (if the package is the outermost one, the name of the holder of the certificate of registration is necessary); packing specification; dosage and method of usage; expiry date; and batch number. The package inserts of proprietary Chinese medicines shall usually include the following particulars: the name of the medicine; the name and quantity of each active ingredient used (if the proprietary Chinese medicine is composed of three or more kinds of active ingredients, the names and quantity of more than half of the active ingredients are required); the name of the holder of the certificate of registration or the manufacturer producing the medicine; dosage and method of usage; functions or pharmacological action; storage instructions, and packing specification. As for the indications, contra-indications, side effects, toxic effects and precautions, they shall also be included on the package insert as far as practicable.

It is a criminal offence for a person to sell, import or possess any unregistered proprietary Chinese medicine. The prescribed penalty is a fine at level 6 (\$100,000) and imprisonment for two years.

Unlike Chinese proprietary medicines, Chinese herbal medicines are not required to be registered under the Chinese Medicine Ordinance or any other relevant law, rules and regulations.

(iii) Import and Export Control on Chinese Medicines

According to the Import and Export Ordinance (Cap.60 of the Laws of Hong Kong), any person who wishes to import or export any of the Chinese herbal medicines specified in Schedule 1 or the 5 types of the Chinese herbal medicines (namely, Flos Campsis (凌霄花), processed Radix Aconiti (製川烏), processed Radix Aconiti Kusnezoffii (製草烏), Radix Clematidis (威靈仙) and Radix Gentianae (龍膽)) specified in Schedule 2 of the Chinese Medicine Ordinance as well as any proprietary Chinese medicines must first apply for an import or export licence.

REGULATIONS

Applications for import and export licence of proprietary Chinese medicines are handled by the Pharmaceutical Service of the Department of Health, whereas regarding the control on the import or export of Chinese herbal medicines, applications for import or export of Chinese herbal medicines are handled by the Chinese Medicines Section of the Department of Health.

Any person importing or exporting of the aforesaid Chinese herbal medicines and proprietary Chinese medicines without an import or export licence commits an offence under the Import and Export (General) Regulations. The person who is found guilty shall be liable to a fine at HK\$500,000 and to imprisonment for two years.

The import and export of certain types of Chinese herbal medicines and all Chinese proprietary medicines is subject to import and export control under the Import and Export Ordinance and the regulations made under it, as explained above. According to sections 6C(3) and 6D(3) of the Ordinance, the maximum penalty for the criminal offence of importing or exporting without a licence is a fine of HK\$500,000 and imprisonment for two years.

Regulation of Pharmaceutical Products

The Pharmacy and Poisons Ordinance (Cap. 138 of the Laws of Hong Kong) imposes regulation on drugs containing any western medicine as ingredients. However, proprietary Chinese medicines should not contain any western medicine as ingredients. All manufacturers of pharmaceutical products in Hong Kong are required by law to obtain a “Licence for Manufacturer” issued by the Pharmacy and Poisons (Manufacturers Licensing) Committee under the Pharmacy and Poisons Board. The Licence for Manufacturer will specify the premises at which the licensed manufacturer may carry on its production activities. Manufacturers are also required to apply for a “Certificate for Manufacturer” which will certify that the manufacturer meets with the requirements of good practices in the manufacture and quality control of drugs and pharmaceutical products recommended by the World Health Organisation. Such certificate will also set out the types of products which the manufacturer is authorised to produce. The Licence for Manufacturer may be revoked or suspended if the licensee fails to comply with the conditions subject to which the licence was issued or with any of the Pharmacy and Poisons Regulations. The Licence for Manufacturer and Certificate for Manufacturer are each valid for a period of one year and are subject to annual renewal by the Pharmacy and Poisons Board.

Under the Pharmacy and Poisons Regulations, pharmaceutical products and substances must be registered before they can be sold, offered for sale, distributed or possessed for the purposes of sale, distribution and other use in Hong Kong. Registered pharmaceutical products will be granted a “Certificate of Drug/Product Registration”. Certain exemptions from registration are available including where the pharmaceutical product or substance has been manufactured in Hong Kong to be exported outside Hong Kong.

Regulation of Chinese Medicine Practitioners

The regulatory system for Chinese medicine practitioners was set up to ensure the professional standard and conduct of Chinese medicine practitioners so as to safeguard public health and consumers’ rights and to accord a statutory professional status for Chinese medicine practitioners. This regulatory system includes regulatory measures for registration, examination and discipline of Chinese medicine practitioners.

REGULATIONS

According to the Chinese Medicine Ordinance, all Chinese medicine practitioners should be registered before they can practise Chinese medicine in Hong Kong. Any person who wishes to be registered as registered Chinese Medicine Practitioner should undertake and pass the Licensing Examination. To be eligible to undertake the Licensing Examination, a person should satisfy the Chinese Medicine Practitioners Board that he has satisfactorily completed such undergraduate degree course of training in Chinese medicine practice or its equivalent as is approved by the Chinese Medicine Practitioners Board. Chinese medicine practitioners who were practising Chinese medicine on 3 January 2000 can apply for registration of Chinese medicine practitioners under the transitional arrangements. In addition, registered Chinese medicine practitioners must pursue continuing education in Chinese medicine in order to improve their professional knowledge and keep themselves abreast of latest developments in the profession.

Registered Chinese medicine practitioners should comply with the professional code of practice compiled by the Chinese Medicine Practitioners Board, the contents of which include regulation of the discipline, professional responsibility and ethics and practising criteria of Chinese medicine practitioners. If a registered Chinese medicine practitioner is alleged to be guilty of misconduct in any professional respect, the Chinese Medicine Practitioners Board may conduct inquiry against and impose punishment on the Chinese medicine practitioner concerned which may include removal of name from the Register of Chinese Medicine Practitioners.

The Chinese Medicine Ordinance also includes a system of limited registration. Specified educational or scientific research institutions intend to employ non-registered Chinese medicine practitioners to perform clinical teaching or research in Chinese medicine for the institutions may apply to the Chinese Medicine Practitioners Board on behalf of the persons concerned for limited registration. Persons with limited registration cannot practise Chinese medicine in Hong Kong.

The Registrar of Chinese Medicine Practitioner publishes a list of persons whose names appear in the Register of Chinese Medicine Practitioners every 12 months. The list consists of two parts: Part (A) is a list of registered Chinese medicine practitioners, and Part (B) is a list of the Chinese medicine practitioners with limited registration. Registered Chinese medicine practitioners can use the title of “Registered Chinese medicine practitioner of the Chinese Medicine Council of Hong Kong” or “Registered Chinese medicine practitioner” in their practice. Registered Chinese medicine practitioners are required to post the “Practising Certificate for Registered Chinese medicine practitioner” in their clinics. Listed Chinese medicine practitioners can use the title of “Chinese medicine practitioner” in their practice. Listed Chinese medicine practitioners are required to post the “Notification to Listed Chinese medicine practitioner” in their clinics.

Under section 108(2), any person who not being a registered Chinese medicine practitioner or listed Chinese medicine practitioner practises Chinese medicine commits an offence and is liable to a fine at level 6 and to imprisonment for 3 years, or on conviction upon indictment to imprisonment for 5 years.

Separately, medical clinics in Hong Kong are required to be registered under the Medical Clinics Ordinance, Chapter 343 of the Laws of Hong Kong. However, premises which are used exclusively by a Chinese medicine practitioner registered or listed under the Chinese Medicine Ordinance in the course of his practice are expressly exempted from the registration requirements.

REGULATIONS

There is no legal provision which imposes any criminal or civil liability on the company operating a clinic where an unregistered Chinese medicine practitioner runs his practice.

II PRC

Food and Healthcare Food

1. *Major domestic regulatory laws, regulations and rules in the PRC*

1.1 *The Food Safety Law of the PRC*

The Food Safety Law of the PRC (Order No. 9 of the President, hereinafter the “Food Safety Law”) came into force on 1 June 2009. The Food Safety Law sets out the regulations with respect to the monitoring and assessment of food safety risk, food safety standards, food manufacturing, examination of food, import and export of food, and remedial measures, supervision and management and legal obligations concerning food safety incidents.

1.2 *Regulations on the Implementation of the Food Safety Law of the PRC*

The Regulations on the Implementation of the Food Safety Law of the PRC (Order No. 557 of the State Council, hereinafter the “Regulations on the Implementation of the Food Safety Law”) came into force on 20 July 2009. The Regulations on the Implementation of the Food Safety Law set out detailed regulations with respect to the monitoring and assessment of food safety risk, food safety standards, food manufacturing, examination of food, import and export of food, and remedial measures, supervision and management and legal obligations concerning food safety incidents.

1.3 *The Administrative Measures on Healthcare Food*

The Administrative Measures on Healthcare Food (Order No. 46 of the Ministry of Health) came into force on 1 June 1996. The Administrative Measures on Healthcare Food set out regulations with respect to the approval of healthcare food, the manufacturing of healthcare food, the labeling, direction of usage and advertising promotions of healthcare food, the supervision and management of healthcare food and relevant penalties.

1.4 *The Administrative Measures on the Registration of Healthcare Food (for Trial Implementation)*

The Administrative Measures on the Registration of Healthcare Food (for Trial Implementation) (Order No.19 of the State Food and Drug Administration) came into force on 1 July 2005. The Administrative Measures on the Registration of Healthcare Food (for Trial Implementation) set out regulations with respect to application and approval, the application and approval of product registration, alterations and technologically-transferred product registration, raw materials and semi-finished products, labeling and direction of usage, product trials and testing, re-registration and reviews as well as legal obligations.

REGULATIONS

2. *Licensing Administration for Enterprises Engaging in Food and Healthcare Food Undertakings*

As required by the Food Safety Law, the Regulations on the Implementation of the Food Safety Law and the Administrative Measures on Healthcare Food:

The PRC has implemented a licensing system on food manufacturing. Enterprises engaged in food manufacturing and food circulation must obtain food manufacturing licence and food circulation licence in accordance with the laws.

Prior to the manufacturing of healthcare food, food manufacturing enterprises shall file an application with respective provincial health authorities in the jurisdictions where they operate businesses. Enterprises shall not commence production until provincial health authorities have reviewed and approved the application and marked “Healthcare Product” on the Food Hygiene Permit of the applicants.

3. *Registration Administration of Healthcare Food*

As required by the Administrative Measures on the Registration of Healthcare Food (for Trial Implementation):

Both domestic and imported Healthcare Products are subject to a licensing system in the PRC. The State Food and Drug Administration conducts system evaluation and examination on the safety, effectiveness, quality stability and the content of labeling and directions of use based on the application made by the applicant in compliance with legal procedures, conditions and requirements. The administration will then determine whether or not to approve the registration. This shall include the approval of the applications for product registration, alterations and technologically-transferred product registration.

The approval certificate of healthcare food has a term of five years.

The raw materials and semi-finished materials used for healthcare food shall comply with national standards and hygiene requirements. The raw materials and semi-finished materials proclaimed by the State Food and Drug Administration to be eligible for manufacturing healthcare food, or those proclaimed or approved to be edible and eligible for the manufacturing of ordinary food by the Ministry of Health can be used as raw materials and semi-finished materials for healthcare food. Raw materials and semi-finished materials used for imported healthcare food shall comply with all the domestic regulations governing the use of raw materials and semi-finished materials in healthcare food.

With respect to the extension of the term of approval certificate of healthcare food when due, applicants shall apply for re-registration at least three months before expiry.

REGULATIONS

4. *Import and Export Administration of Food and Healthcare Food*

As required by the Food Safety Law, the Regulations on the Implementation of the Food Safety Law and the Administrative Measures on Healthcare Food:

All imported food, food additives and food-related products shall comply with the national food safety standards. Importers of food shall present all necessary evidences and relevant approval documents such as contracts, invoices, packaging receipts, and delivery notes for inspection by the entry-exit inspection and quarantine authorities at local customs. Upon passing the examination by the entry-exit inspection and quarantine authorities, a customs clearance certificate will be issued by the entry-exit inspection and quarantine authorities allowing the entry of the imported food through the customs authorities.

Importers of food without specific national food safety standards, or new varieties of food additives and food products that are imported for the first time shall file an application together with relevant materials for safety assessment to the health administrative department of the State Council, which will then decide whether or not to grant an approval and set relevant national food safety standards in a timely manner.

Exporters or agencies exporting food to China shall make a filing to the national entry-exit inspection and quarantine authorities for record. Overseas food production enterprises exporting food to China shall register with the national entry-exit inspection and quarantine authorities, and such registration shall be valid for 4 years.

Importers shall establish an import and sales recording system to accurately record data of the food such as its name, specifications, amount, production date, production or import serial number, shelf-life, names of the exporter and purchaser and their respective contact details, delivery date and so on.

The entry-exit inspection and quarantine authorities are responsible for the supervision and sampling check of exported food. Exported food shall be allowed to leave the territory through the customs authorities once issued the customs clearance certificate by the entry-exit inspection and quarantine authorities.

Importers or agencies shall file an application with the Ministry of Health (and the State Food and Drug Administration instead effective from 2003) for an “Approval Certificate for Imported Healthcare Food” subject to the passing of relevant examination. The approval number and the healthcare food logo as required by the Ministry of Health shall be marked on the packaging of the products which have obtained the “Approval Certificate for Imported Healthcare Food”. Frontier agencies for hygiene supervision and inspection of imported food shall conduct hygiene examination upon production of the “Approval Certificate for Imported Healthcare Food”, and grant clearance upon satisfaction of the examination results. Healthcare food operators shall obtain a photocopy of the “Approval Certificate for Healthcare Food” and a Product Inspection Certificate from the Ministry of Health when purchasing healthcare food; and obtain a photocopy of the “Approval Certificate for Imported Healthcare Foods” and a Product Inspection Certificate from the frontier agencies for hygiene supervision and inspection of imported food when purchasing imported healthcare foods.

REGULATIONS

Licensing Administration on Import and Export Undertakings

1. Record Registration of Foreign Trade Operators

As required by the Foreign Trade Law of the PRC (2004 Revision) (Order No.15 of the President, effective 1 July 2004) and the Measures for the Archival Filing and Registration of Foreign Trade Operators (Order No. 14 of the Ministry of Commerce, effective 1 July 2004):

Foreign trade operators refer to legal persons, other organizations or individuals who conduct industry and commerce registration or other formalities for businesses operations under the laws and are engaged in foreign trade operations in compliance with relevant laws and administrative regulations. A foreign trade operator who intends to engage in the import and export of goods or technologies should file records for registration with the Ministry of Commerce of the PRC (hereinafter the “Ministry of Commerce”) or authorities entrusted by the Ministry of Commerce, except those exempted for records filing according to laws, administrative regulations and the requirements of the Ministry of Commerce. Any foreign trade operators who have not filed records for registration as required will not have their clearance and inspection formalities handled by the customs authorities.

The Ministry of Commerce entrusts qualified local administrations for foreign trade with the duty of record registration for local foreign trade operators. Entrusted record registration authorities shall not entrust other institutions for record registration. Foreign trade operators should register their records with local record registration authorities. Such record registration authorities shall commence record registration procedures within five days upon receipt of the record registration materials from foreign trade operators and the seal of record registration shall be affixed on the Registration Form of Foreign Trade Operators. Foreign trade operators should go through all formalities required for commencing foreign trade business by presenting the Registration Form of Foreign Trade Operators on which the seal of record registration is affixed within 30 days at local customs and administrations of inspection and quarantine, foreign currency and taxation. If the formalities are not carried out within the said timeframe, the Registration Form of Foreign Trade Operators will lapse automatically.

2. Registration Permit for Dealers of Imported and Exported Goods

As required by the Customs Law of the PRC (2000 Revision) (Order No.35 of the President, effective 8 July 2000) and the Provisions of the Customs of the PRC for the Administration of Registration of Declaration Entities (Order No. 127 of the General Administration of Customs, effective 1 June 2005):

The Customs of the PRC is the authority responsible for the supervision and administration of imported and exported goods. In line with relevant laws and administrative regulations, the customs authorities handle the supervision of cross-boundary vehicles, goods, luggage, mails and so on, the collection of duties and other taxes and fees, uncovering and suppressing of smuggling and preparation of customs statistics and other customs businesses.

REGULATIONS

Unless otherwise provided, all imported and exported goods shall be declared with duties on them paid by their consignor or consignee, or by a declaration enterprise entrusted by the consignor or consignee and approved and registered by the customs. When handling the registration formalities, the consignor or consignee or the declaration enterprise shall register with the customs authorities in accordance with the laws. Local customs authorities where the registration is made shall grant the Declaration Registration Certificate of the Customs of the PRC for the Consignor or Consignee of Imported or Exported Goods to applicants who have submitted all relevant application materials in the form prescribed by the laws. The permit will be valid for three years. Declaration entities will only handle relevant formalities when the permit is produced.

Price Administration

The Price Law of the PRC (Order No. 92 of the President, effective 1 May 1998) sets out regulations on operators' price behaviours, governments' price-fixing behaviours, regulations on overall price level, supervision and inspection of price and legal obligations.

Price behaviours occurred within the PRC comprise commodity price and service price. Commodity price refers to the price of various tangible products and intangible assets, whereas service price refers to fees collected for various paid services.

Price shall be determined in compliance with the law of value. Most commodities and services shall adopt the market-regulated price while a selected few of them shall adopt the government-guided price or the government-set price. Market-regulated price refers to the price determined by operators autonomously through market competitions. Government-guided price refers to the price determined by operators taking into account the guidance on benchmark price and price range as provided by competent pricing authorities or other relevant authorities subject to their pricing authority and terms of reference in accordance with the laws. Government-set price refers to the price determined by competent pricing authorities or other relevant authorities subject to their pricing authority and terms of reference in accordance with the laws.

The competent pricing authority under the State Council shall be responsible for the pricing work throughout the whole country in a centralized manner. The competent pricing authorities under local governments at or above the county level shall be responsible for the pricing work within their respective administrative areas.

When determining prices, operators shall be entitled to: (1) determine prices autonomously in the case of a market-regulated price; (2) determine prices that fall within the government-guided price range; (3) determine prices for the trial sale of new products that fall within the range of government-guided price or government-set price, except for special products; and (4) report or file a charge against acts infringing upon their right of the autonomous determination of price in accordance with the laws.

REGULATIONS

In determining price, the operators shall observe the laws and regulations as well as the intervention measures and emergency measures determined in accordance with the laws in respect of the government-guided prices, government-set prices and legal prices. Government-guided price and government-set price shall be determined based on the average cost of society as well as the supply and demand of the market of relevant commodities or services, requirements of national economic and social development and tolerance of society, and reasonable price difference between procurement and sales, wholesale and retail, regions and seasons shall be followed. The specific applicable scope and price level of the government-guided price and government-set price shall be adjusted from time to time in the light of the economic performance and in accordance with the prescribed pricing authority and procedures. Consumers and operators may advice on any adjustment of the government-guided price and government-set price.

Advertising Administration

1. Advertising Administration for Food and Healthcare Food

As required by the Advertisement Law of the PRC (Order No.34 of the President), Interim Measures for the Censorship of Advertisements for Healthcare Food (Guo Shi Yao Jian Shi [2005] No.211, effective 1 July 2005) and the Interim Regulations on the Release of Advertisements for Food (1998 Revision) (Order No.86 of the State Administration for Industry and Commerce, effective 3 December 1998):

The competent authorities of food and drug of provinces, autonomous regions and municipalities are responsible for the censorship of the advertisements for healthcare food within their respective administrative areas. The competent authorities of food and drug at or above the county level shall supervise the release of censored advertisements for healthcare food within their respective administrative areas.

The application for the release of advertisements for domestic healthcare food shall be filed with competent authorities of food and drug of the respective provinces, autonomous regions or municipalities in which the owners of the healthcare food permit are based. The application for the release of advertisements for imported healthcare food shall be filed by the PRC representative offices of the overseas manufacturers of such products or the agencies of such manufacturers with the competent authorities of food and drug of the respective provinces, autonomous regions or municipalities. The censored healthcare food advertisement will be provided an instrument of approval for the advertisement for healthcare food and the Schedule of the Censorship of Advertisement for Healthcare Food of which will be filed to the advertisement censoring authorities at the same level. The instrument of approval for the advertisement for healthcare food will be effective for one year.

The messages in the advertisements for healthcare food regarding its health functions, the active ingredients/signature ingredients of the product and relevant content, target customers, the recommended daily intake and so on, shall be included based upon the specifications approved by the State Food and Drug Administration and shall not be arbitrarily changed. The warning of “This product is not a substitute for drugs” shall be stated or marked in advertisements for healthcare food. The label of healthcare food and the warning message shall appear throughout a television advertisement.

REGULATIONS

The contents of the advertisements for food shall comply with the health and hygiene requirements. The use of medical jargons or wordings that could cause confusion with pharmaceuticals is prohibited. The direct or indirect advertising of the curative effect or the indicating or implying of the curative effect of the food by advertising the effect of certain active ingredients is also prohibited. The competent authorities for food safety supervision or the institutions responsible for food inspection, food industry associations or consumers' association shall not recommend any food to consumers through advertising or by other means.

Trademark Administration

1. General Requirements

As required by the Trademark Law of the PRC (2001 Revision) (Order No. 59 of the President, effective 1 March 1983) and Regulation for the Implementation of Trademark Law of the PRC (Order No. 358 of the State Council, effective 15 September 2002):

The Trademark Office of the administrative authority for industry and commerce under the State Council shall be responsible for the registration and administration of trademarks throughout the country. The Trademark Review and Adjudication Board of the State Administration for Industry and Commerce under the State Council shall be responsible for handling trademark disputes.

Registered trademarks refer to trademarks that have been approved and registered by the Trademark Office, which include commodity trademarks, service trademarks, collective marks and certification marks. The trademark registrant shall enjoy an exclusive right to use the trademark, which shall be protected by law. Any visible mark in the form of word, graphic, alphabet, number, 3D (three-dimension) mark, color combination or the combination of these elements that can distinguish the commodities of the natural person, legal person or other organizations from those of others can be registered as a trademark. Trademark for which an application is filed for registration shall be so distinctive as to be distinguishable, and shall not go against the legitimate right previously obtained by others. A trademark registrant is entitled to tag the words "Registered Trademark" or a sign indicating that it is registered.

The following signs shall not be used as trademarks: (1) signs which are identical with or similar to the state name, national flag, national emblem, military flag or decorations of the PRC, as well as those which are identical with the names of specific sites or the names and devices of monumental buildings of the places where the central government agencies are located; (2) signs which are identical with or similar to the state names, national flags, national emblems or military flags of foreign countries, except with the consent of the government of such countries; (3) signs which are identical with or similar to the names, flags, or emblems of international intergovernmental organizations, except with the consent of such organizations or those which are unlikely to mislead the public; (4) signs which are identical with or similar to the official symbols or inspection seals that indicate controls are imposed or warranty is provided, except those authorised; (5) signs which are identical with or similar to the names or symbols of the Red Cross or the Red Crescent; (6) signs which involve ethnic discrimination; (7) signs which are exaggerative promotional with deception; (8) signs which are detrimental to socialist morals or customs, or having other harmful influences.

REGULATIONS

The geographical names as the administrative divisions at or above the county level and the foreign geographical names well-known to the public shall not be used as trademarks, however, except for place names containing other meanings or for those which form part of a collective trademark or certification trademark; registered trademarks that use place names shall continue to be valid.

A public announcement shall be made upon completion of a preliminary examination of the trademark pending for registration by the Trademark Office. Any person may, within three months from the date of the publication, file an opposition against the trademark that has been preliminarily approved upon examination. If no objection has been received upon expiry of the said period, the registration shall be approved, a certificate of trademark registration shall be issued and the trademark shall be published. The valid period of a registered trademark is ten years from the date of the approval for registration. Where the registrant intends to continue to use the registered trademark beyond the expiration of the period of validity, an application for renewal of the registration shall be made within six months before the said expiration. Where no application therefor has been filed within the said period, a grace period of six months may be allowed. If no application has been filed before the expiration of the grace period, the registered trademark shall be cancelled. The period of validity of each renewal of registration shall be ten years. Any renewal of registration shall be published after it has been approved.

Any trademark registrant may, by signing a trademark license contract, authorize other persons to use his registered trademark. The licensor shall supervise the quality of the goods in respect of which the licensee uses his registered trademark, and the licensee shall guarantee the quality of the goods in respect of which the registered trademark is used.

Any of the following acts shall be an infringement of the exclusive right to use a registered trademark: (1) to use a trademark that is identical with or similar to a registered trademark in respect of the same or similar goods without the authorization of the proprietor of the registered trademark; (2) to sell goods infringing upon the exclusive right to use the registered trademark; (3) to counterfeit, or to make without authorization, representations of a registered trademark of another person, or to sell such representations of a registered trademark as were counterfeited, or made without authorization; (4) to change a registered trademark and to sell products with such registered trademark in the market without the authorization of the proprietor of the registered trademark; and (5) to cause in other respects, prejudice to the exclusive right of other person to use a registered trademark.

2. *Well-known Trademark Administration*

As required by the Trademark Law of the PRC (2001 Revision), Provisions for the Determination and Protection of Well-known Trademarks (Order No. 5 of the State Administration for Industry and Commerce, effective 1 June 2003) and Working Instructions of the State Administration for Industry and Commerce for the Determination of Well-known Trademarks (No.81 [2009] of the State Administration for Industry and Commerce, effective 21 April 2009):

Well-known trademarks refer to reputable trademarks well known to the relevant public in China.

REGULATIONS

The following factors shall be taken into consideration in the determination of a well-known trademark, on the premise that the trademark is not required to satisfy all of these factors: (1) the popularity of the trademark among the relevant public; (2) the duration in which the trademark is in continued use; (3) the duration, extent and geographical coverage of any advertisement of the trademark; (4) Records of the protection of the trademark as a well-known trademark; (5) other factors contributing to the popularity of a trademark.

Having received an application for the protection of a well-known trademark during the course of the administration of trademarks, the administrative department for industry and commerce shall examine whether the case falls within the following circumstances: (1) where a trademark identical or similar to a well-known trademark that has not been registered in China is used on identical or similar commodities without permission, and is likely to cause confusion; (2) where a trademark identical or similar to a well-known trademark that has been registered in China is used on different or dissimilar commodities without permission, and is likely to mislead the public and lead to possible damage to the interests of the registrant of that well-known trademark. The Trademark Office shall make a decision within a period of six months upon receiving the relevant materials of a case.

If a trademark of identical or similar commodity for which an application for registration is filed is the copy, imitation or translation of a well-known trademark of others which has not been registered in China, and is likely to cause confusion, it shall not be registered and shall be prohibited from use. If a trademark of a different or dissimilar commodity for which an application for registration is filed is the copy, imitation or translation of a well-known trademark of others which has been registered in China, and is likely to mislead the public and lead to possible damage to the interests of the registrant of that well-known trademark, it shall not be registered and shall be prohibited from use.

Product Liability Administration

As required by the General Principles of the Civil Law of the PRC (Order No.37 of the President, effective 1 January 1987), Tort Law of the PRC (Order No.21 of the President, effective 1 July 2010), Product Quality Law of the PRC (2000 Revision) (Order No.33 of the President, effective 1 September 1993) and Law of the PRC on Protection of Consumer Rights and Interests (Order No. 11 of the President, effective 1 January 1994):

If financial damages or physical injuries are incurred to an individual due to substandard product quality, the producer of the product and the seller shall assume civil liability in accordance with the laws. If the parties providing transportation or warehousing is liable to the substandard product quality, the producer of the product and the seller are entitled to demand compensation from the said party for the losses.

A producer shall assume tort liability for damages to other persons due to defective products. A seller shall assume tort liability for damages to other persons caused by defective products that are resulted from the fault of the seller. If damages are caused by defective products, the infringer may demand compensation from the producer or the seller of the products. If defective products are caused by the producer, the seller shall have recourse against the producer after it has paid the compensation. If defective products are due to the fault of the seller, the producer shall have recourse against the seller

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after it has paid the compensation. If damages to other persons are caused by defective products that are resulted from the fault of a third party such as the party providing transportation or warehousing, the producer and the seller of the products shall have the right to recover their respective losses from such third party. If defective products are found after they have been put into circulation, the producer or the seller shall take remedial measures such as issuance of warning, recall of products, etc. in a timely manner. The producer or the seller shall bear tort liability if it has not taken remedial measures in a timely manner or has not make efforts to take remedial measures, thus causing damages. If the products are produced and sold even with known defects therein, causing deaths or severe damage to the health of others, the infringer shall have the right to claim respective punitive damages.

Where an infringer shall assume administrative liability or criminal liability for the same conduct, it shall not prejudice the tort liability that the infringer shall legally assume. Where the assets of an infringer are not adequate for payments for the tort liability and administrative liability or criminal liability for the same conduct, the infringer shall first assume the tort liability.

The methods in bearing tort liability chiefly includes: (1) cessation of infringement; (2) removal of obstruction; (3) elimination of danger; (4) return of property; (5) restoration to the original status; (6) compensation for losses; (7) extending an apology; and (8) elimination of consequences and restoration of reputation. The above methods of bearing tort liability may be adopted individually or jointly. Where a tort causes any personal injury to another person, the infringer shall compensate the victim for the reasonable costs and expenses for treatment and rehabilitation, such as medical treatment expenses, nursing fees and travel expenses, as well as the lost wages. If the victim suffers any disability as a result, the infringer shall also pay the costs of disability assistance equipment for the living of the victim and the disability indemnity. If it causes the death of the victim, the infringer shall also pay the funeral service fees and the death compensation.

III AUSTRALIA

Supply of Therapeutic Goods in Australia

In Australia, traditional Chinese medicine is categorised as “complementary medicine”. A complementary medicine is defined as a therapeutic good consisting wholly or principally of one or more designated active ingredients each of which has a clearly established identity and a traditional use. They are medicinal products containing herbs, vitamins, minerals, and nutritional supplements, homoeopathic medicines and certain aromatherapy products.

The main laws regulating therapeutic goods in Australia are the *Therapeutics Goods Act 1989i (Cth)* (“**Act**”) and *Therapeutics Goods Regulations 1990* (“**Regulation**”). The Therapeutic Goods Administration (TGA) is responsible for administering the provisions of the Act. The overall objective of the Act is to ensure the quality, safety, efficacy, and timely availability of therapeutic goods, including medicines and medical devices that are supplied in or exported from Australia. While the Act provides a substantially uniform national system of controls over therapeutic goods, other Commonwealth and separate State and Territory legislation may apply to certain therapeutic goods. The Act includes requirements for all therapeutic goods as well as specific requirements for different types of medicines, such as advertising, labelling, and product appearance.

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The TGA maintains the Australian Register of Therapeutic Goods (ARTG), a database that includes details of all therapeutic goods that are imported into, supplied in, or exported from Australia. It is a legal requirement that, unless specifically exempt or excluded, all therapeutic goods are included on the ARTG prior to their supply. Therapeutic goods cannot be included on the ARTG unless an application is lodged by a sponsor for those goods.

In consultation with industry, the TGA has developed the Australian Regulatory Guidelines for Complementary Medicines (ARGCM) to assist sponsors of complementary medicines to meet their legislative obligations.

The TGA uses risk-based pre-market assessment procedures. In determining risk and the evaluation process to be applied to complementary medicines, a number of factors are taken into consideration. These include:

- the toxicity of the ingredients (itself a complex of factors);
- the dosage form of the medicine;
- whether the medicine is indicated for a serious form of a disease, condition or disorder, or for the treatment, cure, management or prevention of a disease, condition or disorder;
- whether the use of the medicine is likely to result in significant side effects, including interactions with other medicines; and
- whether there may be adverse effects from prolonged use or inappropriate self-medication.

Medicines that are assessed to be of higher risk are individually evaluated for quality, safety and efficacy. Higher risk products approved by the TGA are included on the ARTG as Registered medicines. Listed medicines are low risk medicines and are included on the ARTG via a low-cost and streamlined electronic application and validation process. Listed medicines may only contain ingredients that have been evaluated by the TGA to be low risk, must be manufactured by licensed manufacturers in accordance with the principles of GMP and may carry indications only for health maintenance and health enhancement or certain indications for non-serious, self-limiting conditions. Most, but not all, complementary medicines included on the ARTG are Listed medicines. Listed and Registered medicines are differentiated on the product label by the designation, 'AUST L' or 'AUST R' respectively, followed by a unique number.

Listed medicines may be supplied only if they contain active ingredients permitted under Schedule 4 of the Regulation. These are substances that have been evaluated by the TGA and found to be of low risk. To be consistent with their use in low-risk medicines, some ingredients are subject to conditions. These include requirements for advisory or warning statements on product labels, limits on plant part and/or preparations, quantitative limits, or substance-related restrictions. A consolidated list of substances that may be used as active ingredients in Listed medicines, including herbal substances, is available on the TGA web site.

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In 1991, at the commencement of the operation of the Act, therapeutic goods already on the market in Australia were entered directly onto the ARTG. These goods included some complementary medicines that were deemed to be registered. Since that time, sponsors seeking registration of new complementary medicines are required to submit to the TGA a detailed dossier of information for evaluation. This data must establish that the proposed medicine is of appropriate quality, safety and efficacy before it is approved for inclusion on the ARTG. The current list of evaluated registered complementary medicines is available on the TGA website.

An adverse reaction reporting system for medicines in Australia is well established. The Australian ‘Blue Card’ scheme covers all medicines and most health professionals. In addition, sponsors of all medicines included in the ARTG are under an obligation to report adverse reactions to the TGA. All adverse reaction reports received by the TGA for complementary medicines are reviewed. The review may result in a various outcomes, including further analysis of database reports to investigate potential safety signals, publication of a report in the Australian Adverse Drug Reactions Bulletin or medical journals to raise awareness of the reaction and/or removal of the product from the market.

The advertising of therapeutic goods in Australia is subject to the advertising requirements of the Act (which adopts the *Therapeutic Goods Advertising Code (TGAC)* and the supporting Regulations, the *Consumer and Competition Act* and other relevant laws).

The TGAC specifies the requirements for advertising of therapeutic goods to consumers. The objective of the TGAC is to ensure that the marketing and advertising of therapeutic goods to consumers is conducted in a socially responsible manner that promotes the quality use of therapeutic goods and does not mislead or deceive the consumer. Australia’s framework for advertising controls also includes an industry-based self-regulatory component, comprising voluntary codes of practice with ‘built-in’ complaint-handling mechanisms. The peak industry associations in Australia, the Australian Self-Medication Industry and the Complementary Healthcare Council of Australia, administer these voluntary codes.

Advertisements to the general public for therapeutic goods appearing in mainstream media (eg newspapers, magazines, television and radio) must be pre-approved prior to their publication or broadcast.

Supply of food in Australia

Laws, standards and requirements for all businesses involved in the sale of food in NSW are set out in:

- Food Act 2003 (NSW);
- Food Regulation 2010 (NSW); and
- National Food Standards Code (FSANZ).

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Other laws which relate to food, food promotion and food packaging are:

- Competition and Consumer Act 2010 (Cth);
- Trade Measurement Act 1989 (NSW); and
- Fair Trading Act 1987 (NSW).

NSW Food Authority is responsible for ensuring that all food businesses are complying with the food safety standards contained in the *Food Standards Code*, the *Food Act 2003 (NSW)* and *Food Regulation 2010 (NSW)*.

Food businesses in NSW must either:

1. Hold a current NSW Food Authority licence; or

The following businesses are required to hold a licence to operate:

- Businesses that handle or process meat;
 - Dairy producers, factories and vendors;
 - Businesses that handle seafood and shellfish;
 - High priority plant product businesses; and
 - Food service to vulnerable persons in hospitals and aged care facilities.
2. Notify the NSW Food Authority of its food activity details.

This applies to almost all other food businesses and includes those involved in temporary events and businesses which sell any sort of food or food ingredient as any part of their business.

Import Therapeutic Goods and food to Australia

The primary laws regulating the importation of therapeutic goods and food to Australia are the *Quarantine Act 1908 (Cth)* and *Quarantine Regulations 2000 (Cth)*. The Australian Quarantine and Inspection Service (AQIS) administers the two primary legislations and various other legislations, such as the *Export Control Act 1982* and *Imported Food Control Act 1992* which regulate import and export inspections and certifications. AQIS is part of the Australian Government Department of Agriculture, Fisheries and Forestry (DAFF) which has a role to develop and implement policies and programs that ensure Australia's agricultural, fisheries, food and forestry industries remain competitive, profitable and sustainable.

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All therapeutic substances, foods and dietary supplements imported from overseas must be declared on arrival in Australia. Many of these products must be accompanied by an Import Permit. An importer may check the AQIS Import Conditions database (ICON) to determine whether an Import Permit is required for the importation of a particular therapeutic good. ICON can be used to determine whether a therapeutic good or food intended for import to Australia needs a quarantine permit and/or treatment or if there are any other quarantine prerequisites. It is important to be aware that it is the importer's responsibility to also ensure compliance with the requirements of the AQIS and all other regulatory and advisory bodies associated with importing therapeutic goods to Australia. Among others, these could include the Australian Customs Service, Department of Health and Ageing, Therapeutic Goods Administration, Australian Pesticides and Veterinary Medicines Authority, Department of the Environment, Water, Heritage and the Arts, and State Departments of Agriculture.

There are also interstate quarantine requirements that may restrict the movement of goods between states and territories of Australia.

If an Import Permit is required for importing a particular therapeutic good or food, it can be obtained by submitting an Application for Permit to Import Quarantine Material to AQIS. AQIS will assess the application and on the basis of that assessment may decide to grant an Import Permit subject to any conditions deemed necessary for safe importation, use and disposal of those products. Applying for an Import Permit does not automatically result in an Import Permit being issued, the Director of Quarantine or their delegate issues the Import Permit.

Food must also comply with Australia's imported food laws in the *Imported Food Control Act 1992 (Cth)* once all quarantine requirements have been addressed. The applicable standards for food under this particular Act are set down in the National Food Standards Code (FSANZ). All imported food must meet the requirements of the FSANZ in its entirety, it is the importer's responsibility to ensure imported food complies with Australia's food standards.

AQIS is responsible for administering two sets of requirements with which imported food must comply. The first set of requirements address quarantine concerns. The second set of requirements address food safety and are those set out in the *Imported Food Control Act 1992*. That means food must first meet quarantine requirements, otherwise it will not be permitted into Australia. Only when imported food has cleared quarantine, the food safety requirements will apply.

Chinese Medicine Practitioners

Health Practitioner Regulation National Law Act 2009 came in force on 1 July 2010. It is an Act providing for the adoption of a national law to establish a national registration and accreditation scheme for health practitioners, including Chinese medicine practitioners.

The Chinese Medicine Board of Australia will administer the Health Practitioner Regulation National Law Act 2009. From 1 July 2012 Chinese medicine practitioners must be registered under the national registration and accreditation scheme with the Chinese Medicine Board of Australia and meet the Board's Registration Standards, in order to practise in Australia.

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IV BRUNEI

Regulation of Operation of Chinese Healthcare Services

The applicable laws of the operation of Chinese healthcare services is section 3 of the Miscellaneous Licences Act which states that no person shall open or keep open any place, or conduct any trade, business or occupation specified in the Schedule of the Miscellaneous Licences Act except under and in accordance with a licence issued under the Miscellaneous Licences Act. “Retail store” is defined in the Schedule as one of the businesses requiring licensing under Miscellaneous Licences Act.

Regulation of Importation of Chinese medicine products

In relation to the importation of products into Brunei, health food, traditional Chinese medicine, drugs and herbs are not classified as “poisons” under the Poisons List annexed as the Schedule to the Poisons Act (Cap 114 of the laws of Brunei), no registration or licence is therefore required under the Poisons Act. However, importation of such products is subject to inspection by the customs officials upon the products arrival into the country. Upon passing customs inspection and payment of any requisite duties, the products are then released to the importer.

Regulation of Chinese healthcare practitioners

The laws in relation to the practice of Chinese healthcare practitioners in Brunei is the Medical and Practitioners Act (Cap 112 of the laws of Brunei). Section 6 of the Medical and Practitioners Act states that the holder of any degree, diploma or licence which is recognized as entitling him/her to registration by the General Council of Medical Education and Registration in the United Kingdom, and the holder of any such other qualification in medicine or surgery as the Board may declare, by notification in the Government Gazette, to be approved qualification for the purpose of this section, shall be entitled to registration under the Act as a medical practitioner.

V CAMBODIA

Regulation of Medicine Products

Ministry of Health – Department of Drug Control

This department is responsible for the control and regulation of all importation, manufacturing, wholesale and retail sales of medicine products (trade of medicine) and medicine distribution throughout Cambodia.

Law on the Control of Medicine

The Law on the Control of Medicine, promulgated on 17 June 1996 and Law on the Amendment of the Law on the Control of Medicine, promulgated on 28 December 2007, govern all the activities related to the importation of materials or medicine products from overseas, manufacturing of medicine, wholesale or retail of materials or medicine products, advertising of trade of medicine, and qualifications and requirements for applicants wishing to conduct such operations.

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1. Importation of materials and medicine products

Pursuant to Article 8, paragraph 1 of the Law on the Control of Medicine, a company is required to obtain permission from the Ministry of Health in order to import materials or medicine products into Cambodia.

In addition, a permitted practitioner in Khmer medicine field must be in charge and be present at the premise in which the materials and medicine products are imported or stored during working time and do the following tasks:

- (a) monitor the accuracy of materials and medicine products which are imported to Cambodia;
- (b) monitor the sale of materials and medicine products;
- (c) monitor the importation of materials and medicine products; and
- (d) monitor storage of imported materials and medicine products.

2. Sale of medicine products

Anyone who wishes to conduct sales of medicine products must obtain prior permission from the Ministry of Health.

In this regard, a company which is establishing a drug store will require prior permission. However, a company who has obtained such permission is not required to seek separate permission for selling medicine products, if it has not previously done so, as it is implied that the Ministry of Health has also given permission to the company to conduct sales of medicine products.

Additional requirements include:

- (a) the materials and medicine products shall be sold only in the premises indicated in the licence except in the event of wholesale;
- (b) the pharmacist must be the operator in charge during working time and shall have the following duties:
 - monitor the sale of materials and medicine products; and
 - monitor the delivery of hazardous materials and medicine products, specific controlled medicines or medicines according to the prescription of the practitioner;

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- (c) the company must arrange a sign in a public place in front of the premise for selling of materials and medicine products. That sign shall indicate the following:
- a place for selling materials and medicine products; and
 - the first name and last name of the operator and working hours.

In addition, Sub-Decree N° 44, dated on 10 August 1994 on the registration of medicine products, aims at registering all medicine products either manufactured in Cambodia or imported from overseas in order to be sold in Cambodia with the permission from the Ministry of Health.

Regulation of Healthcare Consultation

Ministry of Health – Department of Private Practice (Medical Science)

This department is responsible for the management and monitoring of healthcare clinic practice, including Chinese Medical Consultation.

Law on the Control of Private Practice (Medical Science)

Law on the control of private practice in the field of medical science, dated on 3 November 2000 aims to determine procedure and conditions concerning the operations of private practice in the field of medical science in Cambodia, and to determine qualifications and requirements for applicants wishing to conduct healthcare consultation.

1. Healthcare Consultation

Anyone wishing to conduct the operation of healthcare consultation has to fulfill the following qualifications: (i) be a Khmer national, holding a diploma recognised by the Ministry of Health, (ii) be registered in the registry of members of the pharmacist association, (iii) not been prosecuted of any criminal offenses, (iv) be in good health to perform this task, and (v) obtained permission from the Ministry of Health.

If healthcare consultation is provided through a clinic, additional requirements to be complied with by the relevant company include:

- (a) arrange at least one clinic operator to control, monitor and be responsible for engagement of clinic;
- (b) display the permission at the premise to be public and noticeable;
- (c) show the following details at the premise to be public and noticeable:
- name of clinic;
 - details regarding the practitioners of the clinic; and

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- (d) monitor the operation of the clinic to be in accordance with the service standards as required by relevant laws of Cambodia.
- (e) monitor the practitioners to ensure that they do not perform their duties contrary to the field;
- (f) ensure that practitioners comply with duties required by the relevant laws; and
- (g) monitor and ensure that the clinic is in a clean and hygienic environment.

2. *Individual Chinese healthcare practitioners*

A foreign healthcare practitioner may be able to conduct the healthcare consultation independently if he or she has already obtained permission from the Ministry of Health. Moreover, such foreign healthcare practitioner may not be required to obtain permission from the Ministry of Health if he or she conducts such healthcare consultation under the direct supervision, control and responsibility of a Cambodian pharmacist who has obtained the relevant permission from the Ministry of Health.

VI CANADA

Regulation of Natural Health Products, Food, Drugs, Devices and Cosmetics

1. *Natural Health Products*

The Food and Drug Act (Canada) (the “FDA”) and its Natural Health Products Regulations (the “NHPRs”) govern the sale, manufacture, packaging, labelling and importation for sale, distribution and storage of Natural Health Products (“NHPs”).

NHPs are naturally occurring substances that are used to restore or maintain health. NHPs come in a variety of forms, such as tablets and capsules, and include vitamins and minerals, herbal remedies, homeopathic medicines, traditional Chinese medicines, probiotics and other products such as essential fatty acids. Dried Chinese herbs sold in bulk by store clerks are not considered NHPs, but are considered food by the Canadian Food Inspection Agency (“CFIA”) so are not regulated by the NHPRs.

The NHPRs apply to any person or company that manufactures, packages, labels and/or imports NHPs for commercial sale in Canada. However, the NHPRs do not apply to health care practitioners who compound products on an individual basis for their patients or to retailers of NHPs.

(a) *Sale and Advertising*

The requirements under the NHPRs do not apply to retailers, but NHPs cannot be sold in Canada unless they are manufactured, packaged, labelled, imported, distributed or stored in accordance with the NHPRs. The NHPRs include requirements pertaining to specifications of the product, sanitation of premises and equipment, operating and quality assurance procedures

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and requirements to keep electronic records of the NHPs until one year after the expiry date of the NHPs. Further, if a distributor commences a recall of certain NHPs, that information must be provided to the Minister of Health.

NHPs cannot be sold or advertised in any manner that is false or misleading or likely to create an erroneous impression regarding its character, value, quantity, composition, merit or safety. Generally, when the labelling, sale or advertising of a product is consistent with the product's terms of market authorisation outlined in the product licence, it is unlikely to be considered false, deceptive or misleading. Advertising of NHPs is restricted and regulated by the FDA to the extent that they cannot be advertised as treatment or cures for certain serious diseases and disorders, such as cancer or asthma. However, NHPs can be advertised as being preventative of specified diseases and disorders.

(b) Labelling

The NHPRs require all NHPs to be labelled with certain information, including product name, product licence number, quantity, medicinal and non-medicinal ingredients, recommended use, cautionary statements, warnings, contraindications or possible adverse reactions and any special storage conditions. The FDA does not impose labelling requirements for NHPs on retailers who purchase the NHPs from suppliers and are not involved in their manufacture or packaging or labelling directly.

(c) Licensing

To be sold in Canada, NHPs must have product licences, and all Canadian sites that manufacture, package, label and import these products must have site licences. These licences are provided by Health Canada. These licensing requirements do not apply to retailers of NHPs or to health care practitioners who compound products on an individual basis for their patients, so retailers do not require a licence to sell NHPs other than the municipal business licensing requirements.

NHPs that have been authorised for sale by Health Canada bear a Natural Product Number (NPN) or Homeopathic Medicine Number (DIN-HM) on the product label, which means they have been assessed by Health Canada and are considered safe, of high quality and do what they claim to do. Health Canada has not yet evaluated all NHPs currently on the market, so products with exemption numbers can also legally be sold in Canada and the exemption number will be listed on the product label and will start with "EN".

For retailers, enforcement and compliance measures may be taken in the event of the sale of an NHP without a product licence. If it comes to Health Canada's attention that an NHP without a product licence is being sold at retail, the retailer may be asked to remove the unlicensed product from sale. In addition, the retailer may be requested to provide the name and address of the supplier of the product. If successful in obtaining the information, an inspector may contact the manufacturer, distributor or importer of the product and issue a direction to stop

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sale or request a product recall at the retail level. If the retailer does not offer the necessary cooperation to remove the product or provide information on the supplier, the retailer may be treated as the distributor or importer of the unlicensed product.

2. *Food*

Canada Food Inspection Agency

CFIA provides all federal inspection services related to food safety, economic fraud, trade-related requirements, animal and plant disease and pest programs. CFIA also regulates the administration and enforcement of the many acts and regulations relating to food including the FDA and FDRs as they relate to food, and Consumer Packaging and Labelling Act (Canada) (“CPLA”).

(a) Importation

CFIA administers trade-related requirements for food, including import requirements. In 2003, Canada Border Services Agency (“**CBSA**”) assumed responsibility for the initial import inspection services in respect of the Acts and Regulations administered by the CFIA to the extent that they are applicable at Canadian border points (air, land and sea). The CFIA retains responsibility for the enforcement of those Acts to the extent that they apply within Canada and at its National Import Service Centre (“**NISC**”).

The NISC is staffed by specially-trained import specialists. They review import documentation, process import requests for certain food, plants and animals and related goods, and then provide a recommendation decision either electronically to the CBSA or by fax directly to the importer.

Some goods are subject to the requirements of other federal government departments and may need permits, certificates and examinations. For example, CFIA examines and gives permits for some meat products. The Department of Foreign Affairs and International Trade requires import permits for goods such as textiles and clothing and some food items such as dairy products, poultry, and eggs, by way of the Export and Import Controls Act (Canada). CBSA verifies the permits or conduct inspections on behalf of the other federal departments and detains goods if necessary. Under the Customs Act (Canada), the CBSA has the authority to select shipments for examination to verify that they are compliant or to take samples in reasonable amounts.

The FDA requires that imported food comply with the same standards set by the FDA for all food in Canada. Therefore, the standards relating to the manufacture, supply, distribution and sale of food set out below under section 2(b) also apply to the importation of food into Canada.

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Commercial importations must also meet the CFIA's health, safety and labeling requirements. The CFIA regulates the packaging, labelling, composition, and net quantity requirements for most foods under the relevant legislation which includes the FDA and its Regulations and the Consumer Packaging and Labelling Act and its Regulations. The CBSA assists the CFIA with the administration of such legislation as it relates to packaging and labelling, through the detection and notification of possible infractions. However, the CBSA does not enforce these requirements. The FDA and FDRs enable an inspector to examine and take samples of any food sought to be imported into Canada, and submit the sample for analysis or examination. If after receipt of an analyst's report the inspector opines that the sale of the food would violate the FDA or FDRs, the inspector notifies the collector of customs and the importer. The importer may get the opportunity to re-label or modify the food to be allowed to import it into Canada.

The FDRs require that imported bulk foods be labelled in their shipping containers. They do not require labelling in both English and French. They do require a net quantity declaration under the Weights and Measures Act (Canada) in either metric or Canadian measure. All other labelling information, as required by the FDRs or otherwise, must be provided, including a list of ingredients.

In addition to meeting CFIA import requirements, all imports must meet CBSA reporting and admissibility requirements. The admissibility decision is made at the first point of arrival in Canada. Reporting for commercial shipments is done by way of a release entry package, submitted in person by the carrier, importer or broker either upon arrival, in advance or electronically. After clearance, importers must submit to CBSA a final accounting package, which includes customs forms as well as any required import permits, health certificates, or forms that other federal government departments require.

When imports are not in compliance with the requirements, the goods will be either ordered removed from Canada or seized and disposed of in accordance with the legislation that controls, regulates or prohibits the importation. The Administrative Monetary Penalty System ("AMPS") is a system of administrative monetary penalties for failure to comply with legislative, regulatory, or program requirements. The AMPS will impose monetary penalties in proportion to the type, frequency, and severity of the infraction.

Importers must keep books and records to substantiate what goods have been imported, the quantities, the prices paid, and the country of origin. This requirement applies to an importer even if the importer uses the services of a customs broker. These records must be kept in Canada, in paper or electronic format, for six years after the importation.

All commercial importers must have an import/export account with CBSA. This import/export account is issued free of charge by CBSA upon receiving an importer's completed application for a Revenue Canada business number. This business number is provided by the Government of Canada to a business in order to identify the business and is used for all of that business' dealings with the federal government, including dealings with CBSA. For most shipments entering Canada, importers must show their import/export account numbers on customs documents.

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(b) Sale

The FDA and the FDRs govern the manufacture, supply, distribution and sale of food. They prohibit anyone from selling food that is poisonous or harmful, unfit for human consumption, rotten, adulterated or manufactured, prepared, preserved, packaged or stored under unsanitary conditions. The FDA also prohibits the labelling, packaging, treating, processing, selling or advertising of any food (at all levels of trade) in a manner that is false, misleading or deceptive to consumers or is likely to create an erroneous message regarding the character, value, quantity, composition, merit or safety of the product. The FDA also prohibits health claims on labels that suggest that a food is a treatment, preventative or cure for specified diseases or health conditions, such as asthma or cancer.

(c) Labelling

The FDRs regulate how prepackaged food items must be labelled prior to their sale. “Prepackaged product” means any product that is packaged in a container in such a manner that it is ordinarily sold to or used or purchased by a consumer without being re-packaged. Although these labelling requirements do not apply to retailers of packaged food, retailers cannot sell prepackaged food that is labelled in contravention of the FDA and the FDRs.

The FDRs, the CPLA and its Consumer Packaging and Labelling Regulation (the “CPLRs”) provide requirements regarding prepackaged food labels. Prepackaged food labels must include the ingredients, nutrition information, durable life dates, nutrient content claims, health claims and foods for special dietary use. Also, the labels must be in English and in French.

Retailers of food that is unpackaged are not subject to any FDA labelling requirements for such bulk items. As a result, retailers of bulk foods, including bulk herbs, are not required to label bins or other containers used to store the bulk items.

(d) Storage

Ontario

Operators of food premises in Ontario are responsible for proper storage of food and sanitation within food premises. Public health units in Ontario administer the Food Premises Regulation (R.R.O. 1990, Reg. 562) (the “Ontario FPR”), made pursuant to the Ontario Health Protection and Promotion Act. The Ontario FPR outlines public health requirements for businesses which supply and serve food to the public. The medical officer of health of each board of health (i.e., public health unit) is responsible for inspecting, or causing the inspection of, food premises and any food and equipment thereon or therein. The public health unit is also responsible for responding to complaints regarding food facilities within its jurisdiction.

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The Ontario FPR governs, inter alia, the building maintenance, lighting, ventilation and food handling requirements at food premises, as well as the required sanitation facilities and sanitisation standards which must be in place. In respect of storage of food at food premises, under the Health Protection and Promotion Act, additional regulations may also be made by the Lieutenant Governor in Council: (i) regulating, restricting or prohibiting the storage of any food on or in food premises and prescribing standards and requirements in respect thereof; and (ii) governing and requiring the labelling, identification or coding of food and containers of food that is stored on or in food premises or distributed from food premises and specifying the type of labelling, identification or coding and the information required on the labels, identification or coding.

British Columbia

Operators of food premises in British Columbia are responsible for proper storage of food and sanitation within food premises. Local Health Authorities in British Columbia administer the Food Premises Regulation (British Columbia) (the “BC FPR”). The BC FPR is provincial legislation established under the Public Health Act (British Columbia) which outlines public health requirements for businesses which supply and serve food to the public. The Health Authorities are responsible for licensing, inspecting and responding to complaints regarding food facilities within their jurisdiction. Operators of food premises must ensure that all food is obtained from approved sources, protected from contamination, and stored, handled, prepared, displayed and dispensed in a sanitary manner. The BC FPR prohibit the sale, storage, display, offer for sale or sale of food that is contaminated or unfit for human consumption.

(e) Licensing

In British Columbia, there are no licensing requirements for retailers who sell food products which are applicable to the retail sale by TRT (Canada) of the food products it sells, other than the municipal business licensing requirements that are required to operate a business.

In Ontario and specifically in the City of Toronto, a person who owns or keeps a place where foodstuffs intended for human consumption are offered for sale, stored or sold is likewise required to hold a municipal business licence issued by the relevant municipal licensing division. The owner of any establishment where foodstuffs are intended for human consumption are for sale has to ensure that there is, at all times when the establishment is operating, at least one certified food handler working in a supervisory capacity in each area of the premises where food is prepared, processed, served, packaged or stored. The certified food handler must be able to provide his or her food handler certificate issued by the City of Toronto and which is valid for a period of five years, upon request for inspection.

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3. *Drugs*

The FDA governs the sale of non-narcotic drugs and defines them as substances or mixtures of substances manufactured, sold or represented for use in the diagnosis, treatment, mitigation or prevention of a disease, disorder or abnormal physical state, or its symptoms, in human beings or animals; restoring, correcting or modifying organic functions in human beings or animals; or disinfection in premises in which food is manufactured, prepared or kept.

(a) Sale

The FDA prohibits the sale of certain drugs that are manufactured, prepared, preserved, packaged or stored under unsanitary conditions or are adulterated. The FDA also prohibits health claims on drugs that might suggest that a drug is a treatment, preventative or cure for specified diseases or health conditions, unless provided for in the regulations. As a result, a retailer cannot sell products in contravention of these laws.

(b) Licensing

Retailers are not subject to requirements for licences in order to sell drugs, other than the municipal business licence they require to operate their business generally. Retailers are required to purchase drugs from Canadian distributors.

However, importers, manufacturers, or any person, company or a pharmaceutical representative bringing a drug into Canada is subject to the FDA and FDRs requiring Health Canada to authorise new drugs. When a drug is approved, it is given a drug identification number (a “DIN”), which means that its safety, efficacy and quality has been assessed and confirmed by Health Canada.

For retailers, enforcement and compliance measures may be taken in the event of the sale of a drug without a DIN or whose DIN has been cancelled. The retailer will be directed to comply with the FDRs by removing the drug from sale providing a Health Canada inspector with the name and address of the supplier or Canadian legal agent of the violative drug. If a retailer does not provide the information, the inspector will follow up with the retailer to obtain the name and address of the supplier. If the retailer does not offer the necessary collaboration, the retailer will be treated as the Importer or Distributor, and if there is no DIN for the drug, a stop sale and recall will be requested and inspectors may ask the regulated party to voluntarily detain or dispose of the non-compliant drug.

4. *Devices*

The FDA governs the sale of devices, which are articles, instruments, apparatus or contrivances for use in diagnosis, treatment, mitigation or prevention of a disease, disorder or abnormal physical state, or symptoms, in human beings or animals, as well as affecting body function or structure, among other things.

REGULATIONS

There are no licensing requirements for retailers of devices which are applicable to the retail sale by TRT (Canada) of the devices it sells, other than the municipal business licence requirements.

5. *Cosmetics*

(a) *Sale*

The FDA governs the sale of cosmetics and prohibits their sale when they are injurious to health, consist of decomposed matter or were produced or stored in unsanitary conditions.

As well, the Cosmetics Regulations (the “CRs”) to the FDA govern the sale of cosmetics and prohibits sales where, for example, cosmetics contain certain ingredients such as chloroform or an estrogenic substance.

(b) *Labelling*

There are no labelling requirements that apply to retailers of cosmetics. However, the CRs prohibit anyone from selling cosmetics which do not comply with the labeling and packaging requirement in the CRs, which include having bilingual, legible labels that do not make claims regarding the ability, formulation, manufacture or performance of the cosmetic without evidence.

(c) *Licensing*

There are no licensing requirements for retailers of cosmetics which are applicable to the Business, other than municipal business licence requirements.

Regulation of Traditional Chinese Medicine

(1) *British Columbia*

College of Traditional Chinese Medicine Practitioners and Acupuncturists of British Columbia (the “College”)

The College is a self-regulatory body whose mandate is to protect the public. It fully regulates the traditional Chinese medicine professions and acupuncture in B.C. and has established the Bylaws along with appended schedules (the “Schedules”), which, among other things, govern the licensing and conduct of traditional Chinese medicine professionals.

The Practitioners Bylaws deal with the registration and licensing of registrants, including Traditional Chinese Medicine Practitioners as well as inspections, inquiries and discipline regarding those registrants. They regulate the records to be kept by self-employed registrants, such as the uses to which personal information that is collected can be put. They also require that personal information be kept for at least ten years. Moreover, the Bylaws address other general matters for traditional Chinese medicine healthcare clinics including insurance requirements.

REGULATIONS

One of the schedules to the Bylaws, the Code of Ethics sets out the responsibilities of a TCM Practitioner to his or her clients, including to their health and well-being and their choices regarding treatments and associated risks. It also sets out guidelines for treating clients with diminished capacity and the type of treatment clients and the public should generally receive. The Standards of Practice regulate a TCM Practitioner competency, specialised knowledge and provision of traditional Chinese medicine services to the public.

The TCM Practitioner must be in compliance with any applicable legislation and any rules or regulations prescribed or implemented by the College.

A TCM Practitioner must have a licence that has been issued by the College in order for that TCM Practitioner to legally practice TCM. To receive a licence, a TCM Practitioner must pass the appropriate educational training, licensing and safety courses. A TCM Practitioner must have graduated from a traditional Chinese medicine education or training program for registration as a TCM Practitioner, successfully completed not less than two years of a liberal arts or sciences study in an accredited college or university acceptable to the registration committee, successfully completed the examinations required, have evidence satisfactory to the registration committee of the good character of the TCM Practitioner consistent with the responsibilities of a registrant and the standards expected and have evidence satisfactory to the registration committee that the TCM Practitioner is a Canadian citizen or a permanent resident of Canada or is otherwise authorized under the laws of Canada to work in Canada.

Moreover, the TCM Practitioner must provide to the registrar a signed application form, the application fee and evidence of the above educational training.

A TCM Practitioner must apply to the registrar to renew his or her licence annually. This renewal requires the TCM Practitioner to pay the registration fee, any outstanding debt, fee or levy owed to the College and attest to being in compliance with the HPA, the TCMRs, the Bylaws and any limitations imposed by the TCM discipline committee. As well, the TCM Practitioner must provide a signed declaration proving completion of 50 hours of continuing education within the past two years and records to demonstrate that the TCM Practitioner practices acupuncture or traditional Chinese herbology or traditional Chinese medicine at a minimal level 200 patient visits during any consecutive 24 month period within the last four years.

Health Professions Act (“HPA”)

In British Columbia health care professions are regulated by various colleges which are created under the Health Professions Act (British Columbia) (the “HPA”). Traditional Chinese medicine healthcare clinics are regulated by one such college the College (as previously defined). The HPA outlines the objectives and duties of the colleges which include superintending all aspects of the colleges for the stipulated profession. Some such matters are approving the name of the traditional Chinese medicine healthcare clinics or ensuring health practitioner competency.

REGULATIONS

The Traditional Chinese Medicine Practitioners and Acupuncturists Regulations (the “TCMRs”) created under the HPA define traditional Chinese medicine and govern who may practice traditional Chinese medicine and what traditional Chinese medicine activities are restricted to licensed individuals.

“Traditional Chinese medicine” is defined as the promotion, maintenance and restoration of health and prevention of a disorder, imbalance or disease based on traditional Chinese medicine theory by utilization of the primary therapies of:

- (i) Chinese acupuncture (Zhen), moxibustion (Jiu) and suction cup (BaGuan);
- (ii) Chinese manipulative therapy (Tui Na);
- (iii) Chinese energy control therapy (Qi Gong);
- (iv) Chinese rehabilitation exercises such as Chinese shadow boxing (Tai JiQuan); and
- (v) prescribing, compounding or dispensing Chinese herbal formulae (ZhongYao Chu Fang) and Chinese food cure recipes (Shi Liao).

(2) Ontario

Regulated Health Professions Act, 1991 (“RHPA”) and the Traditional Chinese Medicine Act, 2006 (“TCMA”)

In Ontario health care professions are regulated by various colleges which are created under the RHPA. The TCMA provides for the creation of a professional college of traditional Chinese medicine practitioners, including traditional Chinese medicine acupuncturists. Traditional Chinese medicine healthcare clinics are regulated by the College of Traditional Chinese Medicine Practitioners and Acupuncturists of Ontario.

The TCMA outlines the scope of the practice of traditional Chinese medicine as “the assessment of body system disorders through traditional Chinese medicine techniques and treatment using traditional Chinese medicine therapies to promote, maintain or restore health”. The TCMA also establishes criteria regarding who can call themselves a traditional Chinese medicine practitioner or acupuncturist and identifies what activities the College’s members are authorized to perform, subject to the terms, conditions and limitations imposed on such member’s certificate of registration. Specifically, members of the College are entitled to conduct the following:

1. perform a procedure on tissue below the dermis and below the surface of a mucous membrane for the purpose of performing acupuncture; and
2. communicating a traditional Chinese medicine diagnosis identifying a body system disorder as the cause of a person’s symptoms using traditional Chinese medicine techniques.

REGULATIONS

The various regulations created under the TCMA govern the registration classes and requirements, as described above, set out acts of professional misconduct and outline the requirements of a quality assurance program.

College of Traditional Chinese Medicine Practitioners and Acupuncturists of Ontario (the “College”)

The College is a self-regulatory body whose mandate is to serve and protect the public. Similar to the regulatory regime established in B.C., the College fully regulates the traditional Chinese medicine and acupuncture professions in Ontario and has established a College bylaw (the “College Bylaw”), which, among other things, governs the conduct of practitioners of traditional Chinese medicine and acupuncture (collectively referred to herein as “TCM Practitioners”).

The College Bylaw addresses certain procedural and administrative matters of the College and the certain aspects of the regulation of TCM Practitioners. It sets out the requirement for the maintenance of a register of TCM Practitioners, the prescribed fees to be charged for registration of TCM Practitioners and completion of other requirements, such as a safety course. The College Bylaw also prescribes certain requirements for TCM Practitioners, including the obligation to provide certain information to the College on request and that the requirement all TCM Practitioners carry professional liability insurance.

One of the schedules to the Bylaws sets out a code of ethics (the “Code of Ethics”) for registered members. The Code of Ethics sets out the responsibilities of a TCM Practitioner to his or her clients, including to their health and well-being and choices regarding treatments and associated risks. It also outlines responsibilities that members have to themselves and the profession, including to acknowledge one’s limitations and to continually upgrade one’s knowledge, skills and judgment, and to uphold the honour and dignity of the traditional Chinese medicine profession. Finally, the Code of Ethics states that members have a responsibility to the public to contribute to improving the standards of health care generally and to represent the profession well.

A TCM Practitioner must be in compliance with any applicable legislation and any rules or regulations prescribed or implemented by the College.

The TCMA provides that no person shall use the title “traditional Chinese medicine practitioner” or “acupuncturist” or hold themselves out as a person qualified to practice these disciplines or another speciality of traditional Chinese medicine in Ontario, unless such a person is a registered member of the College. There are five different registration classes: Grandparented, General, Student, Inactive and Temporary. Each registration class has its own particular requirements, in addition to general requirements such as a criminal record check. Generally, a TCM Practitioner must have sufficient experience or pass the appropriate educational training, licensing and safety courses. Applicants to the General class must have graduated from a post-secondary program in traditional Chinese medicine and have completed a clinical experience program, in addition to completing a jurisprudence course, a safety program and passing an assessment conducted by the College. The Grandparented class is designed to allow current practitioners to transition into registration with relative ease. To qualify for the Grandparented registration class, an applicant must have completed a minimum number of traditional Chinese medicine patient visits in Canada within the last five years.

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Moreover, a TCM Practitioner must provide to the registrar of the College a signed application form, the application fee, evidence of the member's identity and photo ID, evidence that all requirements for the registration class applied for have been met, a professional liability insurance certificate and a criminal record check.

A TCM Practitioner must apply to renew his or her registration annually. Every TCM Practitioner must fully complete and submit to the registrar of the College an application of renewal of registration with all required information, including evidence of current professional liability insurance coverage, certain other requirements to meet the terms and conditions of the relevant certificate of registration, information on participation in a quality assurance program in respect of the relevant certificate of registration and the annual renewal fee before June 1 of each year.

VII INDONESIA

Regulation of Chinese Traditional Clinic and Retail Medical Shops

1. Clinic Licence

Pursuant to the Decree of the Governor of Jakarta Special Capital Region Number 909 Year 1992 and in conjunction to the Decree of the Head of Health Division at Provincial Level in Jakarta Special Capital Region Number 0160 Year 2002, each traditional health clinic in Jakarta must obtain operating licence before the clinic can run its business.

2. Traditional Therapist and Acupuncturist registration letter

Pursuant to the Decree of the Minister of Health of the Republic of Indonesia Number 1076/MENKES/SK/VII/2003, all traditional therapist must be registered and obtain STPT registration letter, while all acupuncturist must also be registered and obtain SIPT registration letter.

3. Licence for Retail Medicine Trader

Pursuant to the Decree of the Minister of Health of the Republic of Indonesia Number 1331/MENKES/SK/X/2002 all retail medicine trader must obtain a licence prior to its business operation.

4. Medicine Registration Number

The Decree of the Minister of Health of the Republic of Indonesia Number 246/Menkes/Per/V/1990 all traditional medicine before imported, exported or distributed must be registered as Minister's approval for its distribution (except for *simplicia*/*racikan*, which means blends of various thin slice cuts of roots or leaves for traditional medicine purpose, as excepted in Clause 3.2 of the Decree). If imported, then the importer must register the medicine to the relevant authorities.

REGULATIONS

5. *Medicine Registration Institution*

The Health Law Number 23 Year 1992 and its amendment, Health Law Number 36 Year 2009, determine that all medicine before being distributed must first obtain Permit for Distribution. The law delegates that this issue shall be further regulated by the Regulation of the Minister of Health as the implementation regulation.

The Law has been implemented by the Regulation of the Minister of Health of the Republic of Indonesia Number: 10101MENKES/PER/XI/2008 concerning Medicine Registration. This Regulation stipulates that the Permit for Distribution is in the form of approval for the registration of the medicine (Article 1 Paragraph 1)

In the Regulation, the Minister delegates the power to issue the permit for distribution to the Head of Food and Drug Supervisory Body (Article 2 Paragraph 3).

Therefore, it is within the role and responsibility of the Food and Drug Supervisory Body to register a medicine. When a registration number is issued, the medicine may be legally distributed across Indonesia.

VIII SOUTH KOREA

(1) Import Permit

Under the Pharmaceutical Affairs Act (the “Act”), a person who wishes to import any pharmaceutical product, as defined by the Act, must either (i) obtain an import permit from the Korean Food & Drug Administration (the “KFDA”) for each item or category of such imported products or (ii) declare each such product with the KFDA.

(2) Import Facilities

Under the Act, an importer must be equipped with certain import facilities for laboratory testing. However, an importer is exempt from such regulation if it conducts its laboratory testing using the import facilities of, inter alia, the Korea Pharmaceutical Traders Association.

(3) Import Manager and Safety Manager

Under the Act, an importer must employ at least (i) one pharmacist or herbal pharmacist as the “Import Manager” charged with managing the importation of pharmaceutical products and (ii) one pharmacist or herbal pharmacist (other than the Import Manager) as the “Safety Manager” charged with managing the safety of the imported pharmaceutical products.

REGULATIONS

(4) Reporting Import Volume

An importer must file with the Korea Pharmaceutical Traders Association an annual or quarterly report of the total volume of the pharmaceutical products imported by the importer. “However, if the importer electronically files a standard customs declaration form before importing any pharmaceutical product, then it will not be required to separately file an annual or quarterly report with the Korea Pharmaceutical Traders Association”.

(5) Sale of Pharmaceutical Products

Under the Act, an importer may sell imported pharmaceutical products to pharmacies and wholesalers of pharmaceutical products without a wholesale permit; provided that such importer has obtained the requisite import permit for the importation of such products.

(6) Advertisement

Under the Act, an importer may not place false or exaggerated advertisements regarding the name, manufacturing method, or effect of any pharmaceutical product. To place an advertisement for any pharmaceutical product, an importer must obtain prior approval from the KFDA.

(7) Consequences

Importation or sale of any pharmaceutical product without the requisite permit in violation of the statutory regulation described in (1) or (5) above is punishable by imprisonment of up to 5 years or a criminal fine of up to KRW 20,000,000.

A failure to employ both an Import Manager and an Safety Manager in violation of the statutory regulation described in (3) above or placing an advertisement concerning a pharmaceutical product without prior approval from the KFDA in violation of the statutory regulation described in (6) above is punishable by imprisonment of up to 1 year or a criminal fine of up to KRW 3,000,000. A failure to comply with the Import Facilities requirement set above in (2) may result in cancellation of the import permit or in suspension of business. A failure to file an annual report with the KFDA in violation of the reporting requirement set above in (4) may result in an administrative fine.

(8) Regulatory Authorities in South Korea

A. Korean Food & Drug Administration

The KFDA is a governmental agency which mainly supervises the safety of (i) food and other functional health-related products, (ii) medical products and bio-medical products and (iii) medical supplies. In particular, the KFDA oversees the issuance of license for the import of medical products.

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B. Ministry of Health & Welfare

The Ministry of Health & Welfare is a central ministry which is in charge of supervising and overseeing the administrative work relating to, among others, health and welfare, medical doctors and pharmacists, social aids and security. The KFDA is also a governmental agency that is regulated by the Ministry of Health & Welfare. The Ministry of Health & Welfare also oversees the categorization of medical products and issuance of license to both Western and Eastern medicine pharmacists.

IX MALAYSIA

Drug Control Authority

“The Drug Control Authority (“DCA”), Ministry of Health, Malaysia, is an executive body established under the Control of Drugs and Cosmetics Regulations 1984, tasked with ensuring the safety, quality and efficacy of pharmaceuticals, traditional medicines, health and personal care products (including cosmetics) that are sold in Malaysia.

This objective is achieved through:

- (a) the registration of pharmaceutical products, traditional medicines and cosmetics;
- (b) the licensing of importers, manufacturers and wholesalers;
- (c) the monitoring of the quality of registered pharmaceutical products, traditional medicines and cosmetics in the Malaysian market; and
- (d) the conduct of an Adverse Drug Reaction Monitoring Programme as part of the DCA’s post registration marketing surveillance efforts.”

Sale of Drugs Act, 1952

The Malaysian Sale of Drugs Act, 1952 (“SDA”) generally prohibits any person from selling:

- (a) any adulterated drug without fully informing the purchaser at the time of the sale of the nature of the adulteration; or
- (b) any drug in any package which bears or has attached thereto any false or misleading statement, word, brand, label or mark purporting to indicate the nature, quality, strength, purity, composition, weight, origin, age or proportion of the articles contained in the package or of any ingredient thereof; or
- (c) any drug containing any substance the addition of which is prohibited; or
- (d) any drug containing a greater proportion of any substance than is permitted; or

REGULATIONS

- (e) any drug for internal use which contains methyl alcohol, isopropyl alcohol or denatured alcohol; or
- (f) to the prejudice of the purchaser any drug which is not of the nature or not of the substance or not of the quality of the drug demanded by the purchaser.

The Control of Drugs and Cosmetics Regulations, 1984 ("CDRC")

Regulation 7(1) of the CDRC provides that no person shall manufacture, sell, supply, import, possess or administer any product (which is a drug in a dosage unit or otherwise, for use wholly or mainly by being administered to one or more human beings or animals for a medicinal purpose or a drug to be used as an ingredient of a preparation for a medicinal purpose) unless:

- (a) the product is a registered product; and
- (b) the person holds the appropriate licence required and issued under the CDRC. The different types of licences granted under the Regulation 12 of the CDRC are:
 - (i) manufacturer's licence (to manufacture the registered products in the premises specified in the licence and to sell by wholesale or supply the products);
 - (ii) wholesaler's licence (to sell by wholesale or supply the registered products from the address of the business premises specified in the licence);
 - (iii) clinical trial import licence (to import any product for purposes of clinical trials, notwithstanding that the product is not a registered product); and
 - (iv) import licence (to import and sell by wholesale or supply the registered products from the address of the premises specified in the licence).

The term "*drug*" referred to in the CDRC is as described in the SDA but does not include a herbal remedy (which means any drug consisting of a substance or a mixture of substances produced by drying, crushing or comminuting, but without subjecting to any other process, a natural substance or substances of plant, animal or mineral origin, or any part of such substance or substances).

Regulation 7 (1A) of the CDRC also provides that no person shall manufacture, sell, supply, import, possess or administer any product:

- (a) which is a mixture of a registered product with another substance that is not intended for reconstitution;
- (b) which is a mixture of a registered product with another registered product;
- (c) which is labeled with an additional name other than the name registered by the DCA;

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- (d) which is labeled with a registration number or listing number which belongs to a particular registered product;
- (e) which is labeled with any words, symbols or letters purporting to be true but which is otherwise;
- (f) whose label is not complying to the directives or guidelines issued under regulation 29 of the CDRC; or
- (g) the registration of which has been suspended or cancelled by the Authority.

The CDRC does not apply to:

- (a) diagnostic agents and test kits for laboratory use;
- (b) non-medicated medical and contraceptive devices;
- (c) non-medicated bandages, surgical dressings, plaster, dental fillings;
- (d) instruments, apparatus, syringes, needles, sutures, catheters;
- (e) food – as defined under the Food Act, 1983 (“FA”) and Food Regulations, 1985 (“FR”) which includes every article manufactured, sold or represented for use as food or drink for human consumption or which enters into or is used in the composition, preparation, preservation, of any food or drink and includes confectionery, chewing substances and any ingredient of such food, drink, confectionery or chewing substances. This includes food for special dietary use for persons with specific disease, disorder or medical condition and food which contain quantities of added nutrients allowable under the FA and the FR.

“Pursuant to verbal enquiries made with the National Pharmaceutical Control Bureau (“NPCB”), the Secretariat to the DCA, it has been verbally confirmed by the said authority that raw herbs including those that are dried and cut into pieces need not be registered with them. Traditional medicines that comprise 100% cut-up (including powdered) herbs which:

- (a) have not been subjected to any other process (other than rudimentary drying, crushing and comminuting); and
- (b) do not contain any other ingredient and/or substance that requires registration;

would be considered as pure herbal remedies and not as a “drug” under existing Malaysian pharmaceutical and drug laws. Pure herbal remedies do not attract Malaysian product registration obligations with the NPCB.

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In respect of a seller of a traditional medicinal product which:

- (a) is not a pure herbal remedy and is thus treated as a registrable drug falling within the CDRC's definition of "products"; and
- (b) is sourced from a third party manufacturer or importer;

the NPCB has verbally confirmed the following:

- (i) the manufacturer or importer of a product which is a drug as defined in the CDRC shall register the product with NPCB and, under such circumstances, the seller who purchases the said product from the manufacturer or importer may use the product registration number obtained by them;
- (ii) in the event that the manufacturer or importer fails to register the said product and the seller purchases the said product from the manufacturer or importer, the seller will be in breach of regulation 7 of the CDRC for selling an unregistered product; and
- (iii) a seller who sells a product which is registered under the CDRC will not require a licence to sell the said product so long as:
 - (aa) the manufacturer of the product has a valid manufacturer's licence; or
 - (bb) if the product is an imported product, the importer has a valid import licence;

both licences of which are granted pursuant to regulation 12 of the CDRC.

In respect to the sale of cosmetics (defined under the CDRC to mean any substance or preparation intended to be placed in contact with the various external parts of the human body (including epidermis, hair system, nails, lips and external genital organs) or with the teeth and the mucous membranes of the oral cavity with a view exclusively or mainly to cleaning them, perfuming them, changing their appearance or correcting body odours, protecting them or keeping them in good condition), a separate guideline titled the Guidelines for Control of Cosmetic Products in Malaysia is applicable. Based on the version of May 2009, companies are required to only notify or declare their compliance to the ASEAN Cosmetic Directive to the NPCB (in conformation with the harmonization of cosmetic regulations in the ASEAN region). This is a notification to the Director of Pharmaceutical Services (DPS) through NPCB. Other than the notification requirements, the company responsible for placing the cosmetic product in the market must comply with the various requirements in the Guidelines for Control of Cosmetic Products in Malaysia. The marketing of cosmetic products containing the following ingredients is prohibited:

- substances listed in Poisons List (unless exempted under the Poisons' Act, 1952;
- substances, colouring agents, preservatives and UV filters listed or other than those listed in the various relevant Annexes of the Guidelines for Control of Cosmetic Products in Malaysia.

REGULATIONS

The Price Control (Labelling by Manufacturers, Importers, Producers or Wholesalers) Order 1980 (“Labelling Order 1980”) requires manufacturers, importers, producers or wholesalers of pre-packed goods (including traditional medicinal products that are sold in such form) to label their goods in a manner that is in conformity with the Labelling Order 1980. The labels of these pre-packed goods must indicate the appropriate designation of the traditional medicinal product, the minimum weight, quantity or amount of traditional medicinal product in the package, the name and address of the manufacturer, importer, producer or wholesaler of the traditional medicinal product and the drug composition as well as ingredients of the traditional medicinal product.

Regulation of Food and Beverages

Other than the SDA and the CDRC, in regard to the Products which are food and/or beverage in nature, the Food Act 1983 (“FA”) and Food Regulations 1985 (“FR”) should also be complied with. The FA defines “food” to include every article manufactured, sold represented for use as food or drink for human consumption or which enters into or is used in the composition, preparation, preservation, of any food or drink and includes confectionery, chewing substances and any ingredient of such food, drink, confectionery or chewing substances. The requirements to be complied with under the FA and the FR are extensive, including but not limited to the packaging of the products, the labeling of the products etc. A substantial portion of the prohibitions under the FA and the FR apply also to a person who sells the “food” which includes beverages” (and not just the manufacturers).

Regulation of Traditional Chinese Medicine Physician Consultation Services

There is currently no legislation governing the area of traditional medicine. The Traditional & Complementary Medicine Division (“TCM”) in the Ministry of Health issued a Guideline for Expatriate Traditional and Complementary Medicine which provides for certain conditions and requirements to be fulfilled to employ foreign traditional and complementary medicine practitioner.

The TCM confirmed, through its website, that foreign traditional and complementary medicine practitioner must be engaged by a local company and the application for work permit is to be submitted by the local company to the Immigration Department together with a recommendation letter from the Ministry of Health and an authorised practitioner body recognised by TCM.

REGULATIONS

X MACAO

Regulation of Pharmaceuticals

Department for Pharmaceutical Issues

The Department for Pharmaceutical Issues, a specific department under the Macao Health Department Services (the main regulatory authority in relation to healthcare), is responsible for:

- (a) defining the criteria and conditions of quality in the concession of authorisation to manufacture, wholesale and dispensing of traditional and conventional medicines and pharmaceutical products;
- (b) ensuring the licensing of manufacturers, importers and wholesalers of medicines and pharmacies;
- (c) ensuring the licensing of establishments of traditional Chinese medicine;
- (d) surveying, in accordance with the law, the compliance with the principles of good manufacturing, distribution and dispensing of traditional and conventional pharmaceutical drugs;
- (e) inspecting traditional and conventional medicines and pharmaceutical products according to the criteria of efficacy, safety and quality, disclosing to the health authorities the irregularities involving risks to public health;
- (f) imposing penalties for the violation of rules;
- (g) ensuring and maintaining the registry of all medicinal products whose marketing is authorised in Macao;
- (h) undertaking the assessment of applications for drug registration and submitting them, after validation, to the Technical Commission for Registration of Pharmaceuticals in order to verify that the criteria for efficacy, safety and quality in accordance with the procedures in force;
- (i) collecting, processing and disseminating information on the manufacture, importation, sale and consumption of traditional and conventional medicines in Macao;
- (j) gathering information about prices in the countries of origin of imports and defining, for the marketing of medicines authorised, the maximum prices of sale to the public;
- (k) ensuring the compliance with the rules governing the advertising of medicines;
- (l) promoting the quality checking of medicines; and
- (m) defining and implementing a system of pharmacovigilance information and disseminating its results.

REGULATIONS

Decree Law n° 58/90/M of 19th December 1990 – the pharmaceutical profession and activities

Pursuant to this law, establishments that sell Chinese medicines are recognized as pharmacies and required to obtain relevant operating licences. Further, it stipulates that the practice of traditional Chinese medicine is subject to prior authorisation.

Decree Law n° 53/94/M of 14th November 1994 – the licensing and operation of establishments of manufacturing and commerce of Chinese drugs and importation of Chinese Medicines

This law governs the licensing and operation of establishments that manufacture and sell Chinese drugs and set the rules that Chinese pharmacies and companies that import, export and sell traditional Chinese medicine pharmaceutical products have to comply with in order to be granted license by the Macao Health Department Services to operate in the Territory.

This law also sets the rules regarding the way that pharmaceutical activity must observe on the shops, namely, the storage conditions and preservation of products, the permission to sell a variety of products, the permission for doctors on Chinese Medicine and Masters of Chinese traditional medicine to examine patients on the Pharmacies, etc.

This law also sets the authorization for the Chinese Pharmacies selling the authorized traditional Chinese drugs of exclusive sale at Chinese Pharmacies.

The list of traditional drugs used in Macao consists of three sublists, according with Dispatch n° 4/SSM/98 of 25th August 1998:

Part I – traditional toxic drugs – sold exclusively at Chinese pharmacies

Part II – Traditional Drugs of common therapeutic – sold exclusively at Chinese pharmacies

Part III – Medicinal substances used also as food and/or other uses – non-exclusive sale of Chinese pharmacies

Apart from the products mentioned on Dispatch n° 4/SSM/98 of 25th August 1998 and according with this law Chinese Pharmacies can also sell:

- a) herbal remedies for common use
- b) additives and spices used in common cooking
- c) dietetic products and nutritional supplements
- d) dermatology and cosmetic products
- e) body care products

REGULATIONS

This Law also sets the rules for importation and exportation of Chinese Medicines by stating that only the holders of a valid license can import and export the medicines from traditional Chinese medicine that are presented in a pharmaceutical way and the substances of exclusive sale on Chinese pharmacies, as well as raw materials used in their manufacturing. The importation depends of previous authorization from the Director of Macao Healthcare Services.

The importer must present to the Director of Macao Healthcare Services a list of the products that he intended to import, their quantities and the origin of such products. The importer has also to present the certificates of register or analysis issued or confirmed by the Administrative Authorities of the country of origin of the products.

The lack of compliance with the rules and proceedings set in this law is punished with fines and can cause the loss of the mandatory licenses to operate the business and the closing of the establishments. In what concerns the products imported, exported and generally commercialized and advertised, the lack of authorization for such actions in accordance with this law is punished with fines and may cause the seizure of the products by the competent authorities, which will then be considered lost in favour of the State.

Decree Law n° 59/90/M of 19th December 1990 – registration of pharmaceutical specialties

This law stipulates the rules for registration of pharmaceutical specialties for human or animal use. It is not directly applicable to the products or substances used in a traditional Chinese pharmacy or to other traditional medicines ruled by specific legislation. However, any other products that are not considered products or substances used in a traditional Chinese pharmacy but are sold in Chinese pharmacies may be subject to the impositions set therein.

The lack of compliance with the rules and proceedings set in this law is punished with fines and may cause the seizure of the products by the competent authorities, which will then be considered lost in favour of the State or destroyed.

Technical Instruction number 2/2005 from the Macao Health Department Services

This technical instruction sets out the classification of products for human use that contain Chinese medicinal ingredients and/or natural medicinal ingredients:

- Chinese medicine: products composed by one or more natural medicinal ingredients of animal, vegetal or mineral origin, presented in a pharmaceutical form, prepared and used according to the theory of Chinese traditional medicine and that have application in humans for treatment purposes, relief or prevention of diseases or their symptoms.
- Traditional medicine (natural medicine): products composed by one or more natural medicinal ingredients of animal, vegetal or mineral origin, presented in a pharmaceutical form and which packaging, labels and inscriptions indicate therapeutic effects, relief or prevention of diseases or their symptoms.

REGULATIONS

The setting of criteria for classifying products for human use that contain Chinese medicinal ingredients and/or natural medicinal ingredients is made with the purpose of protecting the consumers and public health. The non compliance with the instructions set therein will be considered a violation of consumers' rights and public health and penalized as such.

Decree Law n° 30/95/M of 10th July 1995 – publicity of drugs

This law governs the publicity of medicines, whether to the general public or to professionals of health. This law states that the publicity of drugs is only permitted if the distribution of the drugs subject to publicity is allowed in Macao. The drugs subject to mandatory medical prescription can only be publicized through samples, publications or other information supports addressed exclusively to professionals of health. It also states that the publicity of drugs is subject to prior authorization from the Director of the Health Services Department of Macao, upon favorable opinion from the Consultive Commission for Drugs Publicity. This law establishes the legal requirements for publicity and mandatory information which shall be provided to the public.

The lack of compliance with the rules and proceedings set in this law is punished with fines.

Regulation of Healthcare Activities

Decree Law n° 84/90/M of 31st December 1991 – Rules the licensing for private activity of health care

This law sets the rules for licensing the private activity of health care. This law is enforceable, amongst others, on individuals such as doctors on traditional Chinese medicine, therapists, massage therapists, acupuncturists and Masters of Chinese traditional medicine. It is also enforceable on entities that own, amongst others, hospitals, clinics, treatment centers or rehabilitation centers. The exercise of such activities is subject to prior licensing. The licensing aims to verify if the legal requirements demanded for the exercise of these activities are met.

The lack of compliance with the rules and proceedings set in this law is punished with fines and can cause the loss of the mandatory licenses necessary to the exercise of the profession.

XI SINGAPORE

The practice of traditional Chinese medicine in Singapore is regulated primarily in two ways. Firstly, through the registration of traditional Chinese medicine practitioners (“**TCM Practitioners**”) and secondly, by controlling the availability of traditional Chinese proprietary medicines (“**CPM**”) used in the treatment of patients.

Control of TCM Practitioners

The Traditional Chinese Medicine Practitioners Act (Cap 333A) of Singapore requires, *inter alia*, TCM Practitioners who undertake the prescribed practice of traditional Chinese medicine to be registered with the Traditional Chinese Medicine Practitioners Board of Singapore.

REGULATIONS

The Traditional Chinese Medicine Practitioners Board, a statutory board established under the Traditional Chinese Medicine Practitioners Act (Cap 333A) of Singapore, is principally responsible for the registration of TCM Practitioners, the accreditation of traditional Chinese medicine institutions and courses, and regulates the professional conduct and ethics of registered TCM Practitioners.

No person shall be allowed to (i) carry out any prescribed practice of traditional Chinese medicine; or (ii) advertise or hold himself out to be qualified to carry out any prescribed practice of traditional Chinese medicine, unless he is a qualified person in respect of that prescribed practice and he carries out that prescribed practice in accordance with the conditions of his registration prescribed under the Traditional Chinese Medicine Practitioners Act (Cap 333A) of Singapore.

Control of CPM

The Health Sciences Authority of Singapore (“HSA”) regulates, *inter alia*, products and practices of traditional Chinese medicine in Singapore. HSA’s CPM Unit was set up in 1996 to administer regulatory control on CPM with the following aims:–

- To ensure that CPM sold in Singapore are safe and of good quality;
- To ensure that CPM are labelled appropriately; and
- To facilitate prompt withdrawal of CPM from the market when necessary.

CPM has been defined to mean any medicinal product used in the system of therapeutics according to the traditional Chinese method, that is to say, any medicinal product:–

- (a) which has been manufactured into a finished product;
- (b) which contains one or more active substances derived wholly from any plant, animal or mineral, or any combination thereof; and
- (c) which is, or all of its active substances of which are, described in the current edition of “A Dictionary of Chinese Pharmacy” or “The Chinese Herbal Medicine Materia Medica”, but shall not include:–
 - (i) any medicinal product to be injected into the human body; or
 - (ii) any medicinal product which contains, as an active substance, any chemically-defined isolated constituent of any plant, animal or mineral, or any combination thereof.

REGULATIONS

Under the Medicines (Prohibition of Sale and Supply) (Amendment) Order 2012 of Singapore, no person shall import, or sell or supply to any person, any CPM which contains any item specified in the Poisons List in the Schedule to the Poisons Act (Cap 234) of Singapore (the “**Poisons Act**”), unless that item:–

- (a) is a substance specified in the first column of the Second Schedule of the Medicines (Prohibition of Sale and Supply) (Amendment) Order 2012 and satisfies the limit or condition in the second column of that Schedule; and
- (b) is present naturally in the ingredients of the CPM.

The Second Schedule of the Medicines (Prohibition of Sale and Supply) (Amendment) Order 2012 provides as follows:–

<i>First column/Substance</i>	<i>Second column/Limit or condition allowed</i>
1. Boric acid; sodium borate	Not more than 5% boric acid or 5% sodium borate or 5% of a combination of both
2. Ephedra, alkaloids of	< 1%
3. Lobelia, alkaloids of	< 0.1%
4. Lovastatin	< 1%
5. Pomegranate, alkaloids of	As pomegranate bark only
6. Berberine; its quarternary compounds; their salts	No limit

CPM dealers are required to list individual CPM which they intend to import or manufacture, provide information during the submission, and are only allowed to deal in approved products. Generally, CPM dealers must ensure compliance with the following requirements:–

- (a) The CPM must not contain:–
 - o Any synthetic drugs;
 - o Amygdalin, pangamic acid or its salts, danthron, suprofen or its salts and rhodamine B;
 - o Any other substances except those stated on the labels;
- (b) The CPM must not exceed the limits set for:–
 - o Toxic heavy metals – Arsenic (5ppm), Copper (150ppm), Lead (20ppm) and Mercury (0.5ppm);
 - o Microbial contamination;

REGULATIONS

- (c) The CPM must meet labelling requirements and the labels and packaging materials must not stipulate any of the 19 diseases/conditions specified in the First Schedule of the Medicines Act (Cap 176) of Singapore (“**Medicines Act**”), that is, blindness, cancer, cataract, drug addiction, deafness, diabetes, epilepsy or fits, hypertension, insanity, kidney diseases, leprosy, menstrual disorders, paralysis, tuberculosis, sexual function, infertility, impotency, frigidity, and conception and pregnancy.
- (d) If the CPM contains substances listed under the Endangered Species (Import & Export) Act (Cap 92A) of Singapore (“**Endangered Species (Import & Export) Act**”), dealers should contact the Agri-Food & Veterinary Authority of Singapore and obtain the relevant licence before importing the same to Singapore.

Importers must submit documents showing the absence of western drugs and test results of toxic heavy metals and microbial contents for every consignment of CPM imported into Singapore.

CPM dealers are only allowed to deal in CPM which have been listed and approved for sale in Singapore by the HSA.

Import licences are issued by the HSA under the Medicines Act to allow companies to import and sell approved CPM in Singapore.

Wholesale dealer’s licences are issued by the HSA under the Medicines Act to allow companies (except for licensed manufacturers) to sell approved CPM to others for the purpose of resale. Wholesale dealer’s licence holders are only allowed to deal with approved CPM by way of wholesale dealing. Any company who wishes to import as well as conduct wholesale dealing of approved CPM products must apply for both import licence and wholesale dealer’s licence.

Both the importers and wholesale dealers of CPM are required to comply with the Good Distribution Practice standard of the HSA. The Good Distribution Practice is a vital component of quality assurance. It requires a company to establish a quality system to ensure that medicinal products are stored and handled consistently under appropriate conditions as required by the marketing authorisation or product specification, thereby maintaining the quality of the products during storage, transportation and distribution.

For the advertising and sales promotion of CPM, dealers are required to obtain the relevant permits from the HSA.

Control of Raw Medicinal Herbs

Raw medicinal herbs refer to raw herbs with medicinal properties, which are used in herbal medicines and it includes materials used in traditional Chinese medicine, traditional Indian medicine, traditional Malay medicine and also herbal medicines from other countries.

The term “raw medicinal herbs” shall cover medicinal materials from plants, animals or minerals in their natural states, or in processed forms that have undergone simple processing, such as cutting or drying.

REGULATIONS

Raw medicinal herbs basically fall under two broad categories, mainly those sold in loose or bulk form, and those that are pre-packed for sales (stating information such as product name, brand name, ingredients, dosages and/or instructions for use on the packaging materials).

Presently, there is no licensing requirement for the import and local sale of raw medicinal herbs in Singapore that are not of finished dosage forms (e.g. capsules, tablets, granules).

However, it is the responsibility of the dealer to ensure that:-

- (a) The herbs do not contain any substances controlled under the Poisons Act and other prohibited substances such as pangamic acid including its salts, danthron, suprofen including its salts and rhodamine B.
- (b) The heavy metal contents of the herbs do not exceed the following limits: Arsenic (5 ppm), Copper (150 ppm), Lead (20 ppm) and Mercury (0.5 ppm).
- (c) The labels and packaging materials of the herbs (if any) do not stipulate any of the 19 diseases/conditions specified in the First Schedule of the Medicines Act, that is, blindness, cancer, cataract, drug addiction, deafness, diabetes, epilepsy or fits, hypertension, insanity, kidney diseases, leprosy, menstrual disorders, paralysis, tuberculosis, sexual function, infertility, impotency, frigidity, conception and pregnancy.

If the herbs are controlled under the Endangered Species (Import & Export) Act, dealers should contact the Agri-Food & Veterinary Authority of Singapore to obtain the relevant licence before they are imported and marketed in Singapore.

The onus in ensuring the safety and quality of the raw medicinal herbs rests on the importer or the seller of such raw medicinal herbs in Singapore.

Control of Health Supplements

Currently, health supplements can be imported and sold in Singapore without a licence issued by the HSA. They are not subject to pre-market approval by the HSA. Nevertheless, dealers of health supplements are to comply with the guidelines for health supplements set out by the HSA. Dealers of health supplements would include the importer, manufacturer, distributor and seller.

The onus in ensuring the safety and quality of health supplements and compliance with the guidelines for health supplements rests with the dealer of such health supplement.

XII THAILAND

Regulation of Medicine Products

Operation of a business in relation to Chinese patent medicine and Chinese herbs is mainly regulated and controlled by the Drug Act B.E. 2510 (1967) and relevant regulations. Under the Drug Act and its regulations, the importer must obtain a license for importation of traditional medicines to import Chinese patent medicine and Chinese herbs from the Food and Drug Administration (“FDA”) prior to the importation of medicines.

REGULATIONS

In addition to said license, the importer must provide a sample of the Chinese patent medicine in order to register its formula with the FDA. Upon obtaining a certificate of the medicine's formula, the importer will then be entitled to import Chinese patent medicines. As for Chinese herbs, the importer is not required to obtain a certificate of the medicine's formula. Drug Control Division of the Food and Drug Administration, Ministry of Public Health is the main regulator for the sale of the Chinese patent medicine.

Drug Control Division of the Food and Drug Administration, Ministry of Public Health

The Drug Control Division regulates and controls importation, manufacture, and trade of medicines in Thailand by monitoring registration of medicines formulas, granting of licenses for importation of modern/traditional medicines, and licenses for sale of modern/traditional medicines.

The Drug Control Division, located in Bangkok, is authorized by law to supervise the importation and sale of medicines in Bangkok only. If the medicines are imported and sold in provinces other than Bangkok, the Provincial Public Health Office, the local provincial authority, will be the regulatory authority in lieu of the Drug Control Division.

Office of the Consumer Protection Board, Prime Minister's Office

Responsibility of the Office of the Consumer Protection Board is to control and monitor consumers' consumption of products, advertisements, labels, and contracts in relation to the products as well as damages which arise or may arise from unsafe products in the interests of consumers.

Drug Act B.E. 2510 (1967)

The Drug Act B.E. 2510 is the key law applicable to the operator who engages in medicines business industry. This Act was promulgated by the House of Representatives of Thailand on 15 October 1967 and effective since 16 October 1967. Said Act and its relevant regulations govern engagement in businesses relating to drugs and prescribe the application criteria and requirements for licenses/certificates for importation and sale of drug, the place for sale of drugs as well as the qualifications of an applicant.

Under this Act and its relevant regulations, an operator desirous of importing traditional medicines for sale in Thailand must first apply for the license for importation. Thereafter, the operator must apply for registration of the medicine formulas and then obtain certificates of traditional medicine formula. Upon obtaining the license for importation and then certificates of traditional medicine, the operator will be able to import traditional medicines for sale in Thailand.

Nonetheless, the operator can import the following medicines without obtaining certificates of traditional medicine prior to importation:

- (i) Herbal medicines;
- (ii) Sample medicines that are permitted by the Drug Control Division to be produced, imported into Thailand for application of registration of medicines formulas; and

REGULATIONS

- (iii) Medicines that are permitted by the Drug Control Division to be imported into Thailand for research, analysis, exhibition or donation.

Upon obtaining the license for importation of traditional medicines for sale in Thailand, the operator will be able to promptly sell traditional medicines without obtaining additional license for sale because the license for importation of traditional medicines also covers the sale of traditional medicines under the Drug Act.

With regard to the competent authority, the operator must file all related applications with the Drug Control Division of FDA, in the case of importation of traditional medicines for sale in Bangkok and with the Provincial Public Health Office, in case of importation for sale in other provinces.

The license for importation of traditional medicines and certificate of the medicine formula will expire on 31 December of each year. The licensee must apply for a renewal before the expiration date. The requirements and procedures for renewal are the same as those for initial application.

As for the drugstore license, a person who would like to engage in the sale of medicines must obtain a drugstore license prior to starting sales under the Drug Act and its relevant regulations. In this regard, the modern drugstore license also covers the sale of traditional medicine. To grant the license for the sale of modern medicines to the operator, the competent officer will inspect the premise that the operator arranges for the sale of modern medicines. Further, the seller in charge must also obtain license to practice the arts of healing for pharmacist to be entitled to sell medicines.

Apart from the Consumer Protection Act, advertisement for sale of medicine and the advertisement for the sale of herbals and traditional premixed medicines are also regulated and controlled by the Drug Act and its relevant regulations. Advertisement and other sales promotions of both herbals and traditional premixed medicines must be assured for truthfulness and non-exaggeration. Any means of advertisement must be approved by the FDA prior to release. Advertisement of prescription or pharmacy-dispensed medicines is permitted only toward professionals and is prohibited toward the public. Nonetheless, advertisement of medicines categorized as household remedies directly targeting consumers or the public may be allowed by the FDA.

Beijing Tong Ren Tang (Thailand) Co., Ltd. (“BTRT”) has observed and complied with this Act by registering/applying and obtaining all proper licenses required under this Act. BTRT has also continually renewed all of its existing licenses within the period specified by the Act and relevant regulations. Likewise, two pharmacists in charge of BTRT have obtained the proper license to practice the arts of healing for pharmacist as well.

Liability for Damages Arising from Unsafe Products Act B.E. 2551 (2008)

This law was promulgated by the House of Representatives of Thailand on 13 February 2008 and effective as of 14 February 2008. It was enacted to strengthen quality control of consumer products and better protect consumer’s rights. Under this law, importers and sellers who import or sell unsafe products are liable for damages incurred to the injured party from the unsafe products, regardless of whether the damages are intentional or arising from the negligence of the importers and sellers. The injured party can claim for compensation for injury to life, body, health, hygiene, mental state, or assets and also claim punitive damages.

REGULATIONS

This Act would apply to BTRT only if the medicine imported/sold by BTRT is considered unsafe product and cause or may cause damages to consumers. To avoid the liability under the Act, BTRT has therefore imported and/or procured products from reliable sources only.

Prices of Goods and Services Act B.E. 2542 (1999)

This law was promulgated by the House of Representatives of Thailand on 31 March 1999 and effective as of 1 April 1999. This law and its relevant notifications impose price controls over various goods in the agricultural, industrial, commercial sectors. However, Notification of the Central Committee Regarding the Prices of Products and Services Re: Establishment of Product and Service Control B.E. 2555 under the Act applies only for modern medicine not including traditional medicine.

Customs Act B.E. 2469 (1926)

Promulgated by the House of Representatives of Thailand on 13 August 1926 and effective as of 13 November 1926, this law governs the importation of products into Thailand in relation to price declaration, import duty, etc.

BTRT has declared the price of imported medicines in line with the relevant laws and regulations and duly paid import duty for imported medicines accordingly.

Regulation of Chinese Medicine Clinic

Operation of a business in relation to Chinese medicine clinic is mainly regulated and controlled by the Clinic Act B.E. 2541 (1998) and relevant regulations. The main regulator is the Bureau of Sanatorium and Art of Healing, Department of Health Service Support, Ministry of Public Health.

Bureau of Sanatorium and Art of Healing (“BSAH”), Department of Health Service Support, Ministry of Public Health

BSAH regulates and control granting of licenses for operation of clinics, licenses for engagement in clinics, and practitioner licenses/permission in the arts of healing.

Clinic Act B.E. 2541 (1998)

This law was promulgated by the House of Representatives of Thailand on 15 March 1998 and effective as of 16 March 1998. It and its relevant regulations govern the operation of, and engagement in, clinics by granting licenses for operation and engagement and prescribing the requirements during the operation of the clinic after obtaining the proper licenses.

At the time BTRT applied for licenses under the Act, traditional Chinese medicine was not considered as the arts of healing under the Practice of the Arts of Healing Act B.E. 2542 (1999) and there were no other specific laws and regulations prescribing the requirement to have a license for a traditional Chinese medicine clinic. Therefore, BTRT would have instead applies for proper licenses to operate and engage in traditional Thai medicine clinic.

REGULATIONS

The requirements for operation of traditional Thai clinics under the Clinic Act and its relevant regulations are as follows:

- (a) Plan of the premises for setting up the clinic as approved by BSAH;
- (b) Premises, its facilities and hygienic environment are proper and appropriate for a clinic as required by relevant laws and regulations;
- (c) Necessary equipment, medical suppliers and vehicles as required by relevant laws and regulations are stationed in the premises;
- (d) At least one practitioner is in charge at the clinic; and
- (e) Name of clinic proposed in the application is not restricted or prohibited by any relevant laws.

The requirements for engagement in traditional Thai clinic under the Clinic Act and its relevant regulations are as follows:

- (a) Applicant must be a licensee of license to practice the arts of healing for traditional medicines for practitioner;
- (b) Applicant must not be a person who was previously engaged in at least two clinics prior to the application; and
- (c) Applicant must be a person who can closely manage and supervise the clinic engagement.

BTRT has lawfully obtained proper license to operate Thai traditional medicine clinic business and license to engage in Thai traditional medicine clinic business under the Clinic Act. Said licenses are currently in full force and effect. BTRT has observed and complied with the Act and relevant regulations.

Practice of the Arts of Healing Act B.E. 2542 (1999)

This law was promulgated by the House of Representatives of Thailand on 18 May 1999 and became effective on 19 May 1999. This law, and its relevant regulations and notifications, govern the registration of practitioners, application for practitioner licenses/permissions, and prescribe the requirements and qualifications of an applicant.

Prior to 2009, traditional Chinese medicine was not considered as an art of healing under the Practice of the Arts of Healing Act B.E. 2542 (1999). During such period, the practitioner practicing the arts of healing with traditional Chinese medicine was required to obtain an approval letter to practice the arts of healing issued by the Ministry of Public Health under the Ministerial Notification Re: Permission to Persons to Practice the Arts of Healing with Traditional Chinese Medicines, B.E.

REGULATIONS

2543 (2000) (“**Ministerial Notification B.E. 2543**”). Ministerial Notification B.E. 2543 prescribed that the practitioner had to apply for the approval letter for practicing the arts of healing with traditional Chinese medicine within 90 days from the date of enactment of the Ministerial Notification B.E. 2543. Otherwise, the entitlement of the practitioner to the approval letter would expire.

Later in 2009, said Ministerial Notification B.E. 2543 was repealed with the Ministerial Notification Re: Permission to Persons to Practice the Arts of Healing with Traditional Chinese Medicines, B.E. 2552 (2009) (“**Ministerial Notification B.E. 2552**”). Ministerial Notification B.E. 2552 no longer limited the period of time for the practitioner to apply for the approval letter so as to promote a well-organized system, and promote quality and standards of the practitioner practicing the arts of healing with traditional Chinese medicine.

Also in 2009, by the enactment of the Royal Decree Re: Establishment of Traditional Chinese Medicine as the Practice of the Arts of Healing under the Practice of the Arts of Healing Act B.E. 2542 (1999), B.E. 2552 (2009) (“**Royal Decree B.E. 2552**”), traditional Chinese medicine was recognized as a practice of the arts of healing, but only insofar as the individual practitioner. The Royal Decree is silent with regard to the traditional Chinese medicine clinic. In 2011, the Royal Decree B.E. 2552 was amended by the Royal Decree Re: Establishment of Traditional Chinese Medicine as the Practice of the Arts of Healing under the Practice of the Arts of Healing Act B.E. 2542 (1999) (No. 2), B.E. 2554 (2011) to recognize Ministerial Notification B.E. 2552.

Under the amended Royal Decree B.E. 2552, the practitioner practicing the arts of healing with traditional Chinese medicine whose approval letter was issued under Ministerial Notification B.E. 2543 and Ministerial Notification B.E. 2552 and has not yet expired before the enforcement of either Ministerial Notification B.E. 2543 or Ministerial Notification B.E. 2552, as the case may be, is entitled to apply for a registration and license to practice the arts of healing with the traditional Chinese medicine and is able to continue practicing the arts of healing with traditional Chinese medicine while their applications are being processed until any rejection of registration and issuance of licence (Section 12 of the amended Royal Decree B.E. 2552).

XIII UAE

Regulation of Chinese Medicine in UAE

The UAE Federal Ministry of Health (“**MoH**”) is the apex body in the UAE which regulates the healthcare sector in the UAE, including Traditional Chinese Medicines. While TRT (UAE) is set up within the Dubai Healthcare City (“**DHCC**”), which is a free zone in the UAE, it is still subject to the requirements of the MoH.

The DHCC was set up as a specialized economic zone in the Emirate of Dubai under the provisions of Dubai Decree 1 of 2003 (the “**DHCC Law**”), with a focus on healthcare and medical services. While geographically contiguous with the rest of the UAE, it is treated as an “offshore” jurisdiction for the purposes of certain factors. For instance, non-UAE nationals are permitted to own up to 100% of companies set up in the DHCC, while they would only be permitted to own a maximum of 49% in companies set up in “onshore” UAE. However, a company which is set up and licenced in the DHCC is only permitted to undertake business within the DHCC and cannot operate outside of it unless it obtains a licence from the concerned regulator in that other jurisdiction.

REGULATIONS

Regulations concerning importation of herbal medicines

Under the provisions of Federal Law 20 of 1995 Regarding Medicines and Products Derived from Natural Sources, issued on 20 November 1995, no medicines derived from natural sources (which includes traditional Chinese medicines) may be imported into the UAE without obtaining a permit from the MoH.

However, the provisions of the DHCC Law provide that no import duties are payable with respect to any goods imported into the DHCC and therefore there no customs duties are payable with respect to any products that the Company imports into the DHCC.

Regulations concerning the sale of herbal medicines

Under the provisions of (i) Federal Law 20 of 1995 Regarding Medicines and Products Derived from Natural Sources, issued on 20 November 1995, and (ii) the Rules and Requirements for Registration and Re-registration of Products derived from Natural Sources – 2002, issued by the Drug Control Department of the MoH, no medicines derived from natural sources shall be sold unless they are properly registered with the MoH. In the event of any change in the ingredients of the medicine it is required to be re-registered.

In addition, any person wishing to manufacture or market such products is also required to register with the MoH. In case of change of ownership of the manufacturer, the MoH must be informed of the change within 3 months of it taking place.

External packs for any herbal medicines are required to display:

- The name of the medicine and its MoH registration number
- Names of active natural materials and their quantities
- Date of manufacture and expiration, if applicable
- The name of the producer of the medicine
- Instructions and warnings on the use of the medicine

In addition, the pamphlet insert with the package must contain the following:

- Product trade name and generic name
- Medicinal and non-medicinal ingredients
- Indication and dosage
- Mode of administration
- Interactions with food and drugs
- Side effects and contraindications
- Precautions, warnings and over dosage
- Use in pregnancy, lactation, children and old people
- Date of issuing pamphlet
- Name and address of manufacturer

REGULATIONS

The MoH may also conduct inspections to verify compliance with these requirements without prior notice.

Penalties prescribed for violation of these regulations include fines and/or imprisonment.

Regulation of Advertisement of Chinese Medicines

Cabinet Resolution No. 7 of 2007 (“Cabinet Resolution”) is the main legislation relating to regulation of health advertisements. The Health Advertisement Department of the MoH is the central nodal body in this regard. Under this resolution, all the advertisement about medical products or products that are likely to make anyone believe that such advertisement or promotion is related to any medical product requires the prior approval of the Health Advertisement Department.

The Cabinet Resolution specifies several guidelines that are to be followed by advertisers in respect of the advertisement. These include, amongst several others:

- Compliance with laws;
- Correct and balanced announcements;
- Prohibition of exaggerations;
- Prohibition on including matters misleading public opinion.

License fees are also prescribed in this regard. The Cabinet Resolution covers all visible, audible and readable mass media.

There are also guidelines for advertisement for the following as well:

- healthcare institutions,
- physicians and technicians,
- medical preparations, cosmetic products or external disinfectants;
- health events;
- medical activity outside UAE;
- Medical Apparatus and supplies;
- Flyers.

There is also a reference to advertisement in the Complementary and Alternative Medicine Regulations (No. 2 of 2008) issued by the Dubai Healthcare City. These are set out in the Code of Conduct and need to be followed as well. These include prohibitions on advertising that:

- is false, deceptive or misleading;
- has the effect of intimidating or exerting undue pressure;
- guarantees a cure; or
- makes claims of professional superiority that cannot be substantiated.

REGULATIONS

Regulation of Traditional Chinese Medicine Physician Consultation Services

All professionals providing Traditional Chinese Medicine physician consultation services in the DHCC are required to comply with the provisions of the DHCC Complementary and Alternative Medicine Regulation (Regulation 3 of 2008) (the “**CAM Regulation**”).

Failure to comply with the CAM Regulation could result in imposition of penalties and/or suspension or revocation of the professionals licence.

Any professional who (i) holds a professional licence, certification or registration which is restricted in any jurisdiction or which has been suspended or revoked, (ii) has been denied a licence or certification for cause, or (iii) is subject to a pending prosecution for any offence that is a criminal offence under the laws of Dubai, will not be granted a licence under the CAM Regulation.

The application for a licence is to be made to the Complementary and Alternative Medicine Council (“**Council**”). The Council considers the application and considers whether the application is fit for approval, approval with conditions or is to be declined. It then refers the application to a licencing board along with its recommendations. This board is not bound by the recommendations of the Council and it comes to its own conclusions on the applications submitted before it.

If a licence is granted, it is granted for a period of two years and is renewed for subsequent periods of two years each.

As per the code of conduct specified under the CAM Regulation, medical professionals are not permitted to discriminate against any person on a number of grounds, including their race, creed, colour, national origin, ancestry, religion or source of payment.

Regulation of TRT (UAE)

The Dubai Healthcare City Company Regulations (Regulation No. 8/2008) (the “**DHCC Company Regulations**”) provide that no company or branch shall commence or carry on business in the DHCC unless licenced to do so by the DHCC. TRT (UAE) has been issued a licence to operate a single speciality clinic, with a speciality of “Traditional Chinese Medicine” by the DHCC.

The DHCC Company Regulations permit the formation of limited liability companies, with the permitted number of shareholders ranging from one to thirty. Companies are permitted to have single class of shares with all shares being of an equal value.

General Meetings of the Shareholders are required to be held at least one every year, unless the company has a single shareholder, in which case written resolutions would suffice. Resolutions at a general meeting are passed by simple majority, unless otherwise provided for in the articles of association of the company.

A company set up in the DHCC is to be managed by one or more directors who are appointed by the Shareholders of the company.

REGULATIONS

The DHCC Medical Liability Regulation (Regulation 5 of 2005) provide that all agreements between a DHCC company and a patient shall be subject to the laws and regulations in force from time to time in the DHCC. All claims or disputes under such agreements shall be submitted to a court, arbitral tribunal or dispute resolution body set up by the DHCC, failing which they shall be referred to arbitration in Dubai under the arbitration rules of the Dubai International Arbitration Centre by a single arbitrator. Pending final determination, all costs and fees of the proceedings shall be borne by the clinic and not the patient, unless the court or arbitrator decides otherwise.

Any professional operating in the DHCC must be covered by professional indemnity insurance from an approved insurance provider before undertaking any clinical activity.

HISTORY AND CORPORATE STRUCTURE

OUR CORPORATE HISTORY

Background

The TRT Group has been long establishing the distribution of Chinese Medicine Products in Non-PRC Markets. It began in Hong Kong in the 1950s and other markets outside of the PRC since the early 2000s.

Chinese Medicine Product is considered as an integral part of the Chinese culture and has a long history in Hong Kong. The TRT Group has long established a presence in the Hong Kong Chinese Medicine industry since the 1950s through appointing Chuan Chiong as its distributor in Hong Kong and entering into the retail market in Hong Kong through a 25% equity interest in a joint venture. Please refer to the section headed “Relationship with Controlling Shareholders – Excluded business” in this prospectus for further particulars. Hong Kong has been positioned as an international centre of Chinese medicine products since China resumes sovereignty over Hong Kong in 1997 and it is the policy of the Hong Kong Government to promote and develop Hong Kong into an international centre for the manufacture and trading of Chinese medicine products, for research, information and training in the use of Chinese medicine products.

Under the above circumstances, the TRT Group believes that the positioning of Hong Kong as the international centre of Chinese Medicine Products made it the optimal location to set up its platform for overseas promotion of Chinese medicine culture and products and, by invitation from the then Hong Kong Government, the TRT Group set up the Company as an offshore research, development and production base of Chinese Medicine Products in Hong Kong in March 2004. Further in 2007, the TRT Group centralised the management and control of all its promotions and sales of Chinese Medicine Products in Non-PRC Markets into the Company by appointing it as the sole overseas agent for TRT Ltd. and TRT Technologies. In October 2010, the TRT Group reorganised all its operations in Non-PRC Markets (including equity holdings in overseas joint ventures but excluding the minority interests in operations in the United Kingdom and Hong Kong, an operation in Taiwan and the franchise arrangement in the Philippines) into the Company. Through the above steps, the TRT Group completed the consolidation of its overseas assets and business, and established an international centre of its overseas operations in Hong Kong as planned. This reorganisation was conducted to centralise the TRT Group’s business in Non-PRC Markets to enhance efficiency and effectiveness.

The Company

The Company was incorporated in Hong Kong on 18 March 2004. As at the date of our incorporation, our authorised share capital of HK\$10,000 was divided into 10,000 shares with nominal value of HK\$1.00 each with 1 share issued and allotted to each of Ding Yong Ling, our executive Director, and Yang Qiong, respectively.

On 30 June 2005, Ding Yong Ling and Yang Qiong transferred their respective 1 share with nominal value of HK\$1.00 in the Company to TRT Ltd. and TRT Technologies, respectively. On the same date, the authorised share capital of the Company was increased to HK\$100,000,000 and the Company issued and allotted an additional 29,399,999 shares with nominal value of HK\$1.00 each

HISTORY AND CORPORATE STRUCTURE

and 30,599,999 shares with nominal value of HK\$1.00 each to TRT Ltd. and TRT Technologies. Upon completion of the share transfer and the share allotment, the Company was held as to 49% and 51% by TRT Ltd. and TRT Technologies, respectively.

On 20 October 2010, the authorised share capital of the Company was increased to HK\$1,000,000,000. On the same date, the Company issued and allotted an additional 57,820,000 shares with nominal value of HK\$1.00 each and 60,180,000 shares with nominal value of HK\$1.00 each to TRT Ltd. and TRT Technologies by way of capitalisation issue. On the same date, the Company further issued and allotted an additional 7,274,378 shares with nominal value of HK\$1.00 each and 16,156,095 shares with nominal value of HK\$1.00 each to TRT Ltd. and TRT Technologies, respectively as considerations for the acquisitions of (i) 51% and 49% equity interests of TRT (Boryung) and TRT (Thailand), respectively from TRT Ltd. and (ii) 60%, 51%, 51%, 50% equity interests in TRT (Malaysia), TRT (Macau), TRT (Canada) and TRT (Indonesia), respectively from TRT Technologies. Upon completion of the share allotment, the Company was held as to 46.91% and 53.09% by TRT Ltd. and TRT Technologies, respectively.

On 27 March 2013, the Company subdivided all its issued and unissued shares with nominal value of HK\$1.00 each into 2 Shares with nominal value of HK\$0.50 each.

Please refer to “Our Corporate Structure – Changes in our corporate structure” below for further details of the changes in our corporate structure.

The Group

As at the Latest Practicable Date, the Group’s major subsidiaries comprised of TRT International Natural-Pharm, TRT (Australia), TRT (Singapore), TRT (Brunei), TRT (Toronto), TRT Consulting Services, TRT (UAE), TRT (Macau) and TRT (Poland). These entities are accounted for as the Group’s subsidiaries because the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than 50% and with over 50% voting rights on the Board of respective subsidiaries. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls an entity. The Group also assesses existence of control where it does not have more than 50% of the voting power but is able to govern the financial and operating policies by virtue of de-facto control. De-facto control may arise from circumstances such as enhanced minority rights or contractual terms between shareholders, etc.

As at the Latest Practicable Date, the Group’s major jointly controlled entities comprised of TRT (Malaysia), TRT (Canada), TRT (Indonesia), TRT (Thailand), TRT (Boryung) and TRT (Thai Boon Roong). These entities are treated as the Group’s jointly controlled entities from an accounting perspective because they are held for long-term investment, over which the Group is in a position to exercise joint control with other venturers in accordance with contractual arrangements, and where none of the participating parties has unilateral control over the economic activity of the joint venture.

As at the Latest Practicable Date, the Group also had an investment of 41% equity interest in an associated company, namely TRT Health Preserving and Culture.

HISTORY AND CORPORATE STRUCTURE

Details of the Group's major subsidiaries and jointly controlled entities which contributed materially to its results during the Track Record Period are set out below. For details of the remaining subsidiaries, jointly controlled entities and the associate company, please refer to "Further Information about the Company – Further information about the Group's overseas and PRC establishments" in Appendix V of this prospectus.

Our major subsidiaries

1. TRT International Natural-Pharm

TRT International Natural-Pharm was incorporated in the PRC on 6 March 2006 with a registered capital of HK\$10,000,000. TRT International Natural-Pharm has been a wholly-owned subsidiary of the Company since its incorporation.

2. TRT (Australia)

TRT (Australia) was incorporated in Australia on 20 May 2004 with an authorised share capital of A\$1,000,000 divided into 1,000,000 shares of A\$1.00 each. As at the date of incorporation, TRT (Australia) was held as to 100% by TRT International. On 8 October 2004, for better management of the cooperation relationship and TRT (Australia), TRT International and Zhang Bei entered into an agreement in respect for TRT (Australia), the salient terms of which are set out in "Further Information about the Company – Further Information about the Group's overseas and PRC establishments" in Appendix V of this prospectus. On 20 October 2004, TRT (Australia) issued 99,900 new ordinary shares out of which 89,900 shares were issued to TRT International and 10,000 shares to Zhang Bei, respectively. TRT (Australia) was then held as to 90% and 10% by Zhang Bei and TRT International, respectively.

On 26 March 2010, to strengthen the shareholder base of TRT (Australia), TRT International and Ma An Yang entered into an equity transfer agreement, pursuant to which TRT International transferred 150,000 shares in TRT (Australia) to Ma An Yang for a consideration of A\$247,300. Upon completion of the equity transfer, TRT (Australia) was held as to 15%, 10% and 75% by Ma An Yang, Zhang Bei and TRT International, respectively.

On 20 October 2010, the Company and TRT International entered into an equity transfer agreement, pursuant to which TRT International agreed to transfer its entire equity interest in TRT (Australia) to the Company. Upon completion of the equity transfer, TRT (Australia) was held as to 75%, 15% and 10% by the Company, Ma An Yang and Zhang Bei, respectively. On 12 February 2013, a deed of ratification and accession was entered into among the Company, TRT International and Zhang Bei pursuant to which the obligations and the rights of TRT International under the aforesaid joint venture agreement are assumed by the Company with effect from the date of transfer of the equity interest in TRT (Australia) by TRT International to the Company. To the best knowledge and belief of the Directors, Ma An Yang is a private investor who is principally engaged in dealing of western herbal medicine products in Australia, and Zhang Bei is a private investor who participates in architectural industry. Each of Ma An Yang and Zhang Bei is our connected person at subsidiary level for the purpose of GEM Listing Rules.

HISTORY AND CORPORATE STRUCTURE

As advised by our legal advisors, the various deeds and agreements mentioned above in relation to TRT (Australia) are legally valid and enforceable pursuant to their respective governing laws.

3. *TRT (Singapore)*

TRT (Singapore) was incorporated in Singapore on 1 December 2003 and had, as at the Latest Practicable Date, an issued and paid-up share capital of S\$857,000 comprising 857,000 ordinary shares. As at the date of incorporation, TRT (Singapore) was held as to 51% and 49% by TRT International and Science Arts, respectively. Prior to the incorporation of TRT (Singapore), for better management of the cooperation relationship and TRT (Singapore), TRT International and Science Arts entered into a joint venture agreement in respect of TRT (Singapore) on 21 November 2003, the salient terms of which are set out in “Further Information about the Company – Further Information about the Group’s overseas and PRC establishments” in Appendix V of this prospectus.

On 20 October 2010, the Company and TRT International entered into an equity transfer agreement, pursuant to which TRT International agreed to transfer its entire equity interests in TRT (Singapore) to the Company. Upon completion of the equity transfer, TRT (Singapore) was held as to 51% and 49% by the Company and Science Arts, respectively. On the same date, a deed of ratification and accession was entered into among the Company, Science Arts, TRT International and TRT (Singapore), pursuant to which the obligations and the rights of TRT International under the joint venture agreement dated 21 November 2003 are assumed by the Company. To the best knowledge and belief of the Directors, Science Arts is principally engaged in dealing with Chinese medicine products in Singapore. Science Arts is our connected person at subsidiary level for the purpose of GEM Listing Rules.

As advised by our legal advisors, the various deeds and agreements mentioned above in relation to TRT (Singapore) are legally valid and enforceable pursuant to their respective governing laws.

4. *TRT (Toronto)*

TRT (Toronto) was incorporated in Canada on 24 June 2010 with a share capital comprising of 100 common shares and nil preference shares. TRT (Toronto) has been held as to 51% and 49% by the Company and Finchdene, respectively, since its incorporation. To the best knowledge and belief of the Directors, Finchdene is an investment company. Finchdene is our connected person at subsidiary level for the purpose of GEM Listing Rules.

On 20 August 2010, for better management of the cooperation relationship and TRT (Toronto), the Company, Finchdene and TRT (Toronto) entered into a shareholders’ agreement, the salient terms of which are set out in “Further Information about the Company – Further Information about the Group’s overseas and PRC establishments” in Appendix V of this prospectus.

HISTORY AND CORPORATE STRUCTURE

5. *TRT (Macau)*

TRT (Macau) was incorporated in Macao on 6 November 2002 with an authorised share capital of MOP\$1,000,000 divided into 3 different quotas of MOP510,000.00, MOP440,000.00 and MOP50,000.00. As at the date of incorporation, TRT (Macau) was held as to 51%, 44% and 5% by TRT Technologies, BMI Trading and Ho Hao Chio, respectively. Prior to the incorporation of TRT (Macau), for better management of the cooperation relationship and TRT (Macau), TRT Technologies, BMI Trading and Ho Hao Chio entered into a joint venture agreement on 30 October 2002 in respect of TRT (Macau), the salient terms of which are set out in “Further Information about the Company – Further Information about the Group’s overseas and PRC establishments” in Appendix V of this prospectus.

On 21 April 2007, Ho Hao Chio passed away and his equity interest in TRT (Macau) was transferred, in accordance with a deed dated 4 June 2007, to Ho Cheung Lai Kwan, Ho Kelvin King Lun, Ho Eric King Fung, Ho Wing Yiu and Ho Wing Yee Queenie, who jointly holds such equity interest.

On 20 October 2010, the Company and TRT Technologies entered into an equity transfer agreement, pursuant to which TRT Technologies agreed to transfer its entire equity interest in TRT (Macau) to the Company. Upon completion of the equity transfer, TRT (Macau) was held by the Company and BMI Trading as to 51% and 44%, respectively and the remaining 5% equity interest in TRT (Macau) was jointly held by Ho Cheung Lai Kwan, Ho Kelvin King Lun, Ho Eric King Fung, Ho Wing Yiu and Ho Wing Yee Queenie. As advised by our legal advisor as to Macao laws, the obligations undertaken by the parties under the said joint venture agreement are reflected in the articles of incorporation of TRT (Macau), so any transfer of share that occurs will make any new shareholder automatically bound by such terms without the need of ratifying the said joint venture agreement. Accordingly, the Company automatically assumes the obligations and the rights of TRT Technologies under the said joint venture agreement after the relevant equity transfer.

To the best knowledge and belief of the Directors, BMI Trading is a subsidiary of a PRC-based company principally engaged in property management, and Ho Cheung Lai Kwan, Ho King Fung Eric, Ho King Lun Kevin, Ho Wing Yiu and Ho Wing Yee, Queenie are private investors. BMI Trading is our connected person at subsidiary level and each of Ho Cheung Lai Kwan, Ho King Fung Eric, Ho King Lun Kevin, Ho Wing Yiu and Ho Wing Yee, Queenie is an Independent Third Party for the purpose of GEM Listing Rules.

As advised by our legal advisors, the joint venture agreement mentioned above in relation to TRT (Macau) is legally valid and enforceable pursuant to its governing laws.

HISTORY AND CORPORATE STRUCTURE

Our major jointly controlled entities

1. TRT (Malaysia)

TRT Technologies and Hai-O signed a letter of intent in relation to their cooperation in October 2000. It was the mutual intention of TRT Technologies and Hai-O that the formal joint venture agreement would be signed in June 2001. Nevertheless, in order to expedite the business development in Malaysia, pursuant to a further memorandum and authorization letters in November 2000, TRT Technologies authorized Mei Qun and Ding Yong Ling and Hai-O authorized Tan Kee Hock and Chai Meng Kow in respect of the incorporation of TRT (Malaysia) prior to the signing of the formal joint venture agreement. Accordingly, TRT (Malaysia) was incorporated in Malaysia on 19 January 2001 with an authorised share capital of MYR5,000,000 divided into 5,000,000 shares of MYR1.00 each with an issued share capital of MYR1,900,000. As at the date of incorporation, TRT (Malaysia) was held as to 25%, 25%, 25% and 25% by Mei Qun, Ding Yong Ling, Tan Kee Hock and Chai Meng Kow respectively.

On 25 June 2001, for better management of the cooperation relationship and TRT (Malaysia) and in pursuance to the said letter of intent and memorandum as mentioned above, TRT Technologies and Hai-O entered into a joint venture agreement in respect of TRT (Malaysia), the salient terms of which are set out in “Further Information about the Company – Further Information about the Group’s overseas and PRC establishments” in Appendix V of this prospectus.

On 1 March 2002, TRT (Malaysia) allotted 1,139,998 shares and 759,998 shares to TRT Technologies and Hai-O, respectively. On 12 March 2002, each of Mei Qun and Ding Yong Ling transferred 1 share of TRT (Malaysia) to TRT Technologies. On 14 March 2002, each of Tan Kee Hock and Chai Meng Kow transferred 1 share of TRT (Malaysia) to Hai-O. Upon completion of the relevant allotments and transfers, TRT (Malaysia) was held as to 60% and 40% by TRT Technologies and Hai-O, respectively.

On 20 October 2010, the Company and TRT Technologies entered into an equity transfer agreement, pursuant to which TRT Technologies agreed to transfer its entire equity interest in TRT (Malaysia) to the Company. Upon completion of the equity transfer, TRT (Malaysia) was held as to 40% and 60% by Hai-O and the Company, respectively. On 19 November 2011, the Company, TRT Technologies and Hai-O entered into a deed of accession such that the rights and obligations of TRT Technologies under the said joint venture agreement have been transferred to the Company. To the best knowledge and belief of the Directors, Hai-O is a Malaysia-based healthcare enterprise. Hai-O is our connected person at subsidiary level for the purpose of GEM Listing Rules.

As advised by our legal advisors, the various deeds and agreements mentioned above in relation to TRT (Malaysia) are legally valid and enforceable pursuant to their respective governing laws.

HISTORY AND CORPORATE STRUCTURE

2. *TRT (Canada)*

TRT (Canada) was incorporated in Canada on 11 January 2002 with an issued share capital comprising of 100 class A shares and nil class B shares. As at the date of incorporation, until an equity transfer on 31 December 2010, TRT (Canada) was held as to 51% and 49% by TRT Technologies and Chuan Chiong, respectively. Prior to the incorporation of TRT (Canada), for better management of the cooperation relationship and TRT (Canada), TRT Technologies and Chuan Chiong entered into a joint venture agreement on 10 November 2001 in respect of TRT (Canada), the salient terms of which are set out in “Further Information about the Company – Further Information about the Group’s overseas and PRC establishments” in Appendix V of this prospectus.

On 20 October 2010, the Company and TRT Technologies entered into an equity transfer agreement, pursuant to which TRT Technologies agreed to transfer its entire equity interest in TRT (Canada) to the Company. Upon completion of the equity transfer on 31 December 2010, TRT (Canada) was held as to 49% and 51% by Chuan Chiong and the Company, respectively. To the best knowledge and belief of the Directors, Chuan Chiong is principally engaged in trading of Chinese medicine products and other food products. Chuan Chiong is our connected person at subsidiary level for the purpose of GEM Listing Rules.

On 20 October 2010, a deed of ratification and accession agreement was entered into among the Company, TRT Technologies, Chuan Chiong, and TRT (Canada) pursuant to which the obligations and the rights of TRT Technologies under the said joint venture agreement are assumed by the Company.

On 31 December 2012, TRT (Canada) issued 509,949 and 489,951 class B shares to the Company and Chuan Chiong respectively. Upon the completion of such issue, both class A shares and class B shares of TRT (Canada) were owned by the Company and Chuan Chiong as to 51% and 49% respectively.

3. *TRT (Thailand)*

TRT (Thailand) was incorporated in Thailand on 23 March 2000 with an authorised share capital of THB38,000,000 divided into 380,000 shares of THB100 each. As at the date of incorporation, TRT (Thailand) was held as to 49% and 51% by TRT Ltd. and individuals nominated by V.P. Pharmacy Registered Ordinary Partnership (through 11 individual nominees), respectively.

On 1 June 2010, TRT Ltd. and V.P. Pharmacy Registered Ordinary Partnership entered into a joint venture agreement in respect of TRT (Thailand), the salient terms of which are set out in “Further Information about the Company – Further Information about the Group’s overseas and PRC establishments” in Appendix V of this prospectus.

On 20 October 2010, as part of the reorganization for the proposed spin-off of the Company, the Company and TRT Ltd. entered into an equity transfer agreement, pursuant to which TRT Ltd. agreed to transfer its entire equity interest in TRT (Thailand) to the Company. Upon completion of the equity transfer, TRT (Thailand) was held as to 49% and 51% by the Company and individuals

HISTORY AND CORPORATE STRUCTURE

nominated by V.P. Pharmacy Registered Ordinary Partnership, respectively. To the best knowledge and belief of the Directors, V.P. Pharmacy Registered Ordinary Partnership is principally engaged in dealing in Chinese medicine products in Thailand. Save for the aforesaid, each of V.P. Pharmacy Registered Ordinary Partnership and its nominees is an Independent Third Party for the purpose of the GEM Listing Rules.

On 15 November 2010, a deed of ratification in a form of the first amendment agreement to the said joint venture agreement was entered into between the Company and V.P. Pharmacy Registered Ordinary Partnership, pursuant to which the obligations and the rights of TRT Ltd. under the said joint venture agreement are assumed by the Company.

As advised by our legal advisors, the various deeds and agreements mentioned above in relation to TRT (Thailand) are legally valid and enforceable pursuant to their respective governing laws.

OUR BUSINESS MILESTONES

The following are the important milestones in our business development to date:

2000	TRT (Thailand) was established in March.
2001	Our first retail store in Thailand was set up and commenced operations in February.
2002	Our first retail store in Malaysia and Canada were set up and commenced operations in August and December, respectively.
	TRT (Macau) was established in November.
	TRT (Boryung) was established in December and we began wholesale business in South Korea.
2003	TRT (Singapore) was established in December.
	Our first retail store in Macao was set up and commenced operation in September.
2004	TRT (Australia) was established in May.
	The Company was established in March.
	Our first retail store in Singapore and Indonesia were set up and commenced operations in March and June respectively.

HISTORY AND CORPORATE STRUCTURE

2005	Our first retail store in Australia was set up and commenced operations in July.
2006	Our first retail store in Cambodia was set up and commenced operations in June.
2007	We entered into agency agreements with TRT Ltd. and TRT Technologies in October.
2008	We launched our self-manufactured products, including GLSPC and Angong Niu Huang Pills, into the market.
2009	We opened a retail store in Hong Kong in August.
2010	We added another two new retail stores to our Hong Kong operations, one in July and another in December.
2011	We opened our first retail store in UAE in October.
2012	We ceased the production of Chinese Medicine Products except for Angong Niu Huang Pills and GLSPC in the first quarter of 2012, and ceased our PRC distribution business and entered into exclusive distributorship framework agreements with TRT Ltd. and TRT Technologies since November 2012.

PROPOSED SPIN-OFF OF THE GROUP FROM TRT TECHNOLOGIES

The business of TRT Technologies and its subsidiaries (including the Group) (collectively “**TRT Technologies Group**”) includes the production and sale of Chinese Medicines and Healthcare Products. The total assets of the Group accounted for approximately 17.3% of the total assets of the TRT Technologies Group as at 31 December 2012. The revenue and profit before income tax of the Group accounted for approximately 15.8% and 33.7% of the revenue and profit before income tax of the TRT Technologies Group for the year ended 31 December 2012, respectively. In view of the continuing growth of our business, TRT Technologies concluded that our business has grown to a size sufficient to merit a separate listing on GEM and that such listing will be beneficial to us for the following reasons:

- (i) it enables the Group to attract new investors who are seeking investments in the industries of overseas distribution of Chinese Medicine Products;
- (ii) it is expected to enhance our profile amongst customers, suppliers and other business partners, as well as our ability to recruit good talents available;
- (iii) it is expected to enable us to directly and independently access to both equity and debt capital markets, as well as facilitate the securing of bank credit facilities;

HISTORY AND CORPORATE STRUCTURE

- (iv) it is expected to lead to a more direct alignment of our management's responsibilities and accountability with our operating and financial performance as a result of heightened scrutiny of the investor community. We anticipate that this will result in an enhanced management focus, which should in turn lead to improved decision-making processes, faster response-time to market changes and increased operational efficiency. Further, it will be relatively easier to measure their performance against our stock market performance in comparison to our industry peers listed on the Stock Exchange. It is also possible to link management incentives to such performance, thereby increasing management motivation and commitment; and
- (v) it provides clarity of our credit profile for rating agencies and financial institutions that wish to analyse and lend against a company engaged in the overseas distribution of Chinese Medicine Products.

After the proposed spin-off, the Group is intended to be the sole development platform designated by TRT Group to expand its overseas business, and a channel to promote Chinese Medicine culture as well as the overseas marketing and sales of quality Chinese Medicine Products.

Our PRC legal advisor has confirmed that it is not necessary to obtain any approval or consent from the PRC regulatory authorities for the proposed spin-off. Further, the proposed spin-off is not subject to any approval by the shareholders of TRT Ltd. and TRT Technologies.

OUR CORPORATE STRUCTURE

Changes in our corporate structure

- (1) On 20 October 2010, the Company entered into the following equity transfer agreements:
 - (a) with TRT Technologies, pursuant to which TRT Technologies agreed to transfer 60%, 51%, 51% and 50% equity interests in TRT (Malaysia), TRT (Canada), TRT (Macau) and TRT (Indonesia), respectively, to the Company for an aggregate consideration of HK\$18,854,163, which was satisfied by the Company by way of issuance and allotment of 16,156,095 shares with nominal value of HK\$1.00 each to TRT Technologies. The said aggregate consideration was determined by the Company and TRT Technologies after arm's length negotiations by reference to (i) the aggregate net asset value attributable to the 60%, 51%, 51% and 50% equity interests in TRT (Malaysia), TRT (Macau), TRT (Canada) and TRT (Indonesia), respectively, as at 31 December 2009; and (ii) the business prospects of TRT (Malaysia), TRT (Macau), TRT (Canada) and TRT (Indonesia);

HISTORY AND CORPORATE STRUCTURE

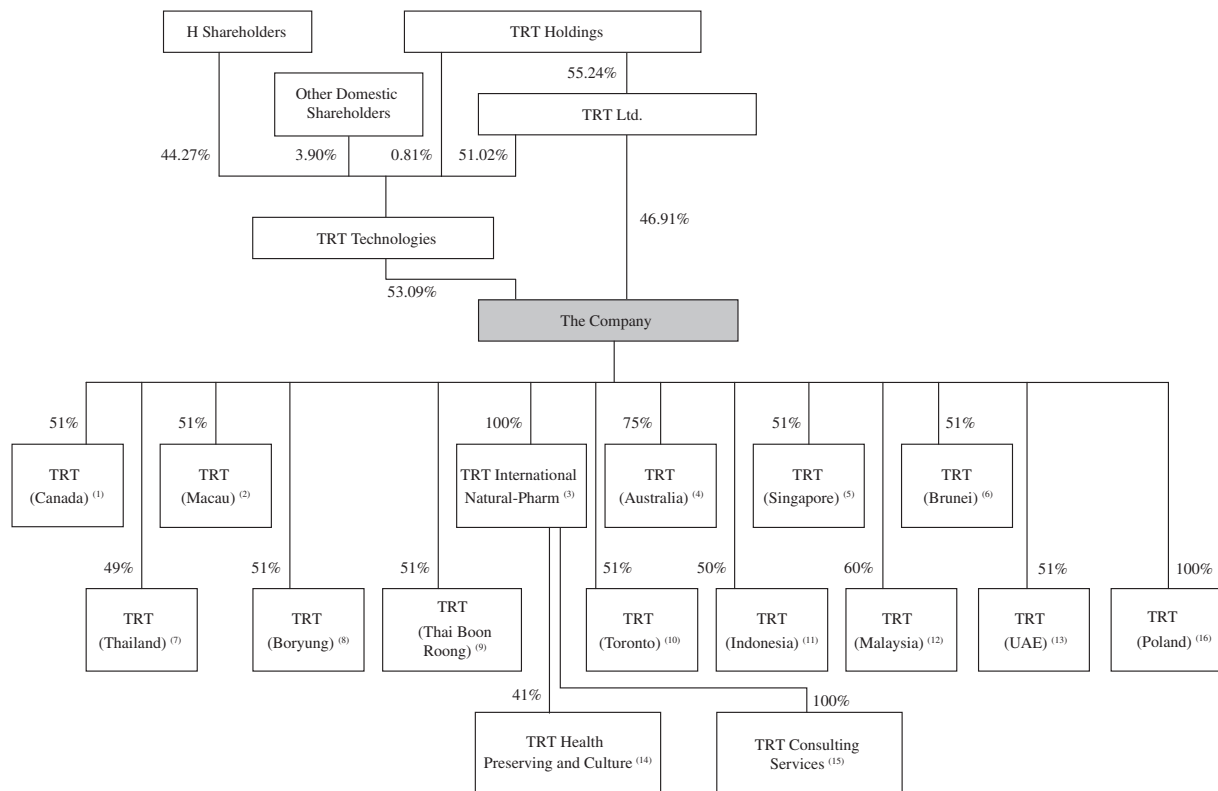
- (b) with TRT Ltd., pursuant to which TRT Ltd. agreed to transfer 51% and 49% equity interests in TRT (Boryung) and TRT (Thailand), respectively, to the Company for an aggregate consideration of HK\$8,489,200, which was satisfied by the Company by way of issuance and allotment of 7,274,378 shares with nominal value of HK\$1.00 each to TRT Ltd. The said aggregate consideration was determined by the Company and TRT Ltd. after arm's length negotiations by reference to (i) the aggregate net asset value attributable to the 51% and 49% equity interests of TRT (Boryung) and TRT (Thailand), respectively, as at 31 December 2009; and (ii) the business prospects of TRT (Boryung) and TRT (Thailand); and
- (c) with TRT International, pursuant to which TRT International agreed to transfer 75%, 51% and 51% equity interests in TRT (Australia), TRT (Brunei) and TRT (Singapore), respectively, to the Company for an aggregate consideration of HK\$17,382,623 which was satisfied in cash. The said aggregate consideration was determined by the Company and TRT International after arm's length negotiations by reference to (i) the aggregate net asset value attributable to the 75%, 51% and 51% shareholdings in TRT (Australia), TRT (Brunei) and TRT (Singapore), respectively, as at 31 December 2009; and (ii) the business prospects of TRT (Australia), TRT (Brunei) and TRT (Singapore).

Each of the above transfers was properly completed and settled.

- (2) On 21 May 2012, the Company completed its increase of equity interest in TRT (Tang Shan) from 50% to 68% by contributing additional capital in sum of RMB46,600,000. Further, on 4 March 2013, the Company entered into an agreement to transfer its 68% equity interest in TRT (Tang Shan) to TRT Chinese Medicine Holdings at the consideration of RMB84.6 million, which was determined with reference to fair value of TRT (Tang Shan) as at 31 December 2012. Our legal advisors as to the PRC laws advised that there is no legal impediment for the completion of such disposal and expect that such disposal will be completed no later than 31 May 2013. We have received the consideration for this disposal. Upon the completion of the said transfer upon the issuance of the new business registration of TRT (Tang Shan), the Group will cease to have any interest in TRT (Tang Shan). We dispose of our equity interest in TRT (Tang Shan) as the principal business of TRT (Tang Shan) (i.e. the manufacture and sale of Chinese Medicine Products (other than Angong Niu Huang Pills and GLSPC)) is not in line with the future plan of the Group's business.
- (3) On 27 March 2013, the Company subdivided all its issued and unissued shares with nominal value of HK\$1.00 each into 2 Shares with nominal value of HK\$0.50 each.

HISTORY AND CORPORATE STRUCTURE

Before the Share Offer



Note:

- (1) TRT (Canada) is our jointly controlled entity from accounting perspectives. It is incorporated in Canada and its principal business activities are retail of natural health products and Chinese herbs, import of Chinese herbs for retail sales and the provision of traditional Chinese Medicine Practitioner services. The remaining 49% equity interest in TRT (Canada) is held by Chuan Chiong.
- (2) TRT (Macau) is our subsidiary. It is incorporated in Macao and its principal business activities are retail of Chinese Medicine, Healthcare Products and Chinese Medical Consultation and treatment. The remaining 44% and 5% equity interest in TRT (Macau) is held by BMI Trading and Ho Family (namely, Ho Cheung Lai Kwan; Ho Eric King Fung; Ho Kevin King Lun; Ho Wing Yiu and Ho Wing Yee, Queenie), respectively.
- (3) TRT International Natural-Pharm is our wholly-owned subsidiary. It is incorporated in the PRC and its principal business activities are sales and distribution of Chinese Medicine and Healthcare Products.
- (4) TRT (Australia) is our subsidiary. It is incorporated in Australia and its principal business activities are import and supply (wholesale and retail) of Chinese Medicine, Healthcare Products and provision of Chinese Medical Consultation and treatment. The remaining 15% and 10% equity interest in TRT (Australia) is held by Ma An Yang and Zhang Bei respectively.

HISTORY AND CORPORATE STRUCTURE

- (5) TRT (Singapore) is our subsidiary. It is incorporated in Singapore and its principal business activities are retail of Chinese Medicine, Healthcare Products and provision of Chinese Medical Consultation and treatment. The remaining 49% equity interest in TRT (Singapore) is held by Science Arts.
- (6) TRT (Brunei) is our subsidiary. It is incorporated in Brunei and its principal business activities are retail of Chinese Medicine and Healthcare Products. The remaining 20%, 20% and 9% equity interest in TRT (Brunei) is held by Ang Ju Ming, Lim Yee Suan and Ang Bee Fong, respectively.
- (7) TRT (Thailand) is our jointly controlled entity. It is incorporated in Thailand and its principal business activities are wholesale and retail of Chinese Medicine, Healthcare Products and provision of Chinese Medical Consultation and treatment. The remaining 51% equity interest in TRT (Thailand) is held by individuals nominated by V.P. Pharmacy Registered Ordinary Partnership.
- (8) TRT (Boryung) is our jointly controlled entity from accounting perspectives. It is incorporated in South Korea and its principal business activities are wholesale of Chinese Medicine and Healthcare Products. The remaining 49% equity interest in TRT (Boryung) is held by Korea Boryung.
- (9) TRT (Thai Boon Roong) is our jointly controlled entity from accounting perspectives. It is incorporated in Cambodia and its principal business activities are retail of Chinese Medicine and Healthcare Products. The remaining 49% equity interest in TRT (Thai Boon Roong) is held by Thai Boon Roong Co., Ltd.
- (10) TRT (Toronto) is our subsidiary. It is incorporated in Ontario, Canada and its principal business activities are retail of Chinese Medicine, Healthcare Products and provision of Chinese Medical Consultation and treatment. The remaining 49% equity interest in TRT (Toronto) is held by Finchdene.
- (11) TRT (Indonesia) is our jointly controlled entity. It is incorporated in Indonesia and its principal business activities are retail of Chinese Medicine and Healthcare Products. The remaining 50% equity interest in TRT (Indonesia) is held by Pt Saras. The operations of TRT (Indonesia) in Indonesia are operated by PT. KLINIK BEIJING TONGRENTANG, a company incorporated in Indonesia. PT. KLINIK BEIJING TONGRENTANG is deemed to be a subsidiary of TRT (Indonesia) through certain conditional sales and purchase shares agreements between TRT (Indonesia) and the four individual shareholders of PT. KLINIK BEIJING TONGRENTANG. To the best knowledge of the Directors, the four individual shareholders are relatives of directors of TRT (Indonesia) and they did not receive any consideration or benefits for entering into the agreements. Pursuant to such agreements, the four individual shareholders agreed to transfer their shareholding in PT. KLINIK BEIJING TONGRENTANG to TRT (Indonesia). Such transfer has not been effected yet as the current Indonesian laws do not allow the foreign invested entity to own shares in retail business. The four individual shareholders irrevocably undertook to effect the transfer once the approval from the relevant Indonesian authorities is granted. In addition, the four individual shareholders granted a specific and irrevocable power of attorney to TRT (Indonesia) to transfer the shares in PT. KLINIK BEIJING TONGRENTANG to whomever TRT (Indonesia) desires so that in the event that the individual shareholders breach the relevant conditional sales and purchase shares agreements, TRT (Indonesia) can, as lawful attorney, transfer such individual shareholders' shareholding in PT. KLINIK BEIJING TONGRENTANG. Under these agreements, the four individual shareholders authorize TRT (Indonesia) to exercise all rights and assume all obligations of the four individual shareholders as holder of the shares in PT. KLINIK BEIJING TONGRENTANG even if such shares have not yet been registered in the name of TRT (Indonesia). The four individual shareholders also authorize TRT (Indonesia) to deal with all matter relating to the shares in PT. KLINIK BEIJING TONGRENTANG including dealing with the authorities and signing of documents, and to oversee the management and board of directors of PT. KLINIK BEIJING TONGRENTANG. As advised by the Company's Indonesian legal advisor, the above-mentioned arrangement is legal and complies with the relevant rules and regulations in Indonesia.

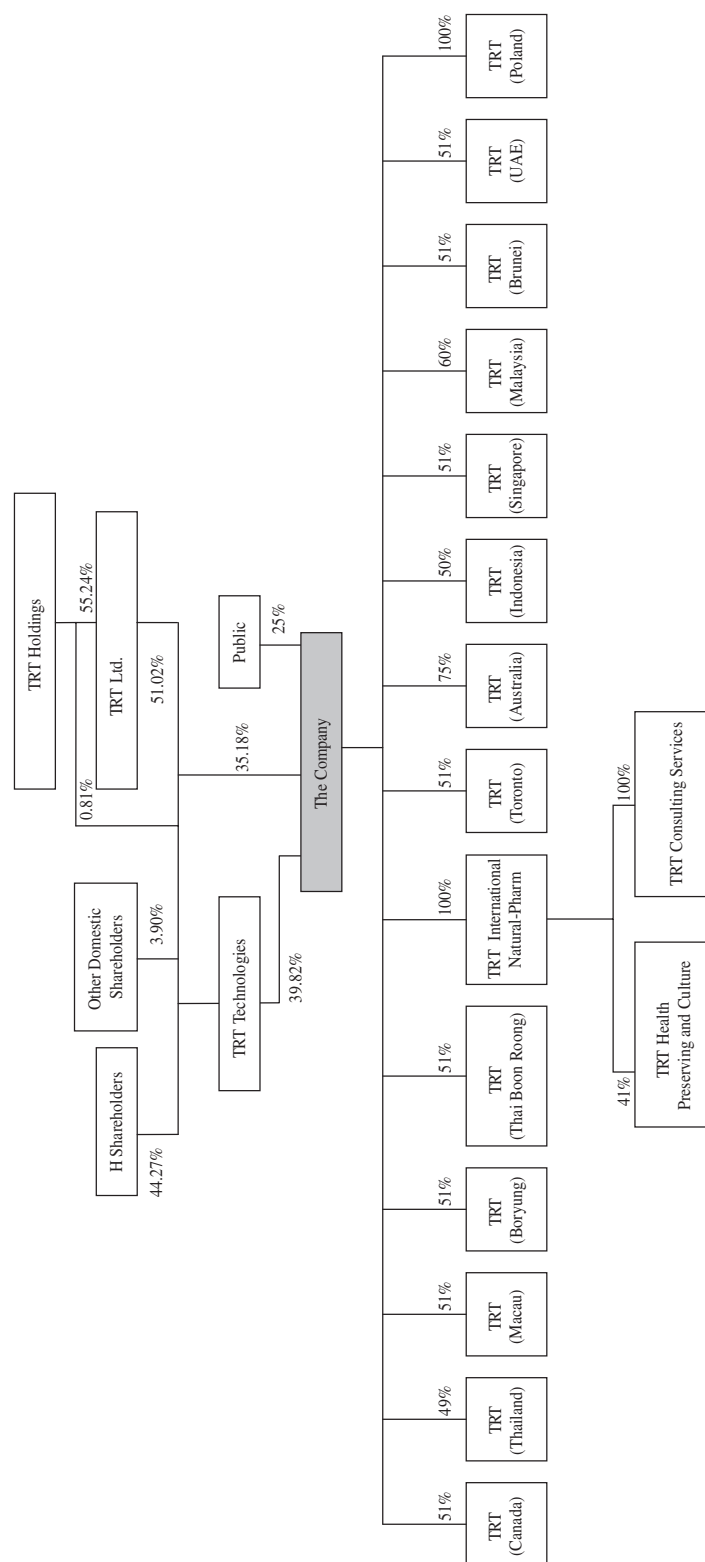
HISTORY AND CORPORATE STRUCTURE

The Company has consolidated the results and financial position of PT. KLINIK BEIJING TONGRENTANG and PT. KLINIK BEIJING TONGRENTANG is deemed as a subsidiary to TRT (Indonesia) pursuant to HKAS 27 (Revised).

- (12) TRT (Malaysia) is our jointly controlled entity from accounting perspectives. It is incorporated in Malaysia and its principal business activities are retail of Chinese Medicine, Healthcare Products and provision of Chinese Medical Consultation and treatment. The remaining 40% equity interest in TRT (Malaysia) is held by Hai-O.
- (13) TRT (UAE) is our subsidiary. It is incorporated in UAE and its principal business activities are retail of Chinese Medicine, Healthcare Products and provision of Chinese Medical Consultation and treatment. The remaining 49% equity interest in TRT (UAE) is held by Emirates China Group LLC.
- (14) TRT Health Preserving and Culture is our associate company. It is incorporated in the PRC and its principal business activity is provision of Chinese Medical Consultation.
- (15) TRT Consulting Services is our wholly owned subsidiary. It is incorporated in the PRC and its principal business activities are administrative services for group companies.
- (16) TRT (Poland) is our wholly owned subsidiary. It is incorporated in Poland and its intended principal business activities are retail of Chinese Medicine, Healthcare Products and provision of Chinese Medical Consultation and treatment. It has not yet commenced any business operation.

HISTORY AND CORPORATE STRUCTURE

Upon Completion of the Share Offer and the Capitalisation Issue (assuming the Over-allotment Option is not exercised) (*Note*)



Note: Please also refer to notes 1-16 at this section. The chart above does not include our 68% equity interest in TRT (Tang Shan), of which we agreed to dispose.

BUSINESS

OVERVIEW

We are a distributor engaging in both the retail and wholesale of Chinese Medicine Products in Non-PRC Markets operating under the “Tong Ren Tang” brand. We see ourselves as a channel for promoting Chinese medicine culture and services in Non-PRC Markets. We are the primary overseas distribution platform of the TRT Group. We operate the leading Chinese Medicine Products retail chain outside of the PRC in terms of number of jurisdictions present, according to Euromonitor. The Company operates the distribution operations in Hong Kong. For other countries and regions, we operate our distribution operations through entities we established with local business partners.

In general, Chinese Medicine Products may be required by the laws of the overseas countries to be registered with the relevant overseas authorities for importation into such countries and that such products can only be imported by the corresponding product licence holders. Accordingly, we have to purchase from the license holders (which may include our Overseas Partners), even for “Tong Ren Tang” branded products if we do not hold the licenses of such Chinese Medicine Products in the relevant countries. Our operations may be exposed to risks as identified in the section headed “Risk factors” in this prospectus. However, the Group has not encountered any past incident nor suffered any loss from such risks which had been material to the Group’s operations during the Track Record Period.

Retail

As at the Latest Practicable Date, we have 36 retail stores in 11 overseas countries and regions, 30 of which also provide Chinese healthcare services such as Chinese medical consultation and diagnosis, medicine dispensing, acupuncture and Tui-Na therapy. Our retail stores are operated under the “Tong Ren Tang” brand. We have an internal decoration policy to promote a uniform “Tong Ren Tang” image. We offer around 2,000 Chinese Medicine Products in our retail stores, including both “Tong Ren Tang” branded products as well as non-“Tong Ren Tang” branded products. Some retail stores also provide ordinary food products, daily consumption products and skincare products. Our retail network principally adopts an integrated “consultation, products and services” model and aims to promote our expertise in these areas. Please refer to the paragraph headed “Distribution in Non-PRC Markets – Retail” below for further discussion of our retail operations.

Wholesale

We currently have wholesale operations in Hong Kong, Macao, Australia, Singapore, South Korea and Thailand. As at the Latest Practicable Date, we wholesale a total of over 260 products, the vast majority of which are “Tong Ren Tang” branded products. Our wholesale customers include our Overseas Partners, third party local distributors, local drug stores and clinics. Please refer to the paragraph headed “Distribution in Non-PRC Markets – Wholesale in Non-PRC Markets” below for further discussion of our wholesale operations.

BUSINESS

Sole distribution

TRT Ltd. and TRT Technologies, both being members of the Parent Group, appointed us as their sole distributor for the sales of their “Tong Ren Tang” branded Chinese Medicine Products in Non-PRC Markets upon expiry of the agency arrangement in December 2012. Our sole distribution customers were all prior overseas customers of TRT Ltd. and TRT Technologies under the agency arrangement and holds the licences of the “Tong Ren Tang” branded Chinese Medicine Products in the relevant jurisdiction. Please refer to the paragraph headed “Distribution in Non-PRC Markets – Agency and sole distributorship of “Tong Ren Tang” branded products” below for further discussion of our sole distribution operations.

Manufacturing

We currently manufacture two products, namely Angong Niu Huang Pills and GLSPC in our facilities in Tai Po Industrial Estate, Hong Kong. The manufacturing facilities have been granted the GMP certificate by the Chinese Medicines Traders Committee of Chinese Medicine Council of Hong Kong which is valid for a term of two years upon issuance and may be renewed within six months prior to its expiration. The facilities successfully passed the re-testing and renewed the certificate in 2010 and 2012. Please refer to the paragraph headed “Manufacturing” below for further discussion of our manufacturing operation. Our self-manufactured products are sold through our own distribution network. Our Angong Niu Huang Pills is currently only registered and sold in Hong Kong, and our GLSPC has complied with the registration or filing requirements and has been sold in Hong Kong, Macao, Australia, Cambodia, Brunei, Singapore and Taiwan. Please refer to the paragraph headed “Our strategies” below for further details on future registration of our Angong Niu Huang Pills and GLSPC.

The sales of our self-manufactured products are recorded as distribution income upon consolidation. In general, (a) sales to entities in the PRC (which has been discontinued) were recorded as PRC distribution revenue; (b) sales by our retail network in Non-PRC Markets are recorded as retail revenue of distribution in Non-PRC Markets; and (c) sales by us as a wholesaler in Non-PRC Markets are recorded as wholesale revenue of distribution in Non-PRC Markets.

The right to use the “Tong Ren Tang” trademark

TRT Holdings, our ultimate Controlling Shareholder and the owner of the “Tong Ren Tang” trademark, has granted us licences to use the “Tong Ren Tang” trademark in Non-PRC Markets, and for our self-manufactured products up to 13 May 2021. As long as the Parent Group directly or indirectly controls not less than 51% of the issued share capital of the Company, there is no licence fee and the licence will be automatically renewed on the same terms and conditions for terms of 10 years upon expiry on 13 May 2021. The use of the trademark is non-exclusive in Hong Kong, the Philippines, Taiwan, the U.K. and Japan with certain existing licences granted by TRT Holdings in these jurisdictions. Save for these users, TRT Holdings has agreed not to license the use of the trademark to any other parties for use in Non-PRC Markets. Please refer to the paragraph headed “Intellectual property” below for further details.

BUSINESS

RECENT DEVELOPMENTS

For the purpose of the Listing, we and the Parent Group underwent the following steps to better delineate us from other members of the Parent Group and to enhance our independence:

- (i) we had a PRC distribution operation during the Track Record Period selling mostly GLSPC. We have terminated our PRC distribution operation from November 2012. Please refer to the paragraph headed “Discontinued operations – PRC distribution” below for further discussion of our discontinued PRC distribution. Besides, the Parent Group has undertaken not to engage in the manufacture and/or sale of products containing ganoderma lucidum or ganoderma lucidum spore as a raw material in Non-PRC Markets;
- (ii) we have manufactured Chinese Medicine Products other than Angong Niu Huang Pills and GLSPC during the Track Record Period mostly for our PRC distribution. We have terminated the manufacture of these Chinese Medicine Products in the first quarter of 2012 and the sale of such Chinese Medicine Products from November 2012;
- (iii) the Parent Group sold its Angong Niu Huang Pills in Non-PRC Market during the Track Record Period. The Parent Group has ceased to sell its Angong Niu Huang Pills in Non-PRC Markets from 1 October 2012 and the Parent Group has undertaken not to sell its Angong Niu Huang Pills in Non-PRC Markets from 1 October 2012; and
- (iv) the Company was providing agency services to TRT Ltd. and TRT Technologies during the Track Record Period. Each of TRT Ltd. and TRT Technologies has appointed TRT International Natural-Pharm, our wholly-owned subsidiary, as the sole distributor of their products in Non-PRC Markets with effect from 1 November 2012 and the agency arrangement expired in December 2012. Please refer to the paragraph headed “Distribution in Non-PRC Markets – Agency and sole distributorship of “Tong Ren Tang” branded products” below for discussion on their respective roles and responsibilities.

Accordingly, we are the only member of the TRT Group distributing PRC manufactured “Tong Ren Tang” branded Chinese Medicine Products in Non-PRC Markets (except for Japan). We do not have any distribution or sales activities in the PRC and all the distribution and sale of “Tong Ren Tang” branded Chinese Medicine Products in the PRC are carried out by the Parent Group. We are the only member of the TRT Group that manufactures “Tong Ren Tang” branded Chinese Medicine Products in Non-PRC Markets. For the two “Tong Ren Tang” branded products we manufacture, we are the exclusive supplier of such products to Non-PRC Markets, and we will not sell such products to the PRC. Our self-manufactured products have a clear geographic delineation with products manufactured by the Parent Group and hence reduced the potential competition with the Parent Group.

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The table below sets out the delineation analysis of the products manufactured by the Parent Group and us upon implementation of the above adjustments:

Products	Manufacturing entity	Geographic markets sold	
		Before the adjustments	After the adjustments
Chinese Medicine Products containing ganoderma lucidum or ganoderma lucidum spore as raw material	The Group	PRC and Non-PRC Markets	Non-PRC Markets ^(Note 3)
	The Parent Group	PRC	PRC
Angong Niu Huang Pills	The Group	Hong Kong	Non-PRC Markets ^(Note 3)
	The Parent Group	PRC ^(Note 1)	PRC
Other Chinese Medicine Products	The Group (Ceased manufacturing from first quarter of 2012)	PRC and Non-PRC Markets	Ceased selling since November 2012
	The Parent Group	PRC ^(Note 1)	PRC ^(Note 2)

Notes:

1. With us being the sole distributor or providing agency services in Non-PRC Markets.
2. With us being the sole distributor, in Non-PRC Markets, excluding products sold to two Japanese companies. Please refer to the section headed “Relationship with Controlling Shareholders –Excluded business” in this prospectus.
3. Sales into additional jurisdictions and regions in the future are subject to successful registration and/or filing of the products.

Discussions on the impact of these recent developments on various aspects of the Group are set out below.

Business

The PRC distribution operation has been operated independently of our other businesses through different operating entities. The termination of this business does not have any material adverse impact on our distribution operations in Non-PRC Markets as a whole because these operations have been conducted by different staff in different departments and they serve different customers. TRT International Natural-Pharm, previously engaged in the management of our PRC distribution operation, is then responsible for conducting the sole distributionship business in Non-PRC Markets. Please refer to the paragraph headed “TRT International Natural-Pharm” below for further details.

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After the expiry of the agency arrangement in December 2012 and the appointment by TRT Ltd. and TRT Technologies of TRT International Natural-Pharm as its sole overseas distributor, all prior overseas customers of TRT Ltd. and TRT Technologies (save for the two Japanese companies) were required to purchase from TRT International Natural-Pharm, which is a wholly-owned subsidiary of the Company, with effect from 1 November 2012. TRT International Natural-Pharm first received orders as the sole distributor of TRT Ltd. and TRT Technologies in the fourth quarter of 2012.

The scope of works and services performed by the Group being the sole distributor rather than an agent of “Tong Ren Tang” branded products of TRT Ltd. and TRT Technologies in Non-PRC Markets remain substantially the same, in particular, in terms of interfacing with the overseas purchasers and with TRT Ltd. and TRT Technologies. Please refer to the paragraph headed “Agency and sole distributorship of “Tong Ren Tang” branded products” below for further particulars.

As a result of the recent developments, we expect a broader customer base for our continuing operations going forward as all prior overseas customers of TRT Ltd. and TRT Technologies become the customers of our sole distribution operation. However, our risk relating to working with new customers may be increased. Please refer to the paragraph headed “Risk factors – Risks related to our business – We cannot guarantee that our operation will not be affected by the cessation of business in the PRC and change of business direction” in this prospectus.

Purchase from the Parent Group has accounted for about 35.1% and 29.9% of our total purchase of the continuing operations and discontinued operations for each of the two years ended 31 December 2012 respectively and has continued to decrease during the Track Record Period. As a result of the recent developments, we have to purchase “Tong Ren Tang” branded products from the Parent Group for our sole distribution operation and Angong Niu Huang Powder from the Parent Group. However, we have ceased our purchase of Angong Niu Huang Pills from the Parent Group as a result of the cessation of sale of the Parent Group’s Angong Niu Huang Pills in Non-PRC Markets. Together with the commencement of purchasing some of the raw materials required for manufacturing Angong Niu Huang Powder and Chinese herbs from Independent Third Parties, the amount of purchase from the Parent Group will decrease and the percentage of purchase from the Parent Group as a percentage of total purchase will be capped at 28% for each of the two years ending 31 December 2014. Please refer to the sections headed “Relationship with Controlling Shareholders” and “Connected transactions” in this prospectus for further particulars. However, our risk in sourcing supply may increase. Please refer to the paragraph headed “Risk factors – Risks related to our business – There are risks associated with our reliance on, and our relationship with, our Parent Group – Reliance on the Parent Group for the supply of raw materials and merchandises” in this prospectus.

Operating performance

The discontinued operations (i.e. our PRC distribution operation) and agency fee income have accounted for a significant portion of our revenue, gross profit and operating cashflow. We have lost a significant portion of our revenue, gross profit and operating cashflow under the cessation of these operations. As the discontinued operations and the agency fee income had higher gross profit margin than our continuing operations from distribution in Non-PRC Markets and royalty fee income and the sole distributionship operation, our gross profit margin in the future will be significantly adversely

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affected. We will continue to increase the manufacturing capacity and the production and sale of our Angong Niu Huang Pills in Hong Kong to meet the demand resulting from the cessation of the sales of the Parent Group's Angong Niu Huang Pills, and to conduct the sole distribution operation to meet the demand of the overseas customers. However, there is no assurance that we can recover these reduction in revenue, gross profit or operating cashflow in monetary terms associated with the discontinued operations and the agency fee income from the future contribution from the continuing operations from distribution in Non-PRC Markets and royalty fee income and the recently established sole distribution operation.

The tables below set forth the breakdown of our revenue and gross profit by continuing operations from distribution in Non-PRC Markets, the royalty fee income, discontinued operations and the agency fee income for the periods indicated:

Revenue

	Year ended 31 December					
<i>HK\$'000</i>	2011	2012				
		Q1	Q2	Q3	Q4	Total
		<i>Unaudited</i>	<i>Unaudited</i>	<i>Unaudited</i>	<i>Unaudited</i>	
Distribution in Non-PRC Markets						
Retail	131,947	50,126	47,491	49,780	53,584	200,981
Wholesale	39,346	12,306	25,389	34,212	64,714	136,621
Royalty fee income	898	143	195	137	199	674
	172,191	62,575	73,075	84,129	118,497	338,276
Agency fee income	24,491	8,551	6,583	5,511	–	20,645
Revenue from continuing operations	196,682	71,126	79,658	89,640	118,497	358,921
Discontinued operations	84,300	23,065	23,223	22,894	45,849	115,031
	280,982	94,191	102,881	112,534	164,346	473,952

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Gross profit

<i>HK\$'000</i>	Year ended 31 December	
	2011	2012
Distribution in Non-PRC Markets ^(Note)	106,367	229,471
Royalty fee income	898	674
	<u>107,265</u>	<u>230,145</u>
Agency fee income	24,491	20,645
Discontinued operations	71,986	90,746
	<u>96,477</u>	<u>111,391</u>

Note:

As discussed in the paragraph headed “Cost structure” below, cost of manufacturing overhead will not have significant changes by the cessation of discontinued operation. The gross profit of our distribution in Non-PRC Markets would have been approximately HK\$102.9 million and HK\$220.7 million for each of the two years ended 31 December 2012 respectively should it had absorbed all the manufacturing overhead included in the cost of sales of our products sold under our discontinued operations of HK\$3.5 million and HK\$8.8 million for each of the two years ended 31 December 2012 respectively. Please refer to the paragraph headed “Financial information – Description of selected income statement components – Gross profit and gross profit margin” for further discussion of our gross profit.

Although we have lost revenue and gross profit associated with the discontinued operations and the agency fee income, we are confident about the sustainability and growth prospect of the revenue and gross profit of our continuing operations because:

- The distribution in Non-PRC Markets has achieved substantial and stable growth during the Track Record Period.

Growth of distribution in Non-PRC Markets

	Year ended 31 December 2011 over 2010	Year ended 31 December 2012 over 2011
Revenue	66.5%	97.1%
Gross profit	65.3%	115.7%

- The percentage contributions to revenue and gross profit of the continuing operations from distribution in Non-PRC Markets and royalty fee income, which accounted for a majority of our revenue and gross profit during the Track Record Period, have continued to grow during the Track Record Period.

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- The expected increase in the sales of our Angong Niu Huang Pills and the cessation of sales of the Parent Group's Angong Niu Huang Pills:

We have derived a revenue of approximately HK\$13.6 million and HK\$34.8 million, and derived approximately HK\$5.5 million and HK\$13.2 million of gross profit, from sales of the Parent Group's Angong Niu Huang Pills in Non-PRC Markets (other than Hong Kong) in each of the two years ended 31 December 2012 respectively.

The cessation of sales of the Parent Group's Angong Niu Huang Pills in Non-PRC Markets will significantly impact the individual performance of some of our Overseas Associates currently selling the product, most noticeably TRT (Macau) who they will not be purchasing any Angong Niu Huang Pills for sales until we have registered our Angong Niu Huang Pills in their respective jurisdictions. As at 31 December 2012, these Overseas Associates still have inventory of the Parent Group's Angong Niu Huang Pills, together representing about 35.1% of the Parent Group's Angong Niu Huang Pills sold by them in the year ended 31 December 2012 which they can continue to sell.

However, the cessation of sales of the Parent Group's Angong Niu Huang Pills in Hong Kong has provided an opportunity for us to further increase the sales of our Angong Niu Huang Pills in Hong Kong. We, together with the Parent Group, sold about 1.2 million units and 1.3 million units of "Tong Ren Tang" branded Angong Niu Huang Pills in Hong Kong in each of the two years ended 31 December 2012 respectively.

Our current manufacturing capacity for Angong Niu Huang Pills is less than the total number of units sold by us and the Parent Group in Hong Kong and hence we will further increase our manufacturing capacity for Angong Niu Huang Pills. The following table sets forth our actual and expected manufacturing capacities and utilisation rates for Angong Niu Huang Pills from 2010 to 2013:

<i>Angong Niu Huang Pills</i>	Year ended/ending 31 December			
	2010	2011	2012	2013 <i>(Note 2)</i>
Manufacturing capacities <i>(Note 1)</i> (units) . . .	100,000	200,000	450,000	850,000
Utilisation rate <i>(Note 3)</i>	58.7%	89.9%	99.3%	82.4%

- Notes:*
1. Manufacturing capacity is calculated for illustrative purpose only, based on 8 hours per working day and 230 working days per year.
 2. Estimated manufacturing capacities based on current plans including additional production staff allocation to this product and production shifts.
 3. Utilisation rate is derived by dividing the actual or estimated production volume by the estimated manufacturing capacities.

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Therefore, we believe the potential increase in sales of our Angong Niu Huang Pills in Hong Kong will more than compensate for the loss of sales from the cessation of sales of the Parent Group's Angong Niu Huang Pills in Non-PRC Markets, and will not materially or adversely affect the business of the Group as a whole.

- We will increase our effort to sell our GLSPC in Non-PRC Markets. However, sales of GLSPC overseas during the Track Record Period have only represented approximately 6.2% and 6.8% of sales of GLSPC in the PRC under the discontinued operations for each of the two years ended 31 December 2012 respectively and we do not expect that the increase in sales of GLSPC in Non-PRC Markets can make up for the lost volume in the near future because of the cessation of our PRC distribution. Accordingly, it is expected that the manufacturing and sales of our GLSPC will decrease substantially. The following table sets forth our actual and expected manufacturing capacities and utilisation rates for GLSPC from 2010 to 2013:

<u>GLSPC</u>	<u>Year ended/ending 31 December</u>			
	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u> ^(Note 2)
Manufacturing capacities ^(Note 1) (boxes) . . .	120,000	200,000	200,000	200,000
Utilisation rate ^(Note 3)	60.8%	68.5%	55.5%	10.0%

- Notes:*
1. Manufacturing capacity is calculated for illustrative purpose only, based on 8 hours per working day and 230 working days per year.
 2. Estimated manufacturing capacities are based on current plans including additional production staff allocation to this product and production shifts.
 3. Utilisation rate is derived by dividing the actual or estimated production volume by the estimated manufacturing capacities.

- However, the continuing operations will need to bear the manufacturing overhead of the discontinued operations and hence there may be an adverse impact on the gross profit margin of the sale of our GLSPC and Angong Niu Huang Pills in Non-PRC Markets. Please refer to the paragraph "Cost structure" below for further particulars.
- Furthermore, there will be operating costs associated with the sole distributorship business as discussed in the paragraph headed "Cost structure" below. These costs have not been accounted for in arriving at the operating profit of the continuing operations as set out in the Accountant's Report in Appendix I to this prospectus. These costs may adversely affect our operating profit and net profit margin going forward.

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- Lastly, we will continue to expand our distribution network in existing and new jurisdictions. Please refer to the section headed “Statement of business objectives” in this prospectus for further particulars.

Cost structure

The following is an analysis of the recent developments on our cost structure:

- the expected reduction in the production of GLSPC will not cause any changes in the depreciation policy of the related manufacturing equipments and we will retain the manufacturing staffs in the manufacture of GLSPC and redeploy some of them to the manufacture Angong Niuhuang Pills;
- notwithstanding the expected decrease in the production volume of GLSPC, the total manufacturing overhead included in the cost of sales of our products sold will not be reduced as the number of manufacturing staff is not impacted by the cessation of the discounted operations. Besides, we need to increase the number of manufacturing staff to increase our manufacturing capacity for Angong Niuhuang Pills. The projected increase in annual staff cost to reach our expected manufacturing capacity in 2013 is approximately HK\$5.0 million;
- allocation of manufacturing overhead to GLSPC and Angong Niuhuang Pills is based on their respective manufacturing activities relative to the total manufacturing activities of all the self-manufactured products during the period. If we cannot increase the total manufacturing activities of all our self-manufactured products to the level before the cessation of the PRC distribution operation, the gross profit margin of overseas sales of GLSPC and our Angong Niuhuang Pills may be adversely affected;
- the Group continues to incur the operating expenses previously associated with the discontinued operations as TRT International Natural-Pharm continues to be in operation. The operating expenses of TRT International Natural-Pharm for each of the two years ended 31 December 2012 categorised under the discontinued operations were approximately HK\$8.1 million and HK\$10.0 million respectively;
- the personnel of the Company responsible for carrying out the agency operation continues to be employed by the Group and assists in the sole distributorship operation and the distribution in Non-PRC Markets;
- TRT International Natural-Pharm will incur more salary expenses as it has increased its overall head count for our sole distributorship operation and the expected increase in its annual operating costs in 2013 is approximately HK\$1.0 million. Please refer to the paragraph headed “TRT International Natural-Pharm” below for further particulars;

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- no significant additional sales and marketing costs are expected for the carrying out of the sole distributorship operation on its current scale as the Group has been liaising with the same group of parties before ceasing to be an overseas agent for TRT Ltd. and TRT Technologies;
- the additional transportation cost for the sole distributorship operation is expected to be approximately HK\$1.2 million in 2013;
- the operating costs of our distribution in Non-PRC Markets will not be affected by the cessation of our discontinued operations and agency fee income per se as there is no impact on the operating staff and sales and marketing costs of this operation; and
- there is no other significant adverse impact on the general and administration cost of the Group.

However, we have impaired HK\$6.1 million worth of remaining inventory of our other self-manufactured products during the year ended 31 December 2012.

Working capital

Although we will lose the cash generated from the discontinued operations and the agency fee income, we expect the Group to generate a positive operating cashflow in 2013, taking into consideration:

- the continuing operations from distribution in Non-PRC Markets and royalty fee income generating a positive operating cashflow;
- the changes to our cost structure as discussed in the paragraph headed “Cost structure” above in this prospectus; and
- no significant working capital is required for the building of inventory for the sole distributorship operation and the matching of related payments and receivables. Please refer to paragraph headed “Distribution in Non-PRC Markets” below for further particulars.

However, there is no assurance that the continuing operations can increase its operating cashflow to recover the reduction in cash generated from the discontinued operations and the agency fee income and to fund the expansion plans of the Group.

Please refer to paragraph headed “Risk factors – Risks related to our business – We cannot guarantee that our operation will not be affected by cessation of business in the PRC and change of business direction” for further particulars.

COMPANY STRENGTHS

We believe that the following competitive strengths contribute to our success and distinguish us from our competitors:

Strong “Tong Ren Tang” brand and parentage

We are the primary overseas platform of “Tong Ren Tang” brand and form an integral part of the TRT Group. We believe that our heritage represents a key competitive advantage in the development of our business.

According to the Euromonitor Report, the TRT Group is one of the leaders in the PRC Chinese medicine industry with an integrated business model principally comprising manufacturing and distribution of Chinese Medicines and Healthcare Products. TRT Ltd. and TRT Technologies, being listed companies with substantial resources, are the Company’s Controlling Shareholders. We have benefited from the substantial experience of the TRT Group in the manufacturing and distribution of Chinese Medicine Products as well as product and resource support which helped develop our competitive position today.

We have a licence up to 13 May 2021 to use the “Tong Ren Tang” brand name and trademark for our operations. We do not have to pay any consideration so long as the Parent Group directly and indirectly controls not less than 51% of the issued share capital of the Company. The “Tong Ren Tang” brand has over 340 years of history and is well recognised as a brand for high quality products. The “Tong Ren Tang” brand has enabled the Group to establish credibility, recognition and acceptance by its business partners and consumers. We have leveraged this advantage to promote Chinese medicine culture and services and to develop the “Tong Ren Tang” brand in the retailing of Chinese Medicine Products in Non-PRC Markets. We believe that we have established ourselves as a brand offering quality products and services among our customers. We have adopted various methods in promoting Chinese medicine culture and services which we believe reinforces the “Tong Ren Tang” brand as the preferred brand for Chinese Medicine Products. We have established a Chinese Medicine museum in our Tai Po production base. We also designate areas to promote Chinese Medicine culture in some of our retail stores and we organise seminars on Chinese Medicine culture from time to time.

Based on the Euromonitor Report, the recommended retail price of our Angong Niu Huang Pills in Hong Kong of HK\$670 per unit is the highest recommended retail price among our competitors in Hong Kong. We also set the reference retail price of our GLSPC at the top end as compared with similar products offered in Hong Kong. We believe we can set selling price of our products at the high end among similar products because of the public recognition of the “Tong Ren Tang” brand.

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Leading international distribution network with an integrated “consultation, products and services” model

According to the Euromonitor Report, we operate the leading Chinese Medicine Products retail chain in terms of the number of jurisdictions present in Non-PRC Markets. We have established an international distribution network for Chinese Medicine Products comprising of 36 retail stores in 11 jurisdictions, including Hong Kong and Macao, 30 of which offer Chinese Medical Consultation such as Chinese medical diagnosis and consultation, medicine dispensing, and acupuncture and Tui-na therapy. All of our retail stores are operated under the “Tong Ren Tang” brand to accentuate its heritage and identity.

Our retail stores principally adopt an integrated “consultation, products and services” model and we aim to promote our expertise in these areas. We sell a broad range of around 2,000 Chinese Medicine Products through our retail stores, including around 1,100 Chinese Medicines and Healthcare Products and around 900 Chinese herbs. Among the Chinese Medicines, around 500 are “Tong Ren Tang” branded products. We have also established wholesale businesses in 5 out of the abovementioned 11 jurisdictions, and South Korea, offering over 260 products in the wholesale operation.

Outstanding product sourcing ability

We can source products for each of the 12 jurisdictions we have distribution operations in. We are dedicated in providing the best quality products to our customers. Our quality control begins at the stage of sourcing of supplies. We select suppliers for our distribution business based on factors including the possession of necessary licences, market reputation, creditworthiness, scale of business, and track record. We only source products from suppliers on our approved list. We coordinate the demand from our retail stores and the demand from wholesale customers and arrange procurement accordingly to enhance operational efficiency. Some of our local business partners are importers of Chinese Medicine Products and own product licences which facilitate our product sourcing and enhance our competitiveness.

We primarily control the distribution of “Tong Ren Tang” branded products in Non-PRC Markets. Since 1 November 2012, we have been appointed as the sole distributor of “Tong Ren Tang” branded products supplied by TRT Ltd. and TRT Technologies in Non-PRC Markets (except for Japan). As at the Latest Practicable Date, we hold product licences of over 300 “Tong Ren Tang” branded products in the aforementioned countries or regions.

Unique self-manufactured Angong Niu Huang Pills

We manufacture and sell “Tong Ren Tang” Angong Niu Huang Pills. Our Angong Niu Huang Pills has become the key product in our business and its sales has increased substantially during the Track Record Period accounting for approximately 13.4% and 31.2% of our total revenue of the continuing operations and discontinued operations, and approximately 19.1% and 41.1% of the revenue of our continuing operations from distribution in Non-PRC Markets and royalty fee income, for each of the two years ended 31 December 2012 respectively. The TRT Group is the only entity in the PRC that is approved to process natural musk for the manufacturing of Angong Niu Huang Pills and accordingly, our

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Angong Niu Huang Pills is unique. We believe this uniqueness and the “Tong Ren Tang” brand provide us with a strong competitive advantage over Angong Niu Huang Pills of other brands. According to the Euromonitor Report, “Tong Ren Tang” branded Angong Niu Huang Pills has over 94.2% market share in Hong Kong in 2011. Following the cessation of the sales of the Parent Group’s Angong Niu Huang Pills in Hong Kong, we believe that our Angong Niu Huang Pills will become the top selling Angong Niu Huang Pills in Hong Kong.

Effective development of the distribution network

The Group cooperates with a local business partner in all of its jurisdictions with existing operations except Hong Kong which is operated by the Company. The Group combines its knowledge and experience in the distribution of Chinese Medicine Products with the local knowledge of its business partners to operate the businesses in these jurisdictions. The Group’s partners, most of which are experienced in the Chinese Medicine Products industries in their respective jurisdictions, provide insight and information relating to local consumer preference and industry know-how and help it better device the appropriate product offerings to service the local community. The local business partners have been, and will continue to be, valuable in assisting us to build and fortify our operations in the respective markets and for future development. Our experienced management team strives to provide appropriate Chinese Medicine Products that satisfy local demand. The Group’s well-trained and professional retail staff readily provide assistance to the customers to enhance their understanding of our Chinese Medicine Products. We also have experienced in-house Chinese Medicine Practitioners who provide Chinese healthcare advice and services which enable us to offer integrated services to our customers. Our Chinese Medicine Practitioners generally have at least 3 years of relevant experience.

We have an experienced and dedicated management team

Our management team has successfully led our operations and increased our profitability during the Track Record Period. Certain members of the senior management have over 20 years of experience in the Chinese medicine or healthcare industries. We believe the technical knowledge in Chinese medicine or healthcare industries, the management experience of the senior management, the relationships with industry participants and the knowledge of, and experience in our operations allow us to better understand and respond to industry trends and technological developments and provide a strong foundation for our future growth. Our results have experienced significant growth under the leadership of our management team.

OUR STRATEGIES

Continue to promote the Chinese medicine culture and improve the market recognition of Chinese Medicine Products and Chinese Medical Consultation in Non-PRC Markets

In developing our overseas distribution business, we focus on the promotion of Chinese Medicine culture in overseas markets where the recognition and acceptance of Chinese Medicine and its related products and services is generally shallow compared with the PRC market. Improving the recognition of Chinese Medicine culture and the functions of Chinese Medicine Products and Chinese Medical

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Consultation in the overseas markets is the key of our success. We are committed to broadcast Chinese Medicine culture through providing seminars and training programs to educate local residents in overseas markets about the principles of the Chinese Medicine culture and the functions of Chinese Medicine Products and Chinese Medical Consultation. We will establish our business in Poland primarily to promote Chinese Medicine culture. We will also continue to expand our overseas sales team and increase the number of Chinese Medicine Practitioners to promote our product and services through our existing retail stores.

Continue to expand and optimise our overseas distribution network by entering into new overseas markets, and increasing the number of retail stores and wholesale customers in existing markets

We will continue to seek to broaden our geographical coverage. We will also seek to expand into other Middle East and Western countries by adopting a flexible approach and initially establishing a foothold by offering products and services which are more acceptable in these jurisdictions. For example, we have established a retail store in the UAE mainly to provide Chinese Medical Consultation. We will continue to adopt the model of co-operating with local partners when expanding into new overseas markets which has proved to be practical and efficient whilst also considering to set up operations alone where feasible, with Poland as an example. We will perform careful studies on potential new markets and potential partners before we invest. We may consider our expansion strategically through mergers and acquisitions. Appropriate acquisition targets can expedite our penetration into a target market and can provide immediate revenue contribution. We have not yet identified any appropriate targets and we are not in active discussions with any potential targets. We will obtain all necessary approvals and licences before commencing operations.

When we expand our retail operations into a new geographic jurisdiction with no “Tong Ren Tang” presence, we will first sell non-“Tong Ren Tang” branded Chinese Medicine Products available in that jurisdiction as no “Tong Ren Tang” products would have been registered. We will source these products from local suppliers and we will seek to utilise the network and expertise of our local partners so as to provide a comprehensive and suitable range of products. We will seek to provide Chinese Medical Consultation subject to availability of Chinese Medical Practitioners and demand in the relevant jurisdictions. Accordingly, we will initially compete based on our “Tong Ren Tang” brand and our services. We will then commence registration of “Tong Ren Tang” branded products which are suitable for the relevant jurisdictions to gradually enhance our competitive advantage.

Besides increasing our geographic presence, we intend to expand our current overseas distribution network through increasing the number of retail stores and wholesale customers in our existing markets for better penetration. We will conduct careful analysis on the demand and supply and penetration within a jurisdiction before we invest.

We plan to expand our business into 9 new overseas countries or regions, including Europe and Asia, and establish no less than 30 new stores by 31 December 2015.

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The time required for a new store to breakeven and to recover our investments depends on various factors including but not limited to the market environment, the type of products being offered and the size of the stores. In general, a new retail store is expected to become profitable in the second to fifth full financial year after its establishment, which has been our general experience with stores opened in recent years. In addition, we target to recover our investments in entering into a new jurisdiction within ten years after the initial expansion into a new jurisdiction.

Continue to explore opportunities to broaden our services

We will continue to seek opportunities to apply our expertise in Chinese Medicine Products and Chinese Medical Consultation in broadening our revenue avenue. We intend to establish a Chinese medical healthcare centre in Hong Kong to provide customers with Chinese medical health preservation services. We intend to provide Chinese medicinal cuisine, Chinese massage, acupuncture and Tui-na services, Chinese medical beauty care services and Chinese medicine and culture seminars. We intend to target the mid to high income groups and provide continuing targeted services to improve the health of our customers based on their physique. The expected gross floor area of this Chinese healthcare centre is around 1,000 sq.m. and the estimated investment is around HK\$90 million which will be funded from the proceeds of the Share Offer. We currently expect to commence the leasing and renovation of the premises for this centre in second half of 2013 and commence commercial operation in 2014.

Continue to broaden our product offerings for our overseas distribution business

It is essential for us to provide a comprehensive range of products to cater for consumers' needs in order to maintain existing customers and attract new customers for both of our wholesale and retail operations. A comprehensive and continuous changing product offering is the key for us to stay competitive as an overseas distributor of Chinese Medicine Products, and can diversify our source of income. We will continue to register and introduce new "Tong Ren Tang" branded products and non-"Tong Ren Tang" branded products in different markets so that we can import such products from our suppliers and distribute them. We plan to complete no less than 32 new registrations by 31 December 2015. On the other hand, we will also add new types of merchandise readily available from local suppliers in overseas markets to our retail stores.

Continue to promote the sales of our Angong Niu Huang Pills and GLSPC and increase the manufacturing capacity of Angong Niu Huang Pills

We will register our Angong Niu Huang Pills and GLSPC in new overseas markets and continue to promote Angong Niu Huang Pills and GLSPC through our retail stores and wholesale operations in existing markets. We will begin the process of registering or filing of our Angong Niu Huang Pills in Macao, Cambodia, Canada, Indonesia and Vietnam and we will explore registering or filing of our GLSPC in Canada, Indonesia, South Korea, Malaysia, Thailand and UAE in 2013. Please refer to paragraph headed "Statement of business objectives – Implementation plans" in this prospectus for details on timing of these registration or filing.

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Since we will satisfy the demand for Angong Niu Huang Pills in Non-PRC Markets after the cessation of its sale from the Parent Group, we will increase the manufacturing capacity for our Angong Niu Huang Pills to about 1.0 million units and 1.35 million units as at 31 December 2013 and 2014 respectively. The actual annual manufacturing capacity for Angong Niu Huang Pills for each of the year ending 31 December 2013 and the year ending 31 December 2014 are expected to be about 0.85 million units and 1.2 million units respectively. The Directors believe that such expansion to be reasonable given the previous sales amount of “Tong Ren Tang” branded Angong Niu Huang Pills in Hong Kong, our recent trend in sales of our Angong Niu Huang Pills and the projected market size in Hong Kong for Angong Niu Huang Pills by Euromonitor as set out in the section headed “Industry overview” in this prospectus. Our current plant and machinery for the manufacturing of Angong Niu Huang Pills are sufficient to support the expected expansion in 2013 and 2014. However, we will need to increase 12 and 6 skilled manufacturing staffs in 2013 and 2014 respectively, to facilitate additional production shifts to increase our manufacturing capacity of Angong Niu Huang Pills. Our current manufacturing facilities in Tai Po, Hong Kong, are sufficient to house additional equipments required to meet our manufacturing requirements for Angong Niu Huang Pills for the next few years if we need to further increase it significantly.

The Group has taken into account the registration period in its plan to take up the shortfall in the sales of Parent Group’s Angong Niu Huang Pills to overseas markets. As the relevant overseas jurisdictions still have inventory of the Parent Group’s Angong Niu Huang Pills and as the sales of Angong Niu Huang Pills to the Non-PRC Markets other than Hong Kong and Macao are not significant to the Group, the registration period will have not have significant impact on our business.

To build up effective logistics and financial information system to improve cost and operating efficiency

We are implementing the ERP system to manage the financial, supply chain, production, sales and human resources functions of the Group. We intend to invest resources to build up logistics and financial information system to improve our supervision and control over our overseas distribution operations. An efficient logistics and financial information system is necessary given the expansion of overseas distribution network.

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OUR BUSINESS

The table below sets forth our revenue from each of our business operations and their percentage of our total revenue for each of the two years ended 31 December 2012.

Revenue <i>HK\$'000</i>	Year ended 31 December			
	2011		2012	
Continuing operations				
Retail				
– Product sales	112,425	40.0%	174,493	36.8%
– Chinese Medical Consultation	19,522	7.0%	26,488	5.6%
Sub-total.	131,947	47.0%	200,981	42.4%
Wholesale	39,346	14.0%	136,621	28.8%
Sub-total.	171,293	61.0%	337,602	71.2%
Royalty fee income.	898	0.3%	674	0.1%
Agency fee income.	24,491	8.7%	20,645	4.4%
Sub-total	196,682	70.0%	358,921	75.7%
Discontinued operations	84,300	30.0%	115,031	24.3%
Total	<u>280,982</u>	<u>100%</u>	<u>473,952</u>	<u>100%</u>

We have discontinued the PRC distribution operation from 1 October 2012. Our agency operation has ceased upon the expiry of the agency agreements with TRT Ltd. and TRT Technologies in December 2012.

PRODUCT REGISTRATION

Our Angong Niu Huang Pills is currently registered only in Hong Kong. We have not sold any of our Angong Niu Huang Pills in jurisdictions which it has not obtained the requisite product licence. We will begin the process of registering our Angong Niu Huang Pills in Macao, Canada, Cambodia, Indonesia and Vietnam, being other markets where the Parent Group's Angong Niu Huang Pills were sold. Please refer to the section headed "Statement of business objectives" in this prospectus for details of the registration plans.

Our GLSPC has been registered or complied with the registration requirements in Hong Kong, Macao, Australia, Cambodia, Brunei, Singapore and Taiwan; and has been sold in these markets during the Track Record Period. Despite the absence of registration of GLSPC, the Ministry of Health of Cambodia has issued a letter dated 23 January 2007 to TRT (Thai Boon Roong) to confirm that the sales of all of the products of TRT (Thai Boon Roong) including GLSPC are legal in Cambodia. We have not sold any of our GLSPC in jurisdictions which it has not been registered or complied with the requisite registration requirement. We will continue to explore the registration of our GLSPC in the other markets we operate.

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Based on the Group's experience in registering other "Tong Ren Tang" branded products, experience of the Overseas Partners and/or our distributors in registering or filing of Chinese Medicine Products in these overseas markets, the estimated length of time required for the registration or filing of our GLSPC and Angong Niu Huang Pills are as follows:

Location	The estimated length of time required for the registration or filing of the Group's GLSPC
UAE	3 years
Canada	3 years
Indonesia	3 years
South Korea	2 years
Malaysia	2 years
Thailand	2 years

Location	The estimated length of time required for the registration or filing of the Group's Angong Niu Huang Pills
Macao	1.5 years
Cambodia	3 years
Canada	3 years
Indonesia	3 years
Vietnam	2 years

In arriving at its decision to plan to register our Angong Niu Huang Pills and GLSPC, the Group has to balance the allocation of its resources over its various operations to maximize return and minimize risks. Accordingly, the Group currently has no concrete plans in registering GLSPC and Angong Niu Huang Pills apart from the jurisdictions disclosed above. We have been focusing our effort in establishing our Angong Niu Huang Pills in Hong Kong during the Track Record Period, and we will continue to explore the registration of our Angong Niu Huang Pills in the other markets. Based on legal opinions from legal advisors in the relevant jurisdictions which we intend to sell our self-manufactured products (i.e. Angong Niu Huang Pills and/or GLSPC as appropriate), there are no legal impediments for us to obtain or comply with the requisite registration for our self-manufactured products in these jurisdictions as set out in the section headed "Statement of business objectives" in this prospectus on the basis and assumptions that the Group is capable to comply with the applicable procedural requirements in the relevant jurisdictions. As of the Latest Practicable Date, no third party had registered or obtained licence to sell our Angong Niu Huang Pills and GLSPC in the relevant jurisdictions and except in Indonesia, the Parent Group had registered the "Tong Ren Tang" brand name under classes which are relevant to the Group's operations in the relevant jurisdictions, which therefore shall not affect the Group's product registration in the these jurisdictions. With respect to the product registration of Angong Niu Huang Pills and GLSPC in Indonesia, as advised by the Company's Indonesian legal advisors, the relevant Indonesian authority will not take into account the trademark issues in their approval for the product registration.

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Each jurisdiction has different regulatory requirements for product registration or licensing for the products distributed by us. Please refer to the section headed “Regulations” in this prospectus for an overview of such regulatory requirements. The below table summarises the number of Chinese Medicines and Healthcare Products registered or filed by the Group in the relevant jurisdictions as at the Latest Practicable Date:

Jurisdiction	Number of Chinese Medicines and Healthcare Products registered or filed by the Group	
	Tong Ren Tang brand	Non Tong Ren Tang brand
Australia	53	–
Brunei	–	–
Canada (Toronto)	–	–
Canada (Vancouver)	–	–
Cambodia	–	–
Korea	8	–
Macao	176	1
Malaysia	–	–
Indonesia	–	–
Thailand	16	–
Singapore	43	–
Hong Kong	5	1
Dubai	–	–

Note: “–” denotes no Chinese Medicines and Healthcare Products registered or filed by the Group.

The table below summarises our revenue from “Tong Ren Tang” branded Chinese Medicines and Healthcare Products by its registration nature during the Track Record Period:

HK\$'000	For the year ended 31 December			
	2011	%	2012	%
Self-registered	62,024	39.6%	199,667	60.9%
Non self-registered	8,392	5.4%	12,601	3.8%
No registration required	86,141	55.0%	115,832	35.3%
Total	<u>156,557</u>	<u>100.0%</u>	<u>328,100</u>	<u>100.0%</u>

Please refer to paragraph headed “Statement of business objectives – Implementation plans” in this prospectus for details on timing of registration or filing of our products.

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DISTRIBUTION IN NON-PRC MARKETS

We conduct our distribution operations in Non-PRC Markets through the Company, TRT International Natural-Pharm and 12 joint ventures formed with local partners (i.e. our Overseas Associates which are members of the Group). As at the Latest Practicable Date, out of the 12 Overseas Associates, 6 are our subsidiaries and 6 are our jointly controlled entities. Joint ventures were formed with Overseas Partners when entering into new markets so as to leverage the Overseas Partners' business connections and specific expertise. The Overseas Partners have been selected based on their experience and knowledge in the local market, capabilities, reputation and their track record. Seven of these Overseas Partners used to act as local distributors of the Parent Group and distributed "Tong Ren Tang" branded products in the relevant countries before the Company established joint ventures with them.

The table below summarises our distribution operations by countries and regions as at the Latest Practicable Date.

Jurisdiction	Year of establishment	Our shareholding/entity nature	No. of retail stores
<i>Retail and wholesale</i>			
Australia	2004	75%/subsidiary	4
Macao (<i>Note 1</i>)	2002	51%/subsidiary	3
Thailand	2000	49%/JCE	1
Singapore	2003	51%/subsidiary	5
Hong Kong	2004	the Company	13
<i>Retail only</i>			
Brunei	2009	51%/subsidiary	1
Canada (<i>Note 2</i>)	2010/2002	51%/subsidiary & 51%/JCE	3
Cambodia	2005	51%/JCE	1
Malaysia	2001	60%/JCE	3
Indonesia	2003	50%/JCE	1
UAE	2011	51%/subsidiary	1
<i>Wholesale only</i>			
South Korea	2002	51%/JCE	N/A

Notes:

1. Our joint venture in Macao was originally our jointly controlled entity and became our subsidiary in November 2011.
2. We have two joint ventures in Canada, one for our operations in Toronto (our subsidiary) and one for Vancouver (our jointly controlled entity).

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There are regulatory requirements with respect to the importation of Chinese Medicine Products, as defined by local authorities, in the jurisdictions where we operate. In general, Chinese Medicine Products may be required by the laws of the overseas countries to be registered with the relevant overseas authorities for importation into such country and such products can only be imported by the corresponding product licence holders. The product licence holders are the wholesaler of the relevant Chinese Medicine Products in the respective jurisdiction. As the Parent Group has established its distribution business in Non-PRC Markets before the establishment of the Company as its primary overseas platform (please refer to the section headed “History and corporate structure” in this prospectus for further particulars), some of the relevant licences of “Tong Ren Tang” branded products in Non-PRC Markets have been held by local distributors in these markets. Accordingly, for the non-self registered Chinese Medicine Products, we have to purchase them from the relevant licence holders after they have imported them into the respective jurisdiction for our retail stores in the respective jurisdiction.

For the self-registered Chinese Medicine Products, the Group acts as the wholesaler of such products in the relevant jurisdiction and purchases such products from TRT Ltd. and/or TRT Technologies via TRT International Natural-Pharm for our wholesale, and retail (if applicable), operations in such jurisdiction.

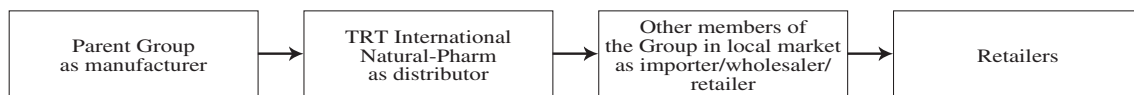
The relevant licence holders have to purchase the Parent Group’s “Tong Ren Tang” branded products from the Group because TRT International Natural-Pharm is the sole distributor of the Parent Group’s “Tong Ren Tang” branded products. Currently, the relevant licence holders purchase these products from TRT International Natural-Pharm at the same price they previously paid to the Parent Group, which is higher than our purchase price, for such products, which prices have been negotiated with reference to prices of similar products in the relevant markets.

The Group orders non-self registered “Tong Ren Tang” branded products of the Parent Group from the relevant licence holders in different jurisdictions to satisfy local customers’ demand. The Group purchases these products from the relevant licence holders as their wholesale customer at a cost higher than the relevant licence holders’ purchase costs but typically at a discount to the price that the relevant licence holders sell to their other customers given the long term business relationship between these licence holders and TRT Group and the good reputation of the Group. The discount is arrived at based on arm’s length negotiations and varies from jurisdiction to jurisdiction and product to product. Since the prices currently paid by the relevant licence holders to TRT International Natural-Pharm for the non-self-registered “Tong Ren Tang” branded products are the same as the prices they previously paid to the Parent Group, the Group is not aware of any change of the prices for the non-self-registered “Tong Ren Tang” branded products sold by the relevant licence holders to us as a result of the recent change from agency arrangement to the sole distributorship arrangement.

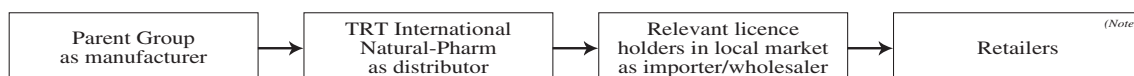
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The following charts set out the roles of different parties in the distribution of the Chinese Medicine Products not manufactured by the Group in Non-PRC Markets:

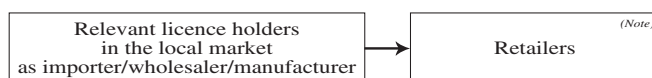
For self-registered “Tong Ren Tang” branded products:



For non-self-registered “Tong Ren Tang” branded products:



For non-“Tong Ren Tang” branded products:



Note: Retailers may include the retail shops of the Group.

During the Track Record Period, we have been responsible for all operational and strategic functions of our distribution in Non-PRC Markets including, among others, promotion of the brand of “Tong Ren Tang” and its products, establishment and expansion of overseas distribution network, product registration, product package and label design, centralising overseas orders processing, liaising with customers and sub-distributors, sourcing of Chinese Medicine Products from local markets, accounts receivable management and market feedback collection. There was no significant seasonality in our distribution in Non-PRC Markets noted during the Track Record Period.

Management of our Overseas Associates

We are responsible for the management and operation of the Overseas Associates. One district manager is assigned by the Company to each of our overseas countries and regions. These district managers are responsible for the development and management of the relevant overseas distribution operations. Our Overseas Partners play an important role in assisting us in understanding the local demand for, and culture in connection with, Chinese Medicine Products of the relevant countries and regions. The Overseas Partners’ domestic network and knowledge of their respective market environment and regulations facilitate the product portfolio development and related product registration, and retail network development (except South Korea which we are only engaged in wholesale) of our distribution operations.

The Overseas Associates submit monthly reports to the Company for review. The reports include, among others, management accounts, financial analysis, sales analysis by product, lists of procurement, inventory taking and product registration reports. The Company reviews the performance of each Overseas Associate on a quarterly basis and communicates with each Overseas Associate when adjustments are necessary in terms of product portfolio and pricing.

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The respective duties of us and our Overseas Partners are governed by the joint venture agreements in respect of the relevant Overseas Associates. Although the terms under such joint venture agreements vary for each Overseas Associate, our duties generally involve some of the followings: assisting the registration procedures for products; procuring the documentation for licensing of products and service; provision of products to be distributed by the Overseas Associates; development of marketing plan; provision of management staff or recruitment of local staff; providing staff with knowledge and technical training, whereas the duties of Overseas Partners generally include some of the following: assisting the registration procedures for the Overseas Associates and products; and provision of management staff and employing working staff locally. Salient terms of each of the joint venture agreements are set out in the section headed “Further information about the Company – Further information about the Group’s overseas and PRC establishments” in Appendix V to this prospectus. Notwithstanding the foregoing, the Overseas Associates, under the management of the district managers assigned by the Company, are responsible for the strategic planning (including introduction of new products and opening of new retail stores) and the day-to-day operations after their initial establishment period.

The Company sub-licensed the “Tong Ren Tang” brand name to our Overseas Associates and has charged a royalty fee rate ranging from 2% to 3% of the turnover of the relevant Overseas Associates during the Track Record Period. Please refer to the paragraph headed “Intellectual property” below for further particulars of the sub-licensing arrangement and “Royalty fees” below for further particulars on royalty fees we received.

Agency and sole distributorship of “Tong Ren Tang” branded products

The Parent Group has established its distribution business in Non-PRC Markets before the establishment of the Company as its primary overseas platform (please refer to the section headed “History and corporate structure” in this prospectus for further particulars) and local distributors in Non-PRC Markets negotiated with TRT Ltd. and TRT Technologies regarding for the importation of “Tong Ren Tang” branded products and may register the licences for such “Tong Ren Tang” branded products in the respective jurisdiction. In order to facilitate smooth transition of the relationships with the distributors and to avoid the complexity (including communication and negotiation) in restructuring the then existing distributorship arrangements, especially for “Tong Ren Tang” branded products, we entered into the agency arrangement with TRT Ltd. and TRT Technologies in October 2007. Hence the Company became the only agent of TRT Ltd. and TRT Technologies for overseas distribution of “Tong Ren Tang” branded products since October 2007. From then onwards, we basically controlled the distribution of “Tong Ren Tang” branded products in Non-PRC Markets, please refer to the section headed “Relationship with Controlling Shareholders – Excluded business” in this prospectus for further particulars.

Save for the Excluded business as referred to in the section headed “Relationship with Controlling Shareholders – Excluded business” in this prospectus, we have been responsible for the promotion of the “Tong Ren Tang” branded products in Non-PRC Markets (except for Japan), the overall management and planning of all sales and related matters in these markets, and served as the communication channel between the Parent Group and its customers in these markets. The Company liaised with overseas purchasers and examined and confirmed details of all overseas orders (including product names, quantity, prices) to TRT Ltd. and TRT Technologies and they only prepared and issued provisional agreements to each overseas country based on the Company’s requests accordingly.

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In general, the “Tong Ren Tang” branded products of TRT Ltd. and TRT Technologies for sale in Non-PRC Markets require modifications to their product content and/or packaging owing to local regulations and/or customers preference. In addition, products are exported to each overseas country in bulk periodically to reduce administrative and transportation costs. Accordingly, the overseas purchasers have allowed sufficient time for manufacturing and delivery when they placed orders with TRT Ltd. and/or TRT Technologies. Under the agency arrangement, we did not take title of the products sold by the Parent Group and TRT Ltd. and TRT Technologies would directly deliver the ordered goods to, and receive payments directly from, the parties who placed the orders. The Company would be entitled to the agency fee from TRT Ltd. and TRT Technologies at the respective rates of 7.5% and 8.5% of their overseas sales net of relevant tax and related taxation expenses. The agency fees were settled once every three months. Such rates had been determined based on an arms-length negotiation between the Company and each of TRT Ltd. and TRT Technologies. The amount of agency fee income and its corresponding amount of the Parent Group’s sales for each of the two years ended 31 December 2012 were approximately HK\$24.5 million and HK\$20.6 million, and HK\$321.3 million and HK\$267.6 million respectively.

Having directly dealt with the overseas distribution of “Tong Ren Tang” branded products for some time, for the purpose of the Listing to further delineate our business from those of the Parent Group and to become the only entity in the TRT Group that can export “Tong Ren Tang” branded products (except for Japan), the Company has ceased to be an agent of TRT Ltd. and TRT Technologies following the expiry in December 2012. TRT Ltd. and TRT Technologies have ceased to accept orders from overseas distributors from 1 October 2012 and each of them has appointed TRT International Natural-Pharm, the wholly-owned subsidiary of the Company, as the sole distributor of their products in Non-PRC Markets with effect from 1 November 2012. All of their overseas orders (except for Japan) will be conducted through TRT International Natural-Pharm as the sole overseas distributor that directly purchases from TRT Ltd. and TRT Technologies and takes title of the products as the sole distributor and are responsible for the distribution of the products of TRT Ltd. and TRT Technologies in Non-PRC Markets (except for Japan). There is no minimum purchase commitment in the exclusive distributorship framework agreements with TRT Ltd. and TRT Technologies. On the other hand, pursuant to the exclusive distributorship framework agreements, TRT Ltd. and TRT Technologies are responsible for the quality of the merchandise they sell to us, whereby we have the rights to return any products with quality problems. TRT Ltd. and TRT Technologies also assume responsibilities and indemnify us against claims for any product liabilities associated with their products.

Although we have become the sole distributor rather than an agent of “Tong Ren Tang” branded products of TRT Ltd. and TRT Technologies, the scope of works and services to be performed by us, in terms of interfacing with the overseas purchasers and with TRT Ltd. and TRT Technologies as our suppliers, remain substantially the same. We continue to coordinate the promotion and handle registration of the products of TRT Ltd. and TRT Technologies in the overseas markets. Under the previous agency arrangement, TRT Ltd. and TRT Technologies managed the export formalities of the products and the overseas purchasers settled directly with them. Under our current operations as the sole distributor, TRT International Natural-Pharm manages the export formalities of the products and directly settles the transactions with the overseas purchasers of the products and with TRT Ltd. and TRT Technologies. The related revenue from this business will be in the nature of sole distributorship revenue. Based on the consultations with the Company’s tax consultants and/or legal advisors of the

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relevant overseas jurisdictions, the Company understands that the PRC entities, namely TRT Ltd. and TRT Technologies (before the change in business model), and TRT International Natural-Pharm (after the change in business model), which sell products to the relevant overseas jurisdictions, would not be seen to be carrying on business in the relevant jurisdiction and are not subject to taxation in respect of their sales to the overseas customers in the respective overseas jurisdictions. Accordingly, the Company considers that there are no tax implications for TRT International Natural-Pharm as a result of the change in business model.

The price paid by TRT International Natural-Pharm for the purchase of products from TRT Technologies and TRT Ltd. which shall not be higher than the price TRT Technologies and TRT Ltd. sell the same products on wholesale basis to the domestic customers in the PRC and shall make reference to the prevailing market price. Currently, TRT International Natural-Pharm sells these products to its overseas customers at the same price these overseas customers previously paid to the Parent Group under the agency arrangement, which is higher than our purchase price, for such products.

TRT International Natural-Pharm, as the sole distributor of TRT Ltd. and TRT Technologies, does not need to carry significant inventory, if at all, to satisfy demand of its customers, since it places orders with TRT Ltd. and TRT Technologies when it receives orders for the relevant products and delivers these products to its customers after it has received them. TRT International Natural-Pharm also matches the payment period to the receivables period the best it can. For our operation as the sole distributor of the Parent Group's products in Non-PRC Markets, the Parent Group has granted us a credit period of three months and we grant our customers a credit period of two months. As confirmed by the Parent Group, it has not experienced difficulties in recovering accounts receivables from its overseas customers. Accordingly, the Group does not anticipate any material adverse impact to its financial results or cashflow requirements as a result of this change from being an agent to becoming the sole distributor.

We maintain the range of products previously distributed by the Parent Group apart from its Angong Niu Huang Pills and conduct business only with most of the previous wholesale customers of the Parent Group as we have just entered into the role as the sole distributor of the Parent Group's products in Non-PRC Markets. All of the Parent Group's products we sell are registered as required in jurisdictions which we have operations.

We currently work with 27 customers in our operation as the sole distributor of the Parent Group's products, 13 of which are our Overseas Associates or Overseas Partners and the remaining 14 are local distributors of Chinese Medicine Products which are Independent Third Parties. Based on our discussions with these customers, the Group becoming the sole distributor for the Parent Group's products will not affect their demand for "Tong Ren Tang" branded products and we have not received any indication from these customers that they will discontinue to order from the Group.

The total consideration payable by TRT International Natural-Pharm in its procurement in the PRC comprise the purchase price and the input value added tax. TRT International Natural-Pharm does not need to pay any output value added tax when the products are exported except for the products with endangered species content which are subject to the output value added tax. For products without any endangered species content TRT International Natural-Pharm can apply for value added tax refund

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on the input value added tax paid by it in procuring the products. For the products with endangered species content, value added tax refund policy does not apply. Instead, export of these products is regarded as domestic sales for the value added tax purpose. There are no other further tax implications under the sole distributionship operation.

Royalty fees

The Company sub-licensed the “Tong Ren Tang” trademark to our Overseas Associates, which are also members of the Group, for using the “Tong Ren Tang” trademark in conducting their business in return for a royalty fee of 2% to 3% of their annual revenue. The royalty fees have been determined based on arm’s length negotiations and then existing market rates. Apart from our Overseas Associates, we have also sub-licensed the trademark to an Independent Third Party which currently operates a store in Macao which will expire on 30 September 2015. We currently do not have any intention to sub-license the “Tong Ren Tang” trademark to any other parties. These sub-licence agreements are normally for a term of 10 years. We will renew the sub-licence agreements with our Overseas Associates as and when they expire. We currently do not intend to renew the sub-license agreement with the abovementioned Independent Third Party. Please refer to the paragraph headed “Intellectual property” below for further particulars of the sub-licensing arrangement. The consolidated profit and loss account of the Company reflects the portion of royalty fees received from the jointly controlled entities attributable to the joint venture partner as our portion and royalty fees received from our subsidiaries were eliminated upon consolidation.

Retail

We operate the leading Chinese Medicine Products retail chain in Non-PRC Market, in terms of number of jurisdiction present, according to Euromonitor.

As at the Latest Practicable Date, we have 36 retail stores in 11 countries and regions. These stores exclude those operated by TRT Hong Kong Medicine, TRT (UK) and TRT (Taiwan), and a company in the Philippines which has been granted a franchise by the Parent Group. Please refer to the paragraph headed “Relationship with Controlling Shareholders – Excluded business” in this prospectus for further particulars.

All of our retail stores are operated under the “Tong Ren Tang” brand to leverage its recognition and market reputation. We have an internal decoration policy to promote a uniform “Tong Ren Tang” image. During the Track Record Period, we established 7 and 7 retail stores in each of the two years ended 31 December 2012, respectively. We have opened 2 more stores since 31 December 2012 up to the Latest Practicable Date. During the Track Record Period, we have not closed any retail stores but we have relocated one retail store in each of Singapore and Thailand due to the expiry of their then respective tenancy agreements.

BUSINESS

The table below sets forth the number of our retail stores in each jurisdiction from 2009 to the Latest Practicable Date.

	As at 31 December				As at the Latest Practicable Date
	2009	2010	2011	2012	Date
Australia	2	2	3	4	4
Brunei	1	1	1	1	1
Cambodia	1	1	1	1	1
Canada	1	2	2	3	3
Hong Kong	0	3 ⁽¹⁾	7	11	13
Macao ⁽²⁾	1	2	3	3	3
Malaysia	3	3	3	3	3
Indonesia	1	1	1	1	1
Thailand	1	1	1	1	1
Singapore	3	4	4	5	5
UAE	0	0	1	1	1
Total	<u>14</u>	<u>20</u>	<u>27</u>	<u>34</u>	<u>36</u>

Notes:

1. Include an operating store in Hong Kong transferred to us by the Parent Group under the restructuring in October 2010.
2. As at the Latest Practicable Date, there was a franchise store in Macao operated by an Independent Third Party under a franchising arrangement between such party and the Group, which is not included in the number of stores in Macao. We entered into a franchise agreement and a trademark licence agreement both dated 1 October 2010 with the franchisee for a term of five years effective upon signing. Pursuant to the said agreements, the franchisee is entitled to open not more than two franchise stores in Macao and market “Tong Ren Tang” branded products under the “Tong Ren Tang” brand name and service mark, and will pay to us an annual royalty fee equivalent to 3% of the revenue of its franchise store(s). The franchisee is required to provide details of its franchise store including store name, store size and product offerings, and obtain our prior written consent before opening its franchise store(s), and provide detailed sales reports of its franchise store(s) on a half-year basis. The franchisee is also restricted from transferring its rights under the franchise arrangement to other parties without our prior written consent, and will compensate the consequential economic loss due to its breach of the terms of the said agreements. We are entitled to terminate the said agreements in the event of the franchisee’s defaults.

The Macao franchise store is only involved in retail sales operations. It sources its merchandise from TRT (Macao) and the inventory is owned by the Macao franchise store which also assumes the relevant inventory risk. There is no minimum purchase requirements as to the purchase of the Macao franchise store. In terms of pricing, the Macao franchise store is required to follow the pricing of the same products of the other retail stores operated by TRT (Macao). We have received royalty fees of approximately HK\$29,000 and HK\$41,000 for each of the two years ended 31 December 2012 from this franchisee, respectively. The franchisee has complied with the terms of the franchise agreement and the trademark license agreement, and to the best knowledge of the Directors, the Macao franchise store has not violated any relevant rules and regulations during the course of its operations since its inception.

BUSINESS

The table below sets forth our retail revenue by geographic markets for each of the two years ended 31 December 2012:

HK\$'000	Year ended 31 December			
	2011		2012	
Hong Kong	27,807	21.0%	66,515	33.1%
Australia	28,244	21.4%	31,378	15.6%
Singapore	28,102	21.3%	29,724	14.8%
Macao	13,000	9.8%	30,337	15.1%
Canada	13,427	10.2%	17,159	8.5%
Malaysia	8,544	6.5%	7,907	3.9%
Thailand	5,084	3.9%	5,943	3.0%
Other countries (Note)	7,739	5.9%	12,018	6.0%
Total	<u>131,947</u>	<u>100.0%</u>	<u>200,981</u>	<u>100.0%</u>

Note: Other countries include Brunei, Cambodia, Indonesia and UAE.

For each of the two years ended 31 December 2012, the retail revenue of our Angong Niu Huang Pills in Hong Kong were approximately HK\$9.5 million and HK\$33.7 million, representing approximately 4.8% and 9.4% of our total revenue of continuing operations for the respective years.

We owned two of the properties for our retail stores in Malaysia and rented the rest of the properties for our remaining 34 stores. It is our general policy to lease properties for our retail stores. We typically lease the properties for a term of 3 to 7 years. Four of our leases expired during the Track Record Period and as of the Latest Practicable Date and we have successfully renewed these leases. For each of 2013 to 2015 and beyond, we have 6, 9, 9 and 15 leases expiring respectively. Please refer to the paragraph headed “Retail stores” below for further particulars.

Our retail network principally adopts an integrated “consultation, products and services” model and aims to promote our expertise in these areas. As at the Latest Practicable Date, 30 out of 36 of our retail stores have Chinese Medicine Practitioners to provide Chinese Medical Consultation such as Chinese medical diagnosis and consultation, medicine dispensing, acupuncture and Tui-na therapy. We believe this model helps us to better promote traditional Chinese medicine culture and differentiate us from our competitors. Accordingly, our retail revenue consists of product sales and Chinese Medical Consultation fees.

Apart from contributing Chinese Medical Consultation fees, Chinese Medicine Practitioners attract customers and enhance customer flow. In addition, they also promote sales of Chinese Medicine Product through their services. As at the Latest Practicable Date, we have 65 Chinese Medicine Practitioners. We seek to hire Chinese Medical Practitioners locally. We may hire Chinese Medicine Practitioners from the PRC if we cannot hire locally and if we can identify the suitable practitioners.

BUSINESS

The table below sets forth a breakdown of our retail revenue by product sale and the provision of Chinese Medical Consultation for each of the two years ended 31 December 2012:

<i>HK\$'000</i>	Year ended 31 December			
	2011		2012	
Product sales	112,425	85.2%	174,493	86.8%
Chinese Medical Consultation	19,522	14.8%	26,488	13.2%
	<u>131,947</u>	<u>100%</u>	<u>200,981</u>	<u>100%</u>

The revenue contribution from Chinese Medical Consultation for each jurisdiction offering such services differ significantly from between 1% to 30%, and even to over 50% for UAE, depending on the business mix, the number of Chinese Medicine Practitioners employed and the duration of their consultation/service hours.

Our retail stores, in general, carry around 2,000 products, comprising around 1,100 Chinese Medicines Products and around 900 Chinese herbs. The products are primarily chosen according to demand of the local market taking into consideration of local regulations and restrictions. Some retail stores also provide ordinary food products, daily consumption products and skincare products. We seek to introduce products to meet changing customer demands. Chinese Medicine Products, except Chinese herbs, comprise “Tong Ren Tang” branded products and non-“Tong Ren Tang” branded products. The mix of, and sales derived from, “Tong Ren Tang” branded products, non-“Tong Ren Tang” branded products and Chinese herbs, carried by retail stores in different countries and regions varies, mainly depending on what Chinese Medicine Products have been registered for import or allowed to be imported into that country or region and local consumers’ preference. There was no significant seasonality noted in our retail operation during the Track Record Period. In general, the average shelf life of our Chinese Medicine Products range from three to five years whereas our Chinese herbs generally have no expiry date if they are kept in appropriate environment.

The table below summarizes the product offerings in our retail stores in different countries and regions:

Jurisdiction	GLSPC	Self-manufactured Angong Niu Huang Pills	The Parent Group’s Angong Niu Huang Pills	The Parent Group’s “Tong Ren Tang” branded products	Non-“Tong Ren Tang” branded products	Chinese herbs
Australia	✓			✓	✓	✓
Brunei	✓		✓	✓	✓	✓
Cambodia	✓		✓	✓	✓	✓
Canada			✓	✓	✓	✓
Hong Kong	✓	✓	✓	✓	✓	✓
Macao	✓		✓	✓	✓	✓
Malaysia			✓	✓	✓	✓
Indonesia			✓	✓	✓	✓
Thailand			✓	✓	✓	✓
Singapore	✓			✓	✓	✓
UAE					✓	✓

BUSINESS

In general, during the Track Record Period, sales of non-“Tong Ren Tang” branded products and Chinese herbs together accounted for more than 50% of retail revenue of each of the jurisdiction, and close to 50% in UAE, save for Hong Kong and Macao where “Tong Ren Tang” branded products have accounted for more than 80% of their respective revenue.

Wholesale in Non-PRC Markets

We sell products on a wholesale basis to our Overseas Partners, local drug stores and clinics and/or third party local distributors in Hong Kong, Macao, Australia, South Korea, Thailand and Singapore. Our distributors are either corporations or individuals and most of them with relevant experience. We believe our distributorship model is typical for our industry. During Track Record Period, we did not have any ownership interest or management positions in our distributors.

As at the Latest Practicable Date, we wholesale a total of over 260 products among which around 200 are Chinese Medicines and Healthcare Products. The majority of these Chinese Medicines and Healthcare Products are “Tong Ren Tang” branded products and all of which are registered by us or otherwise complied with the relevant local requirements. All of our wholesale Chinese Medicines and Healthcare Products are self-registered products except for some products in Australia, which together account for an insignificant portion of our total revenue. For each of the two years ended 31 December 2012, the revenue from non self-registered products in Australia were approximately HK\$0.5 million and HK\$0.7 million respectively. The types of products we wholesale in each jurisdiction are different. We also wholesale Chinese herbs in Australia. There was no significant seasonality noted in our wholesale operation during the Track Record Period.

We recognise sale of our products to our wholesale customers upon delivery of goods. The table below sets forth our wholesale revenue by geographic markets for each of the two years ended 31 December 2012:

Revenue HK\$'000	Year ended 31 December			
	2011		2012	
Hong Kong	30,523	77.6%	117,364	85.9%
Australia.	4,416	11.2%	4,836	3.5%
Macao.	3,850	9.8%	13,658	10.0%
Singapore	351	0.9%	375	0.3%
Thailand	154	0.4%	345	0.3%
South Korea	52	0.1%	43	0.0%
Total	39,346	100%	136,621	100%

“Tong Ren Tang” branded Angong Niu Huang Pills has been accounting for an increasing proportion of our wholesale revenue in Hong Kong and Macao. Our Angong Niu Huang Pills accounted for approximately 92.5% and 97.3% of our Hong Kong wholesale revenue for each of the two years ended 31 December 2012 respectively. The Parent Group’s Angong Niu Huang Pills accounted for approximately 81.7% and 87.6% of our Macao wholesale revenue for each of the two years ended 31 December 2012 respectively.

BUSINESS

We have 301 and 305 wholesale customers in total as at 31 December 2011 and 2012 respectively. For each of the two years ended 31 December 2012, we have ceased business with 9 and 9 customers, and began business with 18 and 13 new customers, respectively. The majority of these wholesale customers were from Australia and Thailand and were mostly local drug stores and clinics. We only had one wholesale customer in Singapore and 13 wholesale customers in Hong Kong, Macao and South Korea during the Track Record Period. Our top three wholesale customers (two from Hong Kong and one from Macao for the year ended 31 December 2011 and three from Hong Kong for the year ended 31 December 2012) together accounted for approximately 81.7% and 85.6% of our wholesale revenue for each of the two years ended 31 December 2012 respectively. Our top three customers normally place orders with us at least once every quarter. We seek to maintain long-term relationship with our major wholesale customers by providing logistics and other value-added services including training on products. We do not enter into any long-term distribution agreement with our wholesale customers, and accordingly there is no minimum purchase commitment provided by the wholesale customers. We have sold products to our wholesale customers at a discount generally between 20% to 30% to the corresponding retail prices of the same products in the same market. We provide guidance on the retail prices of Chinese Medicine and Healthcare Products to the wholesale customers in jurisdictions where we also have retail operations at which they should guide their ultimate customers. Such guidance price will be at around the prices which we sell the same products in our retail stores in the same jurisdictions while our wholesale customers (other than drug stores and clinics) decide the channels through which to on-sell the products. Our wholesale customers can deviate no more than 5% from our guidance prices but should they deviate significantly from our guidance price, we have the option to stop supplying to them. We generally grant credit period of one to three months to our wholesale customers who generally settle by cheque or bank transfer in local currency.

Procurement and inventory management of the distribution business in Non-PRC Markets

We source Chinese Medicine Products from the Parent Group, local partners of our Overseas Associates, and third party suppliers for our distribution business. We have a credit period of three months for purchases from the Parent Group and a credit period of one to three months for purchases from the other suppliers in general.

For self-registered non self-manufactured “Tong Ren Tang” branded products, TRT International Natural-Pharm purchases for us from the Parent Group’s sole distributor in Non-PRC Markets. For non self-registered non self-manufactured “Tong Ren Tang” branded products, we purchase from the relevant license holders which purchase the products from TRT International Natural-Pharm. For other products, we purchase from third party suppliers which manufacture the products or possess the relevant product licenses.

When selecting suppliers, we normally consider, among other things, the products they sell, whether the supplier has all necessary licences, market reputation, and the prices that the supplier offered. Generally, we do not enter into long-term agreements with suppliers and those selected will be included in our approved list of suppliers.

BUSINESS

The purchase of Chinese Medicine Products for each of the two years ended 31 December 2012 representing approximately 73.7% and 59.5% of the total purchase respectively.

Purchase of Chinese Medicine Products <i>HK\$'000</i>	Year ended 31 December			
	2011		2012	
Purchase from the Parent Group	18,702	30.9%	25,931	32.3%
Purchase from Overseas Partners and third party suppliers	41,778	69.1%	54,360	67.7%
Total	<u>60,480</u>	<u>100.0%</u>	<u>80,291</u>	<u>100%</u>

We coordinate the demand from our retail stores and wholesale customers and sole distribution customers and then arrange procurement of “Tong Ren Tang” branded products from the Parent Group.

We plan our procurement according to market demand, inventory level, safe inventory level of each product and lead time from order to receipt of goods of our various jurisdictions. As for the sole distribution business, TRT International Natural-Pharm orders the exact amount of products from the Parent Group based on orders it receives and accordingly does not need to carry extra inventory in this regard. For self-registered Chinese Medicines and Healthcare Products of the Parent Group, the Company and our Overseas Associates procure through TRT International Natural-Pharm for distribution in Non-PRC Markets and generally place orders one to four times a year so as to reduce the number of times of purchases, and hence the administrative and transportation costs. The relevant licence holders of non self-registered Chinese Medicines and Healthcare Products of the Parent Group generally place orders to TRT International Natural-Pharm one to four times a year. Upon receiving orders from us and the abovementioned relevant licence holders, TRT International Natural-Pharm will then place orders to the Parent Group one to four times a year to match such orders. In respect of non self-registered Chinese Medicines, Healthcare Products and Chinese herbs that we purchase from Overseas Partners and third party local suppliers, we target to maintain a minimum level of inventory and make purchases as frequent as weekly.

We have at least one central warehouse in each of the 12 countries and regions to keep the majority of the inventories for retail stores and all inventories for wholesale business where it applies. As at the Latest Practicable Date, we have in total 13 central warehouses equipped with climate-controlled environment. 12 of the warehouses are leased properties and the one in Hong Kong is a self-owned property. In addition to the central warehouses, each retail store may have a storage room to keep some inventory to support its daily operation. Temperature of general and cold inventory storage area are set below 25°C and between 0-5°C respectively, while relative humidity of all inventory storage area are set below 70%. We also take measures on sunlight attention, dehumidifying and pest control to maintain the stability and quality of products.

BUSINESS

Inventory count is conducted monthly in the central warehouses. The retail stores usually conduct daily inventory counts for expensive merchandise, monthly inventory counts and shelf life examination for Chinese Medicines, and quarterly inventory counts and shelf life examination for all products, the result of which is consolidated. When certain product is found to be slow-moving and close to expiry according to the inventory count and shelf life results from the retail stores and central warehouses, we will launch promotion to encourage sales of such products. Once the Chinese Medicine Products are expired, we will have to dispose of such products in accordance with local regulatory requirement. Such products will be written off accordingly. For each of the two years ended 31 December 2012, the average inventory turnover days of the distribution in Non-PRC Markets were approximately 207 and 188 days respectively.

Quality control in distribution in Non-PRC Markets

We carefully select the suppliers for our distribution operations based on factors including the products they sell, market reputation, whether the supplier has all necessary licences, creditworthiness, scale of business and track record. The suppliers typically provide quality assurance and we can return the goods if we become aware of any quality issues. There has not been any significant incidents of product return during the Track Record Period. We have at least one staff in each of our jurisdiction responsible for procurement inspection. All goods are inspected and examined for details including packaging and expiry date upon arrival before acknowledging receipt. After receipt, all goods will be stored at central warehouses with controlled temperature and humidity.

Return policy

Generally the goods we sell are not returnable after the customers acknowledged receipt and we usually do not accept product exchange or return from our wholesale and retail customers except where relating to product quality. However, in some countries and regions, we accept product exchange and return from our retail customers, which is in line with the customs of local retail business, providing the products are unopened. There were no product return from our wholesale operation during the Track Record Period and the amount of product return from our retail operation during the Track Record Period was insignificant.

Pricing

There is no regulatory restriction on the pricing of most of the products we sell under our distribution operations. We determine the retail prices of the products sold through the retail stores based on, among others, prevailing price of similar products available in the relevant markets, cost of procurement of the products, and marketing strategies for particular products. We typically sell products to the wholesale customers at a discount to the corresponding retail prices for bulk purchasing. For “Tong Ren Tang” branded products, we set retail prices at our discretion according to our manufacturing or purchasing costs and prevailing retail prices of products of similar characteristics in relevant overseas markets.

TRT INTERNATIONAL NATURAL-PHARM

TRT International Natural-Pharm was previously engaged in the management of our PRC distribution operation which has been discontinued (see the paragraph headed “Discontinued operations – PRC distribution” below) as well as the sourcing of raw materials and product development (which include research and development of GLSPC products) and sourcing of non-“Tong Ren Tang” branded merchandise for distribution in the PRC. Since November 2012, TRT International Natural-Pharm has been responsible for conducting the sole distributorship of products of TRT Ltd. and TRT Technologies in Non-PRC Markets together with the Company’s sales team, as well as continuing the sourcing of raw materials and product development. The role of TRT International Natural-Pharm in supplying these products to the relevant licence holders primarily include collecting the orders, obtaining the required products from the Parent Group, handling export formalities, delivering these products to the port of destination requested by the relevant licence holders and collecting receivables. TRT International Natural-Pharm has disbanded its entire sales team previously engaged in the discontinued PRC distribution operation and hired a team with relevant experience from the Parent Group in handling orders from overseas customers and export formalities and sourcing of raw materials from the Parent Group and third party suppliers for the manufacture of Angong Niu Huang Powder to enhance its capabilities in October 2012.

MANUFACTURING

We currently manufacture two products, namely Angong Niu Huang Pills and GLSPC in our facilities in Tai Po Industrial Estate, Hong Kong. Previously, we had also manufactured other products during the Track Record Period, such as E-jiao Tablet series, Marine Collagen Peptide, Ginseng-Antrodia Camphorata Capsule, super-fine Pearl Powder, and Schisandra-Antrodia Camphorata Capsule. We ceased manufacturing such products since the first quarter of 2012 and ceased to sell the remaining inventory of these products from November 2012.

The manufacturing facilities were established in 2006 covering an area of approximately 11,700 sq.m. The manufacturing facilities have been granted the GMP certificate by the Chinese Medicine Traders Committee of Chinese Medicine Council of Hong Kong which is valid for a term of two years upon issuance and may be renewed within six months prior to its expiration. The facilities successfully passed the re-testing and renewed the certificate in 2010 and 2012.

Major raw materials

Natural musk and natural bezoar are the major ingredients in manufacturing Angong Niu Huang powder which in turn are the principal raw materials in manufacturing Angong Niu Huang Pills, and ganoderma lucidum spores powder is the key ingredient in producing GLSPC.

Natural musk and natural bezoar

The PRC government has regulations on the application of natural musk and natural bezoar in Chinese Medicines. In February 2012, the State Food and Drug Administration (SFDA) issued a notice to “Strengthen the Supervision and Management of Chinese Pharmaceutical Products made of Materials like Muskiness” (關於徵求進一步加強含麝香等藥材中成藥品種監督管理意見的通知).

In order to sell muskiness an individual or an organization has to obtain two kinds of executive permissions from the State Forestry Administration. The first is the Domestication and Breeding Licence of the National First Class Protected Wild Animals (國家一級保護野生動物馴養繁殖許可證). The second is the Sale, Purchase or Utilization Licence of the National First Class Protected Wild Animals and Plants (出售、收購、利用國家一級保護陸生野生動物或其產品許可證).

Ganoderma lucidum spores powder

Ganoderma lucidum spores powder is the spore of ganoderma lucidum. Ganoderma lucidum spore is the seed ejected and released in the later stage of ganoderma development, only 5-8 microns in single diameter, and powder forms when spores getting together, known as ganoderma lucidum spore powder. However, only 10% to 20% of its active ingredients can be absorbed if the spore of the seed is not broken down via low-temperature extraction technology. Such absorption rate can be raised significantly when the sporoderm of ganoderma lucidum spore powder is broken. The rate of sporoderm broken will decide the absorption rate of the ganoderma lucidum, and is one of the key indicators of the quality of ganoderma lucidum spore products. There are over 200 enterprises engaged in the manufacturing and processing of ganoderma lucidum spores powder in the PRC. Most of them are located in the provinces of Shandong, Anhui and Jilin.

Ganoderma lucidum spore powder is created in several ways, either from intact fungal spores, or from spores that have been broken down through mechanical means, or spores that have had their cellular walls removed. The powder is then processed into capsule or tablet form.

Products

Angong Niu Huang Pills

Despite different official classification or registration requirement in different jurisdictions, Angong Niu Huang Pills is generally regarded as Chinese Medicines. Angong Niu Huang Pills was first invented by Wu Jutong, a renowned Chinese doctor of the Qing Dynasty, on the basis of an ancient recipe and was later spread to Tong Ren Tang. “Angong” in the Chinese refers to comforting the heart to represent the key therapeutic purpose of this product. According to the ancient recipe it is made of natural bezoar and natural musk as major ingredients which can clear away the heat, detoxify, relieve convulsion and resuscitate.

Natural musk is a regulated substance in the PRC and the Parent Group is the only entity in the PRC which is licensed to process natural musk for the production of Angong Niu Huang Pills. The Directors believe this is a significant factor differentiating “Tong Ren Tang” branded Angong Niu Huang Pills from products of similar nature which are manufactured by other PRC entities. Angong Niu Huang Pills is used for the treatment of cerebrovascular accidents, severe onset of cerebrovascular diseases, and various encephalitis, severe pneumonia, and toxic dysentery with high fever. Our Angong Niu Huang Pills have a shelf life of five years.

BUSINESS

Angong Niu Huang Pills is also the flagship product of the Parent Group, and the Parent Group provides Angong Niu Huang Powder to us as the major raw material for the manufacturing of our Angong Niu Huang Pills. The pills manufactured by us are currently sold only within Hong Kong, and we plan to develop the overseas market for this product. Our Hong Kong retail stores only sell our Angong Niu Huang Pills and not our Parent Group's. The pills manufactured by the Parent Group are currently sold in the PRC and have been sold in some overseas jurisdictions. The Parent Group has ceased selling its Angong Niu Huang Pills to the Non-PRC Markets from 1 October 2012.

The recommended retail price of the Angong Niu Huang Pills in Hong Kong was HK\$405 per unit at the beginning of the Track Record Period and was then increased several times to the current recommended retail price of HK\$670 per unit in July 2012.

GLSPC

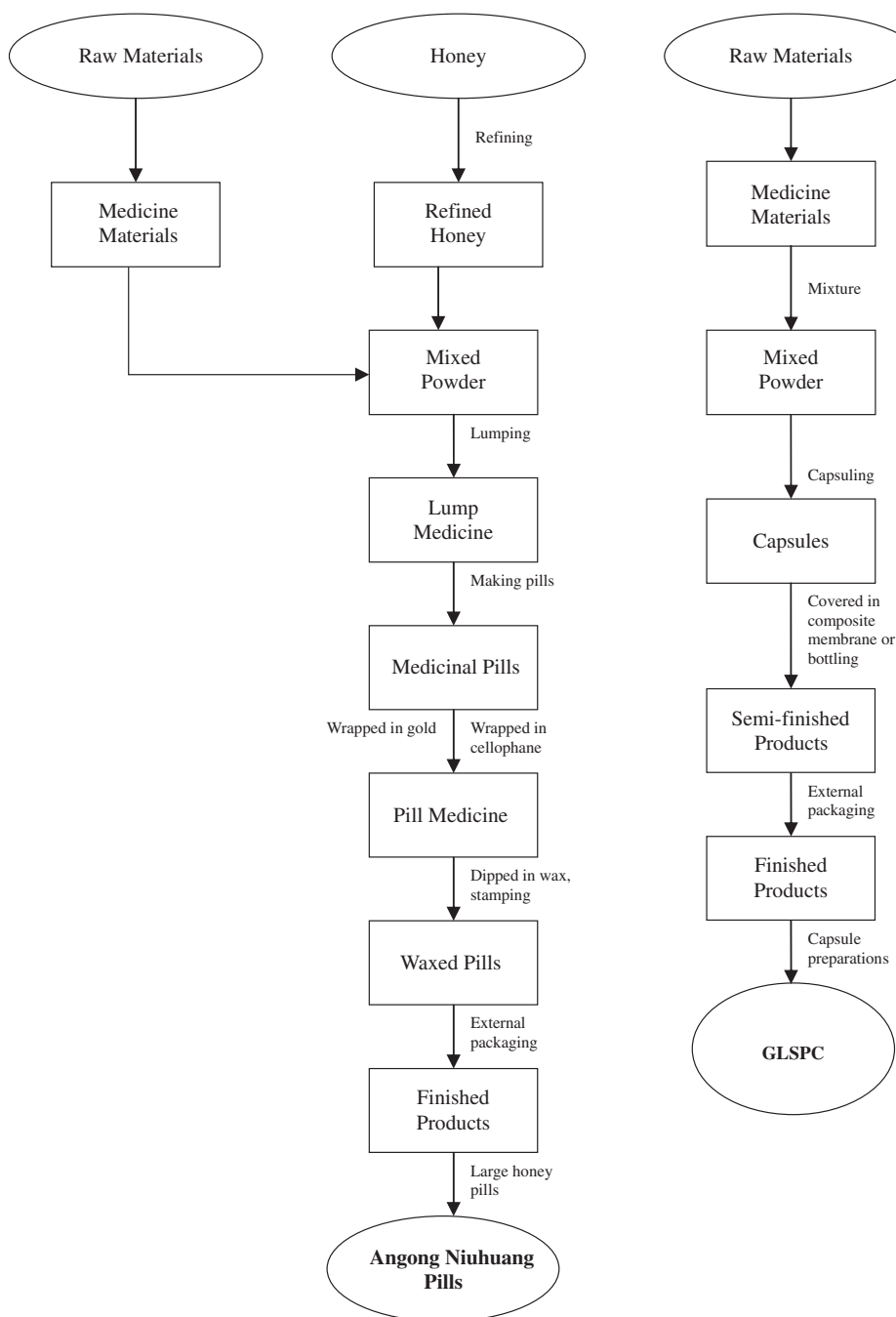
Despite different official classification or registration requirement in different jurisdictions, GLSPC is generally regarded as a Healthcare Product which can help to improve overall immunity. GLSPC is made of sporoderm broken ganoderma lucidum spores powder. Our GLSPC has a sporoderm-broken rate exceeding 98% and a shelf life of three years. During the Track Record Period, the majority of GLSPC was distributed in the PRC under the category of food. We have ceased selling GLSPC into the PRC market from November 2012.

The recommended retail price of GLSPC in Hong Kong from the beginning of the Track Record Period to the Latest Practicable Date at the recommended retail price of HK\$1,200 per box.

BUSINESS

Manufacturing procedures and arrangement

Angong Niu Huang Pills and GLSPC are manufactured by two separate production lines as the two products are of different forms that GLSPC is in the form of capsules, and Angong Niu Huang Pills is in the form of pills. The production cycle of both products is around 20 days. As at the Latest Practicable Date, we have 26 employees for manufacturing and quality control in our factory. The following chart sets out the major production procedures of the two products.



BUSINESS

The processes of wrapping in gold, wrapping in cellophane and dipping in wax in the manufacturing of Angong Niu Huang Pills require substantial manual processes performed by skilled labour. The availability of skilled labour for these processes significantly affect our overall manufacturing capacities for Angong Niu Huang Pills. Accordingly, we can significantly increase our manufacturing capacity for Angong Niu Huang Pills by increasing the number of skilled labour for these processes. Apart from these processes, the other processes are mostly automated.

We set our annual production plan mainly in accordance with estimated market demand based on historical performances. Under the annual production plan, we further make monthly production plan and raw materials purchase plan based on actual sales results, sales estimate by taking into account of the inventory level and production capacities. The actual production will be adjusted from time to time according to the actual orders and change in inventory levels. There has not been significant seasonality in terms of GLSPC production volume during the Track Record Period. However, as we have been increasing the production of Angong Niu Huang Pills, its production volume has increased from quarter to quarter during the Track Record Period in general.

We do not keep much inventory of our finished products at our manufacturing facilities. In the case of GLSPC, the majority of the finished products were delivered to TRT International Natural-Pharm for PRC distribution (prior to the cessation of our PRC distribution business) and Overseas Associates for overseas retail and wholesale distribution according to orders. In the case of Angong Niu Huang Pills, during the Track Record Period, all finished products are delivered to the warehouse in Hong Kong for distribution in Hong Kong only.

Raw material procurement and inventory control

The primary raw materials we use for the production of Angong Niu Huang Pills and GLSPC are Angong Niu Huang Powder (principal ingredients being natural musk and natural bezoar) and ganoderma lucidum spore powder, respectively. They together accounted for approximately 66.8% and 88.1% of the total purchase of raw materials in each of the two years ended 31 December 2012 respectively.

We also source supplemental raw materials and packaging materials, which accounted for approximately 19.3% and 11.4% of the total purchase of raw materials in each of the two years ended 31 December 2012 respectively. Until October 2010, we sourced ganoderma lucidum spore from the Parent Group and then from one third party supplier (which was the same supplier of the same raw material of the Parent Group) located in Longquan, Hangzhou, Zhejiang Province. Our purchase cost has not experienced any adverse material change by changing our supplier from the Parent Group to this Independent Third Party and our credit period remains at three months. Accordingly, this change of supplier had no significant adverse impact on our working capital requirements. We source Angong Niu Huang Powder from the Parent Group as the Parent Group is the only entity in China approved to process natural musk for the manufacturing of Angong Niu Huang Pills.

BUSINESS

In order to better delineate the Group's business from those of the Parent Group and to enhance the sourcing capacities of the Group, commencing on 1 October 2012, we have purchased raw materials for Angong Niu Huang Powder (other than natural musk which we do not have the required approval to purchase natural musk for processing) from Independent Third Parties which may be the same suppliers of the relevant raw materials of the Parent Group. We then provide such raw materials to the Parent Group for processing into Angong Niu Huang Powder. Our purchase cost has not experienced any adverse change by changing our purchase of Angong Niu Huang Powder from the Parent Group to the purchase of raw materials for Angong Niu Huang Powder from such said Independent Third Parties. The credit period granted by these suppliers is three months as compared to three months granted to us by the Parent Group. Accordingly, the change to purchase part of the raw materials from Independent Third Parties has no significant adverse impact on our working capital requirements.

As we source all of our raw materials from the PRC, it is our policy to keep three to six months' inventory of raw materials, including raw materials for processing into Angong Niu Huang Powder and Angong Niu Huang Pills, to ensure manufacturing continuation. We historically have not experienced any shortages in raw materials that significantly affected the manufacturing operations.

Manufacturing capacities and utilisation

The following table sets forth the utilisation of our manufacturing capacity for Angong Niu Huang Pills and GLSPC for the periods indicated:

	Year ended 31 December		
	2010	2011	2012
Angong Niu Huang Pills			
Manufacturing capacity	100,000	200,000	450,000
Units manufactured (number of units)	58,662	179,899	446,924
Utilisation rate	58.7%	89.9%	99.3%
GLSPC			
Manufacturing capacity	200,000	200,000	200,000
Units manufactured (number of boxes)	121,539	137,042	111,021
Utilisation rate	60.8%	68.5%	55.5%

- Note:*
1. Manufacturing capacity is calculated for illustrative purpose only, based on 8 hours per working day and 230 working days per year.
 2. Utilisation rate is derived by dividing the actual production volume by the manufacturing capacity and rounded to the nearest decimal place.

Although the cessation of sales of GLSPC to the PRC has reduced the utilisation of our facilities, the production of Angong Niu Huang Pills has increased to satisfy demand for this product in Hong Kong.

Quality control in manufacturing operations

We have adopted manufacturing process management policies strictly in accordance with relevant Hong Kong laws and regulations such as the Chinese Medicine Ordinance. In addition, we have obtained and successfully renewed the GMP certification for our production base at Tai Po Industrial Estate, Hong Kong. We implement stringent quality control measures throughout the production process to ensure the quality of our products. We conduct quality checks on our raw materials, work-in-progress and finished products. We procure raw material and packaging materials only from reliable suppliers and conduct inspections on each batch of incoming materials. Our quality control staff inspects the production environment and equipment before commencement of each production lot to ensure smooth production lot process. We have installed testing equipment to conduct spot checks during our production process.

We check all our finished products before packaging for delivery to customers such as external and internal laboratory check for heavy metals.

Our quality control department of manufacturing operations consists of five members with an average experience in quality control of over five years, it monitors every stage of the manufacturing processes and ensures consistent product quality that meets our quality management standards and policies. It reports to the deputy general manager. We regard our product quality as a key attribute to “Tong Ren Tang” brand, and a significant factor in customers’ decisions to purchase “Tong Ren Tang” branded products.

During the Track Record Period and up to the Latest Practicable Date, we have complied with all applicable environmental laws and regulations of the jurisdictions in which we have operations in all material respects, have not been subject to any material claims or penalties in relation to environmental protection and have not been involved in any environmental accidents or fatalities.

TRT HEALTH PRESERVING AND CULTURE

TRT Health Preserving and Culture is our associated company in which the Company has a 41% beneficial interest and it has two stores in Beijing engaged in the provision of Chinese healthcare services. For the two years ended 31 December 2012, the revenue of TRT Health Preserving and Culture were approximately HK\$0.7 million and HK\$1.5 million respectively, whereas the losses of TRT Health Preserving and Culture were approximately HK\$3.8 million and HK\$2.4 million respectively.

As TRT Health Preserving and Culture is engaged in the provision of Chinese healthcare services which is of different nature to the core business of the Parent Group (i.e. manufacturing and sales of Chinese Medicine and Healthcare Products in the PRC), we are of the view that there is no direct competition between the business of the Parent Group and TRT Health Preserving and Culture. Further, our interest in TRT Health Preserving and Culture enables us to understand the business model of the Chinese healthcare services and accumulate experience and expertise to run such business, which we believe will be helpful for our possible expansion of such business in the Non-PRC Markets.

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DISCONTINUED OPERATIONS – PRC DISTRIBUTION

During the Track Record Period, we had a PRC distribution operation substantially distributing self-manufactured products, the majority of which being GLSPC, to the Parent Group and Independent Third Parties for distribution in the PRC. We have made insignificant sales (all being GLSPC) to these Independent Third Parties from late 2011 to mid 2012. Our self-manufactured products were distributed in the PRC as imported food products and hence no medical or healthcare products registrations or licenses were required. We have sourced products of other manufacturers for distribution in the PRC during the Track Record Period. However, we have ceased such sourcing since 2011. There was no significant seasonality in our PRC distribution noted during the Track Record Period.

The table below sets forth a breakdown of our PRC distribution revenue by GLSPC and other products for each of the two years ended 31 December 2012:

	Year ended 31 December			
	2011		2012	
	<i>HK\$'000</i>	% to PRC distribution operations	<i>HK\$'000</i>	% to PRC distribution operations
GLSPC.....	71,327	84.6%	101,191	88.0%
Other self-manufactured products	12,433	14.8%	12,572	10.9%
Other products	540	0.6%	1,268	1.1%
Total	<u>84,300</u>	<u>100%</u>	<u>115,031</u>	<u>100%</u>

We have sold our products to our PRC distribution customers at a discount to the corresponding guiding retail prices of the products provided by us. We have granted a credit period of one to three months to our PRC distribution customers. We did not enter into long-term distribution agreements with the Parent Group and our PRC distribution customers and there was no minimum purchase commitment provided by the Parent Group and our PRC distribution customers.

Owing to the cessation of our PRC distribution business, we have sold a vast majority of our GLSPC inventory (which we have already manufactured to satisfy anticipated demand running into 2013) in Beijing to the Parent Group in October 2012 at approximately 15% discount to our wholesale price which has been arrived at based on arm's length negotiations. The proceeds for this one-off sale of GLSPC amounted to approximately HK\$45.5 million. We have also donated the rest of our GLSPC inventory in Beijing for charity purposes. The remaining inventory of our other self-manufactured products for PRC distribution of approximately HK\$5.3 million has been written-off in 2012 since we could not sell such products when we have ceased selling other self-manufactured products with effect from October 2012 as part of business adjustment.

MAJOR CUSTOMERS AND SUPPLIERS**Customers**

We have three types of customers, namely retail customers, wholesale customers and sole distribution customers. Retail customers are individual customers who purchase merchandise or services from us through our retail stores. Wholesale customers are customers who purchase in bulk directly from us and mainly consist of our Overseas Partners, local drug stores and clinics and third party local distributors for overseas markets. As at 31 December 2011 and 2012, we had in total 301 and 305 wholesale customers respectively. Please refer to the paragraph headed “Wholesale in Non-PRC Markets” above for further particulars. As for our PRC distribution business, our major customer was the Parent Group and as for our overseas agency business, we were paid by TRT Ltd. and TRT Technologies. Sole distribution customers were all prior overseas customers of TRT Ltd. and TRT Technologies under the agency arrangement expired in December 2012. They hold the licences of the “Tong Ren Tang” branded Chinese Medicine Products in the relevant jurisdiction, consist mainly of our Overseas Partners and are permitted by the local regulations to import such products into the relevant country.

In each of the two years ended 31 December 2012, revenue from our five largest customers in aggregate accounted for approximately 38.9% and 46.9% of our total revenue respectively. In the same years, revenue from our largest customer, also the largest wholesale customer, namely, TRT Health Pharmaceutical, a member of the Parent Group, accounted for approximately 21.9% and 18.2% of our total revenue respectively.

Among our five largest customers for each of the two years ended 31 December 2012, TRT Health Pharmaceutical and TRT Commercial Investment, both being members of the Parent Group, and Chuan Chiong, being the substantial shareholder of TRT (Canada), are our connected persons. TRT Health Pharmaceutical and TRT Commercial Investment were our wholesale customers in the PRC, and for each of the two years ended 31 December 2012, total revenue from TRT Health Pharmaceutical and TRT Commercial Investment accounted for approximately 27.4% and 22.2% of our total revenue, respectively. Chuan Chiong is our wholesale customer in Hong Kong, and for each of the two years ended 31 December 2012, total revenue from Chuan Chiong accounted for approximately 6.6% and 10.4% of our total revenue respectively.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or their respective associates, or any shareholders, whom, to the knowledge of the Directors, owns more than 5% of our issued shares, has any interest in any of our five largest customers.

During the Track Record Period, the Parent Group has been at the same time our PRC wholesale customer and the customer of our overseas agency business, and for each of the two years ended 31 December 2012, the revenue from the Parent Group amounted to approximately HK\$102.2 million and HK\$128.0 million respectively, which accounted for approximately 36.4% and 27.0% of our total revenue respectively.

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Suppliers

We have two types of suppliers, namely suppliers of raw materials for our manufacturing operations and suppliers of merchandise for our distribution operations. As at 31 December 2011 and 2012, we had in total 14 and 15 suppliers for raw materials and 140 and 142 suppliers for merchandise, respectively.

In each of the two years ended 31 December 2012, purchase from our five largest suppliers in aggregate accounted for approximately 48.7% and 61.3% of our total purchase respectively. Among our five largest suppliers for each of the two years ended 31 December 2012, TRT Ltd., TRT Technologies and Chuan Chiong (being the substantial shareholder of TRT (Canada)) are our connected persons. TRT Ltd. our largest supplier for raw materials and merchandise, and TRT Technologies were at the same time our suppliers of raw material, their respective “Tong Ren Tang” branded products and for TRT Ltd. some packing materials during the Track Record Period. For each of the two years ended 31 December 2012, total purchases from each of TRT Ltd. and TRT Technologies accounted for approximately 28.9% and 25.9% and approximately 6.2% and 4.0% of our total purchases respectively. Accordingly, our purchases from our Parent Group for each of the two years ended 31 December 2012 amounted to approximately HK\$28.8 million and HK\$40.4 million respectively, which accounting for approximately 35.1% and 29.9% of our total purchase respectively. Chuan Chiong is our supplier of Chinese Medicine Products. For each of the two years ended 31 December 2012, our total purchases from Chuan Chiong accounted for approximately 3.8% and 5.1% of our total purchases respectively.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or their respective associates, or any shareholders, whom, to the knowledge of the Directors, owns more than 5% of our issued shares, has any interest in any of our five largest suppliers.

COMPETITION

The distribution of Chinese Medicine Products in Non-PRC Markets is very fragmented. Besides, due to the regulatory requirements with respect to the importation of Chinese Medicine Products in the jurisdictions where we operate competition occurs within countries and regions rather than in a global scale. For our retail business, we compete with small Chinese Medicine stores and sometimes with chain stores of other branded Chinese Medicine Products. For our wholesale and sole distribution business, we compete with distributors of products of similar nature. For our self-manufactured products, we compete with other branded products of similar nature. We differentiate ourselves from our competitors through provision of quality products, reliable Chinese Medical Consultation services and leveraging the market recognition of the “Tong Ren Tang” brand name.

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INSURANCE

We maintained property insurance to cover potential damages to our inventories, equipment and facilities in accordance with industry practice in Hong Kong. As at the Latest Practicable Date, we do not maintain insurance covering potential liability relating to the release of hazardous materials, which we believe is consistent with the industry practice in the jurisdictions in which we have operations. Based on our experience in operating our business and understanding of the prevailing industry practice in the jurisdictions in which we have operations, our Directors believe our level of insurance coverage is adequate for our current assets and operations. However, we will continue to review and assess our risk portfolio and make necessary and appropriate adjustments to our insurance practice aligned with our needs and with industry practice in the jurisdictions in which we have operations. For the risks associated with the coverage of our insurance policies, please refer to the section headed “Risk Factors — Risks related to our business — Our insurance coverage may not be sufficient to cover the risks relating to our operations” in this prospectus.

During the Track Record Period, we have not made or been the subject of any material insurance claims.

EMPLOYEES

As at 31 December 2012, we had a total of 396 employees. Set out below are breakdowns of the number of our employees by function and region as of such date.

Competency	Number of Employees
Senior management	28
Accounting	27
Administration	42
Manufacturing and quality control ^{note(i)}	66
Retail sales	155
Chinese Medicine Practitioners	65
Wholesale operation	6
Product development	7
Total	396

Note (i): include quality control staffs in retail shops

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Jurisdiction	Number of Employees
Australia	42
Brunei	5
Canada	27
Cambodia	11
South Korea	3
Macao	23
Malaysia	33
Indonesia	33
Thailand	27
Singapore	48
Hong Kong	105
PRC	25
UAE	14
Total	<u><u>396</u></u>

For each of the two years ended 31 December 2012, our labour costs were approximately HK\$52.6 million and HK\$79.4 million respectively.

We generally sign individual employment agreements with our employees, covering, among other things, salaries, benefits, training, workplace safety and hygiene, confidentiality obligations relating to trade secrets and grounds for termination.

We offer what we believe are competitive remuneration packages to our employees, including salaries and bonuses. Generally, our employees' salaries are determined based on the employees' qualifications, experience, position and seniority. We assess our employee remuneration on an annual basis to determine whether any bonus or salary adjustment should be made.

To cope with our expansion, we plan to add more headcounts across different aspects of our operations by 2015. Most of the additional staff will support our distribution in Non-PRC Markets and for the production. We will continuously optimise our remuneration policy according to the market conditions to foster staff loyalty.

We have complied with all applicable laws and regulations in relation to fair labour standards and employment in all the jurisdictions in which we have operations. During the Track Record Period, we have not experienced any strikes, work stoppages or labour disputes which affected our operations.

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RESEARCH AND PRODUCT DEVELOPMENT

For each of the two years ended 31 December 2012, the research and development costs of the Group (including salaries, consumables and testing fees, etc.) were approximately HK\$1.9 million and HK\$1.8 million respectively. The seven members of the research and development department have up to 20 years of experience in the Chinese medicine industry. The Company does not have to follow guidelines from the Parent Group to ensure consistency in the ingredients or quality of the products.

FOREIGN CURRENCY

In general, we purchase “Tong Ren Tang” branded products from the Parent Group in Hong Kong dollars, US dollars and Renminbi. The Company and TRT International Natural-Pharm purchase Chinese herbs in Hong Kong dollars and Renminbi. In general, we sell products to the Overseas Associates in Hong Kong dollars and US dollars. Domestic sourcing by the Overseas Associates are made in their respective local currencies. We do not have any foreign currency hedging policy.

RETAIL STORES

As at the Latest Practicable Date, we have 36 retail stores in various countries including Australia, Brunei, Cambodia, Canada, Hong Kong, Indonesia, Macao, Malaysia, Singapore, Thailand and UAE.

The following table sets forth the addresses of our retail operations as at the Latest Practicable Date (unless otherwise stated, all are leased properties):

Address of our retail operations	Year of establishment	Lease expiry date
<i>Hong Kong</i>		
• Shop G67-G69, Ground Floor, Tuen Mun Town Plaza Phase 1, 1 Tuen Shun Street, Tuen Mun, New Territories	2009	7 June 2014
• Ground Floor, Hong Kong Trade Centre, 161-163 Des Voeux Road, Central, Hong Kong	2010	30 April 2015
• Shop 15, Kwai Fong MTR Station, Kwai Chung, New Territories	2010	31 October 2013
• Shop B, Ground Floor, Ying King Mansion, 196-198 Hennessy Road, Wanchai, Hong Kong	2010	30 November 2013
• Shop G, Ground Floor, Han Yee Building, 19-21 Hankow Road, Tsim Sha Tsui, Kowloon	2011	23 March 2014
• Shop B, Ground Floor, Goldfield Tower, 53-59 Wuhu Street, Hung Hom, Kowloon	2011	20 March 2014
• Shop 4A, Ground Floor, Site 4, Aberdeen Centre, 14-15 Nan Ning Street, Aberdeen, Hong Kong	2011	5 October 2014
• Shop 18, Ground Floor, State Theatre Building, 277-291 King's Road, Hong Kong	2012	31 January 2018
• Shops 1A & B, Ground Floor, Ko's House, 577 Nathan Road, Kowloon	2012	11 April 2015

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Address of our retail operations	Year of establishment	Lease expiry date
Concession TUC 26, Tung Chung MTR Station	2012	31 May 2015
Unit A, Ground Floor, Shops 57-66, Fortune Plaza, 4 On Chee Road, Tai Po, New Territories	2012	15 November 2015
Shop LG10 on Lower Ground Floor, Kowloon City Plaza, 128 Carpenter Road, Kowloon City, Kowloon	2013	17 February 2016
Shop 1D, 1st Floor, Fou Wah Centre, 210 Castle Peak Road Tsuen Wan, New Territories	2013	19 February 2016
MTR Station Concession TSY 41 at Tsing Yi Station	To be opened in 2013	28 February 2016
Shop 2, Ground Floor, Bo Fung Building, 5 Horse Shoe Lane, Kwun Tong, Kowloon	To be opened in 2013	15 April 2018
<i>Macao</i>		
Avenida de Almeida Ribeiro n°515r/c com Sobreloja, 1° Andar e 2° Andar, Macau	2008	31 January 2018
Avenida do Almirante Lacerda N° 125-B Edificio Hang Hong "B" r/c com Sobreloja, Macau	2010	14 July 2016
Rua de S. Paulo n°38-B Seng Tun "B" r/cc CN 1, Macau	2011	30 June 2017
<i>Singapore</i>		
378 Alexandra Road, Alexandra Hospital # 01-07, Singapore 159964	2006	31 December 2013
Atrium Wing, Block 1, Level 1, Buangkok Green Medical Park, 10 Buangkok View, Singapore 539747	2007	31 December 2015
209 South Bridge Road, Singapore 058758	2010	15 August 2014
Ground Floor, 46 Upper Cross Street, #01-01, Singapore 058345	2010	12 November 2015
Level 3, Ren Ci Community Hospital, 71 Irawaddi Road #03-09, Singapore 329562	2012	15 October 2014
<i>Australia</i>		
Shop 1 Ground Floor, 725-731 George St. Sydney, NSW 2000, Australia	2005	28 February 2015
Shop 1A, 31 Duncan St, Fortitude Valley, QLD 4006, Australia	2008	14 September 2017
Shop 1, 16-18 Anderson St, Chatswood, NSW 2067 Australia	2011	31 January 2016
Shops 9 and 10, 193 Railway Parade, Cabramatta NSW 2166, Australia	2012	19 June 2017

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Address of our retail operations	Year of establishment	Lease expiry date
<i>Malaysia</i>		
• Ground Floor, Sun Complex, Jalan Bukit Bintang, 55100 Kuala Lumpur, Malaysia	2002	31 December 2013
• 72&74, Lebuhr Campbell, Georgetown, 10100 Penang, Malaysia	2004	Owned property
• No. 42, Jalan SS2/67, 47300 Petaling Jaya, Selangor, Malaysia	2008	Owned property
<i>Canada</i>		
• Suite 128, 4940 No.3 Road, Richmond, B.C., V6X 3A5, Canada	2002	31 August 2017
• 5898 Cambie Street, Vancouver, B.C., V5Z 3A8, Canada	2011	31 July 2014
• 4577 and Unit A 4581 Steeles Avenue East, Unit B, Scarborough, Ontario, M1V 4S4, Canada	2010	31 October 2015 and 31 August 2016
<i>Other locations</i>		
• JL.HOS Cokroaminoto No. 73-75 Jakarta 10350 Indonesia	2004	31 December 2014
• 444/2-444/4 and 452 Yaowarat Rd. Road, Samphanthawong District, Bangkok, Thailand 10100	2012	31 October 2021 and 1 November 2021
• Suite # 11A 168 Blvd Samdech Monireth, Cambodia	2006	31 December 2013
• Unit 10, Simpang 150, Regent Square, Kiulap, Bandar Seri Begawan, Brunei Darussalam	2009	14 May 2014
• Dubai Health Care City, Ground Floor, Unit 9, Building 49, District 8, Oud Metha Road, Dubai, UAE	2011	31 August 2016
• Al. Niepodleglosci 18, 02-653 Warszawa, Poland	To be opened in 2013	31 August 2016

PROPERTIES

Owned properties

As at the Latest Practicable Date, we owned eight properties with a total site area of 11,700 sq.m. and a total GFA of 10,974 sq.m. in Hong Kong for workshop, office and staff quarters purposes; three blocks of properties with a total site area of approximately 575 sq.m. and a total GFA of 1,719 sq.m. in Malaysia for retail and staff quarters purposes; and a parcel of land having a site area of 112,547 sq.m. and various buildings with a total GFA of approximately 25,412 sq.m. erected thereon in Tangshan City of the PRC for industrial usage.

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We acquired an office unit in Hong Kong with a GFA of 410.6 sq.m. square feet in January 2013 to cater for our increasing office space requirement. We will occupy such premise after its current lease expire in 16 December 2013.

The independent valuer had valued the abovementioned properties as at 31 December 2012. The text of the letter summary of values and the valuation certificates issued by the independent valuer are set out in Appendix III to this prospectus.

Leased properties

As at the Latest Practicable Date, we were leasing 65 properties. Among these 65 properties, seven are located in Australia, two in Brunei, one in Cambodia, five in Canada, 22 in Hong Kong, one in Indonesia, two in South Korea, five in Macao, one in Malaysia, six in the PRC, seven in Singapore, two in Thailand, two in UAE and two in Poland. These properties we leased are primarily used as our retail stores, wholesale office, warehouse and residential unit.

As at the Latest Practicable Date, the approximate total GFA of the leased properties for various usages was as follows:

Usage	Gross Floor Area (sq.m.)
Retail	7,904
Office	1,189
Residential	1,204
Factory/ warehouse and others	1,385
Total	11,682

As at the Latest Practicable Date, the geographical breakdown of the approximate GFA for our leased retail outlets were as follows:

Place	Gross Floor Area (sq.m.)
Australia	844
Brunei	100
Cambodia	576
Canada	789
Hong Kong	994
Indonesia	724
Macao	444
Malaysia	857
Singapore	1,336
Thailand	456
UAE	299
Poland	485

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For the Group's leased retail outlets, all of them are with fixed rentals instead of turnover-based rentals. The range of terms of such leases is from one year to ten years. For the two years ended 31 December 2012, the aggregate rental expenses for these leases were HK\$18.2 million and HK\$27.1 million, respectively.

According to the Group's consolidated statements of financial position set out in Appendix I to this prospectus, our Directors confirm that:

1. the Group does not have any property interest that forms part of property activities as at 31 December 2012, so the aggregate carrying amount of the property interest that forms part of the Group's property activities does not exceed 10% of its total assets as at 31 December 2012; and
2. except for the property interests in the property valuation report set out in Appendix III, the total and single property interest that forms part of non-property activities do not respectively have a carrying amount of 15% or more of the Group's total assets as at 31 December 2012.

As such and pursuant to Rule 8.01A of the GEM Listing Rules, no valuation report for leased properties is included in this prospectus. According to section 6(2) of the Companies Ordinance (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice, this prospectus is exempted from compliance with the requirements of section 38(1) of the Companies Ordinance in relation to paragraph 34(2) of the Third Schedule to the Companies Ordinance, which requires a valuation report with respect to all the Group's interests in land or buildings.

We are not aware of any challenge being made by any third party to the title of any of these properties which might affect our current occupation. Our various legal advisors have advised us that, the ownership certificates or other evidence of the lessors' rights and authorities to lease the abovementioned leased properties have been obtained and the relevant lease agreements comply with the requirements of applicable laws and regulations and are legal and valid.

INTERNAL CONTROL

We have established internal control systems such as organizational framework, policies and procedures that are designed to monitor and control potential risks areas relevant to our business operations. We have put in place internal control measures, as follows:

- Policy on requiring its members to seek legal advice on the compliance with laws and regulations for the opening of new stores in existing jurisdictions and commencement of operations in new jurisdictions.
- Policy on seeking regular updates on introduction of new, and amendments to existing, laws and regulations which are relevant to its operations.
- Policy on retaining a legal firm(s) to advise on compliance matters.

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- The Overseas Associates hire local legal advisors to advise on applicable registrations and approvals required to carry out business, as well as the relevant approvals required in importing and selling the products.
- Policy on product selection to ensure products have obtained all necessary licences before it is selected to be sold in a particular market.
- Policy on supplier selection to ensure the suppliers (i) hold all necessary licences and permit required under its respective jurisdictions for the operation of their business; (ii) has the required licence(s) for distributing the product(s), if required; (iii) are able to supply in a stable manner in terms of quality and quantity; and (iv) are sizeable in terms of manufacturing and/or financial capacities.
- Monitor the expiry dates of the products we sell.
- Policy on procurement to ensure quality of non self-manufacturing Chinese Medicine Products we purchase by (i) obtaining and inspecting all relevant inspection reports when available; (ii) inspecting the expiry date of products; and (iii) performing sample laboratory testing and inspecting the outlook of Chinese herbs upon receipt of each batch of products.
- Sample testing each batch of raw materials sourced to ensure the quality and quantity meet our stipulated standard for production by (i) obtaining relevant inspection reports upon receipt of each batch of products; and (ii) testing the ingredient portfolio including but not limited to humidity, level of pesticides residual, level of microorganisms and chemicals.
- Production line checking to maintain high level of hygiene standards including disinfection cleaning of the production facilities before and after each batch of production.
- Carry out laboratory testing of sample of work in process after each intermediate manufacturing process.
- Carry out laboratory testing of sample of each production batch to ensure they meet the stipulated quality.
- Policy on inventory storage to ensure quality of products being sold by monitoring the temperature and humidity of the storage area.
- Policy on ongoing qualification of suppliers to appraise the performance of suppliers on an annual basis to ensure that the Group can enjoy good quality of products and services provided by suppliers at reasonable prices.

Taking into account the above control measures, the Directors believe that adequate controls to ensure product quality are in place.

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The Company has engaged an independent internal control consultant since December 2010 to review the internal control of the Company and our subsidiaries. Internal control weaknesses were identified during the period of evaluation and recommendations have been provided for all findings. The Company had been remediating on the findings, in particular the strengthening of cash management procedures and segregation of duties at the overseas operation level. While most of the business process controls have been implemented and policies of entity level control to take effect from March 2013, the remaining measures will be finalised and implemented in conjunction with the ERP project. The recommended measures are currently expected to be fully implemented by June 2013. The Company has also established an internal control team to further enhance the internal control of the Group.

During the Track Record Period and up to the Latest Practicable Date, our Directors, to their best knowledge, are not aware of any past incidents involving our employees or distributors engaging in corruption or other improper conducts that had a material impact on our Company, and believe that we were in compliance in all material respects with the laws and regulations disclosed under the “Regulations” section in this prospectus. Our Company will also continue to implement and enforce the proper internal control procedures to ensure ongoing compliance with all applicable laws and regulations, including the prevention of our employees or affiliates engaging in any corruption, bribery, health fraud and abuse or improper conduct and other incidents of non-compliance.

PRODUCT LIABILITY

We are responsible for the product liability of products we manufacture. We currently sell our Angong Niu Huang Pills in Hong Kong and GLSPC in Hong Kong, Macao, Australia, Brunei and Cambodia. We have subscribed for product liability insurance for Angong Niu Huang Pills and for GLSPC in Asia excluding Australia, New Zealand and China. The amount of coverage is up to the revenue of the relevant product in the preceding financial year.

We are also responsible for the product liability of non self-manufactured branded Chinese Medicine Products that we distribute. In the event that we are sued for non self-manufactured Chinese Medicine Products we distribute, where the jurisdictions permit, we will join the relevant manufacturer(s) and/or supplier(s) as co-defendants in the relevant legal proceedings to mitigate our exposure. If we suffer damage as a result of the product liability claims which are not due to our fault, we will seek compensation from the supplier(s) and the manufacturer(s) and may take legal proceedings against them, if appropriate. We have subscribed for product liability insurance in connection with products sold in our distribution operations in Australia and Canada. We will monitor the need to subscribe for such insurance in other jurisdictions we operate.

We are not aware of any major claims or compensation relating to Chinese Medicine Products in the jurisdictions we operate during the Track Record Period.

INTELLECTUAL PROPERTY

We use the “Tong Ren Tang” brand name, which is owned by the Parent Group, in our operations. As at the Latest Practicable Date, to the best knowledge of the Directors, the Parent Group has registered the “Tong Ren Tang” brand name under classes which are relevant to our operations in

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Australia, Canada, the European Union, Hong Kong, South Korea, Malaysia, Macao, Peru, Chile, Russia, Singapore, Thailand, the Philippines, Japan, Taiwan, the U.K., the United States, Israel, Kazakhstan, Vietnam, Brunei, and Cambodia, and is in the course of application for registration of the “Tong Ren Tang” brand name under, among others, the classes relevant to our operations in the UAE and New Zealand. Furthermore, the Parent Group has extended the trademark registration of the “Tong Ren Tang” trademark through registration under the Madrid Agreement and Protocol in other countries and areas including Algeria, Armenia, Austria, Bulgaria, Benelux, Germany, Egypt, Spain, France, Hungary, Kyrgyzstan, North Korea, Liechtenstein, Morocco, Monaco, Moldova, Mongolia, Portugal, San Marino, Sudan and Tajikistan. The Parent Group has undertaken to register the “Tong Ren Tang” trademarks under classes relevant to our operations in countries we have, or will have, operations and take other appropriate actions in relation to protection of intellectual property rights in the overseas jurisdictions. The Group has not encountered any claim for using an unregistered trademark for operations and in view of the current registrations of the “Tong Ren Tang” brand name as described above, the coverage of the Parent Group’s trademark registration of the “Tong Ren Tang” trademark offers sufficient protection for our overseas business operations.

On 26 November 2006, the Company signed a trademark licence agreement with TRT Holdings for the licensed use of “Tong Ren Tang” trademark of the “Tong Ren Tang” trademark for our production operations subject to the terms of the Trademark Licence Agreement for a term of ten years commencing from 26 November 2006 to 16 November 2016. Pursuant to an authorisation letter dated 10 September 2010, TRT Holdings further licensed to the Company for the right to use the “Tong Ren Tang” trademarks outside of the PRC including but not limited to the right to sub-license the said trademark at nil consideration from 1 October 2010 to 30 September 2013. Pursuant to a revised trademark licence agreement and authorisation letter dated 15 April 2013 (the “Trademark License Agreement and Authorisation Letter”), the term of the licensed use and authorisation of the “Tong Ren Tang” trademark is renewed at nil consideration up to 13 May 2021 and will be automatically renewed on the same terms and conditions on a perpetual basis for terms of 10 years upon its expiry. According to the Trademark License Agreement and Authorisation Letter, the Company is not subject to any fee or charges for use of the trademark as long as TRT Holdings directly or indirectly controls 51% or more equity interest of the Company.

The Trademark License Agreement and the Authorisation Letter shall be immediately terminated if TRT Holdings ceases to be the owner of the “Tong Ren Tang” trademark, and/or TRT Holdings directly or indirectly holds less than 51% equity interest of the Company. Furthermore, only with respect to the licensed use for the production operations and without prejudice to the other clauses of the Trademark License Agreement and Authorisation Letter, TRT Holdings have the rights to terminate the Trademark Licence Agreement and Authorisation Letter if we have caused damage to the “Tong Ren Tang” brand name as a result of any of the followings:

- variation of scope of use, or sub-license of the licensed “Tong Ren Tang” brand name without prior approval of TRT Holdings
- quality problems of our products
- violation of relevant drug laws and regulations leading to investigations by relevant authorities

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- contravention of terms of the Trademark Licence Agreement and Authorisation Letter whereby the Company fails to remedy upon receiving written notice of TRT Holdings
- any other acts which damage the reputation of the licensed “Tong Ren Tang” brand name

On the other hand, pursuant to the Trademark License Agreement and Authorisation Letter, TRT Holdings is obliged for the protection of the “Tong Ren Tang” trademark and from time to time make appropriate trademark registration in order to ensure the rights of the Company in the use of the trademark overseas.

The Company sub-licenses the “Tong Ren Tang” trademark to the Overseas Associates, namely the 12 joint venture companies which the Company formed with local partners. Pursuant to the sub-licence agreements, the Overseas Associates are only allowed to use the “Tong Ren Tang” trademark in their company names, their shops, as well as for advertising and promotion of “Tong Ren Tang” branded products. The sub-licences are only for the benefit of the Overseas Associates but not their shareholders, subsidiaries, holding companies or associate companies, nor any other parties associated with the Overseas Associates. If the parties decide to continue the joint venture arrangement upon its expiry, they should sign renewed sub-licence agreements at least 6 months prior the expiry of the term of the joint venture.

Unless prior consent of the Company is obtained, the Overseas Associates are not allowed to transfer their interest under the sub-licence agreements to any other parties by any means. The Company has assigned one district manager to each of our overseas countries and regions who are responsible for the management and operation of the Overseas Associates. These district managers are, among others, responsible for ensuring that the Overseas Associates are using the “Tong Ren Tang” trademark appropriately and in accordance with the sub-licence agreements.

The Group has also sub-licensed the “Tong Ren Tang” trademark to an Independent Third Party in Macao (please refer to note 2 to the table setting out the number of our retail stores in each jurisdiction during the Track Record Period and up to the Latest Practicable Date as set out in the paragraph headed “Distribution in Non-PRC Markets – Retail” above for details of such arrangement) and TRT (Taiwan) (please also refer to the paragraph “Relationship with Controlling Shareholders – Excluded business” in this prospectus for details of such arrangement).

The “Tong Ren Tang” trademarks have been registered by certain Independent Third Parties in Indonesia under, among others, classes 5, 35 and 44 which are relevant to our operations. The Parent Group had filed application for trademark registration under these classes in its own name and also application for cancellation of trademark registration under the relevant Independent Third Parties accordingly. So far as the Company understands the Parent Group’s initial application has been rejected and the Parent Group has appealed to the Supreme Court of Indonesia. As at the Latest Practicable Date, the relevant applications are being considered by the Supreme Court of Indonesia. Notwithstanding the outcome of the proceedings, as advised by our legal advisor as to Indonesian law, the registration of the “Tong Ren Tang” trademarks by Independent Third Parties does not affect the legality of our business operations in Indonesia using the “Tong Ren Tang” trademarks under the

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said classes. However, TRT (Indonesia) is exposed to the risk of being sued for infringement by the current registered owner of the relevant trademarks in Indonesia. Such parties have not sued TRT (Indonesia) for any compensation up to the Latest Practicable Date. Furthermore, pursuant to the revised authorisation as mentioned above, TRT Holdings will indemnify us against any loss due to our use of the “Tong Ren Tang” trademarks outside of the PRC. To the best knowledge of the Directors, we are not aware of any other similar instances where the Parent Group’s trademarks are registered by another party in the jurisdictions that we are currently operating or we intend to expand into as disclosed in the section headed “Statement of business objectives” in this prospectus.

We possess intellectual property rights with respect to the trade secrets, know-how and product formulae in our operations. We rely on confidentiality procedures and contractual provisions to protect such intellectual property rights where we believe patent protection and other registrations are not appropriate or available. Only a small selected group of our staff has access to our formulae. We enter into confidentiality agreements with all of our key research and development personnel at the time of employment. These agreements address intellectual property protection issues, setting forth their confidentiality obligations in respect of our know-how as well as non-competition undertakings for a specified period after termination of their employment with us. Our employee handbook, which is distributed to all employees, also sets forth their obligation to keep confidential our trade secrets and proprietary information, failing which we are entitled to take disciplinary actions against any such employee.

We take action upon becoming aware of a potential infringement of our trademarks. The TRT Group have experienced infringement of our intellectual property, primarily in the form of similar branding and packaging as ours, and expect that there will be more counterfeiting of our products as our brand recognition increases. As such, we have added counterfeit-prevention labels on products we manufacture and plan to further educate our customers and employees. In addition, we have a team to deal with issues in relation to counterfeit goods. During the Track Record Period and up to the Latest Practicable Date, we have not experienced any material adverse impact on our business as a result of infringement on our intellectual property rights, including incidents involving counterfeit and imitation products.

LEGAL PROCEEDINGS AND REGULATIONS

Litigation and other proceedings

During the Track Record Period and up to the Latest Practicable Date, to the best of our knowledge, (i) there was no pending or threatened litigation, arbitration matter or other legal proceeding, (ii) the Group’s products have not been subject to any recall by government authorities, and (iii) the Group has not received any material customer complaint and/or claims, that we would expect to have a material adverse effect on our financial condition, results of operation, reputation, business activities, or future prospects.

Regulatory compliance

As advised by our Malaysian legal advisor, pursuant to the Guidelines on Foreign Participation in the Distributive Trade Services Malaysia (the “DT Guidelines”) (which appeared in 1996 and the most recent revision was in May 2010) issued by the Ministry of Domestic Trade, Cooperatives and Consumerism (the “MDTCC”) in May 2010, all proposals for foreign involvement in distributive trade shall obtain the approval of MDTCC, including, inter alia, opening of new branches, outlets, chain stores, relocation of branches, outlets, chain stores, expansion of existing branches, outlets, chain stores, buying over or taking over of outlets of other operators, and purchase and sale of properties to operate distributive trade activities so long as there is any foreign shareholding in a Malaysian company.

Before the commencement of operations of TRT (Malaysia), we had discussed with our Overseas Partner about the DT Guidelines and were given to understand that the DT Guidelines might be repealed and there were no liabilities and/or penalties in not complying with the DT Guidelines. Therefore, we agreed with our Overseas Partner, which is responsible for registration formalities for establishment of TRT (Malaysia), not to apply for approval from MDTCC under the DT Guidelines. Our Malaysian legal advisor advised that TRT (Malaysia) does not comply with the DT Guidelines due to the aforesaid.

Notwithstanding the aforesaid, the Malaysian legal advisor agreed that the pedigree of the DT Guidelines is unclear and the DT Guidelines, being mere guidelines, may not be law and thus may not have the force of law and do not impair the legality of the operations of TRT (Malaysia). As TRT (Malaysia) has possessed all the required business licences during the Track Record Period and up to the Latest Practicable Date, our Malaysian legal advisor confirmed that the operation of TRT (Malaysia) in Malaysia during the Track Record Period and up to the Latest Practicable Date has been legal. For the two years ended 31 December 2012, the percentage of the Group’s revenue attributable to TRT (Malaysia) was approximately 3.0% and 1.7% respectively.

Our Malaysian legal advisor has advised that, as a result of non-compliance of the DT Guidelines, the MDTCC has the right to reject our applications to open any new branch or revoke any approval granted by it. The DT Guidelines do not provide any other penalty or consequences for non-compliance. Currently, we have not made any applications to MDTCC for opening of new branches and we did not have any approvals from the MDTCC for our current branches. However, our Malaysian legal advisor has advised that we may face risk of indirect sanction if the MDTCC persuades other relevant authorities to refuse the grant of any approval, licence or permit that may be legally required for the business and operations of TRT (Malaysia). TRT (Malaysia) has not been refused the grant of any approval, licence or permit required for its business and operations.

In order to minimise such risks due to non-compliance of the DT Guidelines, TRT (Malaysia) will make an application for waiver from compliance of the DT Guidelines in 2013 and the Group does not intend to open any new stores in Malaysia before the waiver is obtained. However, regardless of whether such waiver can be obtained, since we were advised by our Malaysian legal advisor that the operation of TRT (Malaysia) was legal up to the Latest Practicable Date and the DT Guidelines may not have the force of law, we intend to maintain our shareholding in TRT (Malaysia) unless any approval, licence or permit that is required for the business and operation of TRT (Malaysia) has been

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revoked. In the event that any such approval, licence or permit is revoked, we intend to dispose of our shareholding in TRT (Malaysia) and if we fail to dispose of our shareholding in TRT (Malaysia) at consideration not less than our investment costs in TRT (Malaysia), our Controlling Shareholders shall indemnify us for our investment costs.

Save as disclosed in the section headed “Risk factors – The Chinese Medicine Products industry is heavily regulated” in this prospectus and in this subsection, we are in compliance with all related laws and regulations in all material respects and based on the advice from our respective legal advisors and/or our Directors’ confirmation, we have obtained all licences, approvals and permits material for our business operations in all the jurisdictions in which we have operations during the Track Record Period and up to the Latest Practicable Date.

In order to ensure our compliance with various rules and regulations in different jurisdictions, we have liaised with our legal advisors in various jurisdictions both prior to commencement of our operations and when needed on an on-going basis. Further, we plan to adopt the following measures so as to strengthen regulatory compliance: (i) we shall employ a compliance officer whose responsibility includes but not limited to monitoring the compliance matters both in Hong Kong and other jurisdictions; (ii) the representatives of our overseas outlets who are responsible for liaising with their respective legal advisors shall report to the compliance officer at a regular interval as well as for any special matter; and (iii) the compliance officer and the representatives of our overseas stores shall provide regular training on regulatory compliance matters to the relevant staff in Hong Kong and overseas.

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

CONTROLLING SHAREHOLDERS

Immediately after completion of the Share Offer and the Capitalisation Issue and assuming the Over-allotment Option is not exercised, our Company is owned as to 39.82% and 35.18% by TRT Technologies and TRT Ltd., respectively. TRT Technologies is owned as to 51.02% and 0.81% by TRT Ltd. and TRT Holdings, respectively. TRT Ltd. is owned as to 55.24% by TRT Holdings. Hence, each of TRT Technologies, TRT Ltd. and TRT Holdings is considered as a Controlling Shareholder for the purpose of the GEM Listing Rules.

INDEPENDENCE FROM THE PARENT GROUP

A. BUSINESS DELINEATION

The Directors believe that the Group has a clear business delineation from the Parent Group. For details of the delineation analysis, please refer to the section headed “Business – Recent developments” in this prospectus. The Parent Group is principally engaged in the distribution of Chinese Medicine Products, including those manufactured by the Parent Group, in the PRC.

We set out our further analysis of business delineation between the Group and the Parent Group as follows:

1. Overseas distribution of Chinese Medicine Products

- The business delineation between the Company and the Parent Group is clear. Being the primary overseas distribution platform for the Parent Group, the Company manages the overseas sales network of all Chinese Medicine Products under the “Tong Ren Tang” brand.
- Save for the interest of the Parent Group in the sale of Chinese Medicine Products as disclosed in the next paragraph, the Group is the only member of the TRT Group which communicates with purchasers of “Tong Ren Tang” branded products in Non-PRC Markets (except for Japan). The Parent Group does not promote its products to customers in Non-PRC Markets. Accordingly, the Group is in control of the distribution of all “Tong Ren Tang” branded products in Non-PRC Markets (except for Japan) and there should not be any conflict of interest with the Parent Group that will affect the interest of the independent Shareholders from this aspect.
- The Parent Group has the following interests in the sale of Chinese Medicine Products:
 - (i) it holds an approximately 53% interest in TRT (Taiwan) which sells Chinese Medicine Products. Please refer to the descriptions under the paragraph headed “Excluded business” below;
 - (ii) it has granted franchise rights to a Filipino company which sells Chinese Medicine Products. Please refer to the descriptions under the paragraph headed “Excluded business” below; and

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

(iii) it manufactures and sells products to two Independent Third Parties in Japan.

We are of the view that there is no competition between the Parent Group and us in this regard that affects our suitability for Listing due to the fact that we are the sole distributor of TRT Ltd. and TRT Technologies (except for products to two Japanese companies) and we do not currently have operations in these jurisdictions. In particular,

(i) TRT (Taiwan)

Taiwan is not a target market for the Company and the Group has no plans to expand its distribution operations into Taiwan under current political environment. Furthermore, there is no competition between the market of Taiwan and the existing markets of the Group in terms of geographical delineation.

(ii) Filipino company

The franchise rights granted to the Filipino company will expire in 2014. Furthermore, there is no competition between the market of the Philippines and the existing markets of the Group in terms of geographical delineation.

(iii) Sales to Japan

The Parent Group has entered into agreements to manufacture (i) two Chinese Medicines and processed Chinese herbs for an Independent Third Party in Japan (“Japanese Party A”); and (ii) 27 Chinese Medicines for another Independent Third Party in Japan (“Japanese Party B”), pursuant to formulae or preparation processes, as relevant, and quality control process provided by these parties. The products are solely distributed by these Japanese parties and the Parent Group is only engaged as a manufacturer and receives manufacturing revenue for these products. However, the products supplied to Japanese Party A are sold by it under a co-brand citing the “Tong Ren Tang” brand name and trademark. The Parent Group has no representation in the board of directors of these companies. As these Japanese companies are the respective owners of these relevant products, they distribute these products on their own accord and not as distributors of the Parent Group. As we do not have distribution operations in Japan currently and the Parent Group has undertaken not to establish Chinese Medicine Products distribution business in Japan, we do not compete with these Japanese companies.

Please refer to the paragraph headed “Excluded business” below for further particulars on the above mentioned companies.

However, the Group will be engaged in normal market competition with TRT (Taiwan) and the above mentioned Filipino company in general when we expand into these markets though the Group has no current intention to expand into these two markets. In addition, the Group currently does not intend to engage in the distribution of Chinese Medicine Products in Japan.

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2. Sales of Angong Niuhuang Pills and GLSPC

(i) Angong Niuhuang Pills

Taking into consideration:

- Angong Niuhuang Pills is a unique product in its own right as it is produced based on an ancient recipe invented by Wu Jutong, a renowned Chinese doctor of the Qing Dynasty. Accordingly, other Chinese Medicine Products are not considered to be in direct competition with Angong Niuhuang Pills even if they may have curative effects which overlap with its various effects;
- Angong Niuhuang Pills manufactured by the Parent Group will only be sold in the PRC from 1 October 2012 and it will not sell its Angong Niuhuang Pills to Non-PRC Markets from such date;
- overseas sales of Angong Niuhuang Pills of the Parent Group have previously been conducted through the Group under the agency arrangement; and
- Angong Niuhuang Pills manufactured by the Company are currently sold in Hong Kong and we plan to expand its sales to other Non-PRC Markets once the relevant registrations are completed,

(ii) GLSPC

Taking into consideration:

- the Group has ceased selling GLSPC into the PRC from November 2012;
- the Directors consider that the applications of Chinese Medicine Products, especially Healthcare Products, are normally general, but not very specific or well-defined and broadly speaking, each kind of Healthcare Products is claimed/perceived for “good for health”, and as such it is not fair to conclude that all kinds of Healthcare Products are in direct competition with each other. The Directors are of the view that it is the major raw materials that dominate the particular perceived function of Healthcare Products, and although there are “Tong Ren Tang” branded Healthcare Products other than GLSPC sold in Non-PRC Markets, they do not directly compete with GLSPC; and
- the Parent Group has undertaken not to engage in the manufacture and/or sales of products containing ganoderma lucidum or ganoderma lucidum spores as a raw material in Non-PRC Markets,

we are of the view that there is no competition with the Parent Group in these sales of our Angong Niuhuang Pills and GLSPC.

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3. Deed of Non-competition

The Deed of Non-competition has been entered into pursuant to which, among others, each of TRT Ltd., TRT Technologies and TRT Holdings has undertaken (i) not to engage in the research and development, manufacture and/or sales of any products containing ganoderma lucidum or ganoderma lucidum spores as raw materials in Non-PRC Markets; (ii) not to sell Angong Niu Huang Pills manufactured by the Parent Group in Non-PRC Markets; and (iii) to appoint TRT International Natural-Pharm as sole distributor of “Tong Ren Tang” branded products in Non-PRC Markets except for Japan. For further details of the Deed of Non-competition, please refer to the section headed “Deed of Non-competition with the Parent Group” below.

B. MANAGEMENT OPERATIONAL ADMINISTRATIVE AND FINANCIAL INDEPENDENCE

Furthermore, having considered the factors described below, we believe that the Group is capable of carrying on its business independently from the Parent Group after the Share Offer.

1. Management independence

Upon Listing, our Board comprises three executive Directors, namely (1) Ms. Ding Yong Ling, (2) Mr. Zhang Huan Ping and (3) Ms. Lin Man; one non-executive Director, namely (1) Mr. Yin Shun Hai; and three independent non-executive Directors, namely (1) Ms. Leung, Oi Sie Elsie, (2) Mr. Chan Ngai Chi and (3) Mr. Zhao Zhong Zhen. The overlapping of directorship and senior management among the Company, TRT Technologies, TRT Ltd. and TRT Holdings are set forth below:

Name of Directors	The Company	TRT		
		Technologies	TRT Ltd.	TRT Holdings
Mr. Yin Shun Hai	Chairman and non-executive Director	Executive director	Director	Chairman
Ms. Ding Yong Ling	Executive Director	–	Vice chairman and director (Note)	Deputy general manager (Note)

Note: Ms. Ding Yong Ling’s role as director in TRT Ltd. is non-executive in nature. Although Ms. Ding Yong Ling is a deputy general manager of TRT Holdings, she is not involved in the day-to-day operations of TRT Holdings and her main duty is in the management of the Group.

Only two out of seven Directors (i.e. Ms. Ding Yong Ling and Mr. Yin Shun Hai) and only one out of three executive Directors (i.e. Ms. Ding Yong Ling) will have overlapping roles in the Parent Group.

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Notwithstanding the foregoing, we are of the view that the Board of Directors and the senior management of the Group will operate and function independently from the directors of the Parent Group for the following reasons:

- (a) Mr. Yin Shun Hai, being a non-executive Director of the Company, will not participate in the day-to-day operations of the Group.
- (b) Our daily operations are managed by the three executive Directors, Ms. Ding Yong Ling, Mr. Zhang Huan Ping and Ms. Lin Man. Although Ms. Ding Yong Ling will continue to be a deputy general manager of TRT Holdings and a director of TRT Ltd., she will not participate in the day-to-day operations of TRT Holdings and TRT Ltd. (save for the Group) and will devote most of her time to the day-to-day operations and the management of the Group.
- (c) The management of the Group will also be supported by the senior management team who will carry on the business independently from the Parent Group. Save as disclosed above, there will be no overlap of senior management between the Group and the Parent Group.

2. Operational independence

We believe that the Group operates independently from the Parent Group.

Our distribution business is operated independently from that of the Parent Group. The Company has its own independent team overseeing its day-to-day operations and the Overseas Associates have their own independent teams as well. Please refer to the section headed “Business – Management of our Overseas Associates” in this prospectus for further particulars.

The manufacturing facilities of the Parent Group and the Company are clearly delineated and separately located and the Company has its own functional teams such as merchandising, manufacturing, quality control, administration, finance and human resources which have been operating and are expected to continue to operate separately.

The Group has had various, and will continue to have, certain transactions with the Parent Group as follows:

Transactions during the Track Record Period that have ceased

- distribution of self-manufactured Chinese Medicine Products (including GLSPC) to the PRC through the Parent Group
- acting as an agent of TRT Ltd. and TRT Technologies in Non-PRC Markets
- purchase of Chinese herbs from the Parent Group
- purchase of the Parent Group’s Angong Niu Huang Pills for distribution in Non-PRC Markets

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Transactions that will continue

- acting as the sole distributor (and not agent) of TRT Ltd. and TRT Technologies in Non-PRC Markets (except for products sold to two Japanese companies) and purchase products from them
- sourcing of Angong Niu Huang Powder from the Parent Group

Based on the considerations below, we believe the transactions between the Group and the Parent Group will not affect the independence of the Group and hence the suitability of the Listing.

(i) Overseas distribution of Chinese Medicine Products

- “Tong Ren Tang” is one of the most renowned brands for Chinese Medicine Products in the PRC. Striving to become the platform for marketing Chinese Medicine Products overseas and as a company engaging in overseas distribution of Chinese Medicine Products, we have to provide a broad range of products and it is inevitable that we sell “Tong Ren Tang” branded products through our network. On the other hand, as the primary overseas business development platform of the Parent Group, we (i) manage substantially all of the overseas distribution network of all Chinese Medicine Products of “Tong Ren Tang” brand; (ii) are responsible for the coordination of the product registration and marketing of the Chinese Medicine Products of “Tong Ren Tang” brand in Non-PRC Markets; and (iii) have sole discretion to formulate and implement further expansion plan for extending its reach to Non-PRC Markets as the Parent Group has appointed the Group to distribute its products in Non-PRC Markets. Accordingly, this is a commercial arrangement mutually beneficial to both sides and should not be viewed as a one-way reliance. All the arrangements above will be based on reasonable commercial terms;
- the Parent Group’s products do not account for a majority of our overseas distribution product offerings. We are also engaged in the wholesale and retail of Chinese Medicine Products under other brands and Chinese herbs as well as the provision of Chinese Medical Consultation; and
- the percentage of procurement of Chinese Medicine Products from the Parent Group to the total procurement of the Group decreased by 10.2% in 2012. Furthermore, we have ceased sourcing Chinese herbs from the Parent Group from 1 October 2012.

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

(ii) Distribution of self-manufactured products in the PRC

- The percentage of revenue from the sale of all self-manufactured products, including GLSPC, under the PRC distribution to our total revenue has been decreasing over the years. Such percentage was approximately 29.8% and 24.0% for each of the two years ended 31 December 2012 respectively; and
- the sales of self-manufactured products, including GLSPC, under the PRC distribution has ceased from 1 November 2012.

(iii) Procurement of raw materials for manufacturing Chinese Medicine Products

- As the Parent Group is the only entity licensed to process natural musk for production of Angong Niu Huang Pills, it is in the commercial interest of the Company to source Angong Niu Huang Powder (raw materials for Angong Niu Huang Pills) from the Parent Group. At present, the Company considers that shifting to other alternative suppliers who provide non-natural powder would have an adverse impact on the product quality of the Company's Angong Niu Huang Pills. This is not in the interest of the Company. Since the purchase of all raw materials (including Angong Niu Huang Powder) from the Parent Group represented only 9.9% and 9.9% of the total purchases of the Group for each of the two years ended 31 December 2012, respectively, we are of the view that the sourcing of Angong Niu Huang Powder from the Parent Group does not indicate that the Company places a heavy reliance on the Parent Group in terms of sourcing. In addition, in order to ensure the future supply of Angong Niu Huang Powder, the Company has entered into a supply agreement with the Parent Group in which the transactions are conducted on commercially reasonable terms;
- during the Track Record Period, we purchased some of the Chinese herbs from the Parent Group. We have alternative suppliers of Chinese herbs. To reduce its reliance on the Parent Group, we have ceased purchasing Chinese herbs from the Parent Group from 1 October 2012.

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

(iv) Procurement from the Parent Group will substantially decrease

The table below sets forth an analysis of our procurement from the Parent Group for the two years ended 31 December 2012:

	Year ended 31 December	
	2011	2012
	<i>(HK\$'000)</i>	<i>(HK\$'000)</i>
1. Procurement of Chinese Medicine Products from the Parent Group	30,910	29,563
<i>Percentage to total procurement of Chinese Medicine Products</i>	38.5%	32.2%
2. Procurement of raw materials from the Parent Group	10,118	14,504
<i>Percentage to total procurement of raw materials</i>	46.8%	26.5%
Total procurement from the Parent Group (Items 1+2) <i>(Note)</i>	41,028	44,067
<i>Percentage to total procurement of Chinese Medicine Products and raw materials</i>	40.2%	30.1%

Note: Total procurement from the Parent Group included the proportional purchases by our jointly controlled entities which had not been recognised in its Accountants Report of approximately HK\$12.2 million and HK\$3.7 million for each of the two years ended 31 December 2012 respectively.

The decrease in the procurement from the Parent Group as a percentage of our total procurement of Chinese Medicine Products and raw materials during the Track Record Period was primarily because of (a) decreased purchase of the Parent Group's Angong Niu Huang Pills; and (b) decreased purchase of Chinese herbs.

Following the recent business developments, our procurement from the Parent Group will substantially decrease as:

- we have ceased to purchase Angong Niu Huang Pills from the Parent Group for distribution in Non-PRC Markets from 1 October 2012;
- we have ceased procuring raw materials (including packaging materials) apart from Angong Niu Huang Powder (of which we purchase certain of its raw materials directly and pass on to the Parent Group for processing together with natural musk) from the Parent Group; and

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

- under the terms of the Exclusive Distributorship Framework Agreements and Angong Niu Huang Powder Master Purchase Agreement, purchases from the Parent Group, which include both “Tong Ren Tang” branded products as the sole overseas distributor of the Parent Group and Angong Niu Huang Powder, are not only capped at the annual caps stated in “Connected Transactions” section of this prospectus, but are also subject to a further cap of not more than 28% of total purchases of the Group for each of the two years ending 31 December 2014.

The Directors are of the view that the purchases from the Parent Group can be kept under 28% of total purchases of the Group for the following reasons:

- The purchase of Angong Niu Huang Powder is reduced as the Group has begun purchasing certain raw materials or the manufacturing of Angong Niu Huang Powder directly and then provide, but not sell, such raw materials to the Parent Group together with natural musk provided by the Parent Group for the manufacturing of Angong Niu Huang Powder. Accordingly, as the Parent Group will not bear the cost of the raw materials supplied by us, the purchase price of Angong Niu Huang Powder from the Parent Group will be reduced.
- The Group has ceased to purchase ganoderma lucidum spores powder from the Parent Group since 2011 and raw materials for the production of other self-manufactured products from the Parent Group since 2012, which amounted to approximately HK\$1.2 million and HK\$0.2 million in the two years ended 31 December 2012 respectively.
- The Group has ceased to purchase Chinese herbs from the Parent Group which amounted to about HK\$9.7 million and HK\$7.6 million in each of the two years ended 31 December 2012 respectively.

(v) Decreasing revenue generated from the Parent Group

The table below sets forth an analysis of our revenue generated from the Parent Group for each of the two years ended 31 December 2012:

	31 December			
	2011		2012	
	<i>% to total</i>		<i>% to total</i>	
	<i>(HK\$'000) revenue</i>		<i>(HK\$'000) revenue</i>	
Revenue from PRC				
distribution	77,692	27.7%	107,359	22.7%
Agency fee income	24,491	8.7%	20,645	4.4%
Total revenue generated				
from the Parent Group	<u>102,183</u>	<u>36.4%</u>	<u>128,004</u>	<u>27.1%</u>

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

The revenue generated from the Parent Group has been decreasing and the amount will be de minimis going forward as we have ceased our PRC distribution business and our agency business.

In view of the aforesaid, we are of the view that the business of the Group is operated independently from that of the Parent Group.

(vi) No material adverse change in counterparty risk

Sales to the Parent Group

The Parent Group was the ultimate customer of the Group for the product it purchased from the Group for distribution in the PRC. Accordingly, it did not involve any other counterparty risks during the Track Record Period.

Purchases from the Parent Group

The Parent Group is the only supplier of Angong Niu Huang Powder with natural musk and “Tong Ren Tang” branded products, therefore the Company did not involve any other counterparty risks during the Track Record Period. The Group is currently sourcing the relevant materials from the same parties which supplied ganoderma lucidum spore powder to the Parent Group. As confirmed by the Parent Group, there had not been late deliveries of materials or cancelled contracts from the relevant suppliers. To the best knowledge of our Directors, the relevant suppliers had not been late in fulfilling orders from the Parent Group. The Group has sourced Chinese herbs it has previously sourced from the Parent Group from Independent Third Parties which supplied the same products to the Group, at terms no less favourable than those offered by the Parent Group. Accordingly, the above from the Parent Group did not involve the Parent Group absorbing counterparty risks which would have distorted the Group’s results.

The above transactions with the Parent Group have been conducted on normal commercial terms arrived at based on arm’s length negotiation and the profitability of the Group on such transactions with the Parent Group does not differ materially from those with independent customers and suppliers that can enter into the same transactions.

3. Administrative independence

Our Directors consider that we can function independently from the Parent Group. To ensure the independence of the operation and business of the Group from the Parent Group, we have our own merchandising (including procurement, sales, marketing and business development and sales supporting), production and logistics (including production and shipping), quality assurance and control, administration, finance and human resources and other systems and teams which have been operating and are expected to continue to operate separately.

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Save as disclosed in this section and the section headed “Directors and Senior Management” in this prospectus, the Parent Group and the Directors and their respective associates do not have any interest in business which competes or is likely to compete, directly or indirectly with the Group.

4. Financial independence

We have our own financial management and relevant personnel who are independent from the Parent Group. The Group can independently access third party financing and bank borrowings. The Group also has its own settlement and treasury functions. No settlement or treasury functions are currently carried out by the Parent Group for and on behalf of the Group.

Save as any trade balances due to or from the Parent Group, as at the Latest Practicable Date, there was no outstanding balance due to or from the Parent Group or any personal guarantee provided by the Parent Group for the indebtedness of the Group.

DEED OF NON-COMPETITION WITH THE PARENT GROUP

Each of TRT Ltd., TRT Technologies and TRT Holdings entered into the Deed of Non-competition with the Company on 18 April 2013, pursuant to which they have severally, among other things, irrevocably and unconditionally undertaken to the Company that at any time until their collective beneficial interest in the equity interest in the Company is less than 30%, it shall not, and shall procure their respective subsidiaries (except through its interests in the Group) not to, without prior written consent of the Company, directly or indirectly:

- (i) engage in the research, development, manufacture and sales of any Chinese Medicine Products containing ganoderma lucidum or ganoderma lucidum spores as raw materials in Non-PRC Markets;
- (ii) engage in the research, development, manufacture and sale of any products with “Tong Ren Tang” brands in Non-PRC Markets, except for the manufacture of the Chinese medicine products for the two Independent Third Parties in Japan mentioned in the paragraph headed “Excluded Business – Japan” below (the “excluded business in Japan”); for the avoidance of doubt and without prejudice to the generality of the Deed of Non-competition, except for the current excluded business in Japan, engage in arrangement with any other parties in the Non-PRC Markets similar to the excluded business in Japan;
- (iii) carry out any sales or registration (new or renewal) for Angong Niu Huang Pills in Non-PRC Markets;
- (iv) engage in the distribution of any Chinese Medicine Products in Non-PRC Markets, except for
 - (1) TRT (Taiwan) until the expiration of such joint venture on 15 July 2018;

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- (2) TRT Hong Kong Medicine until the expiration of the relevant cooperation agreement on 15 April 2023;
 - (3) TRT (UK) until the expiration of the relevant cooperation agreement on 15 April 2023;
 - (4) a Filipino company engaged in the sales of Chinese Medicine Products under the “Tong Ren Tang” brand as franchised by Parent Group until the expiration of such franchising arrangement on 1 August 2014;
 - (5) selling products manufactured pursuant to formulae or preparation processes, as relevant, and quality control process provided by two Independent Third Parties in Japan to these two parties; and
- (v) carry out any new overseas registration of “Tong Ren Tang” branded products ((i) to (v) are collectively known as “Restricted Business”).

In addition, under the Deed of Non-competition, each of our Controlling Shareholders has also undertaken that if each of them and/or any of its associates is offered or becomes aware of any project or new business opportunity (“**New Business Opportunity**”) that relates to the Restricted Business, whether directly or indirectly, it shall (i) promptly and in any event not later than seven days notify our Company in writing of such opportunity and provide such information as is reasonably required by our Company in order to enable our Company to come to an informed assessment of such opportunity; and (ii) use its best endeavours to procure that such opportunity is offered to our Company on terms no less favourable than the terms on which such opportunity is offered to it and/or its associates. Our Directors (including our independent non-executive Directors) will review the New Business Opportunity and decide whether to invest in the New Business Opportunity. If our Group has not given written notice of its desire to invest in such New Business Opportunity or has given written notice denying the New Business Opportunity within thirty (30) business days of receipt of notice from our Controlling Shareholders, our Controlling Shareholders and/or their associates shall be permitted to invest or participate in the New Business Opportunity on their own accord.

Each of TRT Ltd. and TRT Technologies has also appointed TRT International Natural-Pharm as its sole distributor for their products in Non-PRC Markets (except for Japan) for so long as the Parent Group directly or indirectly controls not less than 30% of the issued share capital of the Company. The effectiveness of such appointment shall be subject to the connected transaction requirements under Chapter 20 of the GEM Listing Rules. Further, each of the Controlling Shareholders has undertaken to provide us (including our independent non-executive Directors) with all information necessary for our annual review and the enforcement of all undertakings, representations and warranties contained in the Deed of Non-competition and for us to consider whether to exercise our right of first refusal to acquire the New Business Opportunity and/or the Parent Group’s equity interest in TRT Hong Kong Medicine, TRT (UK) and TRT (Taiwan).

In this connection, we intend to adopt the following corporate governance measures to manage any potential conflicts of interest arising from any future potential competing business and to safeguard the interests of our Shareholders:

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- (i) our independent non-executive Directors shall review, at least on an annual basis, the compliance with and enforcement of the terms of the Deed of Non-competition by our Controlling Shareholders; and
- (ii) we will disclose the review by our independent non-executive Director with basis on the compliance with and enforcement of the terms of the Deed of Non-competition in our annual report.

As advised by our PRC legal advisor, TRT Ltd. and TRT Technologies, they do not need approval by their respective shareholders for entering into the Deed of Non-competition.

In monitoring the competing business of the Parent Group, an executive committee (the “Competition Executive Committee”) comprising two disinterested Directors, namely Mr. Zhang Huan Ping and Ms. Lin Man, will be established with the following major responsibilities:

- (a) conduct quarterly inspection of the distribution channels of the Parent Group, including retail stores and wholesale customers, to check whether any healthcare product containing ganoderma lucidum or ganoderma lucidum spores as raw materials (other than GLSPC) is sold in Non-PRC Markets; and
- (b) conduct quarterly communications with representatives of the Parent Group to confirm whether their research and development portfolio has any healthcare products which contain ganoderma lucidum or ganoderma lucidum spores as raw materials.

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

- (a) meet quarterly and review the quarterly inspection record and daily communication records by the Competition Executive Committee; and
- (b) report findings during its review of the records provided by the Competition Executive Committee to the Board which will be published in the Company’s annual reports.

EXCLUDED BUSINESS

The Parent Group has not yet been able to secure consent from its joint venture partners for the transfer of its interests in TRT Hong Kong Medicine, TRT (UK), TRT (Taiwan) to and for the novation of the franchising agreement in the Philippines to our Group. In order not to disrupt the business cooperation and to maintain the good relationship with these joint venture partners, the Parent Group’s interests in these companies and the franchise agreement in the above jurisdictions have not been injected into the Group.

The Group does not possess the relevant production capability to replace the Parent Group in performing the duty of the Parent Group under the agreements which it has entered into with Japanese Party A and Japanese Party B, therefore, the business of supplying products to these companies has not been injected into the Group.

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Hong Kong

The Parent Group has established a joint venture company in Hong Kong, namely TRT Hong Kong Medicine which is held as to 65% and 10% by two Independent Third Parties and as to 25% by the Parent Group. TRT Hong Kong Medicine is neither a subsidiary nor associated company of the Parent Group. To the best knowledge of the Company, for the other two shareholders of TRT Hong Kong Medicine, the 65% shareholder is owned by two non-PRC businessmen, and the 10% shareholder is a state-owned enterprise, and both of them are independent of the Parent Group. The joint venture was established in 1990 for the purpose of developing and exploring the Hong Kong market for “Tong Ren Tang” products. TRT Hong Kong Medicine has its own management team and is operated independently of the Parent Group, except for the Brand Management Rights (as defined below) which it has entrusted to us. TRT Hong Kong Medicine purchases “Tong Ren Tang” branded products from us on market terms and is treated by us as a customer. Based on the above, the Directors are of the view that the Company’s transactions with TRT Hong Kong Medicine are on normal commercial terms. TRT Hong Kong Medicine is one of our top 5 customer throughout the Track Record Period. Our sales to TRT Hong Kong Medicine for each of the two years ended 31 December 2012 were approximately HK\$11.3 million and HK\$40.9 million respectively. TRT Hong Kong Medicine will continue to purchase “Tong Ren Tang” branded products of the Parent Group as well as our Angong Niu Huang Pills from us.

To the best knowledge of the Company, TRT Hong Kong Medicine has 41 retail stores as at the Latest Practicable Date. The audited revenue of TRT Hong Kong Medicine for the year ended 31 December 2011, according to its latest audited financials available, was approximately HK\$229 million.

TRT Holdings obtained its equity interests in return for granting a non-exclusive licence of the “Tong Ren Tang” brand name to TRT Hong Kong Medicine under a joint venture agreement for sales and marketing of “Tong Ren Tang” branded products in Hong Kong at nil consideration. TRT Hong Kong Medicine is principally engaged in the retail of Chinese Medicine Products (including without limitation, our “Tong Ren Tang” branded products) under the “Tong Ren Tang” brand name in Hong Kong.

The joint venture agreement has expired in January 2006. Despite the expiry of the joint venture agreement, for the purpose of maintaining the market reputation and goodwill of the “Tong Ren Tang” brand, TRT Hong Kong Medicine has remained in operation in accordance with the joint venture terms and the Parent Group has not acted against its use of the “Tong Ren Tang” brand name. With a view to continuing the cooperation with the joint venture partners, a new cooperation framework was entered into on 16 April 2013 and will expire on 15 April 2023. The Parent Group has undertaken not to extend this agreement upon its expiry. As at the Latest Practicable Date, to the best knowledge and belief of the Directors, TRT Hong Kong Medicine has been involved in retail sales in Hong Kong and is operating 41 retail stores in Hong Kong. The shareholding of the Parent Group in TRT Hong Kong Medicine is a minority stake and it did not participate in the management of TRT Hong Kong Medicine. The Parent Group has no representative in the board of directors in TRT Hong Kong Medicine nor had it received dividends from TRT Hong Kong Medicine since its incorporation. Under the terms of the new cooperation framework agreement, TRT Hong Kong Medicine needs the consent of the Parent Group in the opening of new retail stores, introduction of new products (whether they are “Tong Ren

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Tang” branded products or not) and contents of their promotional materials (collectively the “Brand Management Rights”). Pursuant to the new cooperation framework agreement, the Parent Group has entrusted the Brand Management Rights in respect of TRT Hong Kong Medicine and TRT (UK) on an exclusive basis to the Company during the subsistence of the cooperation framework agreement and for so long as the Parent Group directly or indirectly controls not less than 51% of the issued share capital of the Company. Save for the aforesaid, there are no other restrictions on the Group’s exercise of the Brand Management Rights nor is there any reserve power of TRT Holdings in respect of its entrustment of the Brand Management Rights pursuant to the new cooperation framework agreements. Accordingly, our role and responsibility under the Brand Management Rights are to consider any proposed introduction of new products, addition of retail stores and marketing materials and give our consent if we find appropriate. The Company does not receive any fees from this arrangement as the purpose of the arrangement is to enable the Company to have the ability to manage the competition with TRT Hong Kong Medicine and TRT (UK). We believe these terms help us safeguard the “Tong Ren Tang” brand.

As TRT Hong Kong Medicine commenced retail sales of Chinese Medicine Products in Hong Kong under the “Tong Ren Tang” brand much earlier than the Company, it has a larger number of retail stores. Our retail stores and those of TRT Hong Kong Medicine have very similar decorations and the retail prices of “Tong Ren Tang” products are standardised. Consumers cannot distinguish between our stores and those of TRT Hong Kong Medicine. We compete with TRT Hong Kong Medicine for market share through the expansion of our retail network in Hong Kong. However, the Company benefits from sales of “Tong Ren Tang” branded products by TRT Hong Kong Medicine directly, where the Company sells “Tong Ren Tang” products to TRT Hong Kong Medicine, and indirectly, where TRT Hong Kong Medicine source products from our distribution customer.

United Kingdom

The Parent Group has established a joint venture company, namely TRT (UK), in the U.K. which is held as to 65% and 10% by two Independent Third Parties, both being the same parties to TRT Hong Kong Medicine mentioned above, and as to 25% by the Parent Group. TRT (UK) is neither a subsidiary nor associated company of the Parent Group. TRT (UK) was established in 1993 for the purpose of developing and exploring the U.K. market for “Tong Ren Tang” products. TRT (UK) has its own management team and is operated independently of the Parent Group, except for the Brand Management Rights which the Parent Group has entrusted to us. The Parent Group has no representative in the board of directors of TRT (UK). We provided agency services to TRT (UK) and they had purchased “Tong Ren Tang” branded products from us on market terms before regulations in 2011 in the U.K. require Chinese Medicine Products registration. Since such requirement became effective, to the best knowledge and belief of the Directors, TRT (UK) has not further imported “Tong Ren Tang” branded products for sale. The audited revenue of TRT (UK) for the year ended 31 December 2011, according to its latest audited financials available, was approximately HK\$13 million.

TRT Holdings obtained its equity interests in return for granting a non-exclusive licence of the “Tong Ren Tang” brand name to TRT (UK) under a joint venture agreement for sales and marketing of “Tong Ren Tang” products in the U.K. at nil consideration. TRT (UK) is principally engaged in the retail of Chinese Medicine Products in the U.K. The joint venture agreement has expired in April 2011. With a view to continuing the cooperation with the joint venture partners, a new cooperation

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agreement was entered into on 16 April 2013. This new cooperation agreement will expire on 15 April 2023. The Parent Group has undertaken not to extend this agreement upon its expiry. Despite the expiry of the joint venture agreement, for the purpose of maintaining the market reputation and goodwill of the “Tong Ren Tang” brand, TRT (UK) has remained in operation in accordance with the joint venture terms and the Parent Group has not acted against the use of the “Tong Ren Tang” trademark by TRT (UK). As at Latest Practicable Date, to the best knowledge and belief of the Directors, TRT (UK) was involved in retail sales in the U.K. and is currently operating one store in the U.K.. The shareholding of the Parent Group in TRT (UK) is a minority stake and it does not own the controlling rights in nor participate in the management of TRT (UK). We have no retail stores in the U.K. currently and accordingly we do not compete with TRT (UK). For the avoidance of doubt, we are not excluded from establishing business in this jurisdiction. We currently plan to establish a retail store in the UK in the second half of 2013. We do not expect to be in direct competition with TRT (UK) as our retail store will be established in Leeds and the retail store of TRT (UK) is in London. Besides, we will be competing with numerous other retail stores of Chinese Medicine Products and we expect our competition with TRT (UK) to be no different from with these stores.

TRT Hong Kong Medicine and TRT (UK)

The Parent Group’s interests in TRT Hong Kong Medicine and TRT (UK) have not been injected into the Group because (a) the Parent Group has not yet been able to obtain consent from its joint venture partners to transfer its interest in TRT Hong Kong Medicine and TRT (UK); (b) the Parent Group’s interests in these companies are minority interests and the Parent group is not involved in the management of these companies; (c) TRT Hong Kong Medicine is controlled and managed by an Independent Third Party; and (d) the Group is able to manage the competition with them under the Brand Management Rights entrusted to the Company.

The Philippines

The Parent Group has entered into a franchising agreement whereby the Parent Group has granted a non-exclusive franchise right to a company established in the Philippines, which is an Independent Third Party, and authorised this company to distribute “Tong Ren Tang” Chinese Medicine Products in the Philippines. Such franchising arrangement was entered into for the purpose of developing and exploring markets in the Philippines for “Tong Ren Tang” products. To the best knowledge of the Company, this company currently operates one retail store in the Philippines. The Parent Group has no representation on the board of directors of this company. The Parent Group has sold products to this company with us as agent during the Track Record Period. The Parent Group received a franchise fee from this Filipino company which was approximately HK\$78,000 for the year ended 31 December 2011. This company in the Philippines will continue to purchase “Tong Ren Tang” branded products of the Parent Group from us, as sole distributor. As the Company will sell our products to this Filipino company on market terms and is treated by us as a customer the Directors consider that the Company’s transactions with this Filipino company are on normal commercial terms. Such franchising arrangement will expire on 1 August 2014. Upon expiry, neither the Parent Group nor the Company will grant further franchise rights to this company in the Philippines. We do not know the business size of this company because its shareholders have not consented to the disclosure of such information. We have no retail stores in the Philippines currently and accordingly we do not compete with this Filipino company.

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The franchising agreement for the Filipino company has not been injected into the Group because (a) the Parent Group has not yet been able to obtain consent from the Filipino company to transfer the franchise; (b) the Group has no current intention to enter into the Philippines market; and (c) the Parent Group will not renew the franchising agreement upon its expiry and the Group has no intention to enter into any franchising arrangement for this market. For the avoidance of doubt, we are not excluded from establishing business in this jurisdiction.

Taiwan

The Parent Group has an approximately 53% interest in TRT (Taiwan), a Taiwanese company established with an Independent Third Party. To the best knowledge of our Directors, the other shareholders of TRT (Taiwan) are non-PRC businessmen and are independent of the Parent Group. TRT (Taiwan) was established in 2003 as a joint venture until 15 July 2018 for the purpose of developing and exploring the Taiwan market for “Tong Ren Tang” branded products. Taiwan is not a targeted market for the Company and TRT (Taiwan) only purchased insignificant amounts of GLSPC from us for sale on market terms and is treated by us as a customer during the Track Record Period. Based on the above, the Directors are of the view that the Company’s transactions with TRT (Taiwan) are on normal commercial terms. The Parent Group has granted a non-exclusive licence of the “Tong Ren Tang” trademark to TRT (Taiwan) until 15 July 2018. The Parent Group has the majority of representatives in the board of directors of TRT (Taiwan). As at the Latest Practicable Date, to the best knowledge and belief of the Directors, TRT (Taiwan) operated one retail outlet and two retail counters under the “Tong Ren Tang” brand in Taiwan principally selling Chinese herbs, some food and beverage products under the “Tong Ren Tang” brand manufactured by sub-contractors in Taiwan and Healthcare Products. Upon the expiry of the joint venture in 2018, the Parent Group does not intend to extend the joint venture agreement in respect of TRT (Taiwan). The audited revenue of TRT (Taiwan) for the year ended 31 December 2011, according to its latest audited financials available, was approximately HK\$4.7 million.

The Parent Group’s interest in TRT (Taiwan) has not been injected into the Group because (a) the Parent Group has not yet been able to obtain consent from the joint venture partners to transfer its interest in TRT (Taiwan); and (b) the Group has no plans to expand its distribution operations into Taiwan under the current political environment. For the avoidance of doubt, we are not excluded from establishing business in this jurisdiction. We have no retail stores in Taiwan currently and accordingly we do not compete with TRT (Taiwan).

Japan

The Parent Group has entered into agreements to manufacture (i) two Chinese Medicines and processed Chinese herbs for Japanese Party A; and (ii) 27 Chinese Medicines for Japanese Party B, pursuant to the formulae or preparation processes, as relevant, and the quality control process provided by these parties. The products are solely distributed by these Japanese parties and the Parent Group is only engaged as a manufacturer and receives manufacturing revenue for these products. However, the products supplied to Japanese Party A are sold by it citing the “Tong Ren Tang” brand name and trademark on the packaging together with its brand name. The Parent Group has no representation in the board of directors of these companies. As these Japanese companies are the respective owner of these relevant products, they distribute these products on their own accord and not as distributors

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of the Parent Group. Based on the information provided by the Parent Group, its sales to Japanese Party A and Japanese Party B for each of the two years ended 31 December 2012 were approximately HK\$21.8 million and HK\$29.9 million respectively. These parties will continue to engage the Parent Group to manufacture products. We have not been informed the business size of these companies as we have not yet obtained consent to disclosure of such information. As we do not have distribution operations in Japan currently and the Parent Group has undertaken not to establish Chinese Medicine Products distribution business in Japan, we do not compete with these Japanese companies.

The supply of products to these companies in Japan has not been injected into the Group because (a) the Independent Third Parties in Japan have chosen the Parent Group as the manufacturer of their products; (b) this is in substance an OEM manufacturing arrangement where the formulae and quality control processes are provided by these Japanese Independent Third Parties and the Parent Group in effect receives a manufacturing fee; (c) the Group has no relevant manufacturing capability; and (d) the Group only manufactures Angong Niu Huang Pills and GLSPC.

Right of first refusal

The Parent Group has granted the Company rights of first refusal to acquire its interest in TRT Hong Kong Medicine, TRT (UK) and TRT (Taiwan) on terms which are not less favorable than the terms it wishes to sell to other parties.

In considering whether to exercise the said rights of first refusal, we will take into account the following factors:

- (i) whether the acquisition of such interest will enhance our profitability and competitive advantages in the core business of our Group;
- (ii) whether the acquisition of such interest will be in line with our strategic development from time to time;
- (iii) whether our funding capability and/or capital expenditure projections would allow the taking up of such interest; and
- (iv) whether Shareholders' value will be maximized by taking up such interest.

CONNECTED TRANSACTIONS

Upon the Listing, we will carry out the following transactions which will constitute continuing connected transactions of the Company under the GEM Listing Rules.

1. EXEMPT CONTINUING CONNECTED TRANSACTIONS

Following the Listing, the following transactions will be regarded as continuing connected transactions of the Company which will be exempt from the reporting, annual review, announcement and independent shareholders' approval requirements under Rule 20.33 of the GEM Listing Rules.

(i) Lease of premises from our joint venture partners

We have entered into the following lease agreements with our joint venture partners (collectively the "JV Lease Agreements"):

- (a) lease agreement dated December 2012 between BMI Trading as landlord and TRT (Macau) as tenant whereby BMI Trading agreed to lease properties of a total saleable area of approximately 263 sq.m. located at Rua do Padre Antonio, No. 16-17, Ko Va Kok 10 Andar A e B 11 Andar A e B, and a car parking space, in Macao to TRT (Macau) as staff quarters at a total rental of MOP\$5,400 per month for a term commencing on 1 January 2013 and ending on 31 December 2013;
- (b) two lease agreements both dated 1 January 2013 between Science Arts as landlord and TRT (Singapore) as tenant whereby Science Arts agreed to lease to TRT (Singapore) two properties, namely (1) a room of a GFA of approximately 25 sq.m. located at No. 26 Siang Kuang Avenue, Singapore 347945 for residential purpose at a rental of S\$400 per month for a term commencing on 1 January 2013 and ending on 31 December 2013; and (2) a property of a GFA of approximately 100 sq.m. located at 150 Macpherson Road, #05-01 Science Arts Building, Singapore 348524 for warehouse purpose at a rental of S\$3,500 per month for a term commencing on 1 January 2013 and ending on 1 January 2014, respectively;
- (c) lease agreement dated 1 January 2013 between Kim Ji Hoon, a director of TRT (Boryung), as landlord and TRT (Boryung) as tenant whereby Kim Ji Hoon agreed to lease to TRT (Boryung) a shop of a GFA of approximately 40 sq.m. located at #2-1 Jongno 4-ga, Jongno-gu, Seoul, Korea for business purpose at a rental of KRW300,000 per month for a term commencing on 1 January 2013 and ending on 31 December 2013; and
- (d) tenancy agreement dated 20 April 2011 between Hai-O as landlord and TRT (Malaysia) as tenant whereby Hai-O agreed to lease properties of a total floor area of approximately 1,049 sq.m. located at Ground Floor, Apartment No.1111 on 11th Floor and Apartment No.1602 on 16th Floor, Sun Complex, Jalan Bukit Bintang, 55100 Kuala Lumpur, Malaysia to TRT (Malaysia) for retail operation at a total rental of MYR11,500 per month for a term commencing on 1 January 2011 and ending on 31 December 2013.

CONNECTED TRANSACTIONS

Connected persons

TRT (Macau) is owned as to 51% by the Company and as to 44% by BMI Trading. BMI Trading is a substantial shareholder of TRT (Macau) and therefore a connected person of the Company at subsidiary level for purpose of the GEM Listing Rules.

TRT (Singapore) is owned as to 51% by the Company and 49% by Science Arts. Science Arts is a substantial shareholder of TRT (Singapore) and therefore a connected person of the Company at subsidiary level for purpose of the GEM Listing Rules.

TRT (Boryung) is owned as to 51% by the Company. Kim Ji Hoon is a director of TRT (Boryung) and hence a connected person of the Company at subsidiary level for the purpose of the GEM Listing Rules.

TRT (Malaysia) is owned as to 60% by the Company and 40% by Hai-O. Hai-O is a substantial shareholder of TRT (Malaysia) and therefore a connected person of the Company at subsidiary level for purpose of the GEM Listing Rules.

The transactions under each of the JV Lease Agreements will therefore constitute continuing connected transactions for the Company under Chapter 20 of the GEM Listing Rules upon completion of the Listing.

Historical transaction value

For the years ended 31 December 2011 and 2012, we had paid the following amounts in respect of the lease arrangements with BMI Trading, Science Arts, Kim Ji Hoon and Hai-O:

	For the financial year ended 31 December	
	2011	2012
	<i>(HK\$'000)</i>	
Rentals paid to BMI Trading	102	73
Rentals paid to Science Arts	296	305
Rentals paid to Kim Ji Hoon	8	24
Rentals paid to Hai-O	426	402

The Company's valuer, LCH (Asia-Pacific) Surveyors Limited, has confirmed that based on the above and subject to the general and inherent characteristics of the properties, they consider the rentals payable under the JV Lease Agreements to be either close to the market average or lower than the market average in favour of the Group.

CONNECTED TRANSACTIONS

Implications under the GEM Listing Rules

As mentioned above, the transactions under each of the JV Lease Agreements will constitute continuing connected transactions of the Company under the GEM Listing Rules upon completion of the Listing. As the transactions under each of the JV Lease Agreements is regarded as continuing connected transactions only because (i) each of BMI Trading, Science Arts, Kim Ji Hoon and Hai-O is regarded as a connected person of the Company by virtue of his/its relationship with some of our subsidiaries, namely TRT (Malaysia), TRT (Singapore), TRT (Boryung) and TRT (Macau); and (ii) each of the applicable percentage ratios in respect of the rentals under each of the JV Lease Agreements will be less than 1% on an annual basis, the transactions contemplated under each of the JV Lease Agreements will constitute de minimis continuing connected transactions under Rule 20.33(3)(b) of the GEM Listing Rules and will be exempt from the reporting, annual review, announcement and independent shareholders' approval requirements under Chapter 20 of the GEM Listing Rules.

(ii) Procurement of products from Maxbal (Australia) Pty Ltd. ("Maxbal"), Science Arts, Chuan Chiong and Hai-O

We purchased Chinese Medicine Products from Maxbal, Science Arts, Chuan Chiong and Hai-O and its subsidiaries ("Hai-O Group"). We purchased Maxbal branded products from Maxbal in Australia. We purchased "Tong Ren Tang" branded products from Science Arts, Chuan Chiong and Hai-O in Singapore, Hong Kong and Malaysia, respectively as they are the relevant licence holders in these jurisdictions. The price payable to Maxbal, Science Arts, Chuan Chiong and Hai-O are determined by reference to the prevailing market price of similar products sold to Independent Third Parties.

Connected persons

Maxbal is a company controlled by Ma An Yang, a director of TRT (Australia), and therefore a connected person of the Company at subsidiary level for purpose of the GEM Listing Rules. As mentioned, each of Science Arts, Chuan Chiong and Hai-O is also a connected person of the Company at subsidiary level for purpose of the GEM Listing Rules.

CONNECTED TRANSACTIONS

Historical transaction value

For the years ended 31 December 2011 and 2012, the transaction amounts paid by us in respect of our purchase from Maxbal, Science Arts, Chuan Chiong and Hai-O Group are set out below:

	For the financial year ended 31 December	
	2011	2012
	<i>(HK\$'000)</i>	
Purchases from Maxbal	558	777
Purchases from Science Arts	2,859	2,468
Purchases from Chuan Chiong	3,136	6,878
Purchases from Hai-O Group	2,521	3,257

Implications under the GEM Listing Rules

The purchases from Maxbal and Science Arts will be regarded as de minimis continuing connected transactions under Rule 20.33(3)(b) of the GEM Listing Rules and will be exempt from reporting, annual review, announcement and independent shareholders' requirements under the GEM Listing Rules because (i) each of Maxbal and Science Arts is regarded as a connected person of the Company only by virtue of its relationship with our subsidiary, TRT (Australia) and TRT (Singapore), respectively; and (ii) each of the applicable percentage ratios is less than 1% on an annual basis.

The transactions involving Chuan Chiong and Hai-O will be regarded as exempt continuing connected transactions exempt from the reporting, annual review, announcement and independent shareholders' approval requirements for purpose of Rule 20.31(9) (b) (ii) of the GEM Listing Rules because (i) they constitute continuing connected transactions only because each of Chuan Chiong and Hai-O is regarded as our connected person by virtue of its relationship with TRT (Canada) and TRT (Malaysia), respectively; and (ii) each of TRT (Canada) and TRT (Malaysia) is regarded as an insignificant subsidiary as the value of its total assets, profits and revenue represents less than 5% under the relevant percentage ratios as defined under Rule 19.04(9) of the GEM Listing Rules for the latest financial year ended 31 December 2012.

(iii) Sales of products to Science Arts and Chuan Chiong

We sold Chinese Medicine Products to Science Arts and Chuan Chiong. The price payable by Science Arts and Chuan Chiong are determined by reference to the prevailing market price of similar products we sell to Independent Third Parties.

CONNECTED TRANSACTIONS

Connected persons

As mentioned, each of Science Arts and Chuan Chiong is a connected person of the Company at subsidiary level for purpose of the GEM Listing Rules.

Historical transaction value

For the years ended 31 December 2011 and 2012, the transaction amounts received by the Group in respect of our sales to Science Arts and Chuan Chiong are set out below:

	For the financial year ended 31 December	
	2011	2012
	<i>(HK\$'000)</i>	
Sales to Science Arts	351	374
Sales to Chuan Chiong	18,413	49,256

Implications under the GEM Listing Rules

The sales to Science Arts will be regarded as de minimis continuing connected transactions under Rule 20.33(3)(b) of the GEM Listing Rules and will be exempt from reporting, annual review, announcement and independent shareholders' requirements under the GEM Listing Rules because (i) Science Arts is regarded as a connected person of the Company only by virtue of its relationship with our subsidiary, TRT (Singapore); and (ii) each of the applicable percentage ratios is less than 1% on an annual basis.

As mentioned, the transactions involving Chuan Chiong will be regarded as exempt continuing connected transactions exempt from the reporting, annual review, announcement and independent shareholders' approval requirements for purpose of Rule 20.31(9) (b) (ii) of the GEM Listing Rules because (i) they constitute continuing connected transactions only because Chuan Chiong is regarded as our connected person by virtue of its relationship with TRT (Canada); and (ii) TRT (Canada) is regarded as an insignificant subsidiary as the value of its total assets, profits and revenue represents less than 5% under the relevant percentage ratios as defined under Rule 19.04(9) of the GEM Listing Rules for the latest financial year ended 31 December 2012.

(iv) Licence of "Tong Ren Tang" trademarks by TRT Holdings

Pursuant to a trademark licence agreement and authorization letter dated 15 April 2013 (the "Trademark Licence Agreement and Authorization Letter") between TRT Holdings and the Company, TRT Holdings licensed the use of "Tong Ren Tang" trademarks for the Company's production as well as for the right to use the "Tong Ren Tang" trademarks outside of the PRC including but not limited to the right to sub-license the said trademarks subject to the terms of

CONNECTED TRANSACTIONS

the Trademark Licence Agreement and Authorization Letter for a term commencing from 25 October 2012 to 13 May 2021. According to the Trademark Licence Agreement and Authorization Letter, the Company is not subject to any fee or charges for use of the trademark as long as TRT Holdings directly or indirectly controls not less than 51% equity interest in the Company. The trademark license and authorization will be automatically renewed on the same terms and conditions on a perpetual basis for terms of 10 years upon expiry on 13 May 2021.

Implications under the GEM Listing Rules

As mentioned, TRT Holdings is a connected person of the Company. The transactions under the Trademark Licence Agreement and Authorisation Letter will constitute continuing connected transactions of the Company. As no consideration is payable to TRT Holdings in respect of the Trademark License Agreement and Authorisation Letter, the transactions contemplated under the Trademark License Agreement and Authorisation Letter constitute de minimis continuing connected transactions and are exempted from the reporting, annual review, announcement and independent shareholders' approval requirements under Chapter 20 of the GEM Listing Rules.

2. NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

(A) Continuing Connected Transactions exempt from the Independent Shareholders' Approval Requirement but subject to the Reporting, Annual Review and Announcement Requirements

The following connected transactions will constitute continuing connected transactions of the Company which will be exempt from the independent shareholders' approval requirement but subject to the reporting, annual review and announcement requirements under Chapter 20 of the GEM Listing Rules after completion of the Listing:

(i) Lease of premises from the Parent Group

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

- (a) two lease agreements both dated 1 January 2011 and their respective supplemental agreements both dated 3 April 2013 and a lease agreement dated 31 December 2012, all entered into between TRT International Natural-Pharm as tenant and TRT Holdings as landlord whereby TRT Holdings agreed to lease to TRT International Natural-Pharm (1) a warehouse of a GFA of approximately 700 sq.m. located at Dong Zong Tun, Liyuan Town, Tongzhou District, Beijing, the PRC for storage purpose at a rental of RMB18,000 per year; (2) an office unit of a GFA of approximately 340 sq.m. located at Level 3, Bei Lou, Jia Si Hao, Guan Ying Yuan Xi Qu, Xicheng District, Beijing, the PRC at a rental of RMB10,000 per year; and (3) a storage room of a GFA of approximately 2 sq.m. located at Laoniawan, Shahe, Changping District, Beijing at a rental of RMB 500 per year, respectively, each for a term commencing on 1 January 2013 and ending on 31 December 2015;

CONNECTED TRANSACTIONS

- (b) a lease agreement dated 31 December 2010 and its supplemental agreement dated 31 December 2012 between TRT Consulting Services as tenant and TRT Holdings as landlord whereby TRT Holdings agreed to lease to TRT Consulting Services a property of a GFA of 10 sq.m. located at No. 52 Dong Xing Long Street, Dongcheng District, Beijing, the PRC for office purpose at a rental of RMB3,600 per year for a term commencing on 1 January 2013 and ending on 31 December 2015; and
- (c) a lease agreement dated 1 October 2012 and its supplemental agreement dated 9 April 2013 between the Company as tenant and TRT International as landlord whereby TRT International agreed to lease to the Company a property of a saleable area of 279 sq.m. located at Room 1408-1409, Convention Plaza, 1 Harbour Road, Wanchai, Hong Kong for office purpose at a rental of HK\$150,000 per month for a term commencing from 1 October 2012 and ending on 31 December 2015.

Connected persons

TRT Holdings is our Controlling Shareholder and hence a connected person of the Company for purpose of the GEM Listing Rules. TRT International is owned as to 99.5% by TRT Holdings and hence a connected person of the Company for the purpose of the GEM Listing Rules. The transactions under the Lease Agreements between us and each of TRT Holdings and TRT International will therefore constitute continuing connected transactions of the Company under Chapter 20 of the GEM Listing Rules upon completion of the Listing.

Historical transaction value

For the years ended 31 December 2011 and 2012, we had paid the following amounts in respect of the leases of the properties under the Lease Agreements with the Parent Group:

	For the financial year ended	
	31 December	
	2011	2012
	<i>(HK\$'000)</i>	
Rental paid to TRT Holdings	38	38
Rental paid to TRT International	300	1,800
Total:	338	1,838

CONNECTED TRANSACTIONS

Expected annual rentals

Based on the current rentals payable, we expect to pay the following rentals to the Parent Group for the years ending 31 December 2013, 2014 and 2015 pursuant to the Lease Agreements:

	For the financial year ending 31 December		
	2013	2014	2015
	(HK\$'000)		
Aggregate annual rental payable to TRT Holdings	38	38	38
Aggregate annual rental payable to TRT International	1,800	1,800	1,800
Total:	<u>1,838</u>	<u>1,838</u>	<u>1,838</u>

The Company's valuer, LCH (Asia-Pacific) Surveyors Limited, has confirmed that based on the above and subject to the general and inherent characteristics of the properties, they consider the rentals payable under the Lease Agreements to be either close to the market average or lower than the market average in favour of the Group.

Implications under the GEM Listing Rules

As mentioned above, the transactions under the Lease Agreements will constitute continuing connected transactions of the Company under the GEM Listing Rules upon completion of the Listing. As the applicable percentage ratios in respect of the rentals under the Lease Agreements will be more than 0.1% but less than 5% on an annual basis, the transactions contemplated under the Lease Agreements will be subject to the reporting, annual review and announcement requirements but exempt from independent shareholders' approval requirement under Chapter 20 of the GEM Listing Rules.

(ii) Procurement of Angong Niu Huang Powder from TRT Ltd.

On 30 September 2012, the Company entered into a master purchase agreement with TRT Ltd. (the "Angong Niu Huang Powder Master Purchase Agreement") whereby the Company agreed to purchase and TRT Ltd. agreed to sell Angong Niu Huang Powder, being the raw materials for production of Angong Niu Huang Pills, for a term commencing from 1 January 2013 and ending on 31 December 2015. Pursuant to the Angong Niu Huang Powder Master Purchase Agreement, the price the Company pays to TRT Ltd. is based on the costs of raw materials with a mark-up for the processing fees of TRT Ltd. It is

CONNECTED TRANSACTIONS

envisaged that individual contracts may be required to be entered into between TRT International Natural-Pharm and TRT Ltd. in respect of such purchase transactions from time to time.

Connected persons

TRT Ltd. is our Controlling Shareholder and hence a connected person of the Company for the purpose of the GEM Listing Rules.

Historical transaction value

For the years ended 31 December 2011 and 2012, the amounts paid by the Group in respect of the purchases of Angong Niu Huang Powder from TRT Ltd. amounted to approximately HK\$9.0 million and HK\$14.3 million, respectively.

Annual Caps

The annual caps in respect of the transactions under the Angong Niu Huang Powder Master Purchase Agreement for the years ending 31 December 2013, 2014 and 2015 are HK\$10 million, HK\$12 million and HK\$13 million, respectively, which have been determined by taking into consideration the estimated increase in purchase amounts of Angong Niu Huang Powder due to the general increase in prices of such materials and the increase in production volume of Angong Niu Huang Pills to cater for increasing market demand. As one of the measures to reduce our reliance on the Parent Group, since 1 October 2012, the Group has purchased raw materials for Angong Niu Huang Powder (other than natural musk which the Group does not have the required approval for processing) from Independent Third Parties which are supplied to the Parent Group for processing into Angong Niu Huang Powder. Therefore, the annual caps for the amounts to be paid by the Group in respect of the purchase of Angong Niu Huang Powder from TRT Ltd. under the Angong Niu Huang Powder Master Purchase Agreement comprise only the costs of the natural musk and the relevant processing fees but not the costs of the other raw materials which were then included in the amounts paid by the Group for its purchase of Angong Niu Huang Powder during the Track Record Period.

Implications under the GEM Listing Rules

The transactions under the Angong Niu Huang Powder Master Purchase Agreement will constitute continuing connected transactions for the Company under the GEM Listing Rules upon completion of the Listing. As the applicable percentage ratios in respect of the transaction amounts under the Angong Niu Huang Powder Master Purchase Agreement will be more than 0.1% but less than 5% on an annual basis, the transactions under the Angong Niu Huang Powder Master Purchase Agreement will be subject to the reporting, annual review and announcement requirements but exempt from independent shareholders' approval requirement under Chapter 20 of the GEM Listing Rules.

CONNECTED TRANSACTIONS

(B) Continuing Connected Transactions subject to the Reporting, Annual Review, Announcement and Independent Shareholders' Approval Requirements

The following connected transactions will constitute continuing connected transactions of the Company which will be subject to the reporting, announcement and independent shareholders' approval requirements under the GEM Listing Rules after completion of the Listing:

(i) Exclusive Distributorship Framework Agreements with TRT Technologies and TRT Ltd.

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

Pursuant to the Exclusive Distributorship Framework Agreements, we will purchase products from TRT Technologies and TRT Ltd. at price which shall not be higher than the price TRT Technologies and TRT Ltd. sell the same products on wholesale basis to the domestic customers in the PRC and shall make reference to the prevailing market price. It is envisaged that individual contracts may be required to be entered into between TRT International Natural-Pharm and each of TRT Technologies and TRT Ltd. in respect of such purchase transactions from time to time. The parties intend to renew the Exclusive Distributorship Framework Agreements upon their expiry subject to all relevant approvals requirements. If the Exclusive Distributorship Framework Agreements are not renewed, which is a normal and common risk with all companies engaged in distribution which have distributorship agreements, the Group's retail and wholesale operations will purchase the required products from the relevant licence holders. If the Parent Group is still the Controlling Shareholder of the Company, it cannot sell its products to Non-PRC Markets under the Deed of Non-competition and none of the Parent Group's products will be sold in Non-PRC Markets if the Exclusive Distributorship Framework Agreements are terminated. Accordingly, it does not make commercial sense for the Parent Group to terminate these agreements while still controlling the Company.

Connected persons

Each of TRT Technologies and TRT Ltd. is our Controlling Shareholder and hence a connected person of the Company for the purpose of the GEM Listing Rules.

CONNECTED TRANSACTIONS

Historical transaction value

For the years ended 31 December 2011 and 2012, the amounts paid by the Group in respect of the Group's purchases of merchandise for its distribution in Non-PRC Markets amounted to approximately HK\$30.9 million and HK\$29.6 million, respectively.

Annual Caps

The annual caps in respect of the transactions under the Exclusive Distributorship Framework Agreements for the years ending 31 December 2013 and 2014 are HK\$60 million and HK\$69 million, respectively, which have been determined by taking into consideration (i) the significant decrease in the purchase of the Parent Group's Angong Niu Huang Pills; (ii) the expected increase in purchase of "Tong Ren Tang" branded products from the Parent Group following the replacement of the agency arrangements by the sole distributorship arrangements between us and each of TRT Technologies and TRT Ltd.; and (iii) the estimated increase in the sales volume of "Tong Ren Tang" branded products overseas due to the increase in market demand and the expansion in overseas distribution network and retail stores.

Implications under the GEM Listing Rules

The transactions under the Exclusive Distributorship Framework Agreements will constitute continuing connected transactions for the Company under the GEM Listing Rules upon completion of the Listing. As the applicable percentage ratios in respect of the transaction amounts under the Exclusive Distributorship Framework Agreements will be more than 5% on an annual basis, the transactions under the Exclusive Distributorship Framework Agreements will be subject to the reporting, annual review, announcement and independent shareholders' approval requirements under Chapter 20 of the GEM Listing Rules.

APPLICATION FOR WAIVERS

Upon completion of the Listing, the continuing connected transactions described in the section above headed "Non-exempt Continuing Connected Transactions" (the "Non-Exempt Transactions") will constitute non-exempt continuing connected transactions of the Company under the GEM Listing Rules, and will be required to comply with the reporting, announcement and/or independent shareholders' approval requirements.

CONNECTED TRANSACTIONS

Our Directors (including independent non-executive Directors) are of the view that the Non-Exempt Transactions have been and will be entered into on normal commercial terms and in the ordinary and usual course of business of the Company that are fair and reasonable and in the interests of the Company and Shareholders as a whole, and the transactions and proposed annual caps set out above are fair and reasonable and in the interests of the Company and the Shareholders as a whole. We have applied for a waiver from strict compliance with the above announcement and/or independent shareholders' approval requirements in respect of the Non-Exempt Transactions and the Stock Exchange has granted a waiver in relation thereto. Except for the waiver granted to exempt from compliance with announcement and/or independent shareholders' approval requirements, the Company will comply with the relevant requirements under Chapter 20 of the GEM Listing Rules.

CONFIRMATION FROM THE SOLE SPONSOR

The Sole Sponsor is of the view that (i) the Non-Exempt Transactions for which the waiver are sought have been and shall be entered into on normal commercial terms, and are fair and reasonable, in the interests of the Company and the Shareholders as a whole, and in the ordinary and usual course of business of the Company; and (ii) the terms and conditions of the agreements and the proposed annual cap amounts of the Non-Exempt Transactions are fair and reasonable and are in the interests of the Company and the Shareholders as a whole.

DIRECTORS AND SENIOR MANAGEMENT

BOARD OF DIRECTORS

Our Board of Directors consists of seven Directors, three of whom are independent non-executive Directors.

The table below sets forth information regarding our Directors:

Name	Age	Position	Roles and Responsibilities	Date of Appointment
Ding Yong Ling (丁永玲)	49	General manager and executive Director	Day-to-day operation and management and member of remuneration committee and nomination committee	28 September 2004
Zhang Huan Ping (張煥平)	52	Deputy general manager and executive Director	Operation affairs	1 February 2011
Lin Man (林曼)	37	Chief financial officer, company secretary and executive Director	Finance affairs	1 February 2011
Yin Shun Hai (殷順海)	59	Chairman and non-executive Director	Chairman of the Board	28 September 2004
Leung, Oi Sie Elsie (梁愛詩)	73	Independent non-executive Director	Chairman of nomination committee and member of audit committee	With effect from the Listing Date
Chan Ngai Chi (陳毅馳)	41	Independent non-executive Director	Chairman of the audit committee and member of the nomination committee and remuneration committee	15 April 2013
Zhao Zhong Zhen (趙中振)	55	Independent non-executive Director	Chairman of remuneration committee and member of audit committee	15 April 2013

Executive Directors

Ding Yong Ling (丁永玲), aged 49, is the general manager and an executive Director of the Company. She is mainly responsible for our day-to-day operation and management. Ms. Ding was appointed as a Director on 28 September 2004 and was assigned as the general manager of the Company since its incorporation. Ms. Ding joined the TRT Group in 1984. From 1995 to 2003, she held positions in the foreign trade division of TRT Holdings as well as the import and export branches of TRT Holdings, TRT Ltd. and TRT Technologies. Ms. Ding has been the deputy general manager of TRT Holdings and the general manager and a director of TRT International since 2003, as well as a director of TRT Ltd. and the vice chairman of Beijing Tong Ren Tang Health Medicine Company Limited since June 2009. Ms. Ding was a director of TRT Technologies from May 2005 to March 2011. Ms. Ding graduated from the Correspondence Institute of Party School of the central committee of the CPC (中央黨校函授學院) in December 1997 with a diploma in international economy. Further, she completed a course for research student under employment (在職研究生課程班) in business administration (企業管理) at Business School of the University of International Business and Economics (對外經濟貿易大學) in April 2002.

DIRECTORS AND SENIOR MANAGEMENT

Ms. Ding is also a director of certain of our subsidiaries and jointly controlled entities, namely TRT Consulting Services, TRT International Natural-Pharm, TRT (Australia), TRT (Singapore), TRT (Brunei), TRT (Toronto), TRT (Malaysia), TRT (Canada), TRT (Indonesia), TRT (Thailand), TRT (Thai Boon Roong), TRT (UAE) and TRT (Poland).

As at the Latest Practicable Date, Ms. Ding holds 39,000 shares, representing 0.125% of the issued share capital of TRT International.

Zhang Huan Ping (張煥平), aged 52, is a deputy general manager and an executive Director of the Company. He joined the Company as a deputy general manager in October 2010 and was appointed as a Director on 1 February 2011. He is mainly responsible for production. Mr. Zhang is a pharmacist conferred by Beijing Intermediate Professional Technical Titles Evaluation Committee (北京市中級技術職稱評定委員會) in November 2002. Mr. Zhang joined the TRT Group in 1979, and served as the deputy manager of Beijing Tong Ren Tang Chinese Medicine Factory from 1999 to 2002 and the deputy manager of Beijing Tong Ren Tang Medicine Wine Factory from 2002 to 2008. He was also an executive director of TRT Technologies from June 2009 to April 2010. Mr. Zhang is a graduate in economic management from the Correspondence Institute of Party School of the Central Committee of the CPC (中央黨校函授學院) in December 2000.

Lin Man (林曼), aged 37, is the chief financial officer, the company secretary and an executive Director of the Company. She is mainly responsible for our finance. Ms. Lin joined the Company in 2004 and was appointed as the company secretary in 2005 and our chief financial officer in 2008. She was appointed as a Director on 1 February 2011. Ms. Lin is also a director of our subsidiaries, namely, TRT (Toronto) and TRT (Poland). Ms. Lin is a member of the Hong Kong Institute of Certified Public Accountants (non-practising). Ms. Lin obtained a bachelor's degree of arts in Polish from Beijing Foreign Studies University (北京外國語大學) in July 1999 and a bachelor's degree of arts in accounting and finance from the University of Lancaster in July 2004.

Non-executive Director

Yin Shun Hai (殷順海), aged 59, is the chairman and a non-executive Director of the Company. He was appointed as a Director on 28 September 2004. Mr. Yin is a qualified senior economist as conferred by the Beijing Senior Professional Technical Titles Evaluation Committee (高級專業技術職務評審委員會) in October 1997. He has been the chairman of TRT Holdings since 2001, the vice director of TRT Ltd. since 1997 and an executive director of TRT Technologies since 2000. Mr. Yin is also a director of our jointly controlled entity, namely, TRT (Thailand). He is also the vice president of the Beijing Federation of Industry Economics, the president of Beijing Pharmacist Association, the president of Beijing Tong Ren Tang Society of Culture and a delegate to the Twelfth Beijing Municipal Committee of the Chinese People's Political Consultative Conference (中國人民政治協商會議北京市第十二屆委員會委員). Mr. Yin graduated from the Graduate School of Chinese Academy of Social Science (中國社科院研究生院) in July 1997 with a diploma in commerce and economy.

As at the Latest Practicable Date, Mr. Yin holds 1,500,000 TRT Technologies Domestic Shares, representing 0.255% of the issued share capital of TRT Technologies, 116,550 shares in TRT Ltd., representing 0.009% of the issued share capital of TRT Ltd., and 39,000 shares in TRT International, representing 0.125% of the issued share capital of TRT International.

DIRECTORS AND SENIOR MANAGEMENT

Independent non-executive Directors

Leung, Oi Sie Elsie (梁愛詩), aged 73, has been appointed as an independent non-executive Director of the Company with effect from the Listing Date. She was the Secretary for Justice of Hong Kong as well as a member of the Executive Council of Hong Kong from July 1997 to October 2005. She was admitted as a solicitor of the Supreme Court of Hong Kong in 1968 and she is also a qualified solicitor in England and Wales. She is currently a consultant of Iu, Lai & Li Solicitors & Notaries and she is also a Notary Public and China-Appointed Attesting Officer. Ms. Leung also serves as an independent non-executive director of each of UC Rusal Plc and China Resources Power Holdings Company Limited, both are companies listed on the Stock Exchange. Ms. Leung served as a member of several government boards and committees, including the Independent Police Complaints Council, Equal Opportunities Commission, Social Welfare Advisory Committee and Inland Revenue Board of Review. Ms. Leung served as a delegate of the Seventh Guangdong Provincial People's Congress from 1988 to 1993, and a delegate of the Eighth NPC from 1993 to 1997. She has been the deputy director of the Hong Kong Basic Law Committee of the Standing Committee of the NPC since 2006. Ms. Leung obtained from the University of Hong Kong in November 1988 a master's degree in law.

Chan Ngai Chi (陳毅馳), aged 41, was appointed as an independent non-executive Director of the Company on 15 April 2013. Prior to joining the Company, Mr. Chan had accumulated more than 18 years of financial management, compliance and auditing experience. Mr. Chan worked in the audit division of PricewaterhouseCoopers Hong Kong from August 1994 to July 1999. He has also worked at various listed companies in Hong Kong. From 1999 to 2000, Mr. Chan worked as the financial controller and company secretary of Kwoon Chung Bus Holdings Limited. From December 2000 to October 2003, he served as the financial controller and company secretary of TopSearch Printed Circuits (HK) Ltd. Mr. Chan worked in TRT Technologies as the financial controller and company secretary from 2004 to 2007. Mr. Chan is currently the principal financial officer of Gushan Environmental Energy Company Limited, which was a company listed on the New York Stock Exchange since December 2007 and privatized in October 2012. Mr. Chan has been a fellow member of the Hong Kong Institute of Certified Public Accountants since December 2005 and the Association of Chartered Certified Accountants since October 2002. Mr. Chan graduated from the Hong Kong University of Science and Technology with a bachelor's degree in business administration in accounting in November 1994 and also obtained a master's degree in science from the Chinese University of Hong Kong in December 2003.

Zhao Zhong Zhen (趙中振), aged 55, has been appointed as an independent non-executive Director of the Company on 15 April 2013. Mr. Zhao is currently a professor and an associate dean of the School of Chinese Medicine of Hong Kong Baptist University. He has been an associate professor of Hong Kong Baptist University since April 1999. Mr. Zhao is currently a member of the Chinese Pharmacopoeia Commission (國家藥典委員會), an honorary consultant of the Department of Health of Hong Kong, and a member of the Chinese Medicines Board and Chinese Medicine Council of Hong Kong. From 1984 to 1987, he was a research assistant of China Academy of Traditional Chinese Medicine. From 1987 to 1988 and 1991 to 1992, he was a visiting scholar of Tokyo University of Pharmacy and Life Science. Mr. Zhao has been a research director of a laboratory for Chinese medicines in Japan during the period from October 1992 to April 1999. From July 2009 to January 2010, he was a visiting scholar of Osher Research Center of Harvard Medical School. Mr. Zhao

DIRECTORS AND SENIOR MANAGEMENT

obtained a bachelor's degree and a master's degree, both in Chinese medicine, from Beijing University of Traditional Chinese Medicine in March 1982, and from China Academy of Traditional Chinese Medicine in December 1985, respectively. He obtained his doctorate degree in pharmacy in Tokyo University of Pharmacy and Life Science in March 1992.

Save as disclosed above, each of our Directors confirms with respect to himself/herself that: (i) he/she has no interests in the Shares within the meaning of Part XV of the SFO and is independent from and is not related to any other Directors, senior management, substantial shareholders and Controlling Shareholders of the Company; (ii) he/she has not held any directorship in any other public companies the securities of which are listed on any securities market in Hong Kong or overseas in the three years immediately preceding the date of this prospectus, and has not been involved in any of the events described under Rules 17.50(2)(h) to 17.50(2)(v) of the GEM Listing Rules; and (iii) there are no other matters concerning his/her directorship with the Company that need to be brought to the attention of the Shareholders and the Stock Exchange and there are no other matters in connection with his/her appointment which shall be disclosed pursuant to Rule 17.50(2) of the GEM Listing Rules.

SENIOR MANAGEMENT

Name	Age	Position
Hua Ji Hong (花季紅)	38	Deputy general manager
Lam Wai Yi (林慧儀)	41	Deputy general manager
Li Da Ming (李大鳴)	55	Deputy general manager
Li Xia (李霞)	46	Chief engineer

Hua Ji Hong (花季紅), aged 38, is a deputy general manager of the Company, and is mainly responsible for the foreign investment and import and export business of the Company. Ms. Hua joined TRT Group in 2000 and was mainly responsible for quality control. Ms. Hua obtained a bachelor's degree and a master's degree, both in Chinese medicine, from Beijing University of Chinese Medicine in June 1997 and July 2000, respectively.

Lam Wai Yi (林慧儀), aged 41, is a deputy general manager of the Company. She is mainly responsible for the sales and marketing of the Company. She joined the Company in 2006. Prior to joining us, she served as a media assistant and a media executive of an advertising agency company from 1996 to 1999, an advertising officer of a jewellery company from 1999 to 2001 and an assistant marketing manager of a furniture retail company from 2005 to 2006. She served as a marketing supervisor of TRT Hong Kong Medicine from 2002 to 2005. Ms. Lam obtained a higher diploma in business studies from City University of Hong Kong in December 1996 and a bachelor's degree in commerce marketing from Curtin University of Technology in February 2004.

Li Da Ming (李大鳴), aged 55, is a deputy general manager of the Company. He joined the Company in 2012. Mr. Li is qualified as a senior engineer as conferred by the Beijing Senior Professional Technical Titles Evaluation Committee (高級專業技術職務評審委員會) in September 1999. He obtained a qualification from a course for research student under employment (在職研究生班) in business administration at the Beijing Administrative College (中共北京市委黨校) in July 2002.

DIRECTORS AND SENIOR MANAGEMENT

Mr. Li joined the TRT Group in 2002 and worked as a factory manager of TRT Ltd. from June 2002 to March 2004. He worked as an assistant to the general manager and the manager of the technical installation department of TRT Ltd. from March 2004 to August 2006. Mr. Li was then appointed as the deputy general manager of TRT Ltd. from August 2006 to November 2006. He was also the deputy general manager of TRT Technologies from November 2011 to February 2012. Mr. Li is currently the general manager of TRT International Natural-Pharm.

Li Xia (李霞), aged 46, is the chief engineer of the Company. She joined the Company in 2008. Ms. Li joined TRT Group in 1990 and is mainly responsible for research and development of Chinese Medicines and Healthcare Products. Ms. Li obtained a bachelor's degree in Chinese medicine from Beijing University of Chinese Medicine in July 1989.

COMPANY SECRETARY

Lin Man (林曼) – Please see the sub-section above under the heading of “Executive Directors”.

COMPLIANCE OFFICER

Ding Yong Ling (丁永玲) – Please see the sub-section above under the heading of “Executive Directors”.

COMPENSATION OF DIRECTORS AND SENIOR MANAGEMENT

Our remuneration policies are formulated based on qualifications, years of experiences and the performance of individual employees and are reviewed regularly. The same policies will be maintained after the Listing Date.

The aggregate amount of compensation (including any salaries, fees, discretionary bonuses and other allowances and benefits in kind) paid by us for the years ended 31 December 2011 and 2012, to those persons who had been or were our Directors, was HK\$1.5 million and HK\$3.0 million, respectively.

For further details of the Directors' remuneration, please refer to the sections headed “Further information about Directors, Substantial Shareholders and experts – Particulars of Directors' service contracts” and “Further information about Directors, Substantial Shareholders and experts – Directors' remuneration” in Appendix V of this prospectus.

The five highest paid individuals include one Director for the year ended 31 December 2012 and none of the Director for the year ended 31 December 2011.

DIRECTORS AND SENIOR MANAGEMENT

The remuneration of the five highest paid individuals for the year ended 31 December 2011 and the four highest paid individuals for the year ended 31 December 2012 are set out below:

	Year ended 31 December	
	2011	2012
	HK\$'000	HK\$'000
Salaries	3,633	2,825
Discretionary bonuses	250	1,585
Employer's contribution to pension scheme	243	154
Other benefits	214	176
	<u>4,340</u>	<u>4,740</u>

During the Track Record Period, no emoluments were paid by the Group to any of the Directors, or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office, and no arrangement under which a Director or the highest paid individuals waived or agreed to waive any of the emoluments.

BOARD COMMITTEES

Audit Committee

On 28 March 2013, we have established an audit committee to be effective from the Listing Date in compliance with Rules 5.28 to 5.33 of the GEM Listing Rules. Written terms of reference in compliance with paragraph C3.3 of the Code on Corporate Governance Practices as set out in Appendix 15 of the GEM Listing Rules have been adopted. The primary duties of our audit committee are, among other things, to review and supervise the financial reporting process and internal control system of the Company. Our audit committee consists of Chan Ngai Chi, Zhao Zhong Zhen and Leung, Oi Sie Elsie and is chaired by Chan Ngai Chi.

Remuneration Committee

On 28 March 2013, we have established a remuneration committee to be effective from the Listing Date in compliance with Rules 5.34 to 5.36 of the GEM Listing Rules. Written terms of reference in compliance with paragraph B1.1 of the Code on Corporate Governance Practices as set out in Appendix 15 of the GEM Listing Rules have been adopted. The primary duties of our remuneration committee are, amongst other things, to determine the policies in relation to human resource management, review our remuneration policies and determine remuneration packages of our Directors and senior management. Our remuneration committee consists of Ding Yong Ling, Chan Ngai Chi and Zhao Zhong Zhen and is chaired by Zhao Zhong Zhen.

DIRECTORS AND SENIOR MANAGEMENT

Nomination Committee

On 28 March 2013, we have established a nomination committee to be effective from the Listing Date with written terms of reference in compliance with paragraph A.5 of the Code on Corporate Governance Practices as set out in Appendix 15 to the GEM Listing Rules have been adopted. The primary duties of our nomination are to make recommendations to the Board regarding candidates to fill vacancies on the Board and in senior management. Our nomination committee comprises Ding Yong Ling, Chan Ngai Chi and Leung, Oi Sie Elsie and is chaired by Leung, Oi Sie Elsie.

COMPLIANCE ADVISOR

We will appoint Kim Eng as our compliance advisor upon the Listing in compliance with Rule 6A.19 of the GEM Listing Rules.

We expect to enter into a compliance advisor agreement with Kim Eng prior to Listing. Pursuant to Rule 6A.23 of the GEM Listing Rules, the compliance advisor will advise us on the following matters:

- the publication of any regulatory announcement (whether required by the GEM Listing Rules or requested by the Stock Exchange or otherwise), circular or financial report;
- whether a transaction which might be a notifiable or connected transaction under Chapter 19 or 20 of the GEM Listing Rules is contemplated, including share issues and share repurchases;
- where we propose to use the proceeds from the Share Offer in a manner different from that detailed in this prospectus or where our business activities, developments or results deviate from any forecast, estimate, or other information in this prospectus; and
- where the Stock Exchange makes an inquiry of us with Rule 17.11 of the GEM Listing Rules regarding unusual movements in the price or trading volume of our Shares.

The material terms of the expected compliance advisor agreement are as follows:

- (a) the term of appointment of the compliance advisor shall commence on the Listing Date and end on the date on which we comply with Rule 18.03 of the GEM Listing Rules in respect of our financial results for the second full financial year commencing after the Listing Date (the “Fixed Period”), or until the agreement is terminated, whichever is earlier;
- (b) the compliance advisor shall provide us with services, including guidance and advice as to compliance with the requirements under the GEM Listing Rules and other applicable laws, rules, codes and guidelines, and to act as one of our principal channels of communications with the Stock Exchange;

DIRECTORS AND SENIOR MANAGEMENT

- (c) we may terminate the appointment of any compliance advisor if the compliance advisor's work is of an unacceptable standard or if there is a material dispute (which cannot be resolved in 30 days) over fees payable by us to the compliance advisor, as permitted by Rule 6A.26 of the GEM Listing Rules; and
- (d) The compliance advisor may terminate its appointment by serving a written notice on us 7 days in advance if:
 - we commit any breach of any of our obligations thereunder;
 - we fail to take into account the reasonable advice or recommendation of the compliance advisor or in relation to any matter which the compliance advisor considers in its reasonable opinion to be material; or
 - there arise any circumstances, including regulatory requirements or compliance with the GEM Listing Rules and other applicable laws, rules, codes and guidelines, which in the sole and absolute opinion of the compliance advisor, makes it impracticable, inadvisable or inexpedient for the compliance advisor to duly discharge its responsibility under the agreement or as required under the GEM Listing Rules.

Pursuant to Rule 6A.29 of the GEM Listing Rules, during the Fixed Period, we and the compliance advisor will immediately notify the Stock Exchange of termination or resignation of the compliance advisor, in each case, stating the reason for termination or resignation, as applicable; and we will notify the Stock Exchange of the new compliance advisor's appointment.

SHARE CAPITAL

Authorised share capital:

HK\$

2,000,000,000 Shares	<u><u>1,000,000,000</u></u>

Assuming the Over-allotment is not exercised, the share capital of the Company immediately following the Share Offer and Capitalisation Issue will be as follows:

Shares issued or to be issued, fully paid or credited as fully paid:

Number of Shares	Description of Shares	Aggregate nominal value of shares <i>HK\$</i>
402,860,946	Shares in issue as at the date of this prospectus	201,430,473
197,139,054	Shares to be issued pursuant to the Capitalisation Issue ⁽¹⁾	98,569,527
<u>200,000,000</u>	Shares to be issued pursuant to the Share Offer	<u>100,000,000</u>
<u><u>800,000,000</u></u>	Total	<u><u>400,000,000</u></u>

Assuming the Over-allotment Option is exercised in full, the share capital of the Company immediately following the Share Offer and Capitalisation Issue will be as follows:

Shares issued or to be issued, fully paid or credited as fully paid:

Number of Shares	Description of Shares	Aggregate nominal value of shares <i>HK\$</i>
402,860,946	Shares in issue as at the date of this prospectus	201,430,473
197,139,054	Shares to be issued pursuant to the Capitalisation Issue ⁽¹⁾	98,569,527
<u>230,000,000</u>	Shares to be issued pursuant to the Share Offer ⁽²⁾	<u>115,000,000</u>
<u><u>830,000,000</u></u>	Total	<u><u>415,000,000</u></u>

SHARE CAPITAL

Notes:

- (1) Pursuant to the resolutions passed by our Shareholders on 28 March 2013, the Directors were authorised to capitalise an aggregate amount of HK\$98,569,527 standing to the credit of the share premium of the Company and to appropriate such amount as capital to pay up in full at par 197,139,054 Shares for allotment and issue to the persons whose names appear on the register of members of the Company at the close of business on the date of this Prospectus (or as the Directors may direct) each ranking *pari passu* in all respects with the then existing issued Shares.
- (2) Including 30,000,000 Shares pursuant to the exercise in full of the Over-allotment Option.

According to Rule 11.23(7) of the GEM Listing Rules, at the time of the Listing and at all times thereafter, we must maintain the “minimum prescribed percentage” of 25% of our issued share capital in the hands of the public.

Assumptions

The above table assumes that the Share Offer and the Capitalisation Issue have become unconditional and the issue of Shares pursuant to the Share Offer and the Capitalisation Issue are made. The table takes no account of any Shares which may be allotted and issued, or repurchased, as the case may be, under the general mandate or the share repurchase mandate (see below).

Ranking

The Offer Shares will rank *pari passu* with all the Shares in issue or to be issued as mentioned in this prospectus and will rank in full for all dividends and other distributions declared, made or paid on the Shares on or after the date on which they are issued.

GENERAL MANDATE TO ISSUE NEW SHARES

Subject to the Share Offer becoming unconditional, the Directors have been granted a general unconditional mandate to allot, issue and deal with securities of the Company with a total nominal value of not more than the sum of:

1. 20% of the total nominal amount of our issued share capital immediately following the completion of the Share Offer and the Capitalisation Issue (excluding any Shares which may be issued upon the exercise of the Over-allotment Option); and
2. the aggregate nominal amount of our issued share capital repurchased by us (if any) pursuant to the general mandate to repurchase Shares (as referred to below).

The above general mandate does not apply to situations where the Directors allot, issue or deal with Shares by way of rights issue, script dividend schemes or similar arrangements providing for the allotment and issue of Shares in lieu of whole or part of a dividend in accordance with the Articles or pursuant to the exercise of any subscription or conversion rights attaching to any warrants or any securities which are convertible into Shares or in issue prior to the date of the passing of the relevant resolution.

SHARE CAPITAL

The above general mandate will expire:

1. at the conclusion of the Company's next annual general meeting; or
2. at the expiration of the period within which the Company's next annual general meeting is required by the Articles or any other applicable laws to be held; or
3. at the time when such mandate is revoked or varied by an ordinary resolution of the Shareholders in the Company's general meeting,

whichever is the earliest.

For further details of this general mandate, see the section headed "Further information about the Company – Written resolutions of our Shareholders passed on 28 March 2013" in the section headed in Appendix V to this prospectus.

REPURCHASE MANDATE

Subject to the Share Offer becoming unconditional, the Directors have been granted the repurchase mandate, which is a general mandate to repurchase the Shares with a total nominal value of not more than 10% of the aggregate of the total nominal amount of the share capital of the Company in issue immediately following completion of the Share Offer and the Capitalisation Issue (excluding any Shares which may be issued upon the exercise of the Over-allotment Option).

This mandate only relates to repurchase made on GEM, or any other stock exchange on which the Shares are listed (and which is recognised by the SFC and the Stock Exchange for this purpose), and which is in accordance with the GEM Listing Rules. A summary of the relevant GEM Listing Rules is set out in the section headed "Further information about the Company – Repurchase of Shares by the Company" in the section headed in Appendix V to this prospectus.

The repurchase mandate will expire:

1. at the conclusion of the Company's next annual general meeting; or
2. at the expiration of the period within which the Company's next annual general meeting is required by the Articles or any other applicable laws to be held; or
3. at the time when such mandate is revoked or varied by an ordinary resolution of the Shareholders in the Company's general meeting,

whichever is the earliest.

For further details of this repurchase mandate, see the section headed "Further information about the Company – Written resolutions of the Shareholders passed on 28 March 2013" in the section headed in Appendix V to this prospectus.

SUBSTANTIAL SHAREHOLDERS

SUBSTANTIAL SHAREHOLDERS

So far as our Directors are aware, the following persons will, immediately following the completion of the Share Offer and the Capitalisation Issue and taking into no account of any Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option, have beneficial interests or short positions in any Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or be directly and/or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group:

Name	Nature of Interest	Number of Shares	Approximate percentage of shareholding (%)
TRT Technologies	Beneficial owner	318,540,000	39.82%
TRT Ltd. ⁽¹⁾	Beneficial owner	281,460,000	35.18%
	Interest of controlled corporations	318,540,000	39.82%
TRT Holdings ⁽²⁾	Interest of controlled corporations	600,000,000	75.00%

Notes:

- (1) TRT Ltd. directly holds 51.02% of the issued share capital of TRT Technologies. Accordingly, TRT Ltd. is deemed to be interested in 318,540,000 Shares held by TRT Technologies.
- (2) TRT Holdings directly holds 55.24% of the issued share capital of TRT Ltd. which in turns directly holds 51.02% of the issued share capital of TRT Technologies. TRT Holdings also directly holds 0.81% of the issued share capital of TRT Technologies. Accordingly, TRT Holdings is deemed to be interested in 318,540,000 Shares and 281,460,000 Shares held by TRT Technologies and TRT Ltd. respectively.

SIGNIFICANT SHAREHOLDERS

So far as our Directors are aware, save for the persons disclosed under the section headed “Substantial Shareholders – Substantial Shareholders” above, no person will immediately following completion of the Share Offer and the Capitalisation Issue but without taking into account of any Shares which may be issued pursuant to the exercise of Over-allotment Option be directly or indirectly interested in 5% or more of the then issued share capital of the Company.

FINANCIAL INFORMATION

You should read this section in conjunction with our audited consolidated financial information, including the notes thereto, as set out in Appendix I – “Accountant’s Report”. The consolidated financial information has been prepared in accordance with HKFRS.

The following discussion and analysis contains forward-looking statements that involve risks and uncertainties. These statements are based on assumptions and analysis made by us in light of our experience and perception of historical trends, current conditions and expected future developments, as well as other factors we believe are appropriate under the circumstances. However, our actual results may differ significantly from those projected in the forward-looking statements. Factors that might cause future results to differ significantly from those projected in the forward-looking statements include, but are not limited to, those discussed and elsewhere in this prospectus, particularly in the section “Risk factors” in this prospectus.

OVERVIEW

We are a distributor engaged in both retail and wholesale of Chinese Medicine Products in the Non-PRC Markets operating under the “Tong Ren Tang” brand. We see ourselves as a channel for promoting Chinese medicine culture and services in Non-PRC Markets. We are the primary overseas distribution platform of the TRT Group. We operate the leading Chinese Medicine Products retail chain outside of the PRC in terms of number of jurisdictions present, according to Euromonitor. We also manufacture “Tong Ren Tang” brand Chinese Medicine Products and distribute other Chinese Medicine Products manufactured by the third parties suppliers in Non-PRC Markets.

BASIS OF PREPARATION

The financial information has been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRS”) issued by the Hong Kong Institute of Certified Public Accountant (“HKICPA”) and under the historical cost convention. The preparation of financial information in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying our accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial information are disclosed in Note 5 to the Accountant’s Report as Appendix I to this prospectus.

AMENDMENTS TO EXISTING STANDARDS THAT ARE EFFECTIVE FOR THE FINANCIAL PERIOD BEGINNING ON OR AFTER 1 JANUARY 2013

The Group has adopted HKFRS 11 and HKAS 28 (revised 2011) since 1 January 2013. Accordingly, the accounting of the Group’s investment in jointly controlled entities will change from proportionate consolidate to equity method of accounting. If the equity method of accounting was used to account for the Group’s investment in jointly controlled entities, for the year ended 31 December 2011 and 2012, net profit for the relevant years and net assets as at the relevant year end dates will remain unchanged. Its revenue, other income and expenses (including cost of sales and tax expenses) would be reduced while its share of profit from jointly controlled entities would be increased. Please refer to the paragraph headed “Critical accounting policies – Jointly controlled entities” in this prospectus for further details.

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CONTINUING OPERATIONS AND DISCONTINUED OPERATIONS

During the Track Record Period, we distributed our self-manufactured products to the PRC, but we have ceased our PRC distribution business from 1 November 2012. The PRC distribution business has been categorised as discontinued operations in the Accountant's Report set out in Appendix I to this prospectus. Please refer to the paragraph headed "Business – Discontinued operations – PRC distribution" for further particulars. TRT International Natural-Pharm, a wholly owned subsidiary of the Company, conducted our PRC distribution business and remains as part of the Group responsible for, among others, our sole distribution operation. Please refer to the paragraph headed "Business – TRT International Natural-Pharm" in this prospectus for further particulars. The table below sets forth an analysis of our revenue and gross profit by the continuing operations and discontinued operations (i.e. our PRC distribution business) for each of the two years ended 31 December 2012.

<i>HK\$'000</i>	Year ended 31 December			
	2011		2012	
Revenue				
Distribution of Non-PRC Markets	171,293	61.0%	337,602	71.2%
Royalty fee income	898	0.3%	674	0.1%
Agency fee income	24,491	8.7%	20,645	4.4%
Discontinued operations.	84,300	30.0%	115,031	24.3%
	<u>280,982</u>	<u>100%</u>	<u>473,952</u>	<u>100%</u>
Gross profit				
Distribution of Non-PRC Markets	106,367	52.3%	229,471	67.2%
Royalty fee income	898	0.4%	674	0.2%
Agency fee income	24,491	12.0%	20,645	6.0%
Discontinued operations.	71,986	35.3%	90,746	26.6%
	<u>203,742</u>	<u>100%</u>	<u>341,536</u>	<u>100%</u>

SIGNIFICANT FACTORS AFFECTING OUR RESULTS OF OPERATIONS

The continued growth of the global healthcare industry and Chinese Medicines industry

The Directors believe that our ability to grow our revenue was influenced by changes in the Chinese Medicine industry globally. Further to our recent developments to better delineate us from other members of the Parent Group, our revenue growth will only be driven by Non-PRC Markets. Due to increased awareness of Chinese Medicine Products around the world, the export market has been prosperous. It continues to grow especially in Asia, where the largest Chinese population lives. 9 out of the top 20 Chinese Medicine Products export destinations in 2011 by export value were located in Asia, including: Hong Kong, Japan, Vietnam, South Korea, Taiwan, Singapore, Malaysia, Thailand and Indonesia. The top 20 export destinations contributed a combined share of over 90% to the overall export market of Chinese Medicine Products in terms of value in 2011. According to

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the Euromonitor Report, the retail value sales of Chinese Medicine Products in APAC is estimated to increase from approximately US\$1,241 million in 2012 to approximately US\$1,962 million in 2016, representing a CAGR of 12.1% from 2012 to 2016.

Recognising the growth potential, we expect to continue to leverage our resources and experience in the Chinese Medicine industry to enhance our market position and expand our business. However, the Company believes that there is also intensifying industry competition as a result of the increasing popularity of Chinese Healthcare Products overseas. Our continued growth and success in implementing our business strategies will be highly dependent on our ability to stay competitive and capitalise on the factors anticipated to drive the development of the Chinese Medicines industry and fuel the demand for relevant products.

Ability to expand distribution in Non-PRC Markets

Revenue generated from our distribution in Non-PRC Markets has grown approximately 97.1% from the year ended 31 December 2011 to the year ended 31 December 2012. Revenue generated from our distribution in Non-PRC Markets was our key growth contributor during the Track Record Period and is directly affected by our ability to maintain and expand our distribution network in Non-PRC Markets. Utilising such network, we conduct both retail and wholesale business for sales of Chinese Medicine Products and provision of Chinese healthcare services. As at the Latest Practicable Date, we have an extensive international distribution network covering 12 overseas countries and regions (including Hong Kong and Macao).

During the Track Record Period, our distribution network continued to expand and we established 14 retail stores in total with 7 in 2011 and 7 in 2012. We have established another 2 retail stores since 31 December 2012 up to the Latest Practicable Date. It generally takes about one to two years of operations for a new store to approach maturity. Accordingly, the growth rates of a new store in its initial few years of establishment are generally higher than more mature stores. However, as it takes time for the new stores to build up scale, their operating margins in their first few years of operations are generally lower than more mature stores. We intend to increase the number of overseas stores in the existing markets in which we operate as well as expand into new markets. We have substantially expanded our wholesale operations, most noticeably in Hong Kong mainly driven by sales of our Angong Niu Huang Pills. We will continue to expand sales of our self-manufactured products in our wholesale operations. Our ability to effectively implement such business strategies will be critical to our ability to maintain and increase our sales and profitability.

Sales of self-manufactured Chinese Medicine Products

As we are fully integrated in the manufacturing and sale of Angong Niu Huang Pills and GLSPC, the overall gross profit margins of these products are in general higher than the distribution products we do not manufacture. Accordingly, the increase in the sales of these products will improve our financial results.

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We currently only sell our Angong Niu Huang Pills in Hong Kong and our GLSPC in Hong Kong, Macao, Australia, Brunei and Cambodia. The sales of Angong Niu Huang Pills in Macao and markets outside of the PRC and sales of GLSPC in new markets outside of the PRC are generally subject to product registration or filing requirements. Therefore, the expansion of the geographic coverage of these products takes time.

As the Parent Group has ceased selling its Angong Niu Huang Pills to Hong Kong from 1 October 2012, we expect our sales of Angong Niu Huang Pills to further increase to satisfy demand for “Tong Ren Tang” branded Angong Niu Huang Pills previously met by the Parent Group’s Angong Niu Huang Pills.

Policies and regulations of healthcare industry and Chinese Medicines industry

As the industry in which we operate is highly-regulated in nature, healthcare-related policies and regulations in Non-PRC Markets have affected, to a significant degree, the market demand for our product offerings and consequently, our results of operations. Depending on the scope of our operations in each of these jurisdictions, the applicable laws and regulations govern a wide range of areas, including, among others, healthcare, Chinese Medicines, consultation services by Chinese physicians and healthcare practitioners as well as related advertising of such products and services. Please refer to the section headed “Regulations” in this prospectus for more details on the major laws, rules and regulations that are directly relevant to our operations in each of these jurisdictions. In particular, the production, advertising and sales of our self-manufactured products are subject to regulation by several Hong Kong authorities, including the Food and Environmental Hygiene Department and the Department of Health. Any changes in relevant government regulations in the future could result in adverse consequences for us. For example, due to new regulatory requirements with which we have to comply, a competent authority may order us to mass recall a particular non-compliant product from the market, which could have a negative impact on our market reputation, loss of revenue and additional costs incurred. Please refer to the section headed “Risk factors – Risks related to our industry – The Chinese Medicine Products industry is heavily regulated” in this prospectus for details.

Cost of purchasing merchandise, pricing and gross margins

The cost of purchasing merchandise for our overseas distribution operation is the largest component of our cost of sales. We offer a broad range of Chinese Medicine Products including Chinese Medicines, Healthcare Products, and Chinese herbs through our distribution channels. Except self-manufactured products, we purchase merchandise from the Parent Group and third party suppliers (which may include our Overseas Partners). The cost of purchasing raw materials for manufacturing of Angong Niu Huang Pills and GLSPC is the second largest component of our cost of sales.

On the pricing side, we have flexibility in setting both wholesale and retail prices of our merchandise as there is no regulatory restriction on the pricing of most of the products we sell for self-manufactured products overseas distribution business. We determine the retail prices of the products sold through the retail stores based on various factors including prevailing price of similar products available in relevant market, cost of procurement of the products and marketing strategies for particular products. We typically sell products to the wholesale customers at the prices determined

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by giving some discount to the corresponding retail prices. For “Tong Ren Tang” branded products, we set retail prices at our discretion according to our purchasing cost and prevailing retail price of products of similar effects.

The gross margins of our retail and wholesale operations in Non-PRC Markets are largely determined by the prices of our products sold and our cost of purchasing merchandise and cost of self-manufactured products we distribute. In future, we expect to manage our gross margins by controlling our costs of sales and optimizing our product mix and including more products with higher margins. However, any difficulty that we may encounter in connection with controlling our cost of purchasing merchandise and cost of self-manufactured products we distribute, as well as future regulatory measures that may be taken by the governments of the overseas markets where we operate, may have a material effect on our gross margins, which in turn may adversely affect our business operations, financial condition and profitability.

CRITICAL ACCOUNTING POLICIES

Critical accounting policies are those that require management to exercise judgment and make estimates that yield materially different results if management were to apply different assumptions or make different estimates. The preparation of our consolidated financial information in conformity with HKFRS require us to make estimates and judgments that affect the reported amounts of assets and liabilities, revenues and expenses, and related disclosures of contingent assets and liabilities. The selection of critical accounting policies, the judgments and other uncertainties affecting application of those policies and the sensitivity of reported results to changes in conditions and assumptions are factors to be considered when reviewing our audited consolidated financial information. Our principal accounting policies are set forth in Note 3 to the Accountant’s Report, attached as Appendix I to this prospectus.

Jointly controlled entities

Jointly controlled entities are those companies held for the long-term, over which the Company is in a position to exercise joint control with other venturers in accordance with contractual arrangements, and where none of the participating parties has a unilateral control over the economic activity of the joint venture.

The Group’s interests in jointly controlled entities are accounted for by proportionate consolidation. The Group combines its share of the joint ventures’ individual income and expenses, assets and liabilities and cash flows on a line-by-line basis with similar items in the Group’s financial information. The Group recognises the portion of gains or losses on the sale of assets by the Group to the joint venture that is attributable to the other venturers. The Company has sold GLSPC, “Tong Ren Tang” branded products and Chinese herbs to its jointly controlled entities. The Company recognises its share of profits or losses from the joint venture that result from the sale of assets by the Company to the joint venture until it re-sells the assets to an independent party. However, a loss on the transaction is recognised immediately if the loss provides evidence of a reduction in the net realizable value of current assets, or an impairment loss.

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The Group recognises the disposal of an interest in a jointly controlled entity when it ceases to have joint control and the risks and rewards of ownership have passed to the acquirer. Unrealised gains on transactions between the Group and its jointly controlled entity are eliminated to the extent of the Group's interest in these companies. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of jointly controlled entity have been changed where necessary to ensure consistency with the policies adopted by the Group.

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

In the Company's balance sheet, impairment testing of the investments in jointly controlled entities is required upon receiving dividends from these investments if the dividend exceeds the total comprehensive income of the jointly controlled entity 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.

Effective from 1 January 2013, the Group adopted HKFRS 11 and HKAS 28 (revised 2011). The adoption of the amendments in HKAS 28 (revised 2011) have changed the accounting of the Group's investment in jointly controlled entities from proportionate consolidation to equity method of accounting. If the equity method of accounting was used to account for the Group's investment in jointly controlled entities, for the year ended 31 December 2011 and 2012, net profit for the relevant years and net assets as at the relevant year end dates will remain unchanged. Its revenue and other income would be reduced by HK\$36,968,000 and HK\$28,809,000, respectively; its expenses (including cost of sales and tax expenses) would be reduced by HK\$33,223,000 and HK\$24,701,000, respectively, while its share of profit from jointly controlled entities would be increased by HK\$3,745,000 and HK\$4,108,000, respectively.

Revenue recognition

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

We recognise revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of our activities as described below. We base our estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Sales of goods

We sell Chinese Medicines Products to wholesalers and individual customers. Sales of goods are recognised when a group entity has delivered products to the wholesaler or customer.

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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 been shipped to the specified location, the risks of obsolescence and loss have been transferred to the wholesaler, and either the wholesaler has accepted the products in accordance with sales contract, the acceptance provisions have lapsed, or we have objective evidence that all criteria for acceptance have been satisfied. Sales are recorded based on the price specified in the sales contracts.

We also sell products to individual customers through our retail outlets. Sales of goods are recognised when the retail outlet sells a product to the customer. Retail sales are usually settled in cash or by credit card.

Service income

We provide Chinese Medical Consultation service in retail outlets. Chinese Medical Consultation income is recognised when the service is provided to the customer and it is settled in cash or by credit card.

Agency fee income

The Company acted as a sales agent of TRT Ltd. and TRT Technologies for "Tong Ren Tang" branded products in Non-PRC Markets since 2007. Agency fee income was based on specified rates on the total overseas sales of "Tong Ren Tang" branded products by TRT Ltd. and TRT Technologies to the customers. Agency fee income was recognised when TRT Ltd. and TRT Technologies have received the settlements from overseas customers. This agency arrangement ceased upon the expiry of the relevant agency agreements in December 2012.

Royalty fee income

Royalty fee income is based on pre-determined rates on the total turnover of the 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.

Interest income

Interest income is recognised using the effective interest method.

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.

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Impairment assessment

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

Trade receivables and other current assets

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

Trade receivables and other current assets are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables and other current assets is established when there is objective evidence that we will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the assets is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement within administrative expenses. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited to the income statement.

Foreign currency translation

(i) Functional and presentation currency

Items included in the financial information 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 information is presented in Hong Kong dollar ("HK\$"), which is the Company's functional and the Group's presentation currency.

(ii) Transactions and balances

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

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(iii) Group companies

The results and financial position of all the Group's entities (none of which has the currency of a hyperinflationary 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 statement of 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 dates of the transactions); and
- all resulting exchange differences are recognised in other comprehensive income.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings and other currency instruments designated as hedges of such investments, are taken to other comprehensive income. When a foreign operation is partially disposed of or sold, exchange differences that were recorded in equity are recognised in the income statements as part of the gain or loss on sale.

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. Exchange differences arising from such translation are recognised in other comprehensive income.

Property, plant and equipment

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

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

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Freehold land is not depreciated. Leasehold land classified as finance lease commences amortisation from the time when the land interest becomes available for its intended use. Amortisation on leasehold land classified as finance lease and depreciation on other assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

Leasehold land held under finance lease	Over the lease period
Buildings	33 to 50 years
Leasehold improvement	Over the lease term
Plant and machinery	3 to 12 years
Motor vehicles	5 to 8 years
Office equipment	2.5 to 12 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within "other gains/(losses) – net" in the income statement.

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.

The current income tax charge is calculated on the basis of the tax laws enacted or substantially enacted at the balance sheet date in the countries where our subsidiaries, jointly controlled entities and associated company 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.

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 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 substantially 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.

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Deferred income tax is provided on temporary differences arising from investments in subsidiaries and jointly controlled entities and associates, except for deferred income tax liability where the timing of reversal of the temporary difference is controlled by us and it is probable that the temporary difference will not reverse in the foreseeable future.

Provisions

Provisions are recognised when we have 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.

If the Group has a contract that is onerous, the present obligation under the contract should be recognised and measured as a provision. An onerous contract is one in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it.

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.

Assets and liabilities of disposal group classified as held for sale

Assets and liabilities of the disposal group are classified as held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. The non-current assets, except for certain assets as explained below, or disposal groups, are stated at the lower of carrying amount and fair value less costs to sell. Deferred tax assets, assets arising from employee benefits, financial assets other than investments in subsidiaries and associates and investment properties, even if held for sale, would continue to be measured in accordance with the policies set out elsewhere in Note 3 of Section II to the Accountant's Report, attached as Appendix I to this prospectus.

DESCRIPTION OF SELECTED INCOME STATEMENT COMPONENTS

Revenue

We derived our revenue primarily from retail and wholesale distribution of Chinese Medicine Products in Non-PRC markets. We provide Chinese Medical Consultation in 30 out of 36 of our retail stores as at the Latest Practicable Date and receive service fees. Some of the Chinese Medicine Products we distribute are manufactured by the Company. A large portion of our self-manufactured products were distributed in the PRC during the Track Record Period. We have discontinued our PRC

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distribution from 1 November 2012. We were the only agent for products manufactured by TRT Ltd. and TRT Technologies for Non-PRC Markets since 2007 and we received agency fees from TRT Ltd. and TRT Technologies under this arrangement which expired in December 2012. We have ceased this agency operation. We also sub-licensed the use of the “Tong Ren Tang” brand name for retail primarily to our Overseas Associates and receive royalty fees. In each of the two years ended 31 December 2012, our revenue generated from our continuing operations was approximately HK\$196.7 million and HK\$358.9 million respectively.

The table below sets forth our revenue from each of our business segments and their percentage of our total revenue of the continuing operations and discontinued operations for each of the two years ended 31 December 2012:

<i>HK\$'000</i>	Year ended 31 December			
	2011		2012	
Distribution in Non-PRC Markets				
Retail				
– Product sales	112,425	40.0%	174,493	36.8%
– Chinese Medical Consultation.	19,522	7.0%	26,488	5.6%
Sub-total	131,947	47.0%	200,981	42.4%
Wholesale	39,346	14.0%	136,621	28.8%
Sub-total.	171,293	61.0%	337,602	71.2%
Royalty fee income.	898	0.3%	674	0.1%
Agency fee income.	24,491	8.7%	20,645	4.4%
Total revenue of continuing operations	196,682	70.0%	358,921	75.7%
Discontinued operations (i.e. PRC distribution).	84,300	30.0%	115,031	24.3%
Total	<u>280,982</u>	<u>100%</u>	<u>473,952</u>	<u>100%</u>

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The table below sets forth an analysis of our revenue from our continuing operations by business segments for each of the two years ended 31 December 2012:

	Year ended 31 December			
	2011		2012	
	As a % of total revenue of distribution in Non-PRC Markets and royalty fee income	As a % of total revenue of distribution in Non-PRC Markets and royalty fee income	As a % of total revenue of distribution in Non-PRC Markets and royalty fee income	As a % of total revenue of distribution in Non-PRC Markets and royalty fee income
Distribution in Non-PRC Markets				
Retail				
– Product sales	57.2%	65.3%	48.6%	51.6%
– Chinese Medical Consultation	9.9%	11.3%	7.4%	7.8%
Sub-total	67.1%	76.6%	56.0%	59.4%
Wholesale	20.0%	22.9%	38.1%	40.4%
Sub-total	87.1%	99.5%	94.1%	99.8%
Royalty fee income	0.5%	0.5%	0.2%	0.2%
Agency fee income	12.4%	N/A	5.7%	N/A

During the Track Record Period, we have derived the majority of our revenue from our distribution in Non-PRC Markets through the retailing and wholesaling of Chinese Medicine Products, as well as the provision of Chinese Medical Consultation in our retail stores. Our PRC distribution (i.e. our discontinued operations) only included wholesaling of products.

Revenue from the retail operations is generated from selling self-manufactured products, non self-manufactured “Tong Ren Tang” branded products, non-“Tong Ren Tang” branded products and Chinese herbs, and provision of Chinese Medical Consultation in our retail stores, to our retail customers. Retail revenue is recognised when the goods or services are received by the customers. For each of the two years ended 31 December 2012, the revenue from our retail operation was approximately HK\$131.9 million and HK\$201.0 million respectively, accounting for approximately 67.1% and 56.0% of the total revenue generated from our continuing operations, and approximately 76.6% and 59.4% of the total revenue of distribution in Non-PRC Markets and royalty fee income, of the respective periods.

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The table below sets forth our retail revenue by geographic markets for each of the two years ended 31 December 2012:

Revenue <i>HK\$'000</i>	Year ended 31 December			
	2011		2012	
		<i>% to total retail revenue</i>		<i>% to total retail revenue</i>
Retail in Non-PRC Markets				
Hong Kong	27,807	21.0%	66,515	33.1%
Australia	28,244	21.4%	31,378	15.6%
Singapore	28,102	21.3%	29,724	14.8%
Macao	13,000	9.8%	30,337	15.1%
Canada	13,427	10.2%	17,159	8.5%
Malaysia	8,544	6.5%	7,907	3.9%
Thailand	5,084	3.9%	5,943	3.0%
Other countries (<i>Note</i>)	7,739	5.9%	12,018	6.0%
Total	<u>131,947</u>	<u>100.0%</u>	<u>200,981</u>	<u>100.0%</u>

Note: Other countries include Brunei, Cambodia, Indonesia and UAE.

The table below sets forth our same store sales analysis for each of the two years ended 31 December 2012:

Sales <i>(HK\$'000)</i>	Year ended 31 December		
	2011	<i>Note 2</i>	2012
		(20 stores) (unaudited)	
Hong Kong	19,343		30,574
Australia	24,234		23,403
Singapore	28,102		26,703
Macao (<i>Note 3</i>)	22,061		26,380
Canada	13,427		15,910
Malaysia	8,544		7,907
Thailand	5,084		5,943
Other countries (<i>Note 1</i>)	6,541		6,151

Notes:

- Other countries include Brunei, Cambodia and Indonesia.
- A total of 20 retail stores, which were the only retail stores in operation throughout the year ended 2011 and 2012 were analysed.
- TRT (Macau) was our jointly controlled entity until it became our subsidiary in November 2011 and accordingly its revenue were only proportionately consolidated prior to 29 November 2011. TRT (Macau) is treated as a subsidiary for the purpose of this same store sales analysis. The actual contribution of the relevant store to our consolidated retail revenue was approximately HK\$12,160,000 for the year ended 31 December 2011.

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The same store sales of our jurisdictions generally experienced a moderate growth in accordance with the general growth of the global Chinese Medicine industry. In addition, (a) Hong Kong recorded exceptional growth owing to increased sales of our Angong Niu Huang Pills; and (b) Macao recorded exceptional growth in 2012 over 2011 owing to increased sales of the Parent Group's Angong Niu Huang Pills. Sales of our Angong Niu Huang Pills accounted for 62.5% of our retail revenue growth in Hong Kong for the year ended 31 December 2012 over the year ended 31 December 2011. Sales of the Parent Group's Angong Niu Huang Pills accounted for approximately 80.9% of our retail revenue growth in Macao for the year ended 31 December 2012 over the year ended 31 December 2011. We believe the increased in sales of Angong Niu Huang Pills in Hong Kong and Macao, was primarily due to increasing acceptance of the product and purchases from the increasing number of PRC tourists. The drop in same store sales in Singapore, Malaysia and other countries (owing to Brunei and Cambodia) was primarily attributable to the departure of Chinese Medical Practitioner(s) in each of Singapore, Malaysia, Brunei and Cambodia which negatively impacted Chinese Medical Consultation income and/or associated Chinese Medicine Products sales.

The following table sets forth our wholesale revenue by geographic markets for each of the two years ended 31 December 2012:

Revenue	Year ended 31 December			
HK\$'000	2011		2012	
Wholesale in Non-PRC Markets				
Hong Kong	30,523	77.6%	117,364	85.9%
Australia	4,416	11.2%	4,835	3.5%
Macao.	3,850	9.8%	13,658	10.0%
Other countries (Note).	557	1.4%	764	0.6%
Total	39,346	100%	136,621	100%

Note: Other countries include Thailand, Singapore and South Korea.

Revenue from our wholesale operations in Non-PRC Markets is generated through bulk sale of mainly "Tong Ren Tang" branded products to our wholesale customers in these markets, local drug stores and clinics and third party local distributors and the income is recognised when the goods are received by the customers. As at 31 December 2011 and 2012, we had in total 301 and 305 wholesale customers in Non-PRC Markets. For each of the two years ended 31 December 2012, the revenue from our wholesale operations in Non-PRC markets was approximately HK\$39.3 million and HK\$136.6 million respectively, accounting for approximately 23.0% and 40.5% of the total revenue generated from distribution in Non-PRC Markets of the respective periods.

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The growth in wholesale revenue in Non-PRC Markets during the Track Record Period was mainly driven by growth in Hong Kong and Macao, and was mainly driven by growth in sales of “Tong Ren Tang” branded Angong Niu Huang Pills and full consolidation of TRT (Macao) as a subsidiary since 29 November 2011. Sales of our Angong Niu Huang Pills accounted for approximately 98.9% of our wholesale revenue growth in Hong Kong for the year ended 31 December 2012 over the year ended 31 December 2011, which increased from approximately HK\$28,229,000 for the year ended 31 December 2011 to approximately HK\$114,144,000 for the year ended 31 December 2012. Sales of the Parent Group’s Angong Niu Huang Pills accounted for approximately 93.7% of our wholesale revenue growth in Macao for the year ended 31 December 2012 over the year ended 31 December 2011 without taking proportionate consolidation into account.

We have been increasing the manufacturing and sales of our Angong Niu Huang Pills during the Track Record Period to satisfy demand for our Angong Niu Huang Pills in Hong Kong. Sales of the Angong Niu Huang Pills increased by approximately 291.9% in the year ended 31 December 2012 from the year ended 31 December 2011. The table below sets forth an analysis of the retail and wholesale revenue of our Angong Niu Huang Pills for each of the two years ended 31 December 2012.

<i>HK\$'000</i>	Year ended 31 December			
	2011		2012	
Retail	9,482	25.1%	33,657	22.8%
Wholesale	28,229	74.9%	114,144	77.2%
	<u>37,711</u>	<u>100%</u>	<u>147,801</u>	<u>100%</u>

Agency fee income was agency fee from the Parent Group for our sole overseas agency service and was recognised when TRT Ltd. and TRT Technologies have received the settlements from overseas customers. We received agency fee from TRT Ltd. and TRT Technologies at the respective rates of 7.5% and 8.5% of their total paid overseas sales, excluding all kinds of taxation expenses, and is settled quarterly during the Track Record Period. For each of the two years ended 31 December 2012, the agency fee income was approximately HK\$24.5 million and HK\$20.6 million, accounting for approximately 8.7%, and 4.4% of our total revenue of the continuing operations and discontinued operations of the respective periods.

Royalty fee income represents royalty fees received from our overseas subsidiaries and jointly controlled entities, which amounted to approximately HK\$0.9 million and HK\$0.7 million, accounting for approximately 0.7% and 0.3% of total retail income for each of the two years ended 31 December 2012 respectively. The amount recorded reflected the portion of royalty fees received from the jointly controlled entities attributable to the joint venture partner as our portion and royalty fees received from our subsidiaries were eliminated upon consolidation. Royalty fee income dropped in the year ended 31 December 2012 primarily as TRT (Macao) became a subsidiary of the Company and its royalty fee was eliminated on consolidation.

Revenue from PRC distribution (i.e. our discontinued operations) was substantially generated through sale of our self-manufactured products to our PRC wholesale customers for further distribution by them in the PRC. For each of the two years ended 31 December 2012, we had a number of PRC

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distributors including two subsidiaries of TRT Holdings accounting for the majority of the PRC distribution revenue in these periods. Our revenue from PRC distribution increased by approximately HK\$30.7 million, or approximately 36.5%, from approximately HK\$84.3 million for the year ended 31 December 2011 to approximately HK\$115.0 million for the year ended 31 December 2012. Such revenue accounted for approximately 30.0% and 24.3% of the total revenue of our continuing operations and discontinued operations for each of the two years ended 31 December 2012 respectively, among which approximately HK\$71.3 million and HK\$101.2 million was attributed to the sale of GLSPC, accounting for approximately 84.6% and 88.0% of the total revenue generated from our discontinued operations. The revenue for the sales of self-manufactured Chinese Medicine Products attributable to our discontinued operations for each of the two years ended 31 December 2012 was approximately HK\$83.8 million and HK\$113.8 million respectively. The increase in PRC distribution revenue for the year ended 31 December 2012 was primarily the result of the disposal of the vast majority of our GLSPC inventory in Beijing to the Parent Group in 2012 owing to the cessation of this business. Please refer to the paragraph headed “Business – Distribution operations – PRC distribution” for further particulars.

The table below sets forth our revenue of our continuing operations and discontinued operations by products and services for each of the two years ended 31 December 2012:

Revenue HK\$'000	Year ended 31 December			
	2011		2012	
Self-manufactured products (Note)	126,574	45.1%	268,956	56.7%
GLSPC	75,757	27.0%	108,076	22.8%
Angong Niu Huang Pills	37,711	13.4%	147,801	31.2%
Others	13,106	4.7%	13,079	2.7%
Non self-manufactured Chinese				
Medicines and Healthcare				
Products (Note)	44,662	15.8%	79,145	16.7%
Chinese herbs	64,835	23.1%	78,044	16.5%
Chinese Medical Consultation	19,522	7.0%	26,488	5.6%
Royalty fee income	898	0.3%	674	0.1%
Agency fee income	24,491	8.7%	20,645	4.4%
Total	<u>280,982</u>	<u>100.0%</u>	<u>473,952</u>	<u>100.0%</u>

Note:

Our revenue from self-manufactured products and non-self manufactured Chinese Medicines and Healthcare Products by product brands

“Tong Ren Tang” brand	156,557	91.4%	328,100	94.3%
Self-manufactured products	126,574	73.9%	268,956	77.3%
Non self-manufactured products	29,983	17.5%	59,144	17.0%
Other brands	14,679	8.6%	20,001	5.7%
	<u>171,236</u>	<u>100%</u>	<u>348,101</u>	<u>100%</u>

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During the Track Record Period,

- (i) for self-manufactured products, (a) most of the GLSPC and other Chinese Medicine Products were distributed under PRC distribution accounting for approximately 94.3% and 93.9% of the revenue from these products for each of the two years ended 31 December 2012, respectively; and (b) our Angong Niu Huang Pills were distributed in Hong Kong.
- (ii) the non self-manufactured Chinese Medicines and Healthcare Products were distributed under both retail and wholesale in Non-PRC Markets.
- (iii) substantially all of the Chinese herbs were distributed under retail in Non-PRC Markets. There was a small scale wholesale distribution of Chinese herbs in Macao and Australia.
- (iv) all of the Chinese Medical Consultation revenue has been derived from services rendered at our retail stores.

The table below sets forth our distribution revenue from product distribution and Chinese healthcare services by geographic markets for each of the two years ended 31 December 2012:

Revenue HK\$'000	Year ended 31 December			
	2011		2012	
PRC distribution	84,300	33.0%	115,031	25.4%
Distribution in Non-PRC Markets				
(retail and wholesale)	171,293	67.0%	337,602	74.6%
Hong Kong	58,330	22.8%	183,879	40.6%
Australia	32,660	12.8%	36,214	8.0%
Singapore	28,453	11.1%	30,099	6.7%
Macao	16,850	6.6%	43,994	9.7%
Canada	13,427	5.3%	17,159	3.8%
Malaysia	8,544	3.3%	7,907	1.7%
Thailand	5,238	2.1%	6,288	1.4%
Other countries	7,791	3.0%	12,062	2.7%
Total	<u>255,593</u>	<u>100%</u>	<u>452,633</u>	<u>100%</u>

Cost of sales

Our cost of sales primarily consists of cost of self-manufactured products and cost of non-self-manufactured Chinese Medicine Products. Cost of self-manufactured products mainly include cost of raw materials (including sporoderm-broken ganoderma lucidum spores powder for GLSPC and Angong Niu Huang Powder for Angong Niu Huang Pills), direct labour costs, depreciation and amortisation expenses, impairment loss on inventory and overhead costs including utilities and repair and maintenance. Cost of non self-manufactured Chinese Medicine Products, include costs of product merchandise we source to be sold through our retail and wholesale operations. The related costs of Chinese Medical Consultation, agency fees and royalty fees are categorised in distribution and selling expenses and general and administration expenses.

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During each of the two years ended 31 December 2012, total cost of sales of our continuing operations and discontinued operations amounted to approximately HK\$77.2 million and HK\$132.4 million respectively, accounting for approximately 27.5% and 27.9% of the total revenue of our continuing operations and discontinued operations of the respective periods. During each of the two years ended 31 December 2012, total cost of sales of our continuing operations amounted to approximately HK\$64.9 million and HK\$108.1 million respectively, accounting for approximately 33.0% and 30.1% of the total revenue of our continuing operations of the respective periods.

The table below sets forth the components of our cost of sales of our continuing operations and discontinued operations by business segments, products/services and nature for each of the two years ended 31 December 2012.

HK\$'000	Year ended 31 December			
	2011	% to total cost of sales	2012	% to total cost of sales
By business segments				
Continuing operations				
Distribution in Non-PRC Markets	64,926	84.1%	108,131	81.7%
Royalty fee income	—	—	—	—
Agency fee income	—	—	—	—
Sub-total	64,926	84.1%	108,131	81.7%
Discontinued operations	12,314	15.9%	24,285	18.3%
Total	77,240	100%	132,416	100.0%
By products/services				
Self-manufactured products	25,496	33.0%	56,798	42.9%
Non self-manufactured products (excluding Chinese herbs)	26,696	34.6%	44,671	33.7%
Chinese Medical Consultation	—	—	—	—
Royalty fee income	—	—	—	—
Agency fee income	—	—	—	—
Chinese herbs	25,048	32.4%	30,947	23.4%
Total	77,240	100.0%	132,416	100.0%
By nature				
Cost of Inventory sold	58,012	75.10%	105,676	79.80%
Staff cost	4,605	6.00%	7,451	5.60%
Depreciation and Amortization	5,733	7.40%	5,985	4.50%
Impairment on Inventory	3,593	4.65%	5,768	4.40%
Others (Note)	5,297	6.85%	7,536	5.70%
Total	77,240	100.00%	132,416	100.00%

Note: Others mainly represents the utilities cost, government rent and rate, repair and maintenance cost of the factory.

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Raw materials of our self-manufactured products represented approximately 46.9% and 54.7% of the total manufacturing cost of our self-manufactured products for each of the two years ended 31 December 2012 respectively. Price fluctuation of our major raw materials will affect our gross profit margin accordingly. Our unit raw material cost for Angong Niu Huang Pills increased by over 15% in early 2011 and has been stable during the Track Record Period. Our unit raw material cost for GLSPC increased by over 40% at the end of 2011 compared to the beginning of 2011; such cost has remained relatively stable for the year ended 31 December 2012. For illustrative purpose only, assuming all other factors remain unchanged, if the raw material costs of our self-manufactured products increase/decrease by 10%, with all other variables held constant, our total gross profit would have decreased/increased by 0.6% and 1.0% for the two years ended 31 December 2012 respectively.

Manufacturing overheads increased by approximately 24.2% in the year ended 31 December 2012 primarily as a result of increase in salary of manufacturing staff and other overheads associated with inspection.

Our unit costs of non self-manufactured products (excluding Chinese herbs) have remained relatively stable in general during the Track Record Period apart from the Parent Group's Angong Niu Huang Pills which purchase price has increased substantially. However, the impact of the increase in the price of the Parent Group's Angong Niu Huang Pills did not have a material impact on the overall cost of sales of the Group. The unit costs of Chinese herbs have generally experienced an increase due to the increase in demand of Chinese herbs in the PRC.

There was (i) an impairment of raw materials for the manufacturing of other self-manufactured products of approximately HK\$1.1 million for the year ended 31 December 2011, since we have decided to cease manufacturing such products to improve delineation from the Parent Group to facilitate the Listing; and (ii) an impairment of approximately HK\$6.1 million of other self-manufactured products under discontinued operations for the year ended 31 December 2012.

Furthermore, the Group has purchased products for PRC distribution prior to 2012. The Group impaired approximately HK\$2.1 million of products purchased for PRC distribution for the year ended 31 December 2011 as sales of these products did not go well. However, there was provision written back of approximately HK\$0.3 million in the year ended 31 December 2012 from sales of these products.

No direct costs have been allocated to Chinese Medical Consultation, royalty fee income and agency fee income and hence they have no cost of sales.

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Gross profit and gross profit margin

Gross profit is our revenue minus our cost of sales. The tables below set forth our gross profit and gross margin of our continuing operations and discontinued operations by business segments and products/services for each of the two years ended 31 December 2012:

<i>HK\$'000</i>	Year ended 31 December			
	2011	Gross profit margin	2012	Gross profit margin
By business segments				
Continuing operations				
Distribution in				
Non-PRC Markets	106,367	62.1%	229,471	68.0%
Royalty fee income	898	100.0%	674	100.0%
Agency fee income	24,491	100.0%	20,645	100.0%
Subtotal	131,756	67.0%	250,790	69.9%
Discontinued operations – PRC distribution	71,986	85.4%	90,746	78.9%
Total	203,742	72.5%	341,536	72.1%
By products/services				
Self-manufactured products	101,078	79.9%	212,158	78.9%
Non self-manufactured products				
(excluding Chinese herbs)	17,966	40.2%	34,474	43.6%
Chinese herbs	39,787	61.4%	47,097	60.3%
Chinese Medical Consultation	19,522	100%	26,488	100%
Subtotal	178,353	69.8%	320,217	70.7%
Royalty fee income	898	100%	674	100%
Agency fee income	24,491	100%	20,645	100%
Total	203,742	72.5%	341,536	72.1%
Year ended 31 December				
<i>HK\$'000</i>	2011	Gross profit margin	2012	Gross profit margin
By wholesale and retail segments				
Wholesale	95,801	77.5%	190,551	75.7%
Retail	82,552	62.6%	129,666	64.5%
Total	178,353	69.8%	320,217	70.7%

Note: Chinese Medical Consultation is part and parcel of the retail operation and hence its revenue is included in the calculation of gross profit of retail operation.

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The tables below set forth our gross profit and gross profit margin of our continuing operations by products/services and wholesale and retail segments for each of the two years ended 31 December 2012:

<i>HK\$'000</i>	Year ended 31 December			
	2011	Gross profit margin	2012	Gross profit margin
<i>By products/services</i>				
Self-manufactured products	27,005	63.1%	121,956	78.6%
Non self-manufactured products (excluding Chinese herbs)	20,053	45.4%	33,930	43.6%
Chinese herbs	39,787	61.4%	47,097	60.3%
Chinese Medical Consultation	19,522	100.0%	26,488	100.0%
Sub-total	106,367	62.1%	229,471	68.0%
Royalty fee income	898	100.0%	674	100.0%
Agency fee income	24,491	100.0%	20,645	100.0%
Total	131,756	67.0%	250,790	69.9%
<i>By wholesale and retail segments</i>				
Wholesale	23,815	60.5%	99,805	73.1%
Retail	82,552	62.6%	129,666	64.5%
Total	106,367	62.1%	229,471	68.0%

Note: Chinese Medical Consultation is part and parcel of the retail operation and hence its revenue is included in the calculation of gross profit of distribution in Non-PRC Markets.

Distribution in Non-PRC Markets

The gross profit of our distribution in Non-PRC Markets increased by approximately HK\$123.1 million to approximately HK\$229.5 million for the year ended 31 December 2012 from approximately HK\$106.4 million for the year ended 31 December 2011, and its gross profit margin increased from 62.1% in 2011 to 68.0% in 2012. The increase was primarily due to (i) the increase in contribution from our Angong Niu Huang Pills; (ii) the increased sales of Angong Niu Huang Pills in both wholesale and retail; (iii) the increase in cost of Chinese herbs mentioned above and (iv) the decrease in proportional contribution of Chinese Medical Consultation royalty fee income and agency fee income despite the upward revaluation of the inventory of merchandise of TRT (Macau) when it was accounted for as a subsidiary in November 2011.

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The gross profit margin of Angong Niu Huang Pills experienced a significant increase of over 15% over the Track Record Period mainly owing to increasing selling price and substantial decrease in unit manufacturing overheads as a result of increasing economies of scale as production increased, despite an increase in raw material cost of our continuing operations and discontinued operations in 2012. The gross profit margin of GLSPC of our discontinued operations decreased by about 4% in the year ended 31 December 2012 primarily owing to the discount sale of the inventory to the Parent Group in October 2012. As mentioned above, there was an impairment of other self-manufactured products.

As a result of the foregoing, the gross profit margin of our self-manufactured products of our continuing operations increased by approximately 15.5% 2011 to 2012.

Our gross profit margin of non self-manufactured products (excluding Chinese herbs) of our continuing operations and discontinued operations has increased by approximately 3.4% from 40.2% in the year ended 31 December 2011 to approximately 43.6% in the year ended 31 December 2012 primarily as a result of positive contribution on gross profit margin from the sale of the Parent Group's Angong Niu Huang Pills from its increased selling price and selling volume in Macao despite the negative impact from the revaluation upward of the inventory of merchandise of TRT (Macao) leading to HK\$4.8 million less of gross profit for the year ended 31 December 2012 (2011: about HK\$0.7 million) in the subsequent sale of these inventory.

The gross profit margin of our non self-manufactured products of our continuing operations decreased by about 1.8% to about 43.6% in the year ended 31 December 2012 primarily as the positive contribution from the Parent Group's Angong Niu Huang Pills was less than the impact on the revaluation of the inventory of merchandise of TRT (Macao) as discussed above.

The gross profit margin of Chinese herbs over the Track Record Period has been primarily affected by the cost of purchase, which has been increasing during the Track Record Period in accordance with market trend. As we only increased the selling price of Chinese herbs gradually, to avoid any sharp volatility in their selling prices which may affect consumers' purchasing behaviour, the magnitude of increase in our selling price was lower than the magnitude of increase in our overall purchase cost. Hence, the gross profit margin of Chinese herbs dropped over the Track Record Period.

Agency fee income and royalty fee income

As agency fee income and royalty fee income have not been allocated any direct costs, the reasons for their fluctuation in gross profit are the same as that for their revenue as disclosed in paragraph headed "Description of selected income statement components – Revenue" above. The gross profit margins of agency fee income and royalty fee income remained at 100% during the Track Record Period.

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PRC distribution (i.e. our discontinued operations)

The gross profit of our PRC distribution increased by approximately HK\$18.8 million from approximately HK\$72.0 million for the year ended 31 December 2011 to approximately HK\$90.7 million for the year ended 31 December 2012 primarily owing to the disposal of the vast majority of our inventory of GLSPC in Beijing to the Parent Group in October 2012 contributing a revenue of about HK\$45.5 million despite an impairment of other self-manufactured products of approximately HK\$2.1 million in 2011. Although such disposal was conducted at a 15% discount, there was still a positive impact on gross profit. The decrease in gross profit margin of our PRC distribution in 2012 shared the same reasons as mentioned above.

For illustration purpose only, a general decrease/increase of 10% in the purchases of raw materials and merchandises, with all other variables held constant, would increase/decrease our Group's gross profits by approximately HK\$6.4 million and HK\$10.7 million for the two years ended 31 December 2012 respectively.

Distribution and selling expenses

Our distribution and selling expenses primarily consist of salaries and employee benefits associated with our sales personnel and Chinese Medical Practitioners, rental expenses for our retail stores, depreciation related to leasehold improvement and furniture and equipment of retail stores, advertising and promotion costs, and other cost in connection with sales, marketing and distribution activities including transportation and office and store supplies. For each of the two years ended 31 December 2012, respectively our distribution and selling expenses of our continuing operations amounted to approximately HK\$62.3 million and HK\$85.9 million respectively, accounting for approximately 31.7% and 23.9% of our total revenue from continuing operations for the respective periods. The distribution and selling expenses of our discontinued operations (i.e. those expenses of TRT International Natural-Pharm) were approximately HK\$2.0 million and HK\$2.0 million for each of the two years ended 31 December 2012 respectively.

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The table below sets forth the breakdown of our distribution and selling expenses of our continuing operations each of the two years ended 31 December 2012:

Distribution and selling expenses <i>HK\$'000</i>	Year ended 31 December			
	2011		2012	
Employee benefit expenses	32,670	52.4%	43,064	50.1%
Rental expenses	18,156	29.1%	27,099	31.5%
Depreciation expenses	2,871	4.6%	4,860	5.7%
Promotion and advertising expenses	2,120	3.4%	2,170	2.5%
Transportation	294	0.5%	462	0.5%
Storage Charge	314	0.5%	225	0.3%
Utilities costs	1,398	2.3%	1,928	2.3%
Communication expenses	318	0.5%	425	0.5%
Travelling	273	0.4%	372	0.4%
Insurance	318	0.5%	442	0.5%
Repair and maintenance	479	0.8%	677	0.8%
Consumable	577	0.9%	972	1.1%
Other taxes	920	1.5%	1,342	1.6%
Others	1,634	2.6%	1,884	2.2%
Total	<u>62,342</u>	<u>100.0 %</u>	<u>85,922</u>	<u>100.0 %</u>

General and administrative expenses

General and administrative expenses primarily consist of salary and employee benefits for our senior management, finance and administrative staff, entertainment and travelling expenses, depreciation and amortisation expenses relating to leasehold improvement and furniture and equipment and leasehold land held under operating lease of our offices, rental expenses for our offices and staff dormitories, and other expenses associated with our administrative offices including bank charges and legal and professional expenses. For each of the two years ended 31 December 2012, our general and administrative expenses amounted to approximately HK\$22.3 million and HK\$39.5 million, respectively, accounting for approximately 11.3% and 11.0% of our total revenue from continuing operations for the respective periods. The general and administration expenses of our discontinued operations (i.e. those expenses of TRT International Natural-Pharm) were approximately HK\$6.3 million and HK\$8.3 million for each of the two years ended 31 December 2012 respectively.

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The table below sets forth the breakdown of our general and administrative expenses each of the two years ended 31 December 2012:

General and administrative expenses <i>HK\$'000</i>	Year ended 31 December			
	2011		2012	
Employee benefit expenses	11,199	50.2%	23,283	59.0%
Depreciation and amortization expenses	2,448	11.0%	897	2.3%
Entertainment and travelling expenses	1,639	7.4%	3,079	7.8%
Rental expenses	1,147	5.1%	3,451	8.7%
Bank charges	1,186	5.3%	2,052	5.2%
Professional service fees	1,074	4.8%	1,271	3.2%
Other taxes	488	2.2%	797	2.0%
Office communication expenses	295	1.3%	181	0.5%
Office suppliers	172	0.8%	100	0.3%
Stationery and printing	318	1.4%	356	0.9%
Accounting fee	284	1.3%	311	0.8%
Transportation	263	1.2%	44	0.1%
Trade related exchange gain or loss	254	1.1%	(289)	(0.7%)
Insurance	225	1.0%	273	0.7%
Repair and maintenance	168	0.8%	344	0.9%
Utilities costs	117	0.5%	1,547	3.9%
Others	1,016	4.6%	1,775	4.4%
Total	22,293	100.0%	39,472	100.0%

Professional expenses incurred in connection with the Listing

We incurred listing expenses charged to the income statements primarily consisting of legal fees and audit fees of approximately HK\$24.1 million and HK\$11.2 million for the two years ended 31 December 2012 respectively. An additional HK\$4.7 million is considered as issuance costs directly attributable to the equity transaction and has been capitalised in the reserve for the year ended 31 December 2012.

Other gains/losses

Other gains/losses, net comprises primarily gains and losses which do not arise from the normal operations of the Group. For the year ended 31 December 2011, our other gains primarily consist of gains resulted from the transfer of TRT (Macau) from a jointly controlled entity into a subsidiary in November 2011 and our other losses primarily consist of impairment loss on plant and machinery and deposits paid for machinery caused by termination of certain product lines. For the year ended 31

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December 2012, the other gains primarily consist of (i) approximately HK\$2.8 million of compensation income from the landlord and land developer arising from relocation of our shop in Thailand due to land redevelopment, and (ii) HK\$0.8 million of subletting rental income in Singapore.

We incurred other loss, net in the amount of approximately HK\$8.8 million for the year ended 31 December 2011 and other gain, net in amount of approximately HK\$4.2 million for the year ended 31 December 2012, respectively.

Finance income

Our net finance income represents interest income generated from our bank deposits and the interest expense for our bank loan. For each of the two years ended 31 December 2012, our finance income amounted to approximately HK\$1.1 million and HK\$0.8 million respectively, accounting for approximately 0.5% and 0.2% of our total revenue from the continuing operations for the respective years.

Share of losses of an associated company

Our share of losses from, TRT Health Preserving and Culture, an associated company, is its losses attributable to us, pursuant to our equity interests in it. For each of the two years ended 31 December 2012, our share of losses of an associated company amounted to approximately HK\$1.6 million and HK\$1.0 million respectively.

Income tax expense

Our income tax expense primarily represent income tax we incur in Hong Kong, the PRC and the overseas jurisdictions in which we operate as well as deferred income tax. For each of the two years ended 31 December 2012, our income tax expenses amounted to approximately HK\$9.0 million and HK\$26.1 million, respectively. The effective tax rates were approximately 59.1% and 21.9% for the respective years.

Our Directors confirm that as at the Latest Practicable Date, (i) the Group has made all the required tax filings under the relevant tax laws and regulations and has paid all outstanding tax liabilities; and (ii) the Group is not subject to any material dispute with the tax authorities.

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RESULTS OF OPERATIONS

The following discussion addresses the principal trends that have affected our results of operations during the periods under review. The table below sets forth the results of operations of the Group each of the two years ended 31 December 2012:

	Year ended 31 December	
	2011	2012
	<i>HK\$'000</i>	<i>HK\$'000</i>
Continuing operations		
Revenue	196,682	358,921
Cost of sales	(64,926)	(108,131)
Gross profit	131,756	250,790
Distribution and selling expenses	(62,342)	(85,922)
General and administrative expenses	(22,293)	(39,472)
Professional expenses incurred in connection with the Company's listing	(24,061)	(11,180)
Other gains/(losses) – net	(8,829)	4,205
Operating profit	14,231	118,421
Finance income	1,081	830
Finance costs	–	(25)
Finance income – net	1,081	805
Share of losses of an associated company	(1,575)	(992)
Profit before income tax	13,737	118,234
Income tax expense	(9,047)	(26,073)
Profit for the year from continuing operations	4,690	92,161
Discontinued operations		
Profit for the year from discontinued operations	55,463	66,953
Profit for the year	<u>60,153</u>	<u>159,114</u>
Attributable to:		
Equity holders of the Company	58,738	155,935
Non-controlling interests	1,415	3,179
	<u>60,153</u>	<u>159,114</u>

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Revenue of our continuing operations

Our revenue increased by approximately HK\$162.2 million, or approximately 82.5%, to approximately HK\$358.9 million for the year ended 31 December 2012 from approximately HK\$196.7 million for the year ended 31 December 2011. Our revenue from distribution in Non-PRC Markets and royalty fee income increased by approximately HK\$166.1 million, or approximately 96.5%, to approximately HK\$338.3 million for the year ended 31 December 2012 from approximately HK\$172.2 million for the year ended 31 December 2011. The increase in revenue was primarily due to the increase in revenue generated from our distribution in Non-PRC Markets by approximately HK\$166.3 million, or approximately 97.1%, from approximately HK\$171.3 million to approximately HK\$337.6 million.

Distribution in Non-PRC Markets

Retail

Our retail revenue increased by approximately HK\$69.0 million, or approximately 52.3%, from approximately HK\$131.9 million for the year ended 31 December 2011 to HK\$201.0 million for the year ended 31 December 2012. The increase was primarily due to (a) the organic growth of our existing retail stores, which increased by approximately HK\$25.5 million, for the 20 stores in operation throughout the two periods primarily as a result of (i) about HK\$11.2 million increase in existing stores in Hong Kong mainly due to increased sales of Angong Niu Huang Pills as their selling price increased (average selling price increased by approximately 26.3%) and as their sales volume grew as a result of the market becoming more receptive to the products (unit sales volume increased by approximately 181.3%); and (ii) about HK\$14.2 million increase in existing stores in Macao mainly due to increased sales of Angong Niu Huang Pills as their selling price increased (average selling price increased by approximately 34.8%), as well as the full consolidation of TRT (Macao) as a subsidiary; (b) a full period contribution from 7 stores we established in the year ended 31 December 2011 which aggregate revenue increased by about HK\$25.5 million; and (c) the addition of 7 new retail stores since 1 January 2012 which contributed approximately HK\$18.0 million of revenue.

Hong Kong recorded the highest growth in retail revenue, increasing by approximately HK\$38.7 million, mainly as a result of increasing sales of Angong Niu Huang Pills, the increase in sales of existing stores, full period contribution from 4 stores established in the year ended 31 December 2011 and contribution from the 4 stores added since 1 January 2012. Retail revenue of Macao recorded an increase of approximately HK\$17.3 million mainly due to full consolidation of TRT (Macao) as a subsidiary, increased sales of Angong Niu Huang Pills, and increase in sales of the established stores. Retail revenue of other countries increased by approximately HK\$13.0 million primarily due to the opening of a new store in the UAE in October 2011 which contributed approximately HK\$5.9 million in the year ended 31 December 2012. Growth in retail revenue in Australia and Singapore were mainly attributable to the opening of new stores and growth in other jurisdictions was attributable to growth in the global Chinese Medicine industry and the Overseas Associates' efforts in promoting sales.

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Wholesale

Our wholesale revenue increased by approximately HK\$97.3 million, or approximately 247.2%, from approximately HK\$39.3 million for the year ended 31 December 2011 to HK\$136.6 million for the year ended 31 December 2012. The increase was primarily due to the increase in approximately HK\$85.9 million in sales of our Angong Niu Huang Pills in Hong Kong, and the increase in approximately HK\$8.8 million in sales of the Parent Group's Angong Niu Huang Pills in Macao, due to, we believe, higher product acceptance, and possibly increased purchases by distributors ahead of anticipated price increase in Angong Niu Huang Pills in July 2012. The increase in Hong Kong was also due to the increase in prices of our Angong Niu Huang Pills (average selling price increased by approximately 70.1%) and we have employed additional skilled labour during the year to increase our manufacturing capacity to supply our Angong Niu Huang Pills in Hong Kong to replace that of the Parent Group's (unit sales volume increased by approximately 137.4%).

Agency fee income

Our revenue from agency operation decreased by approximately HK\$3.9 million, or approximately 15.7%, from approximately HK\$24.5 million for the year ended 31 December 2011 to HK\$20.6 million for the year ended 31 December 2012. Agency fee income dropped in the year ended 31 December 2012 primarily as a result of no agency fee income in the fourth quarter of 2012.

Royalty fee income

Our royalty fee income decreased by approximately HK\$0.2 million from approximately HK\$0.9 million for the year ended 31 December 2011 to approximately HK\$0.7 million for the year ended 31 December 2012 primarily as a result of TRT (Macao) being subsidiary in the year ended 31 December 2012, and hence its royalty fee contribution to revenue was eliminated on consolidation, whereas it was a jointly controlled entity in the corresponding period in 2011.

Cost of sales of our continuing operations

Our cost of sales increased by approximately HK\$43.2 million, or approximately 66.5%, from approximately HK\$64.9 million for the year ended 31 December 2011 to approximately HK\$108.1 million for the year ended 31 December 2012. The increase in cost of sales was primarily due to (a) associated increase in the costs of purchasing merchandise for our overseas distribution business as the overseas distribution business grew over 50%; (b) a write-up of the cost of inventory of TRT (Macao) by approximately HK\$4.8 million; and (c) associated increase in purchasing of raw materials for the manufacturing of Angong Niu Huang Pills and which sales grew from about HK\$37.7 million to HK\$147.8 million. Please refer to paragraph headed "Cost of sales" above for further particulars.

Gross profit and gross margin of our continuing operations

As a result of the foregoing, our gross profit increased by approximately HK\$119.0 million, or approximately 90.3%, from approximately HK\$131.8 million for the year ended 31 December 2011 to approximately HK\$250.8 million for the year ended 31 December 2012. The gross margin increased

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from approximately 67.0% for the year ended 31 December 2011 to approximately 69.9% for the year ended 31 December 2012. The gross profit of our distribution in Non-PRC Markets and royalty fee income for the year ended 31 December 2012 increased by approximately HK\$122.8 million, from approximately HK\$107.3 million to approximately HK\$230.1 million and the gross profit margin increased from approximately 62.3% to 68.0%.

The increase in gross profit margin was principally the result of an increase in the gross profit margin of Angong Niuhuang Pills which was due to the increase in selling price in 2012 and offsetting by (i) a drop in the gross profit margin of non self-manufactured products primarily as a result of the revaluation of inventory of TRT (Macau) as explained above; (ii) a slight drop in the gross profit margin of Chinese herbs as discussed above; and (iii) a drop in the proportional contribution from Chinese Medical Consultation, royalty fee income and agency fee income.

Distribution and selling expenses

Distribution and selling expenses increased by approximately HK\$23.6 million, or approximately 37.8%, from approximately HK\$62.3 million for the year ended 31 December 2011 to approximately HK\$85.9 million for the year ended 31 December 2012. The increase was mainly attributable to the increase of employee benefit expenses associated with our sales personnel and Chinese Medical Practitioners due to increase in total personnel and levels of salaries and wages and the increase of rental expenses due to the expansion of our overseas distribution business and network. Our distribution and selling expenses as a percentage of our total revenue had a general decrease from approximately 31.7% for the year ended 31 December 2011 to approximately 23.9% for the year ended 31 December 2012 as the Company enjoyed economies of scale from its substantial growth of revenue which was mainly derived from Hong Kong.

General and administrative expenses

General and administrative expenses increased by approximately HK\$17.2 million, or approximately 77.1%, from approximately HK\$22.3 million for the year ended 31 December 2011 to approximately HK\$39.5 million for the year ended 31 December 2012. The increase was mainly attributable to the increase of employee benefit expenses associated with our senior management, administrative personnel and the increase of rental expenses due to the expansion of our overseas distribution business and network. Our general and administrative expenses as a percentage of our total revenue remain stable at approximately 11.3% and 11.0% for each of the two year ended 31 December 2012.

Other gains/losses

Net other gains/losses increased by approximately HK\$13.0 million, or approximately 147.6%, from net losses of approximately HK\$8.8 million for the year ended 31 December 2011 to net gain of approximately HK\$4.2 million for the year ended 31 December 2012. Other net losses of approximately HK\$8.8 million in 2011 mainly comprise of impairment loss of HK\$5.6 million on machinery, loss of approximately HK\$6.6 million arising from onerous contracts of purchase of machines and a gain on remeasuring existing interests in TRT (Macau) on acquisition of approximately HK\$2.4 million. While the other net gains of approximately HK\$4.2 million in 2012 mainly comprise of compensation

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income from the landlord and land developer arising from the relocation of our shop in Thailand of approximately HK\$2.8 million and subletting rental income in Singapore of approximately HK\$0.8 million.

Operating profit and operating margin

As a result of the foregoing, our operating profit increased by approximately HK\$104.2 million, or approximately 732.1%, from approximately HK\$14.2 million for the year ended 31 December 2011 to approximately HK\$118.4 million for the year ended 31 December 2012. The operating margin increased from approximately 7.2% for the year ended 31 December 2011 to approximately 33.0% for the year ended 31 December 2012, primarily due to the decrease in share issuance costs of approximately HK\$12.9 million and increase in net gain/losses from net losses of approximately HK\$8.8 million to net gains of approximately HK\$4.2 million during the year ended 31 December 2012.

Finance income

Net finance income decreased by approximately HK\$0.3 million, or approximately 25.5%, from approximately HK\$1.1 million for the year ended 31 December 2011 to approximately HK\$0.8 million for the year ended 31 December 2012, due to the decrease in the interest income on the bank deposits.

Share of losses of an associated company

Share of losses from an associated company decreased by approximately HK\$0.6 million, or approximately 37.0%, from approximately HK\$1.6 million for the year ended 31 December 2011 to approximately HK\$1.0 million for the year ended 31 December 2012, representing the decrease in loss of our associate in the PRC, TRT Health Preserving and Culture, specialized in providing Chinese medical treatment service.

Income tax expense

Our income tax expense increased by approximately HK\$17.0 million, or approximately 188.2% from approximately HK\$9.0 million for the year ended 31 December 2011 to approximately HK\$26.1 million for the year ended 31 December 2012, and the effective income tax rate decreased from approximately 59.1% for the year ended 31 December 2011 to approximately 21.9% for the year ended 31 December 2012. While the statutory tax rates generally remain unchanged during the year ended 31 December 2012, the increase in income tax expense was primarily due to the increase in profit before income tax, from approximately HK\$13.7 million in the year ended 31 December 2011 to approximately HK\$118.2 million in the year ended 31 December 2012. The decrease in effective tax rate was primarily due to (i) decrease in non tax deductible expenses including listing expenses to approximately HK\$11.2 million; (ii) loss of approximately HK\$6.6 million arising from onerous contracts of purchase of machines in 2011; and (iii) impairment loss on machinery of approximately HK\$5.6 million.

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Profit for the year from continuing operations

As a result of the foregoing, our profit for the year increased by approximately HK\$87.5 million, or 1,865.1%, from approximately HK\$4.7 million for the year ended 31 December 2011 to approximately HK\$92.2 million for the year ended 31 December 2012.

DESCRIPTION OF SELECTED BALANCE SHEET COMPONENTS

Inventories

As a Chinese Medicine Products distributor with distribution network in 11 overseas countries and regions, we need to maintain sufficient inventory levels to operate our overseas distribution business successfully as well as meet our customer demand. The Group has at least one central warehouse in each of the 11 countries and regions to keep the majority of the inventories for retail stores and all inventories for wholesale business where it applies. Please refer to the paragraph headed “Business – Distribution in Non-PRC Markets” in this prospectus for details.

For our self-manufactured products, the manufacturing and procurement of raw materials are arranged according to orders we received. Please refer to the paragraphs headed “Business – Manufacturing – Raw material procurement and inventory control” and “Business – Manufacturing – Manufacturing procedures and arrangement” in this prospectus respectively for details.

During the Track Record Period, we typically maintained an inventory level of three to six months for raw materials, three months to one year for finished goods and trading merchandise and more than one year for certain Chinese Medicines.

The table below sets forth a breakdown of our inventories as at the dates indicated:

	As at 31 December	
	2011	2012
	HK\$'000	HK\$'000
Inventory		
Raw materials	7,290	37,226
Work in progress	1,100	4,106
Self-manufactured products	13,882	2,013
Finished goods and trading merchandise	39,831	43,808
Total	<u>62,103</u>	<u>87,153</u>

Inventories are stated at the lower of cost and net realisable value. Cost is determined using weighted average method. We had inventories in the amount of approximately HK\$62.1 million and HK\$87.1 million as at 31 December 2011 and 2012, respectively. Our inventories of raw material increased by approximately HK\$29.9 million and our self-manufactured products, inventories of finished goods and trading merchandise decreased by approximately HK\$7.9 million during the year

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ended 31 December 2012. The increase of raw material was mainly due to large purchase of raw materials made near the year end for the production of Angong Niu Huang Pills. The decrease of end product and merchandise was mainly due to the decrease of our self-manufactured products because of the cessation of our PRC distribution since 1 November 2012.

As of 28 February 2013, approximately HK\$20.1 million, or 23.0% of our inventories as of 31 December 2012 were subsequently consumed or sold.

The table below sets forth the aging analysis of our Chinese Medicines and Healthcare Products as at the dates indicated:

	As at 31 December	
	2011	2012
	<i>HK'000</i>	<i>HK'000</i>
Within 1 year	32,253	14,820
1-2 year	1,508	1,360
2-3 year	750	220
3 year or above.	122	110
	<u>34,633</u>	<u>16,510</u>

We write down inventories to their net realisable values when the carrying value of inventories declines below the net realisable value. The amount of obsolete stock written off for the years ended 31 December 2011 and 2012 were approximately HK\$3.6 million and approximately HK\$6.1 million respectively and such increase was mainly due to the one time write-off of self-manufactured products that we ceased the PRC distribution since November 2012.

Trade receivables

Our trade receivables mainly represent the credit sales of our self-manufactured products and trading merchandise to be paid by our customers, consist of receivables from third parties wholesale distributors of our self-manufactured products and merchandise, amounts due from fellow subsidiaries, which purchase our self-manufactured products for on sale in the PRC markets, as well as agency fees due from TRT Ltd. and TRT Technologies.

We generally do not grant credit terms to our customers for our retail sales which are usually settled in cash or by debit or credit cards. For wholesale customers, including the Parent Group, the Group normally grants credit period of around 30 to 90 days. For agency fee, the Group grants credit period of around 30 days to TRT Ltd. and TRT Technologies.

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The table below sets forth the breakdown of our trade receivables as at the dates indicated:

	As at 31 December	
	2011	2012
	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade receivables		
Third parties	15,504	21,628
Parent Group.	2,454	188
Jointly controlled entities	351	545
Total	18,309	22,361

Our trade receivables as at 31 December 2011 and 2012 amounted to approximately HK\$18.3 million and HK\$22.4 million respectively. Our trade receivables increased by approximately HK\$4.1 million during the year ended 31 December 2012, primarily attributable to the increase of receivables from third parties wholesale distributors arising from the purchase of Angong Niu Huang Pills.

As of 28 February 2013, approximately HK\$21.6 million, or 96.8% of our trade receivables as of 31 December 2012 were subsequently settled.

Provisions for impairment against trade receivables to the extent amounts are considered to be uncollectible or unlikely to be collectible within a reasonable period of time varies depending on the credit terms granted to the relevant customers, the creditworthiness of the relevant customers and the past payment histories of the relevant customers. As at 31 December 2011 and 2012, no impairment was recorded.

The aging analysis of our trade receivables as at the dates indicated is as follows:

	As at 31 December	
	2011	2012
	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade receivables		
Up to 3 months	18,151	22,353
3 to 6 months	157	8
6 months to 1 year	1	—
Total	18,309	22,361

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Prepayments, deposits and other receivables

	As at 31 December	
	2011	2012
	HK\$'000	HK\$'000
Prepayments, deposits and other receivables		
Prepayments, deposits and other receivables .	14,056	14,776
Amount due from the Parent Group	2,065	21
Amount due from jointly controlled entities .	568	568
Total	16,689	15,365

Our prepayments, deposits and other receivables mainly comprise of rental deposit, utilities deposits and deposits paid in connection with our purchases of product merchandise. Our prepayment, deposits and other receivables amounted to approximately HK\$14.1 million and HK\$14.8 million as at 31 December 2011 and 2012 respectively and such increase was mainly attributable to the increase of rental deposits paid for the newly opened retail stores 2012.

Trade payables

Our trade payables primarily consist of cost of raw materials for production of our self-manufactured products and trading merchandise for our overseas distribution business to be paid to our suppliers. Our average credit period is 30 to 90 days.

The table below sets forth the breakdown of our trade payables as at the dates indicated:

	As at 31 December	
	2011	2012
	HK\$'000	HK\$'000
Trade payables		
Third parties	7,031	45,662
Parent Group	13,798	2,494
Total	20,829	48,156

Our trade payables as at 31 December 2011 and 2012 amounted to approximately HK\$20.8 million and HK\$48.2 million, respectively. Our trade payables increased by approximately HK\$27.3 million, or 131.2% during the year ended 31 December 2012, of which the trade payables to the Parent Group decreased by approximately HK\$11.3 million and the trade payables to third parties suppliers increased by approximately HK\$38.6 million. The decrease in the trade payables to the Parent Group during the year of 2012 is primarily attributable to (i) the decrease in the payables from TRT (Macau) to the Parent Group of approximately HK\$8.8 million as TRT (Macau) ceased to purchase Chinese Medicine Products from the Parent Group since October 2012; and (ii) the decrease in the outstanding

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payables of approximately HK\$2.1 million to the Parent Group for the purchase of raw materials. The increase in the trade payables to the third parties suppliers during the year of 2012 is primarily attributable to the increase in the payables of TRT International Natural-Pharm of approximately HK\$31.5 million in relation to the purchase of raw materials made near the year end.

As of 28 February 2013, approximately HK\$30.0 million, or 62.2% of our trade payables as of 31 December 2012 were subsequently settled.

The aging analysis of our trade payables as at the dates indicated is as follows:

	As at 31 December	
	2011	2012
	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade payables		
Up to 3 months	10,686	44,324
3 to 6 months	8,623	1,910
6 months to 1 year	1,517	1,852
1 to 2 years	2	68
Over 2 years	1	2
Total	20,829	48,156

Accruals, deposits and other payables

	As at 31 December	
	2011	2012
Accruals, deposits and other payables		
Accruals, deposits and other payables	17,115	21,151
Amounts due to fellow subsidiaries	–	2,100
Amounts due to jointly controllable entities	–	480
	17,115	23,731

Our accruals, deposits and other payables mainly comprise of accrued professional fee in relation to the Listing, accrued salaries wages and employee benefits, and value added tax payable. Our accruals, deposits and other payables amounted to approximately HK\$17.1 million and HK\$21.1 million as at 31 December 2011 and 2012, respectively. The increase was primarily due to increase in staff salaries payable and increase in the professional fee payable in relation to the Listing.

The amount due to a fellow subsidiary in 2012 represents the rental payable for office.

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LIQUIDITY AND CAPITAL RESOURCES

Overview

Our principal sources of funds are to finance working capital, capital expenditure, and growth and expansion of our operations and distribution network. Our principal sources of funds are cash generated from our operations and capital injections from the shareholders of the Company. Going forward, we expect these sources to continue to be our principal sources of liquidity, and we expect the proceeds of the Share Offer to increase our liquidity. As at 31 December 2011 and 2012, we had cash and cash equivalents of approximately HK\$151.7 million and HK\$237.6 million respectively.

Our working capital is critical to our financial performance. We must maintain sufficient liquidity and financial flexibility to continue our daily operations.

We may, however, need additional cash resources in the future if we experience changed business conditions or other developments. We may also need additional cash resources in the future if we find and wish to pursue opportunities for investment, acquisition, and collaborations of other similar action. If our existing cash resources are insufficient to meet our requirement, we may seek to obtain credit facilities, or sell or issue equity securities, which might result dilution to the Shareholders. It is possible that, when we need additional cash resources, financing will only be available to us in amounts or on terms that would not be acceptable to us or financing will not be available at all, where our business and financial results may be adversely affected.

The table below sets forth certain information about our consolidated cash flows each of the two years ended 31 December 2012:

	Year ended 31 December	
	2011	2012
	<i>HK\$'000</i>	<i>HK\$'000</i>
Cash and cash equivalents at beginning of year.	132,761	151,650
Net cash from operating activities.	69,272	187,738
Net cash used in investing activities	(36,225)	(72,347)
Net cash used in financing activities.	(14,266)	(10,042)
Net increase in cash and cash equivalents	18,781	105,349
Currency translation difference.	108	1,801
Cash and cash equivalents at end of year	<u>151,650</u>	<u>258,800</u>

Net cash from operating activities

Our net cash inflows from operating activities primarily represent profit before tax adjusted for non-cash items and movements in working capital.

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For the year ended 31 December 2012, our net cash from our operating activities was approximately HK\$187.7 million. Our net cash from operating activities primarily consisted of operating profit before changes in working capital of HK\$227.8 million, offsetting against net negative changes in working capital of approximately HK\$5.5 million and income tax paid of approximately HK\$34.6 million.

For the year ended 31 December 2011, our net cash flows from operating activities was approximately HK\$69.3 million. Our net cash from operating activities primarily consisted of operating profit before changes in working capital of HK\$126.2 million, offsetting against net negative changes in working capital of approximately HK\$36.2 million and income tax paid of approximately HK\$20.7 million.

The increase in our net cash from our operating activities was primarily due to increase in our profit before income tax from HK\$77.7 million for the year ended 31 December 2011 to HK\$198.9 million for the year ended 31 December 2012 as a result of the significant increase of our revenue.

Net cash used in investing activities

Our net cash used in investing activities has principally been used for deposit and payment made for leasehold land, property, plant and equipment

For the year ended 31 December 2012, our net cash used in investing activities was approximately HK\$72.3 million. Our cash outflow for investing activities primarily consisted of cash used in the purchase of property, plant and equipment of approximately HK\$67.4 million.

For the year ended 31 December 2011, our net cash used in investing activities was approximately HK\$36.2 million. Our cash outflow for investing activities primarily consisted of cash used in the purchase of property, plant and equipment of approximately HK\$62.1 million. Our cash inflow for investing activities primarily consisted of government grant of approximately HK\$19.8 million and cash inflow of approximately HK\$6.8 million in relation to the transfer of TRT (Macau) from a jointly controlled entity to subsidiary in November 2011.

Net cash used in financing activities

Our net cash used in financing activities primarily represent payment of professional expenses in connection with Listing, bank borrowing and dividends payment.

For the year ended 31 December 2012, our net outflow for financing activities was approximately HK\$10.0 million. Our cash outflow for financing activities primarily consisted of cash used for payment of professional expenses in connection with Listing of approximately HK\$15.1 million and for payment of dividend of approximately HK\$3.6 million to the non-controlling interests of TRT (Singapore) and TRT (Macau). Our cash inflow for financing activities primarily consisted of capital injection by non-controlling interests of approximately HK\$4.2 million and a new bank borrowing of approximately HK\$4.5 million by TRT (Malaysia).

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For the year ended 31 December 2011, our net cash used in financing activities was approximately HK\$14.3 million. Our cash outflow for financing activities primarily consisted of cash used for payment of professional fee in relation to the Listing of approximately HK\$14.8 million and for payment of dividend of approximately HK\$2.5 million. Our cash inflow for financing activities primarily consisted of capital injection of approximately HK\$3.1 million by the Overseas Partners of TRT (UAE).

Capital expenditure

We made capital expenditures of approximately HK\$94.8 million and HK\$75.3 million for each of the two years ended 31 December 2012 respectively. During the Track Record Period, our capital expenditures consisted primarily of purchases of property, plant and equipment, and the cost of purchase of a leasehold land. The significant capital expenditure incurred in 2011 and 2012 was primarily attributable to the capital expenditure of approximately HK\$80.5 million and HK\$51.8 million, incurred by TRT (Tang Shan) for the purchase of a leasehold land and the construction of its production plant in the PRC. TRT (Tang Shan) is classified as assets held for sale as at 31 December 2012 and is expected to dispose in 2013.

Working capital

The Directors are of the opinion that, taking into consideration the financial resources available to us, including internally generated funds and the estimated net proceeds from the Share Offer, the Group has sufficient working capital for our present requirements that is for at least the next 12 months from the date of this prospectus.

Net current assets

We had net current assets of approximately HK\$210.0 million and HK\$427.5 million as at 31 December 2011 and 2012 respectively. Our current assets primarily consist of cash and cash equivalents, inventories, amounts due from group companies, trade receivables, prepayments and deposits, other receivables and assets of the disposed group classified as held for sales. Our current liabilities primarily consist of bank borrowing, trade payables, amounts due to group companies, other payables, income tax payable and liabilities of the disposed group classified as held for sale.

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The table below sets forth our current assets and current liabilities as at the dates indicated:

	Year ended 31 December		Two months ended 28 February
	2011	2012	2013
	HK\$'000	HK\$'000	HK\$'000
			(unaudited)
Current assets			
Inventories	62,103	87,153	73,118
Trade receivables and other current assets . . .	34,998	37,726	47,604
Short-term bank deposits	11,603	10,806	7,294
Cash and cash equivalents	151,650	237,572	128,866
Tax recoverable	937	178	–
.....	261,291	373,435	256,882
Assets of the disposal group classified as held for sale	–	162,985	161,163
Total	<u>261,291</u>	<u>536,420</u>	<u>418,045</u>
Current liabilities			
Bank borrowing	–	4,536	–
Trade and other payables	37,944	71,887	53,440
Current income tax liabilities	13,375	10,614	10,858
.....	51,319	87,037	64,298
Liabilities of the disposal group classified as held for sale	–	21,916	21,181
Total	<u>51,319</u>	<u>108,953</u>	<u>85,479</u>
Net Current Assets	<u>209,972</u>	<u>427,467</u>	<u>332,566</u>

The Group has adopted HKFRS 11 and HKAS 28 (revised 2011) since 1 January 2013. Accordingly, the accounting of the Group's investment in jointly controlled entities has changed from proportionate consolidation to equity method of accounting. The net current assets as at 28 February 2013 presented above has reflected the adoption of HKFRS 11 and HKAS 28 (revised 2011) and excluded proportional contribution from the jointly controlled entities. The financial information as at 28 February 2013 is not directly comparable with the financial information as at 31 December 2011 and 2012, as a result of the adoption of HKFRS 11 and HKAS 28 (revised 2011) since 1 January 2013. The proportionate share of current assets and current liabilities of jointly controlled entities to the Group as at 28 February 2013 were approximately HK\$22.6 million and HK\$10.9 million respectively.

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MAJOR FINANCIAL RATIOS

	<i>Note</i>	As at 31 December	
		2011 <i>HK\$'000</i>	2012 <i>HK\$'000</i>
Turnover growth (%)	<i>1</i>	N/A	68.7%
Net profit growth (%)	<i>2</i>	N/A	164.5%
Gross margin (%)	<i>3</i>	72.5%	72.1%
Operating profit margin before interest & tax (%)	<i>4</i>	27.6%	42.0%
Net profit margin (%)	<i>5</i>	21.4%	33.6%
Return on equity (%)	<i>6</i>	16.2%	32.6%
Return on total assets (%)	<i>7</i>	14.2%	27.3%
Current ratio	<i>8</i>	5.1	4.9
Quick ratio	<i>9</i>	3.9	4.1
Inventory turnover (days)	<i>10</i>	222	206
Debtors' turnover (days)	<i>11</i>	28	27
Creditors' turnover (days)	<i>12</i>	66	95
Gearing ratio (%)	<i>13</i>	N/A	0.8%
Debt to equity ratio (%)	<i>14</i>	N/A	N/A
Interest coverage	<i>15</i>	N/A	N/M

Notes:

1. Turnover growth for the year ended 31 December 2011 and 2012 was calculated based on the difference between our revenue of respective period and previous period, divided by our revenue of previous period multiplied by 100%.
2. Net profit growth for the year ended 31 December 2011 and 2012 was calculated based on our net profit of respective period divided by our net profit of previous period multiplied by 100%.
3. Gross margin for the year ended 31 December 2011 and 2012 was calculated based on our gross profit of respective period divided by our revenue of respective period multiplied by 100%.
4. Operating profit margin before interest & tax for the year ended 31 December 2011 and 2012 was calculated based on our net operating profit before interest and tax of respective period divided by our revenue of respective period multiplied by 100%.
5. Net profit margin for the year ended 31 December 2011 and 2012 and was calculated based on our net profit of respective period divided by our revenue of respective period multiplied by 100%.
6. Return on equity for the year ended 31 December 2011 and 2012 was calculated based on our net profit of the respective period divided by the average equity attributable to the Shareholders of the respective period and multiplied by 100%.
7. Return on total assets for the year ended 31 December 2011 and 2012 was calculated based on our net profit of the respective period divided by our average total assets as of the relevant period end and multiplied by 100%.

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8. Current ratios as of 31 December 2011 and 2012 were calculated based on our total current assets as of the respective period end divided by our total current liabilities as of the respective period end.
9. Quick ratios as of 31 December 2011 and 2012 were calculated based on our current assets minus inventories (net of specific provision of inventories) as of the respective period end divided by our total current liabilities as of the respective period end.
10. Inventory turnover days as of 31 December 2011 and 2012 were calculated based on our average inventory (sum of opening and closing balances of inventory of respective year and then divided by two) divided by our cost of sales for the respective period and multiplied by 365 days as of 31 December 2011 and 2012.
11. Debtors' turnover days as of 31 December 2011 and 2012 were calculated based on our average trade receivables (sum of opening and closing balances of trade receivables of respective period and then divided by two) divided by our non-retail revenue for the respective period and multiplied by 365 days as of 31 December 2011 and 2012.
12. Creditors' turnover days as of 31 December 2011 and 2012 were calculated based on our average trade and bills payable (sum of opening and closing balances of trade and bills payable of respective years and then divided by two) divided by our cost of sales for the respective period and multiplied by 365 days as of 31 December 2011 and 2012.
13. Gearing ratios as of 31 December 2011 and 2012 were calculated based on our total debt (including payables incurred not in the ordinary course of business) as of the respective date divided by equity attributable to the Shareholders as of the respective period and multiplied by 100%.
14. Debt to equity ratios as of 31 December 2011 and 2012 were calculated based on net debts (being total borrowings net of cash and cash equivalents) as of the respective date divided by equity attributable to the Shareholders as of the respective period and multiplied by 100%.
15. Interest coverage as of 31 December 2011 and 2012 were calculated based on our profit before finance costs and tax as of the respective dates divided by our finance costs as of the respective date and multiplied by 100%.

Turnover growth

Please refer to the sub-section headed "Results of operations" above for the reasons of the fluctuations in the turnover growth.

Net profit growth

Please refer to the sub-section headed "Results of operations" above for the reasons of the fluctuations in the net profit growth.

Gross margin

Please refer to the sub-section headed "Results of operations" above for the reasons of the fluctuations in the gross margin.

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Operating profit margin before interest and tax

Our operating profit margin before interest & tax increased from approximately 27.6% in 2011 to approximately 42.0% in 2012. The increase in 2012 was primarily due to the non-recurring income and expenses which include: (i) listing expenses decreased from HK\$24.1 million for the year ended 31 December 2011 to HK\$11.8 million for the year ended 31 December 2012; and (ii) other net gains/losses increased from net losses of HK\$8.8 million to net gains of HK\$4.2 million. Having taken out the effect of the listing expenses and other net gains/losses, the operating profit margin before interest & tax are 39.3% for the year ended 31 December 2011 and 43.5% for the year ended 31 December 2012. The increase was due to the increase in sales of Angong Niu Huang Pills and GLSPC with higher gross profit margins and the increase in the gross profit margin of Angong Niu Huang Pills in 2012 as discussed above.

Net profit margin

The net profit margin increased from approximately 21.4% in 2011 to approximately 33.6% in 2012. Having taken out the effect of the listing expenses and other net gains/losses, which are non-recurring, the net profit margin would be approximately 33.1% and 35.0% for each of the two years ended 31 December 2012 respectively. Such increase was primarily due to the increase in sales of GLSPC and Angong Niu Huang Pills with higher profit margin as discussed above.

Return on equity

Our return on equity increased from approximately 16.2% in 2011 to approximately 32.6% in 2012. Having taken out the effect of the listing expenses and other net gains/losses, which are non-recurring, the return on equity is approximately 25.1% and 34.0% for each of the two years ended 31 December 2012 respectively. The increase was primarily attributable to the increase in net profit by approximately HK\$99.0 million.

Return on total assets

Our return on total assets increased from approximately 14.2% in 2011 to approximately 27.3% in 2012. Having taken out the effect of the listing expenses and other net gains/losses, which are non-recurring, our return on total assets is approximately 21.9% and 28.5% for each of the two years ended 31 December 2012 respectively. The increase was primarily attributable to the increase in net profit by HK\$99.0 million.

Current ratio

Our current ratio slightly decreased from approximately 5.1 as of 31 December 2011 to approximately 4.9 as of 31 December 2012. The increase was mainly due to the increase in trade payable from the large purchase of HK\$30.7 million made by TRT International Natural-Pharm in December 2012 for the production of Angong Niu Huang Pills in 2013 in anticipating in the increase in the cost of raw materials and market demand of our Angong Niu Huang Pills in 2013 which was not settled at the year end.

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Quick ratio

Our quick ratio increased from approximately 3.9 as of 31 December 2011 to approximately 4.1 as of 31 December 2012. Such increase is mainly due to the increase in current asset of the classification of TRT (Tang Shan) into asset held for sale.

Inventory turnover days

The inventory turnover days decreased by 16 days from 222 days for the year ended 31 December 2011 to 206 days for the year ended 31 December 2012. The long inventory turnover days for both years were primarily due to (i) an inventory revaluation upward of approximately HK\$5.4 million on TRT (Macau)'s inventory arising from the transfer of TRT (Macau) from a jointly controlled entity to a subsidiary in November 2011; and (ii) a significant increase in raw materials by approximately HK\$29.9 million from approximately HK\$7.3 million as at 31 December 2011 to approximately HK\$37.2 million as at 31 December 2012 arising from large purchases of raw materials made near the 2012 year end for the production of Angong Niu Huang Pills in 2013 in anticipating the increase in the cost of raw materials and market demand of our Angong Niu Huang Pills in 2013. Having taken out the effect of the above items, the inventory turnover days would decrease by 52 days from 209 days in 2011 to 157 days in 2012. The decrease was primarily due to the sale of most of the inventories for our PRC distribution in October 2012 and the significant increase in our sale in 2012 which caused an increase in stock movement. Our inventory generally have expiry periods of over three years.

Considering the facts that Overseas Associates order self registered Chinese Medicine Products from the Parent Group one to four times a year, which the Directors believe is more infrequent than comparable companies, and that we maintain three to six months stock of key raw material for manufacturing, which the Directors believe is longer than comparable companies, our inventory turnover days during the Track Record Period is longer than industry norms but is reasonable.

Debtors' turnover days

The debtors' turnover days decreased by 1 day from 28 days for the year ended 31 December 2011 to 27 days for the year ended 31 December 2012. The decrease was mainly due to decrease in the trade receivables for discontinued operations by the HK\$5.6 million as our PRC distribution has ceased since October 2012 and decrease in trade receivables from third parties aged over 30 days by HK\$4.7 million as a result of the improvement in credit control by the Group.

Creditors' turnover days

The creditor turnover days increased by 29 days from 66 days for the year ended 31 December 2011 to 95 days for the year ended 31 December 2012. Such increase shared the same reason to the fluctuations to current ratio as discussed above.

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Gearing ratio

The Company did not have any borrowings as at 31 December 2011, the gearing ratio is not applicable for 2011. A new bank borrowing of approximately HK\$4.5 million is obtained in late 2012 by TRT (Malaysia) for financing of the purchase of the retail shop. This is the only debt of the Company which constitutes a low gearing at 0.8%.

Debt to equity ratio

The Company did not have any borrowings and has a net cash position as at 31 December 2011. The Group has a net cash position as at 31 December 2012, thus no debt to equity ratio.

Interest coverage

The Company did not have any borrowings as at 31 December 2011, the debt to equity ratio is not applicable for 2011. The Group has a very low level of borrowing for the year ended 31 December 2012 thus the interest coverage ratio is not meaningful.

Selected financial performance

The table below sets forth the selected financial ratios for the continuing businesses for each of the two years ended 31 December 2012:

	As at 31 December	
	2011	2012
Inventory turnover (days)	207	227
Debtors' turnover (days).	47	40
Creditors' turnover (days).	73	113

The inventory turnover days increased by 20 days from 207 days for the year ended 31 December 2011 to 227 days for the year ended 31 December 2012. The long inventory turnover days for both years shared the same reasons to the fluctuations to inventory turnover days for continuing and discontinuing businesses above. Having taken out the effect of the above items, the inventory turnover days would decrease by 25 days from 192 days in 2011 to 167 days in 2012. The decrease was primarily due to the significant increase in our sale in 2012 which caused an increase in stock movement.

The debtors' turnover days decreased by 7 days from 47 days for the year ended 31 December 2011 to 40 days for the year ended 31 December 2012. Such decrease shared the same reasons to the fluctuations to debtors' turnover days for continuing and discontinuing operations as discussed above.

The creditors' turnover days increased by 40 days from 73 days for the year ended 31 December 2011 to 113 days for the year ended 31 December 2012. Such increase shared the same reason to the fluctuations to the creditors' turnover days for continuing and discontinuing businesses as discussed above.

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INDEBTEDNESS

As at 31 December 2012, a jointly controlled entity of the Company, namely Peking Tongrentang (M) SDN. BHD, had a bank borrowing, of which, the portion attributable to the Group amounted to HK\$4.5 million. Such borrowing was secured by a freehold land and a building owned by this jointly controlled entity and contained a repayment on demand clause. As at 28 February 2013, the outstanding balance of this bank borrowing, of which, the portion attributable to the Group was HK\$4.5 million.

Except for the above bank borrowing of Peking Tongrentang (M) SDN. BHD, we did not have any outstanding loan capital issued or agreed to be issued, bank overdrafts, loans, debt securities, borrowings or other similar indebtedness, liabilities under acceptance (other than normal trade bills) or acceptance credits, debentures, mortgages, charges, finance leases, hire purchase commitments, guarantees or other material contingent liabilities since 31 December 2012 and up to the Latest Practicable Date. As at 28 February 2013, the Group has not obtained any bank facilities from any financial institutions.

CONTRACTUAL OBLIGATIONS AND CONTINGENT LIABILITIES

As at 31 December 2011 and 2012, we had total capital commitments and operating lease commitments of HK\$88.6 million and HK\$221.8 million, respectively.

The table below sets forth our capital commitments and operating lease commitments for each of the two years ended 31 December 2012:

	As at 31 December	
	2011	2012
	<i>HK\$'000</i>	<i>HK\$'000</i>
Capital commitments		
Property, plant and equipment:		
– contracted but not provided for	23,590	120,784
Operating lease commitments		
Within 1 year	23,070	36,573
Later than 1 year and not later than 5 years. .	39,393	62,560
Later than 5 years	2,508	1,918
Total	<u>64,971</u>	<u>101,051</u>

Approximately HK\$23.4 million of the capital commitments as at 31 December 2012 was relating to TRT (Tang Shan), HK\$96.4 million related to acquisition of an office and a staff quarter in Hong Kong. The remaining balance related to the improvement in our ERP system and leasehold improvement. Capital commitment is expected to be paid in 2013 and will be sourced from internal funding. Total capital expenditure of the ERP system from 2013 to 2015 is expected to be HK\$9.5 million with payment from the offering proceeds. All of the operating lease commitment related to property leases.

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As at 31 December 2011 and 2012, we had no contingent liabilities. Except as disclosed above, the Directors confirm that there has been no material contractual obligations or contingent liabilities since 31 December 2012 up to the Latest Practicable Date.

OFF-BALANCE SHEET ARRANGEMENTS

Other than as described above, we did not have any outstanding off-balance sheet guarantees, interest rate swap transactions, foreign currency and commodity forward contracts or other off-balance sheet arrangements. We do not engage in trading activities involving non-exchange traded contracts. In our ongoing business, we do not enter into transactions involving, or otherwise form relationships with, unconsolidated entities or financial partnerships that are established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes.

MARKET RISKS

Foreign exchange risk

We operate in multiple jurisdictions and each individual group entity has its own functional currency. Foreign exchange risk arises when future commercial transactions or recognised assets or liabilities are denominated in a currency that is not our entities' functional currency. Entities of the Group are mainly operating in their functional currencies, except for certain bank deposits and payables to suppliers denominated in foreign currencies. We are exposed to foreign exchange risk primarily arising from HK dollars, U.S. dollars and Renminbi and have recognised exchange loss of HK\$0.3 million and exchange gain of HK\$0.3 million for the years ended 31 December 2011 and 2012, respectively.

The fluctuation of exchange rate of Hong Kong dollar against other currencies is depending on the political and economic conditions. We currently do not have a foreign currency hedging policy. We manage our foreign currencies risk by closely monitoring the movement of the foreign currency rates. If the functional currency of the Group, namely HK dollars, U.S dollars and Renminbi, strengthened or weakened by 5% against the relevant foreign currencies, with all other variables held constant, the profit before tax for the year ended 31 December 2011 and 2012 would increase/decrease HK\$2.7 million and HK\$0.9 million, respectively.

Interest rate risk

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

Credit risk

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

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All the bank deposits are placed with banks with sound credit ratings to mitigate the risk. For trade receivables and other current assets (including trade receivables from group companies), we assess the credit quality of the counterparties is assessed by taking into account their financial position, credit history and other factors. Management will also regularly reviews the recoverability about of these receivables and follow up on the disputes or amounts overdue, if any. The Directors are of the opinion that the default by counterparties is low.

We do not hold any collateral as security.

Liquidity risk

Our 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 accrued expenses and other payables are repayable within 12 months.

Listing expenses

Pursuant to Hong Kong Accounting Standard 32 issued by the Hong Kong Institute of Certified Public Accountants, transaction costs of an equity transaction are accounted for as deduction from equity to the extent they are incremental costs directly attributable to the equity transaction that otherwise would have been avoided. The estimated total listing expense (excluding underwriting commissions) in relation to the Share Offer is approximately HK\$31.7 million. No listing expense was recognized as prepayments as of 31 December 2011 and 31 December 2012. For the year ended 31 December 2012, HK\$17.5 million was incurred, of which HK\$4.7 million was attributable to the equity transaction and included in other reserves. The remaining amount of HK\$11.2 million including the listing expenses of HK\$12.8 million net with the write back of the provision for listing expense in relation to the previous attempt for listing in 2011 of HK\$1.6 million was regarded as costs associated with the Listing to the extent they are not incremental costs attributable to the equity transaction and charged to our consolidated income statement for the period. We estimate that a further HK\$9.7 million will be incurred after the Track Record Period as costs associated with the Listing to the extent they are not incremental costs attributable to the equity transaction and will be charged to our consolidated income statement for the year ending 31 December 2013. Meanwhile, we estimate that a further listing expense of HK\$4.5 million will be incurred after the Track Record Period, which are associated with the Listing to the extent that they are the incremental costs attributable to the equity transaction and therefore, will be capitalised in reserves.

In addition, underwriting commission of HK\$18.6 million (calculated based on the mid point of the indicative Offer Price range) will be capitalised in reserves as such expense represents cost associated with the Share Offer which is directly attributable to the equity transaction.

Our listing expenses mainly comprise of professional fees paid to the Sole Sponsor, legal advisors and the reporting accountant for their services rendered in relation to the Listing and the Share Offer.

RELATED PARTY TRANSACTIONS

During the Track Record Period, the Group entered into certain related party transactions, details of which are set out in Note 33 headed “Significant Related Party Transactions” to the Accountant’s Report set out in Appendix I to this prospectus. Our Directors are of the view that the related party transactions were conducted on an arm’s length basis and normal commercial terms.

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PROPERTY INTERESTS AND PROPERTY VALUATION

Particular of our property interests are set out in Appendix III to this prospectus. LCH (Asia-Pacific) Surveyors Limited, an independent property valuer, has valued the Group's property interests as at 28 February 2013 and is of the opinion that the values of the Group's interests as at such date was at an aggregate amount of HK\$322,020,000. The full text of the letter, summary of values and valuation certificates in connection with such property interests are set out in Appendix III to this prospectus.

A reconciliation of the Group's net book value of the relevant buildings, freehold land, leasehold land held under finance lease and lease prepayments and the valuation of such property interests as required under Rule 8.30 of the GEM Listing Rules is set forth below:

	Buildings, freehold land, leasehold land held under finance lease and lease prepayments
	<i>HK\$'000</i>
Net book value as of 31 December 2012	
– Attributable to the Company and its subsidiaries	87,829
– Attributable to the jointly controlled entities of the Group	9,818
	97,647
Movement for the period ended 1 January 2013 to 28 February 2013	
– Additions	106,370
– Depreciation and amortisation	(969)
– Exchange differences	(67)
Net book value as of 28 February 2013 (<i>Note</i>)	202,981
Revaluation surplus	119,039
Valuation as of 28 February 2013	
– Attributable to the Company and its subsidiaries	308,470
– Attributable to the jointly controlled entities of the Group	13,550
	<u>322,020</u>

Note: The Group has adopted HKFRS 11 and HKAS 28 (revised 2011) since 1 January 2013. Accordingly, the accounting of the Group's investment in jointly controlled entities has changed from proportionate consolidate to equity method of accounting. However, the above reconciliation schedule have not yet reflected the adoption of HKFRS 11 and HKAS 28 (revised 2011). Should the equity method of accounting be applied to account for the Group's investment in jointly controlled entities for the two months ended 28 February 2013, its net book value of buildings, freehold land, leasehold land held under finance lease and lease prepayments as at the relevant period end date and its depreciation and amortisation charged for the period would be reduced by HK\$9,707,000 and HK\$44,000, respectively.

FINANCIAL INFORMATION

TAX

Our profits arising in or derived from Hong Kong are subject to Hong Kong profits tax. Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profits arising in Hong Kong for each of the two years ended 31 December 2012.

DIVIDEND AND DIVIDEND POLICY

We may distribute dividends by way of cash or by other means that we consider appropriate. Subject to the Companies Ordinance and our Articles of Association, the Company in general meeting may declare dividends in any currency but no dividends may exceed the amount recommended by the Directors. No dividend may be declared or paid other than out of profits and reserves of the Company lawfully available for distribution, including share premium. The Directors may, with the sanction of the members of the Company in general meeting, direct that any dividend be satisfied wholly or in part by the distribution of specific assets of any kind, and in particular of paid up shares, debentures or warrants to subscribe securities of any other company, and where any difficulty arises in regard to such distribution the Directors may settle it as they think expedient. All of the Shareholders have equal rights to dividends and distributions in the form of stock, cash or otherwise. The Board will review our dividend policy from time to time in light of the following factors in determining whether dividends are to be declared and paid:

- our results of operations;
- our cash flows;
- our financial conditions;
- the Shareholders' interest;
- general business conditions and strategies;
- our capital requirements;
- the payment by our subsidiaries of cash dividends to us; and
- other factors the Board may deem relevant.

During each of the two years ended 31 December 2012, the Company did not declare any dividend to the Shareholders. On 15 April 2013, a dividend of HK\$100 million was declared and to be paid out of the Company's accumulated profits to the Shareholders whose names appeared on the register of members of the Company on 15 April 2013 in proportion to the number of shares held by them. Such dividend declared which was financed by our internal resources was fully paid on 18 April 2013.

FINANCIAL INFORMATION

UNAUDITED PRO FORMA STATEMENT OF ADJUSTED NET TANGIBLE ASSETS

The following is an illustrative statement of unaudited pro forma adjusted net tangible assets of the Group attributable to the equity holders of the Company which has been prepared for the purpose of illustrating the effect of the Share Offer as if it had been taken place on 31 December 2012 and based on the audited consolidated net assets of the Group as at 31 December 2012 as shown in the Accountant's Report set forth in Appendix I to this prospectus and is adjusted as follows:

	Audited consolidated net tangible assets of the Group attributable to the equity holders of our Company as at 31 December 2012	Estimated net proceeds from the Share Offer	Unaudited pro forma adjusted net tangible assets attributable to the equity holder of the Company	Unaudited pro forma adjusted net tangible assets per Share
	<i>HK\$'000</i> <i>(Note 1)</i>	<i>HK\$'000</i> <i>(Note 2)</i>	<i>HK\$'000</i>	<i>HK\$</i> <i>(Note 3)</i>
Based on Offer Price of HK\$2.59	494,883	486,682	981,565	1.23
Based on Offer Price of HK\$3.04	494,883	573,659	1,068,542	1.34

Notes:

- (1) The unadjusted audited consolidated net tangible assets of the Group attributable to the equity holders of the Company as at 31 December 2012 is extracted from the section headed "Appendix I – Accountant's Report" in this prospectus, which is based on the audited consolidated net assets of the Group attributable to the equity holders of the Company of HK\$494,883,000.
- (2) The estimated net proceeds from the Share Offer are based on the indicative Offer Prices of HK\$2.59 per Share and HK\$3.04 per Share after deduction of the underwriting fees and other related expenses and takes no account of any Shares which may be allotted and issued upon the exercise of the Over-Allotment Option.
- (3) The unaudited pro forma net tangible assets per Share is arrived at after the adjustments referred to in Note (2) above and on the basis that 800,000,000 Shares were in issue assuming that the sub-division of Shares, the Capitalisation Issue and the Share Offer have been completed on 31 December 2012 but takes no account of the Shares that may be allotted and issued upon the exercise of Over-Allotment Option.
- (4) By comparing the valuation of the Group's property interests (including jointly controlled entities) of HK\$322,020,000 as set out in Appendix III to this prospectus and the unaudited net book value of these properties as at 28 February 2013, the net valuation surplus is approximately HK\$119,039,000, which has not been included in the above net tangible assets attributable to equity holders of the Company as at 31 December 2012. The revaluation of the Group's property interests will not be incorporated in the Group's financial information. If the revaluation surplus is to be included in the Group's financial information, an additional depreciation and amortisation charge of approximately HK\$864,000 per annum related to buildings, leasehold land held under finance lease and lease prepayments would be recorded.
- (5) Except as disclosed above, no adjustment has been made to reflect any trading result or other transaction of the Group entered into subsequent to 31 December 2012. In particular, the unaudited pro forma adjusted net tangible assets of the Group has not taken into account the payment of a dividend of HK\$100 million which was approved by the Board of Directors of the Company on 15 April 2013 and was fully paid on 18 April 2013.

FINANCIAL INFORMATION

DIRECTORS' CONFIRMATION ON NO MATERIAL ADVERSE CHANGE

Our Directors confirm that they have performed sufficient due diligence on the Company to ensure that, up to the date of this prospectus, there has been no material adverse change in our financial or trading position or prospects since 31 December 2012, and there is no event since 31 December 2012, which would materially affect the information shown in the Accountant's Report, the text of which is set out in Appendix I to this prospectus.

DISCLOSURE PURSUANT TO RULES 17.15 TO 17.21 OF THE GEM LISTING RULES

Save as disclosed in this prospectus, the Directors have confirmed that as at the Latest Practicable Date, there are no circumstances which would give rise to a disclosure requirement under Rule 17.15 to Rule 17.21 of the GEM Listing Rules.

DISTRIBUTABLE RESERVES

As of 31 December 2012, our distributable reserves was HK\$283,644,000, without taking into account of the dividend declared by the Company on 15 April 2013 amounted of HK\$100,000,000.

STATEMENT OF BUSINESS OBJECTIVES

OVERALL BUSINESS OBJECTIVES AND STRATEGIES

We are a distributor, engaged in both the retail and wholesale of Chinese Medicine Products, in Non-PRC Markets operating under the “Tong Ren Tang” brand. We also manufacture Chinese Medicine Products which we distribute under the “Tong Ren Tang” brand ourselves. We see ourselves as a channel for promoting Chinese medicine culture and services in Non-PRC Markets. We are the overseas platform of the TRT Group. We operate the leading Chinese Medicine Products retail chain outside of the PRC in terms of number of jurisdictions present, according to Euromonitor.

BUSINESS STRATEGIES

Continue to promote the Chinese medicine culture and improve the market recognition of Chinese Medicine Products and Chinese Medical Consultation in Non-PRC Markets

In developing our overseas distribution business, we focus on the promotion of Chinese medicine culture in overseas markets where the recognition and acceptance of Chinese medicine, and its related products and services, is generally shallow compared with the PRC market. Improving the recognition of Chinese medicine culture and the functions of Chinese Medicine Products and Chinese healthcare services in the overseas markets is the key of our success. We are committed to broadcast Chinese medicine culture through providing seminars and training programs to educate local residents in overseas markets about the principles of the Chinese medicine culture and the functions of Chinese Medicine Products and Chinese healthcare services. We will establish our business in Poland primarily to promote Chinese medicine culture. We will also continue to expand our overseas sales team and increase the number of Chinese Medicine Practitioners to promote our product and services through our existing retail stores.

Continue to expand and optimize our overseas distribution network by entering into new overseas markets, and increasing the number of retail stores and wholesale customers in existing markets

We will continue to seek to broaden our geographical coverage. We will also seek to expand into other Middle East and Western countries by adopting a flexible approach and initially establishing a foothold by offering products and services which are more acceptable in these jurisdictions. For example, we have established a retail store in the UAE mainly to provide Chinese healthcare services. We will continue to adopt the model of co-operating with local partners when expanding into new overseas markets which has proved to be practical and efficient whilst also consider to set up operations alone where feasible, with Poland as an example. We will perform careful study on potential new markets and potential partners before we invest. We may consider our expansion strategically through mergers and acquisitions. Appropriate acquisition targets can expedite our penetration into a target market and can provide immediate revenue contribution. We have not yet identified any appropriate target and we are not in active discussions with any potential target. We will obtain all necessary approvals and licences before commencing operations.

When we expand our retail operations into a new geographic jurisdiction with no “Tong Ren Tang” presence, we will sell non-“Tong Ren Tang” branded Chinese Medicine Products available in that jurisdiction as no “Tong Ren Tang” products would have been registered. We will source these

STATEMENT OF BUSINESS OBJECTIVES

products from local suppliers and we will seek to utilize the network and expertise of our local partners so as to provide a comprehensive and suitable range of products. We will seek to provide Chinese Medical Consultation subject to availability of Chinese Medical Practitioners and demand in the relevant jurisdictions. Accordingly, we will initially compete based on our “Tong Ren Tang” brand and our services. We will then commence registration of “Tong Ren Tang” branded products which are suitable for the relevant jurisdiction to gradually enhance our competitive advantage. However, please refer to the section headed “Risk factors – Risks related to our industry – The Chinese Medicine Products industry is heavily regulated” in this prospectus for the risks that we may not be able to successfully register our self-manufactured products or the products we distribute in these new jurisdictions, if at all or in time to meet our business plans.

Besides increasing our geographic presence, we intend to expand our current overseas distribution network through increasing the number of retail stores and wholesale customers in our existing markets for better penetration. We will conduct careful analysis on the demand and supply and penetration within a jurisdiction before we invest. We plan to expand our business into about 9 new overseas countries or regions, including Europe and Asia, and establish no less than 30 new stores by 31 December 2015.

The time required for a new store to breakeven and to recover our investments depends on various factors including but not limited to the market environment, the type of products being offered and the size of the stores. In general, we target for our new stores to breakeven in the second full financial year after its establishment, which has been our general experience with stores opened in recent years. In addition, we target to recover our investments in entering into a new jurisdiction within ten years after the initial expansion into a new jurisdiction.

Continue to explore opportunities to broaden our services

We will continue to seek opportunities to apply our expertise in Chinese Medicine Products and Chinese healthcare services in broadening our revenue avenue. We intend to establish a Chinese medical healthcare centre in Hong Kong to provide customers with Chinese medical health preservation services. We intend to provide Chinese medicinal cuisine, Chinese massage, acupuncture and Tui-Na services, Chinese medical beauty care services and Chinese Medicine and culture seminars. We intend to target the mid to high consumer groups and provide continuing targeted services to improve the health of our customers based on their physique. The expected gross floor area of this Chinese medical healthcare centre is around 1,000 sq.m. and the estimated investment is HK\$90 million which will be funded from the proceeds of the Share Offer. We currently expect to commence the leasing and renovation of the premises for this centre in second half of 2013 and commence commercial operation in 2014.

Continue to broaden our product offerings for our overseas distribution business

It is essential for us to provide a comprehensive range of products to cater for consumers, needs in order to maintain existing customers and attract new customers for both of our wholesale and retail operations. A comprehensive and continuous changing product offering is the key for us to stay competitive as an overseas distributor of Chinese Medicine Products, and can diversify our

STATEMENT OF BUSINESS OBJECTIVES

source of income. We will continue to register and introduce new “Tong Ren Tang” branded products and non-“Tong Ren Tang” branded products in different markets so that we can import such products from our suppliers and distribute them. We plan to complete no less than 32 new registrations by 31 December 2015. On the other hand, we will also add new types of merchandise readily available from local suppliers in overseas markets to our retail stores.

Continue to promote the sales of Angong Niu Huang Pills and GLSPC and increase the manufacturing capacity of Angong Niu Huang Pills

We will register Angong Niu Huang Pills and GLSPC in new overseas markets and continue to promote Angong Niu Huang Pills and GLSPC through our retail stores and wholesale operations in existing markets. We will begin the process of registering or filing of our Angong Niu Huang Pills in Macao, Cambodia, Canada, Indonesia and Vietnam and we will explore registering or filing of our GLSPC in the markets we operate in 2013.

Since we will satisfy the demand for Angong Niu Huang Pills in Non-PRC Markets after the cessation of its sale from the Parent Group, we will continue to increase the manufacturing capacity for our Angong Niu Huang Pills. We and the Parent Group together sold about 1.2 million units and 1.3 million units of “Tong Ren Tang” branded Angong Niu Huang Pills in Hong Kong in each of the two years ended 31 December 2012, respectively. Accordingly, we will increase our manufacturing capacity for Angong Niu Huang Pills to about 1.0 million units and 1.35 million units as at 31 December 2013 and 2014, respectively. Our current plant and machinery for the manufacturing of Angong Niu Huang Pills are sufficient to support the expected expansion in 2013. Our current manufacturing facilities in Tai Po, Hong Kong, is sufficient to house additional equipments required to meet our manufacturing requirements for Angong Niu Huang Pills for the next few years if we need to further increase it significantly.

To build up effective logistics and financial information system to improve cost and operating efficiency

We are implementing the ERP system to manage the financial, supply chain, production, sales and human resources functions of the Group. We intend to invest resources to build up logistics and financial information system to improve our supervision and control over our overseas distribution operations. An efficient logistics and financial information system is necessary given the expansion of overseas distribution network.

IMPLEMENTATION PLANS

The Group has formulated the following business plans to implement the strategies during the time periods as below. The Group’s implementation plan are based on certain bases and assumptions as set out in the paragraph headed “Bases and key assumptions of the business plans” below. It should also be noted that the Directors believe that neither the overseas markets or the PRC market for Chinese Medicine Products is static, and may subject to change of regulatory policies, market demand and industry landscape. The implementation plans set forth below only reflect the Directors’ present understandings of the markets and may be changed along with markets’ situations and are expected to be financed by the combination of internal and operational funding and the proceeds to be received from the Share Offer.

STATEMENT OF BUSINESS OBJECTIVES

For the period from the Latest Practicable Date to 30 June 2013

Strategies	Implementation activities
• Continue the promotion of Chinese Medicine Products in Non-PRC Markets	• We will hold seminars and training program to broadcast Chinese regimen culture and Chinese Medicine Products • We will set up educational centre of Chinese regimen and start operation in Poland
• Increase geographical coverage and retail stores	• We will continue to expand our overseas sales team and increase the number of our Chinese Medicine Practitioners • We will evaluate and explore acquisition opportunities • We will open two retail stores in Hong Kong
• Broaden our registered products and service offerings	• We will commence the registration of 4 “Tong Ren Tang” branded products • We will commence the evaluation of the possibility of registering non- “Tong Ren Tang” branded products • We will continue our research and development of the ganoderma lucidum series product • We will explore acquisition opportunities
• Upgrade and expand the production facilities for Angong Niu Huang Pills	• We will continue to increase the production capacity of Angong Niu Huang Pills • We will start the project of improving the cleanliness class of our manufacturing facilities • We will continue to expand our production team
• Continue to enhance the distribution of self-manufactured products	• We will commence registration or filing of our Angong Niu Huang Pills in Macao, Indonesia and Vietnam and GLSPC in Brunei, Canada, Thailand and Indonesia
• To build up effective logistics and financial information system to improve cost and operating efficiencies	• We will continue to build up logistic and financial information system

STATEMENT OF BUSINESS OBJECTIVES

For the period from 1 July 2013 to 31 December 2013

Strategies	Implementation activities
• Continue the promotion of Chinese Medicine Products in Non-PRC Markets	• We will continue to hold seminars and training program to broadcast Chinese regimen culture and Chinese Medicine Products
• Increase geographical coverage and retail stores	• We will establish the a new store in UAE and U.K. • We will continue to evaluate new markets to distribution and/or open stores • We will open three new retail stores in Hong Kong, one in each of Singapore, Thailand and Toronto • We will continue to evaluate and explore acquisition opportunities • We will continue to expand our overseas sales team and increase the number of our Chinese Medicine Practitioners
• Broaden our products and service offerings	• We will continue the registration of 8 “Tong Ren Tang” products • We will continue our evaluation of registering non- “Tong Ren Tang” branded products and short list target products • We will continue our research and development of ganoderma lucidum series products • We will establish a Chinese medical healthcare centre in Hong Kong • We will continue to evaluate and explore acquisition opportunities

STATEMENT OF BUSINESS OBJECTIVES

Strategies	Implementation activities
• Upgrade and expand the production facilities for Angong Niu Huang Pills	• We will complete the increase in the production of Angong Niu Huang Pills • We will complete the project of improving the cleanliness class of our manufacturing facilities • We will continue to expand our production team
• Continue to enhance the distribution of self-manufactured products	• We will commence registration of our Angong Niu Huang Pills in Cambodia and Canada and GLSPC in UAE and South Korea
• To build up effective logistics and financial information system to improve cost and operating efficiencies	• We will continue to build logistic and financial information system

For the period from 1 January 2014 to 30 June 2014

Strategies	Implementation activities
• Continue the promotion of Chinese Medicine Products in Non-PRC Markets	• We will continue to hold seminars and training program to broadcast Chinese regimen culture and Chinese Medicine Products
• Increase geographical coverage and retail stores	• We will establish the first new store in Russia and Vietnam • We will continue to evaluate new markets to our stores make preparations • We will open one retail store in each of Hong Kong and Indonesia • We will continue to evaluate and explore acquisition opportunities • We will continue to expand our overseas sales team and increase the number of our Chinese Medicine Practitioners

STATEMENT OF BUSINESS OBJECTIVES

Strategies	Implementation activities
• Broaden our products and service offerings	• We will commence registration of 9 “Tong Ren Tang” branded products • We will commence discussions with the manufacturers of non- “Tong Ren Tang” branded products which we have short-listed • We will commence testing of the results of our research and development of ganoderma lucidum series products
• Upgrade and expand the production facilities for Angong Niuhuang Pills	• We will commence trial-run of the Chinese medical healthcare centre in Hong Kong • We will continue to evaluate and explore acquisition opportunities • We will acquire equipment to expand the capacity of our capsule production line. • We will evaluate our manufacturing facilities and capacities to determine any further improvements required.
• To build up effective logistics and financial information system to improve cost and operating efficiencies	• We will test run our logistic and financial information system

For the period from 1 July 2014 to 31 December 2014

Strategies	Implementation activities
• Continue the promotion of Chinese Medicine Products in Non-PRC Markets	• We will continue to hold seminars and training program to broadcast Chinese regimen culture and Chinese Medicine Products

STATEMENT OF BUSINESS OBJECTIVES

Strategies	Implementation activities
• Increase geographical coverage and retail stores	• We will establish the first retail store in each of Germany, Hungary, New Zealand and Sweden; • We will open one new retail store in Australia • We will continue to evaluate and explore acquisition opportunities • We will continue to expand our overseas sales team and increase the number of our Chinese Medicine Practitioners
• Broaden our products and service offerings	• We will conclude discussions with the manufacturers of non-“Tong Ren Tang” branded products we target to register • We will evaluate the commercialisation of the new ganoderma lucidum series product • We will launch commercial operation of the Chinese medical healthcare centre in Hong Kong • We will continue to evaluate and explore acquisition opportunities
• Upgrade and expand the production facilities for Angong Niu Huang Pills	• We will evaluate the need to expand our production facilities based on sales of Angong Niu Huang Pills
• Continue to enhance the distribution of self-manufactured products	• We will register the new ganoderma lucidum series product in Hong Kong
• To build up effective logistics and financial information system to improve cost and operating efficiencies	• We will complete implementation of our logistic and financial information system

STATEMENT OF BUSINESS OBJECTIVES

For the period from 1 January 2015 to 30 June 2015

Strategies	Implementation activities
• Continue the promotion of Chinese Medicine Products in Non-PRC Markets	• We will continue to hold seminars and training program to broadcast Chinese regimen culture and Chinese Medicine Products
• Increase geographical coverage and retail stores	• We will open one new store in each of Australia, Hong Kong, Macao and Singapore • We will evaluate potential new markets and then existing markets to determine our expansion plan • We will establish joint ventures in new jurisdictions and add new stores in then existing jurisdictions if deemed appropriate
• Broaden our products and service offerings	• We will commence the preparation of registering non-“Tong Ren Tang” branded products in jurisdictions agreed with their manufactures • We will launch our new ganoderma lucidum series product in Hong Kong
• Upgrade and expand the production facilities for Angong Niuhuang Pills	• We will continue to evaluate the need for capacity expansion
• Continue to enhance the distribution of self-manufactured products	• We will evaluate registering Angong Niuhuang Pills and GLSPC in countries which we have not registered • We will complete the registration of, and launch, our new ganoderma lucidum series product in Hong Kong
• To build up effective logistics and financial information system to improve cost and operating efficiencies	• We will monitor the performance of our logistic and financial information system

STATEMENT OF BUSINESS OBJECTIVES

For the period from 1 July 2015 to 31 December 2015

Strategies	Implementation activities
• Continue the promotion of Chinese Medicine Products in Non-PRC Markets	• We will continue to hold seminars and training program to broadcast Chinese regimen culture and Chinese Medicine Products
• Increase geographical coverage and retail stores	• We will establish the first new store in Austria • We will open one new store in each of Hong Kong, Indonesia, Thailand and Vancouver • We will continue to evaluate our network and enter into new jurisdictions and/or add new stores in then existing jurisdictions if deemed appropriate
• Broaden our products and service offerings	• We will continue to register “Tong Ren Tang” branded products if deemed appropriate • We will commence registration of non-“Tong Ren Tang” branded products in the relevant jurisdictions
• Upgrade and expand the production facilities for self-manufactured products	• We will continue to evaluate the need to upgrade and expand
• Continue to enhance the distribution of self-manufactured products	• We will continue to evaluate registering our self-manufactured products in new jurisdictions
• To build up effective logistics and financial information system to improve cost and operating efficiencies	• We will evaluate our system and upgrade if necessary

STATEMENT OF BUSINESS OBJECTIVES

NEW STORES

The following table sets forth the 30 new stores to be opened by 31 December 2015 by geographic locations:

	2013	2014	2015	Total
New markets				
Poland	1 ^(Note 1)	—	—	1
U.K.	1	—	—	1
Germany	—	1	—	1
Hungary	—	1	—	1
New Zealand	—	1	—	1
Russia	—	1	—	1
Sweden	—	1	—	1
Vietnam	—	1	—	1
Austria	—	—	1	1
Existing markets				
Hong Kong	5	2 ^(Note 2)	2	9
Singapore	1	—	1	2
Canada	1	—	1	2
Thailand	1	—	1	2
UAE	1	—	—	1
Australia	—	1	1	2
Indonesia	—	1	1	2
Macao	—	—	1	1
Total	11	10	9	30

Note 1: An education centre of Chinese regime

Note 2: One being a Chinese medical healthcare centre

Prior to entering into of a new market, the Company will engage local legal advisor to assist them in obtaining all relevant registration in accordance to the local legislation. The Group will hire the required staff through advertising in the local markets, work with local employment agencies, and interview the candidates to ascertain their adequacy for the job. The new overseas associates will procure the required products from local suppliers and from the Group where appropriate. The Group would have communicated with local suppliers and ascertain suppliers before entering into a new jurisdiction. The new Overseas Partners, where exist, will facilitate the new overseas associates operations in these areas. The Group provides internal operation manuals and training on quality control and procurement to the new overseas associates, and issues the overseas retail guidance to all overseas operations.

STATEMENT OF BUSINESS OBJECTIVES

Based on the Company's past experience, the Directors estimated that (i) the time required to establish the new overseas establishments and commence operations after the decision is made depends on the time required to secure the locations and hiring of staff and generally takes six to twelve months; (ii) a new retail store is expected to become profitable in the second to fifth full financial year after its establishment depending on its location; and (iii) the average capital expenditure for opening a new store for new markets and existing markets are estimated to be HK\$1.6 million and HK\$1.1 million respectively. The investment amount for the above 30 stores to be opened by 2015 is planned to be financed entirely by the proceeds from the share offer. However, any additional funding requirement will be financed by internal resources.

None of the Parent Group's products are registered in jurisdictions which the Group has no operations except for Vietnam. Hence, no "Tong Ren Tang" branded products will be available in any new geographic jurisdictions which the Group expand into in the future. The Group will initially sell non-"Tong Ren Tang" branded Chinese Medicine Products which are available in the relevant jurisdiction and/or provide Chinese Medical Consultation. The Group will then register "Tong Ren Tang" branded products in these new jurisdictions. Accordingly, "Tong Ren Tang" branded Chinese Medicine Products not registered under the name of the Group as at the Latest Practical Date does not affect the Group's geographical expansion.

BASES AND KEY ASSUMPTIONS OF THE BUSINESS PLANS

In formulating our business strategies and implementation plans set out above, the Directors have made reference to their industry knowledge and experience, after evaluating the existing market and potential market conditions and growth potential of the self-manufactured products, and have based on a number of bases and assumptions. Although the Directors are of the view that such bases and assumptions are reasonable, there is no assurance that such bases and assumptions are correct and complete. In the event that any part of the implementation plans does not materialize or proceed as planned, the Directors will carefully evaluate the situation and may revise or adjust our implementation plans as appropriate and/or reallocate the proceeds from the Share Offer to be received by the Company to other plans and/or new projects of the Company as long as the Directors consider it to be in the best interests of the Company and its Shareholders taken as a whole.

The following are the bases and assumptions in relation to the implementation plans of the Company:

General assumptions:

- There will be no material changes in the existing laws (whether in the PRC, Hong Kong or any other part of the world), policies or industry or regulatory treatment relating to the Group, or in the political, economic or market conditions in which the Group operates;
- There will be no significant economic change, such as changes in interest rate, inflation rate, tax rate and currency exchange rate, or other aspects of fiscal or monetary policies, in the PRC and other jurisdictions where the Group is operating business or sells, directly or indirectly such as through distributors or importers and exporters, that will adversely affect the business of the Group; and

STATEMENT OF BUSINESS OBJECTIVES

- There will be no disasters, natural, political or otherwise, which could materially disrupt the business or operations of the Group or cause substantial loss, damage or destruction to its properties and facilities.

Specific assumptions:

- There will be no material adverse change in the existing markets or the markets which we plan to enter for our distribution business;
- The current increasing trend of spending and investment in healthcare by the governments and peoples of the jurisdictions where we operate will continue;
- There will be no material changes in the estimated funding requirement for each of the short term implementation plans described herein;
- External financing will be readily available to the Company if and when needed;
- The Group is not materially and/or adversely affected by any of the risk factors set out in the section headed “Risk factors” in this prospectus; and
- The Group will not experience any significant delay in achieving its stated business objectives in any of the specified periods.

REASONS FOR THE SHARE OFFER AND THE USE OF PROCEEDS

The Directors believe that the listing of the Shares on the GEM could enhance the Group’s profile and the net proceeds from the Share Offer will strengthen the Group’s financial position and enable the Group to implement its business plans set out in this section. Furthermore, a public listing status on GEM will offer the Group access to capital market for future corporate finance exercises to assist in future business development and strengthen its competitiveness.

Based on the Offer Price of HK\$2.82 per Share, being the mid-point of the range of the Offer Price stated in this prospectus, we estimate that the net proceeds of the Share Offer after deduction of underwriting fees and expenses payable by the Company in relation to the Share Offer, are estimated to be approximately HK\$528 million. The Company currently intends to use the net proceeds from the Share Offer as follows:

- approximately HK\$140.6 million, or 26.6% of the net proceeds, to expand the retail network in the jurisdictions we are currently have operation in. The proceeds will be applied towards rental, renovation, purchasing of furnitures and equipment, staff costs and procurement of inventory and retail properties. The Group had not incurred any investment in connection with this as at the Latest Practicable Date. The following table sets forth the proceeds for this investment (HK\$ in million) in each current markets:

Hong Kong	UAE	Australia	Singapore	Canada	Thailand	Indonesia	Macao	Korea
13.8	5.0	48.4	6.9	5.4	5.1	3.8	22.2	30.0

STATEMENT OF BUSINESS OBJECTIVES

- approximately HK\$95.4 million, or 18.1% of the net proceeds, to expand our distribution into new jurisdictions. The proceeds will be used as our initial capital investment in each new jurisdiction which will be applied towards rental, renovation, purchasing of furnitures and equipment, staff costs, procurement of inventory and initial working capital. The Group had not incurred any investment in connection with this as at the Latest Practicable Date. The following table sets forth the proceeds to be applied for this investment (HK\$ in million) in each new markets:

							New		United
Poland	U.K.	Russia	Vietnam	Hungary	Sweden	Germany	Zealand	Austria	States
9.2	6.1	5.1	3.1	5.1	6.1	6.1	4.6	10.0	40.0

- approximately HK\$90.0 million, or 17.1% of the net proceeds, to establish a Chinese medical healthcare centre in Hong Kong (please refer to the paragraph headed “Business – Our strategies – Continue to explore opportunities to broaden our services” in this prospectus for further particulars). The proceeds will be used as our initial capital investment in this initiative and will be applied towards renovation, purchasing of furniture and equipment, rental expense, staff costs and initial working capital of approximately HK\$49.5 million, HK\$4.5 million and HK\$36.0 million, respectively. The Group had not incurred any investment in connection with this as at the Latest Practicable Date;
- approximately HK\$76.0 million, or 14.4% of the net proceeds, for mergers and acquisitions;
- approximately HK\$35.5 million, or 6.7% of the net proceeds, to upgrade, expand and operate the production facilities for Angong Niu Huang Pills. About HK\$23.7 million of the proceeds will be applied towards staff costs for skilled labour in relation to the production of Angong Niu Huang Pills and about HK\$11.8 millions for repair and maintenance and future equipment upgrades as and when appropriate. The Group had not incurred any investment in connection with this as at the Latest Practicable Date;
- approximately HK\$29.0 million, or 5.5% of the net proceeds, for product development and registration of the Angong Niu Huang Pills, GLSPC and non self-manufactured “Tong Ren Tang” branded products in Non-PRC Markets. The proceeds will be primarily applied towards expenses associated with surveys, reports and testings required for the registration process, registration fees and research and development of GLSPC products proceeds of approximately HK\$11.0 million and HK\$18.0 million will be applied on Angong Niu Huang Pills and GLSPC products, respectively. The Group had not incurred any investment in connection with this as at the Latest Practicable Date;
- approximately HK\$9.5 million, or 1.8% of the net proceeds, to build up effective logistics and financial information system to improve cost and operating efficiencies. The proceeds will primarily be applied towards costs for ERP system, equipments and training. The Group had not incurred any investment in connection with this as at the Latest Practicable Date; and

STATEMENT OF BUSINESS OBJECTIVES

- approximately HK\$52.0 million, or 9.8% of the net proceeds, for funding of our working capital and general corporate purposes.

To the extent that the net proceeds of the Share Offer derived from unused capital are not immediately applied to the above purposes, we intend to deposit the proceeds in interest-bearing bank accounts.

In the event that the Offer Price is fixed at HK\$2.59 or HK\$3.04 (being the respective low end and high end of the indicative range of the Offer Price as stated in this prospectus), the net proceeds of the Share Offer to be received by the Company are approximately HK\$483 million and HK\$570 million, respectively, after deduction of all underwriting fees and expenses paid and payable by us. We currently intend to apply the aforesaid net proceeds in the same manner and in the same proportion as shown above. If the Over-allotment Option is exercised in full, the net proceeds from the Share Offer will increase by approximately HK\$83.6 million, assuming an Offer Price of HK\$2.82 per Offer Share (being the mid-point of the indicative Offer Price range). We intend to adjust the allocation of the net proceeds to the above uses, on pro rata basis.

STATEMENT OF BUSINESS OBJECTIVES

The following table sets forth the schedule of use of proceeds for implementation of the Group's business plan for the period from the Latest Practicable Date to the six months ended 31 December 2017:

HK\$ million

	From the Latest Practicable Date to 30 June 2013	From 1 July 2013 to 31 December 2013	From 1 January 2014 to 30 June 2014	From 1 July 2014 to 31 December 2014	From 1 January 2015 to 30 June 2015	From 1 July 2015 to 31 December 2015	From 1 January 2016 to 31 December 2017	Total
Expand the retail network in the jurisdictions we are currently in	3.0	10.7	5.9	7.7	13.7	9.6	90.0	140.6
Increase geographic coverage and retail stores								
Continue the promotion of Chinese Medicine Products and expand our distribution into new jurisdictions	9.2	6.1	8.2	21.9	–	10.0	40.0	95.4
Broaden our registered products and service offerings and continue to enhance the distribution of self-manufactured products								
Establish a Chinese medicine healthcare centre in Hong Kong	–	30.0	30.0	–	–	–	30.0	90.0
Upgrade expand and operate the production facilities for Angong Niu Huang Pills	3.5	4.3	3.8	4.9	3.5	5.5	10.0	35.5
Product development and registration of Angong Niu Huang Pills, GLSPC and non self-manufactured general corporate "Tong Ren Tang" products purposes in overseas market	3.0	3.0	2.0	2.0	3.0	3.0	13.0	29.0
Mergers and acquisition of domestic or overseas retail and/or wholesales businesses	–	–	–	–	22.5	22.5	31.0	76.0
Build up effective logistics and financial information system	1.5	1.5	1.5	1.5	1.7	1.8	–	9.5
Working capital and general corporate purposes	10.0	10.0	10.0	10.0	6.0	6.0	–	52.0
Total	30.2	65.6	61.4	48.0	50.4	58.4	214.0	528.0

STATEMENT OF BUSINESS OBJECTIVES

The Directors believe that the net proceeds from the Share offer will be sufficient for financing the future plan as disclosed in this prospectus. In the event that the Group cannot obtain sufficient funding for implementing the future plan, the Directors will carefully evaluate the requirements of the Group and take into consideration all other relevant factors and circumstances where upon the Company may revise the allocation of resources to the above areas as appropriate. In addition, the future plan may be scaled up or down depending on factors such as market conditions, consumer trends and financial resources available to the Group. In the event that there is any material modification to the use of proceeds from the Share Offer as stated above, the Company will issue an announcement on the Company's website at www.tongrentangcm.com and the HKEx website at www.hkexnews.hk.

UNDERWRITING

UNDERWRITER

Sole Sponsor, Sole Lead Manager, Sole Underwriter and Sole Bookrunner

Kim Eng Securities (Hong Kong) Limited

UNDERWRITING ARRANGEMENTS AND EXPENSES

Underwriting Agreement

Pursuant to the Underwriting Agreement, the Company is offering the Placing Shares at the Offer Price for placing to professional, institutional and private investor and the Reserved Shares to Qualifying TRT Technologies Shareholders on an assured basis at the Offer Price. Subject to, among other conditions, (i) the granting of the listing of and permission to deal in the Shares in issue and to be issued as mentioned in this prospectus by the Listing Division on or before 7 May 2013 (or such other date as the Sole Lead Manager may in absolute discretion determine) and such listing and permission not subsequently being revoked prior to Listing Date and (ii) certain other conditions set out in the Underwriting Agreement, the Underwriter has agreed to procure subscribers for, or failing which they shall subscribe for, the Offer Shares subject to the terms and conditions of this prospectus and the Underwriting Agreement.

Grounds for termination

The Sole Lead Manager shall have the absolute right by notice in writing to the Company (after consultation with the Company as far as practicable) to terminate the Underwriting Agreement upon occurrence of any of the following events at any time at or prior to 8:00 a.m. on the Listing Date (“Termination Time”), if any of the following events, shall occur at any time before the Termination Time:

- (a) there comes to the notice of any of the Sole Sponsor, the Sole Lead Manager or the Underwriter:
 - (i) any matter or event showing any of the representations, warranties or undertakings contained in the Underwriting Agreement to be untrue, inaccurate or misleading in any respect when given or repeated or there has been a breach of any of the warranties or undertakings or any other obligations imposed on any party to the Underwriting Agreement (other than those undertaken by the Sole Sponsor, the Sole Lead Manager and/or the Underwriter) which, in any such cases, is considered, in the sole and absolute opinion of the Sole Lead Manager, to be material in the context of the Share Offer; or

UNDERWRITING

- (ii) any statement contained in this prospectus or the Application Form relating thereto or the documents for the Share Offer was when such document was issued, or has become or been discovered to be, in the sole and absolute opinion of the Sole Lead Manager, untrue, incorrect or misleading in any material respect; or
- (iii) any event, series of events, matter or circumstance occurring or arising on or after the date of the Underwriting Agreement and before the Termination Time, being such event, matter or circumstance which, if it had occurred before the date of the Underwriting Agreement, would have rendered any of the representations, warranties or undertakings contained in the Underwriting Agreement untrue, incorrect or misleading in any material respect, and which has come to the knowledge of any of the Sole Sponsor, the Sole Lead Manager or the Underwriter or otherwise, and which is considered, in the sole and absolute opinion of the Sole Lead Manager, to be material in the context of the Share Offer; or
- (iv) any matter which, had it arisen or been discovered immediately before the date of this prospectus and not having been disclosed in this prospectus, would have constituted, in the sole and absolute opinion of the Sole Lead Manager, a material omission in the context of the Share Offer; or
- (v) any event, act or omission which gives or is likely to give rise to any material liability of the Company or any of our executive Directors or any of our Controlling Shareholders arising out of or in connection with any representations, warranties or undertakings contained in the Underwriting Agreement; or
- (vi) any breach by any party to the Underwriting Agreement (other than the Sole Sponsor, the Sole Lead Manager or the Underwriter) of any provision of the Underwriting Agreement which, in the sole and absolute opinion of the Sole Lead Manager, is material; or
- (vii) any of the representations, warranties and undertaking contained in the Underwriting Agreement is untrue or inaccurate in any respect which the Sole Lead Manager in its sole and absolute opinion consider to be material in the context of the Share Offer; or
- (viii) any of the obligations of undertakings expressed to be assumed by or imposed on any of the Company, the executive Directors, or our Controlling Shareholders under the Underwriting Agreement has not been complied with or observed by any of them in any respect considered by the Sole Lead Manager in its sole and absolute opinion to be material; or
- (ix) any information, matter or event which in the sole and absolute opinion of the Sole Lead Manager may lead to a material adverse change or prospective material adverse change in the business or in the financial or trading position or prospects of the Group taken as a whole; or

UNDERWRITING

- (b) there shall have developed, occurred, existed or come into effect any event or series of events, matter or circumstance whether occurring or continuing before, on and/or after the date of the Underwriting Agreement and including an event or change in relation to or a development of an existing state of affairs concerning or relating to any of the following:
- (i) any new law or regulation or any change in existing laws or regulations of any nature whatsoever or any change in the interpretation or application thereof by any court or other competent authority in the PRC, Hong Kong or any of the jurisdictions in which the Group operates (the “**Relevant Jurisdictions**”) or has or is deemed by any applicable law to have a presence (by whatever name called) or any other jurisdiction relevant to the business of the Group; or
 - (ii) any change (whether or not forming part of a series of changes occurring or continuing before, on and/or after the date of the Underwriting Agreement and including an event or change in relation to or a development of an existing state of affairs resulting or likely to result in any change), in the local, regional, national, or international financial, currency, political, military, industrial, fiscal, economic, stock market or regulatory or other market conditions or prospects or any monetary or trading settlement system (including but not limited to conditions in stock and bond markets, money and foreign exchange markets and inter-bank markets) in or affecting the Relevant Jurisdictions; or
 - (iii) any change in the conditions of Hong Kong, the PRC, the U.S. or international equity, securities, commodities or other financial markets (or in conditions affecting a sector only of such market) including, for the avoidance of doubt, any significant adverse change in the index level or volume of turnover of any such markets; or
 - (iv) the imposition of any moratorium, suspension or restriction on trading in securities generally on any of the markets operated by the Stock Exchange due to exceptional financial circumstances or otherwise; or
 - (v) a change or development involving a change or prospective change in all or any forms of taxation or exchange control (or the implementation of any exchange control) or foreign investment regulations or currency exchange rates in the Relevant Jurisdictions or has or is deemed by any applicable law to have a presence (by whatever name called) or other jurisdictions relevant to the business of the Group; or
 - (vi) any change or prospective change in the business or in the financial or trading position or prospects of any member of the Group; or
 - (vii) the imposition of economic sanction or withdrawal of trading privileges, in whatever form, by the United Nations, the U.S. or by the European Union (or any member thereof) on the PRC or Hong Kong; or

UNDERWRITING

- (viii) a general moratorium on commercial banking activities in the PRC or Hong Kong declared by the relevant authorities; or
- (ix) any event, or series of events, of force majeure beyond the reasonable control of any of the parties to the Underwriting Agreement, including, without limitation to the generality thereof, acts of government, military action, strikes, lock-outs, fire, explosion, flood, tsunami, earthquake, civil commotion, acts of war, acts of God, acts of terrorism (whether or not responsibility has been claimed), accident, interruption or delay in transportation, economic sanctions, public disorder, riot, epidemic or pandemic; or
- (x) any allegations or any litigation or claim brought by any third party against any member of the Group or of the Parent Group which will or is likely to result in the Group incurring material liability or otherwise that has an adverse effect on the Group as a whole; or
- (xi) a petition is presented for the winding-up or liquidation of any member of the Group or any member of the Group makes any composition or arrangement with its creditors or enters in a scheme of arrangement or any resolution is passed for the winding-up of any member of the Group or a provisional liquidator, receiver or manager is appointed over all or part of the assets or undertaking of any member of the Group or anything analogous thereto occurs in respect of any member of the Group; or
- (xii) any other change whether or not ejusdem generis with any of the foregoing, or
- (xiii) any change or development involving a prospective change, or a materialisation of, any of the risks set out under the section headed “Risk Factors” in this prospectus; or
- (xiv) any outbreak or escalation of hostilities (whether or not war is or has been declared) or act for terrorism or other state of emergency or calamity or wide-spread epidemic or political or social crisis involving directly or indirectly any of the Relevant Jurisdictions or any escalation thereof, or the declaration by any of the Relevant Jurisdictions of a national emergency or war; or
- (xv) a Director being charged or indicted or retained with an indictable offence or prohibited by operation of law or otherwise disqualified from directorship, or the commencement by our governmental authority of any investigation or other action against any Director in his or her capacity as such or an announcement by any governmental authority that it intends to take any such actions; or

UNDERWRITING

which, in each case or the occurrence of any other events, in the sole and absolute opinion of the Sole Lead Manager after consultation with the Company as far as practicable:

- (1) is or will be or is likely to be materially adverse to the business, financial or other condition or prospects of the Group (taken as a whole) or to any present or prospective shareholder of the Company in his capacity as such; or
- (2) has or will have or is likely to have a material adverse effect on the success of the Share Offer or the level of the Offer Shares being applied for or accepted or the distribution of the Offer Shares or the demand or the market price of our Shares following the Listing; or
- (3) for any reason whatsoever makes it impracticable, inadvisable or inexpedient for the Underwriter to proceed with the Share Offer or the delivery of the Offer Shares on the terms and in the manner contemplated by the documents for the Share Offer as a whole.

For the purposes of the foregoing paragraphs,

- (1) a material change in the system under which the value of the Hong Kong currency is linked to that of the currency of the U.S. or any material change of the value of Hong Kong or PRC currency (whether of an appreciative or depreciative nature) against any foreign currencies whether under such system or otherwise shall be taken as an event resulting in a change in currency conditions; and
- (2) any market fluctuations, whether or not within the normal range therefor, may be considered a change of market conditions.

Undertakings

Pursuant to the Underwriting Agreement, each of our Controlling Shareholders has jointly and severally undertaken with the Company, the Sole Sponsor, the Sole Lead Manager and the Underwriter that:

- (a) he/she/it shall not, and shall procure that the relevant registered holder(s) shall not, save as provided in Rule 13.18 of the GEM Listing Rules, sell, transfer, enter into any agreement to dispose of or otherwise dispose of (including without limitation the creation of any options, rights, interests or encumbrances in respect of, but save pursuant to a pledge or a charge in favour of an authorised institution (as defined in the Banking Ordinance (Chapter 155 of the Laws of Hong Kong)) as security for a bona fide commercial loan and after having given notice of such pledge or charge to the Company, the Sole Sponsor and the Sole Lead Manager), any of the Shares or securities of the Company owned by him/her/it or the relevant registered holder(s) (including any interest in any shares in any company controlled by him/her/it which is directly or indirectly the beneficial owner of any of the Shares or securities of the Company) (the “**Relevant Securities**”) commencing from the date of this prospectus and within six months from the Listing Date (the “**First Six-Month Period**”); and

UNDERWRITING

- (b) he/she/it shall not, and shall procure that none of the relevant registered holder(s) shall, within the further period of six months immediately after the expiry of the First Six-Month Period (the “**Second Six-Month Period**”) sell, transfer, enter into any agreement of or otherwise, dispose of (including without limitation the creation of any options, rights, interests or encumbrances in respect of, but save pursuant to a pledge or charge in favour of an authorised institution (as defined in the Banking Ordinance (Chapter 155 of the Laws of Hong Kong)) as security for a bona fide commercial loan and after having given notice of such pledge or charge to the Sole Sponsor and the Sole Lead Manager any of the Relevant Securities, if immediately following such sale, transfer or disposal or upon exercise or enforcement of such options, rights, interests or encumbrances, any of the Controlling Shareholders either individually or collectively would cease to be a Controlling Shareholder, and that in the event of any such sale, transfer or disposal, all reasonable steps shall be taken to ensure that such sale, transfer or disposal of the Relevant Securities shall be effected in such a manner so as not to create a disorderly or false market for the Shares during the progress of such sale, transfer or disposal or after the completion thereof.

Pursuant to the Underwriting Agreement, each of our Controlling Shareholders has also jointly and severally undertaken to the Company, the Sole Sponsor, the Sole Lead Manager and the Underwriter that during the First Six-Month Period and the Second Six-Month Period, he/she/it will:

- (i) when he/she/it pledges or charges any securities or direct or indirect interest in the Relevant Securities pursuant to Rule 13.18(1) of the GEM Listing Rules or pursuant to any right or waiver granted by the Stock Exchange pursuant to Rule 13.18(4) of the GEM Listing Rules, he/she/it must immediately inform the Company, the Sole Sponsor and the Sole Lead Manager in writing of such pledges and charges together with the number of the Relevant Securities and nature of interest so pledged or charged and other details as required by Rule 17.43(1) to (4) of the GEM Listing Rules; and
- (ii) if and when he/she/it becomes aware that any pledgee or chargee thereof has disposed of or intends to dispose of such interest in the Relevant Securities, immediately inform the Company in writing of such disposal or such intention of disposal and the number of the Relevant Securities affected.

The Company undertakes to the Sole Sponsor and the Sole Lead Manager to inform them as soon as it has received information in writing relating to the pledge or charge referred to above from the Controlling Shareholders or any of them and will disclose such matters by way of public announcements in accordance with the GEM Listing Rules as soon as possible.

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The Company has undertaken and covenanted with the Sole Sponsor and the Sole Lead Manager and the Sole Underwriter that, and each of our Controlling Shareholders and the executive Directors has also jointly and severally undertaken and covenanted with the Sole Sponsor, the Sole Lead Manager and the Sole Underwriter to procure the Company, that, without the prior written consent of the Sole Lead Manager (such consent not to be unreasonably withheld or delayed) and subject always to the requirements of the Stock Exchange and compliance with the GEM Listing Rules, save for the Share Offer (including the Over-allotment Option) and the Shares to be issued under the Capitalisation Issue, and any Shares which fall to be issued pursuant to the exercise of the Over-allotment Option or otherwise than by way of scrip dividend schemes or similar arrangements, any capitalisation issue, consolidation, sub-division or capital reduction of Shares, in accordance with the Articles of Association of the Company, neither the Company nor any of our subsidiaries and jointly controlled entities shall:

- (a) offer, allot or issue, or agree to offer, allot or issue any shares in the Company or any of its subsidiaries and jointly controlled entities or grant or agree to grant any options, warrants or other rights carrying any rights to subscribe for or otherwise acquire, either directly or indirectly, conditionally or unconditionally, any securities of the Company or any of its subsidiaries and jointly controlled entities or any securities convertible into or exchangeable for equity securities of the Company (whether or not of a class already listed) or enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of subscription or ownership of Shares or such securities, whether any of such transactions is to be settled by delivery of the Company's Shares or such securities, in cash or otherwise or announce any intention to do so within the First Six-Month Period; or
- (b) allot and issue or agree to allot and issue any of the Shares or other interests referred to in (a) above during the Second Six-Month Period if, immediately following such allotment and issue, the Controlling Shareholders, either individually or taken together with the others of them, would cease to be a Controlling Shareholder of the Company or the single largest shareholder of the Company; or
- (c) during the First Six-Month Period purchase any Share or securities of the Company.

Total commission, fee and expenses

In connection with the Share Offer, the Underwriter will receive an underwriting commission of 3.3% of the aggregate Offer Price of all the Offer Shares and an absolute discretion bonus which may be offered by the Company, out of which they will pay any sub-underwriting commissions and selling concessions, if any. In connection with the Share Offer, the Sole Sponsor will receive a financial advisory (sponsorship) and documentation fee. Assuming the Over-allotment Option is not exercised at all and based on an Offer Price of HK\$2.82 per Offer Share (being the midpoint of the indicative Offer Price range), the underwriting commission, financial advisory (sponsorship) and documentation fees, listing fees, the Stock Exchange trading fee, the SFC transaction levy, legal and professional fees together with printing and advertising costs, and other expenses relating to the Share Offer are

UNDERWRITING

estimated to amount to about HK\$50.3 million in total. The Company, the Controlling Shareholders and the executive Directors have jointly and severally agreed and undertaken to indemnify and hold harmless the Sole Sponsor, the Sole Lead Manager and the Underwriter and each of them, for themselves and as trustees for their respective directors, officers, employees, agents and assignees (the “indemnified parties”), for certain losses which they may suffer, including losses incurred arising from their performance of their obligations under the Underwriting Agreement, and any breach by any of the indemnified parties of the Underwriting Agreement provide that such indemnity shall not apply to any claim, action, liabilities arising out of the fraud, gross negligence or wilful default of such indemnified parties.

Sole Sponsor’s and Underwriter’s interests in the Company

None of the Sole Sponsor, the Sole Lead Manager and the Underwriter is interested legally or beneficially in the shares of any member of the Group or has any right or option (whether legally enforceable or not) to subscribe for or purchase or to nominate persons to subscribe for or purchase securities in any member of the Group nor any interest in the Share Offer or has any other business relationship with the Group.

Minimum Public Float

Our Directors and the Sole Lead Manager will ensure that there will be a minimum 25% of the total issued Shares held in public hands in accordance with Rule 11.23(9) of the GEM Listing Rules after completion of the Share Offer.

STRUCTURE OF THE SHARE OFFER

DETERMINING THE OFFER PRICE

The Offer Price is expected to be fixed by the Price Determination Agreement to be entered into between the Sole Lead Manager and the Company on or before the Price Determination Date, which is currently scheduled on Tuesday, 30 April 2013. **If the Sole Lead Manager and the Company are unable to reach an agreement on the Offer Price by 5:00 p.m. (Hong Kong time) on Tuesday, 30 April 2013 (or such other time as the Company or the Sole Lead Manager may agree), the Share Offer will not proceed and will lapse.**

Prospective investors should be aware that the Offer Price to be determined on or before the Price Determination Date may be, but is not expected to be, lower than the indicative Offer Price range as stated in this prospectus.

The Offer Price will not be more than HK\$3.04 per Offer Share and is expected to be not less than HK\$2.59 per Offer Share.

The Offer Price will fall within the Offer Price range as stated in this prospectus unless otherwise announced, as further explained below, not later than 12:00 noon of the last day for lodging applications under the Preferential Offer. The Sole Lead Manager, may, where considered appropriate, based on the level of interests expressed by prospective professional, institutional and private investors during the book-building process, and with the consent of the Company, reduce the indicative Offer Price range below that stated in this prospectus at any time no later than 12:00 noon of the last day for lodging applications under the Preferential Offer. In such a case, the Company will, as soon as practicable following the decision to make such reduction, and in any event not later than 12:00 noon of the day which is the last day for lodging applications under the Preferential Offer, cause to be published on the website of the Company at www.tongrentangcm.com and the HKEx website at www.hkexnews.hk notice of such a change. Upon issue of such a notice, the revised Offer Price range will be final and conclusive and the Offer Price, if agreed upon with the Company, will be fixed within such revised Offer Price range. Applicants should have regard to the possibility that any announcement of a reduction in the number of Offer Shares being offered under the Share Offer and/or in the indicative Offer Price range may not be made until the day which is the last day for lodging application under the Preferential Offer. Such notice will also include confirmation or revision, as appropriate, of the working capital statement, the Share Offer statistics as currently set out in the section headed “Summary” in this prospectus, and any other financial information which may change as a result of such reduction. In the absence of any notice being published on the website of the Company at www.tongrentangcm.com and the HKEx website at www.hkexnews.hk of a reduction in the indicative Offer Price range as stated in this prospectus on or before 12:00 noon of the last day for lodging applications under the Preferential Offer, the Offer Price, if agreed upon with the Company, will under no circumstances be set outside the Offer Price range as stated in this prospectus.

STRUCTURE OF THE SHARE OFFER

RESULT ANNOUNCEMENT

The Company expects to announce the final Offer Price, the level of indication of interests under the Placing and the basis of allotment of the Reserved Shares under the Preferential Offer on or before Monday, 6 May 2013 on the website of the Company at www.tongrentangcm.com and the HKEx website at www.hkexnews.hk. Results of allocation in the Preferential Offer, including the Hong Kong Identity Card/passport/Hong Kong business registration certificate numbers of successful applicants (where supplied) and the number of Offer Shares successfully applied for under **BLUE** Application Forms will be made available as described under the paragraph headed “Publication of results” under the section headed “How to apply for the Reserved Shares” in this prospectus.

PRICE PAYABLE ON APPLICATION

The Offer Price will be not more than HK\$3.04 per Offer Share and is expected to be not less than HK\$2.59 per Offer Share. Applicants under the Preferential Offer should pay, on application, the maximum Offer Price of HK\$3.04 per Share plus brokerage of 1.0%, a SFC transaction levy of 0.003% and a Stock Exchange trading fee of 0.005%. This means that for one board lot of 1,000 Offer Shares you will pay HK\$3,070.64. Each Application Form includes a table showing the exact amount payable for numbers of Offer Shares. Further details in this regard are set out in the section headed “How to apply for the Reserved Shares” of this prospectus.

If the Offer Price, as finally determined in the manner described above, is lower than the maximum price of HK\$3.04 per Offer Share, appropriate refund payments (including the related brokerage, the Stock Exchange trading fee and the SFC transaction levy attributable to the excess application monies) will be made to applicants, without interest.

CONDITIONS OF THE SHARE OFFER

Acceptance of your application for the Offer Shares is conditional upon:

1. Listing

The Listing Division of the Stock Exchange granting the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus and such listing and permission not subsequently being revoked prior to the Listing Date.

2. Underwriting Agreement

The obligations of the Underwriter under the Underwriting Agreement becoming unconditional (including, among other things, if applicable, as a result of the waiver of any conditions given by the Sole Lead Manager), and not being terminated in accordance with its terms or otherwise. Details of the Underwriting Agreement and the conditions and grounds for termination are set out in the section headed “Underwriting” in this prospectus.

STRUCTURE OF THE SHARE OFFER

OFFER MECHANISM

This prospectus is published in connection with the Share Offer, which comprises the Placing, and the Preferential Offer. Initially, 100,000,000 Placing Shares, representing 50% of the Offer Shares available under the Share Offer, are to be offered pursuant to the Placing to professional, institutional and/or private investors and 100,000,000 Reserved Shares, representing 50% of the Offer Shares available are to be offered pursuant to the Preferential Offer. The number of Offer Shares to be offered under the Preferential Offer will be reallocated to Placing in the event that the Reserved Shares available under the Preferential Offer are undersubscribed and, in the case of Placing only, subject to the Over-allotment Option as mentioned below. References herein to applications, Application Form, application monies or to the procedure for application relate solely to the Preferential Offer.

The Offer Shares will represent 25% of the Company's enlarged issued share capital immediately after completion of the Share Offer, without taking into account the exercise of the Over-allotment Option. If the Over-allotment Option is exercised in full, the offer Shares will represent approximately 27.7% of the enlarged issued share capital immediately after completion of the Share Offer and the exercise of the Over-allotment Option.

Subject to the terms of the Underwriting Agreement (including the determination of the final Offer Price by agreement between the Company and the Sole Lead Manager on or before Tuesday, 30 April 2013, being the expected Price Determination Date or such later time as may be agreed by the Company and the Sole Lead Manager), the Share Offer is fully underwritten by the Underwriter. Information relating to the underwriting arrangements in respect of the Share Offer is set out in the paragraph headed "Underwriting arrangements and expenses" in the section headed "Underwriting" in this prospectus. The Share Offer is sponsored by the Sole Sponsor and managed by the Sole Lead Manager.

PLACING

The Company is initially offering, subject to possible reallocation on the basis discussed below, 100,000,000 Placing Shares, representing 50% of the total number of Offer Shares available under the Share Offer, for subscription by way of the Placing. Under the Placing, the Underwriter, on behalf of the Company, will conditionally place the Placing Shares with professional, institutional and/or private investors anticipated to have a sizeable demand for such placing shares in Hong Kong and other jurisdictions outside the United States in reliance as Regulation S. Professional and institutional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities which regularly invest in shares and other securities.

Allocation of the Placing Shares pursuant to the Placing is based on a number of factors, including the level and timing of demand and whether or not it is expected that the relevant investor is likely to acquire further Shares and/or hold or sell its Placing Shares after the listing of the Shares on GEM. Such allocation is intended to result in a distribution of the Placing Shares on a basis which would lead to the establishment of a solid shareholder base to the benefit of the Company and its Shareholders as a whole. No allocations of the Placing Shares will be permitted to nominee

STRUCTURE OF THE SHARE OFFER

companies unless the name of the ultimate beneficiary is disclosed, without the prior written consent of the Stock Exchange.

The Placing is conditional on the fulfilment of all the conditions stated in the paragraph headed “Conditions of the Share Offer” above.

THE PREFERENTIAL OFFER

In order to enable holders of TRT Technologies Shares to participate in the Share Offer on a preferential basis as to allocation only, Qualifying TRT Technologies Shareholders are being invited to apply for an aggregate of 100,000,000 Reserved Shares (representing approximately 50% of the Offer Shares and 12.5% of the enlarged share capital of the Company upon completion of the Share Offer assuming that the Over-allotment Option is not exercised) in the Preferential Offer. The Reserved Shares will be offered to the Qualifying Shareholders on the basis of an Assured Entitlement of 170 Reserved Shares for every whole multiple of 1,000 TRT Technologies Shares held by them determined based on the shareholding of Qualifying TRT Technologies Shareholders as of 5:00 p.m. on the Record Date. There will not be any assured entitlement for the shareholders of TRT Ltd.

With a view to maintaining at least the minimum prescribed percentage of our Shares in the hands of the public in compliance with the GEM Listing Rules immediately after the Share Offer and to maximizing the opportunity of the public to participate in the Share Offer, no Reserved Shares will be offered to our connected persons or to the extent that such persons will become connected persons of the Company immediately upon completion of the Share Offer to the extent that they are Qualifying TRT Technologies Shareholders. Instead, Reserved Shares to which such Qualifying TRT Technologies Shareholders would have been entitled will be reallocated and offered to the other Qualifying TRT Technologies Shareholders under the Preferential Offer on an equitable basis. TRT Ltd., and TRT Holdings are connected persons of the Company, as such the Directors are advised that they will not apply for Reserved Shares which they would have been entitled under the Assured Entitlement.

Qualifying TRT Technologies Shareholders should note that Assured Entitlement to Reserved Shares may not represent a multiple of a full board lot of 1,000 Shares. Further, the Reserved Shares allocated to the Qualifying TRT Technologies Shareholders will be rounded down to the closest whole number if required, and that dealings in odd lots of the Shares may be at a price below the prevailing market price for full board lots.

A **BLUE** Application Form is being despatched to each Qualifying TRT Technologies Shareholder with an Assured Entitlement together with a copy of this prospectus. Qualifying TRT Technologies Shareholders are permitted to apply for a number of Reserved Shares which is greater than, less than or equal to, their Assured Entitlement under the Preferential Offer. If an application is made for a number of Reserved Shares less than his or her or its Assured Entitlement of a Qualifying TRT Technologies Shareholder, the applicant is recommended to apply for a number in one of the numbers of full board lots stated in the table of numbers and payments on the back page of the BLUE Application Form which also states the amount of remittance payable on application for each number of full board lots of Reserved Shares; if such applicant does not follow this recommendation when applying for less

STRUCTURE OF THE SHARE OFFER

than the Assured Entitlement, he/she/it must calculate the correct amount of remittance payable on application for the number of Reserved Shares applied for by using the formula set out below the table of numbers and payments on the back page of the BLUE Application Form. Any application not accompanied by the correct amount of application monies will be treated as invalid in its entirety and no Reserved Share will be allotted to such applicant. A valid application, in respect of a number of Reserved Shares less than or equal to a Qualifying TRT Technologies Shareholder's Assured Entitlement will be accepted in full, subject to the terms and conditions set forth on the **BLUE** Application Form. If an application is made for a number of Reserved Shares greater than his or her or its Assured Entitlement of a Qualifying TRT Technologies Shareholders, the applicant is recommended to apply for a number in one of the numbers of full board lots stated in the table of numbers and payments on the back page of the BLUE Application Form which also states the amount of remittance payable on application for each number of full board lots of Reserved Shares; if such applicant does not follow this recommendation when applying for greater than his or her Assured Entitlement, he/she/it must calculate the correct amount of remittance payable on application for the number of Excess Shares applied for by using the formula set out below the table of numbers and payments on the back page of the BLUE Application Form. Any application not accompanied by the correct amount of application monies will be treated as invalid in its entirety and no Reserved Share will be allotted to such applicant. Where a Qualifying TRT Technologies Shareholder applies for a number of Reserved Shares which is greater than his or her Assured Entitlement, his or her or its Assured Entitlement will be satisfied in full, subject to the terms and conditions as mentioned above, but the excess portion of such application will only be met to the extent that there are sufficient Reserved Shares resulting from other Qualifying TRT Technologies Shareholders with an Assured Entitlement declining to take up all or some of their Assured Entitlement. Any Assured Entitlement not taken up by the Qualifying TRT Technologies Shareholders will first be allocated to satisfy the excess applications for the Reserved Shares from other Qualifying TRT Technologies Shareholders on an equitable basis and to the extent that no person will become a connected person after completion of the Share Offer, and thereafter, at the discretion of the Sole Lead Manager to other investors in the Placing.

The Qualifying TRT Technologies Shareholders with the TRT Technologies Shares held by a nominee company should note that the Board will regard the nominee company as a single shareholder according to the register of members of TRT Technologies. Accordingly, the Qualifying TRT Technologies Shareholders should note that the aforesaid arrangement in relation to the allocation of the Assured Entitlement and excess Reserved Shares will not be extended to beneficial owners with the TRT Technologies Shares held by a nominee individually. The Qualifying TRT Technologies Shareholders with their TRT Technologies Shares held by a nominee company are advised to consider whether they would like to arrange registration of the relevant TRT Technologies Shares in the name of the beneficial owner(s) prior to the Record Date.

In addition to any application for Reserved Shares on a **BLUE** Application Form, Qualifying TRT Technologies Shareholders will be eligible to make one application for Placing Shares to the extent that such Qualifying TRT Technologies Shareholders will not become connected persons of the Company immediately upon completion of the Share Offer. No Placing Shares will be offered to our connected persons or to the extent such persons will become connected persons of the Company immediately upon completion of the Share Offer.

STRUCTURE OF THE SHARE OFFER

Assured Entitlement of Qualifying TRT Technologies Shareholders to Reserved Shares are not transferable and there will be no trading in nil-paid entitlements on the Stock Exchange. The Sole Lead Manager has the authority to reallocate all or any of the Reserved Shares not taken up by the Qualifying TRT Technologies Shareholders to the Placing.

The procedures for application under and the terms and conditions of the Preferential Offer are set forth in the section headed “How to Apply for the Reserved Shares” in this prospectus and on the **BLUE** Application Form.

The documents to be issued in connected with the Share Offer will not be registered under applicable securities legislation of any jurisdiction other than Hong Kong. Accordingly, no Reserved Shares are being offered to Overseas TRT Technologies Shareholders and no **BLUE** Application Form will be sent to such persons. Applications on **BLUE** Application Forms will not be accepted from Overseas TRT Technologies Shareholders or persons who are acting for the benefit of Overseas TRT Technologies Shareholders.

In case not all the 100,000,000 Reserved Shares are subscribed by the Qualifying TRT Technologies Shareholders, the undersubscribed Reserved Shares will be available as Placing Shares for subscription under the Placing.

OVER-ALLOTMENT OPTION

In connection with the Placing, the Stabilisation Manager or any person acting for it may over-allot or effect transactions with a view of supporting the market price of our Shares at a level higher than which might otherwise prevail at any time from the Listing Date and ending on the 30th day after the date of this prospectus.

The Over-allotment Option will be exercisable at any time from the date of this prospectus up to (and including) the date which is the 30th day after the date of this prospectus. Pursuant to the Over-allotment Option, the Stabilisation Manager will have the right to require the Company to allot and issue up to an aggregate of 30,000,000 additional new Shares, representing in aggregate 15% of the Offer Shares initially available under the Share Offer. These Shares will be sold or issued at the Offer Price. Whether or not the Over-allotment Option is exercised, or if exercised, in full or in part, the Company will make an announcement with the detailed information.

If the Over-allotment Option is exercised in full, the Shares comprising the Share Offer will represent approximately 27.7% of the enlarged issued share capital of the Company immediately after completion of the Share Offer and the exercise of the Over-allotment Option.

STRUCTURE OF THE SHARE OFFER

STABILIZATION

Stabilization is a practice used by underwriters in some markets to facilitate the distribution of securities. To stabilize, the underwriters may bid for, or purchase, the new securities in the secondary market during a specified period of time to retard and, if possible, prevent any decline in the market price of the securities below the offer price. In Hong Kong, activity aimed at reducing the market price is prohibited and the price at which stabilization is effected is not permitted to exceed the Offer Price.

In connection with the Placing, the Stabilisation Manager and/or its affiliates and agents, on behalf of the Underwriter, may, to the extent permitted by applicable laws of Hong Kong or elsewhere, over-allocate or effect any other transactions with a view to stabilizing or maintaining the market price of the Shares at a level higher than that which might otherwise prevail in the open market for a limited period from the Listing Date and ending on the 30th day after the date of this prospectus. Any market purchases of Shares will be effected in compliance with all applicable laws and regulatory requirements. However, there is no obligation on the Stabilisation Manager or its agent to conduct any such stabilizing activity, which if commenced, will be done at the absolute discretion of the Stabilisation Manager and may be discontinued at any time. Any such stabilizing activity is required to be brought to an end within 30 days after the date of this prospectus. The number of Shares that may be over-allocated will not exceed the number of Shares that may be sold under the Over-allotment Option, namely 30,000,000 Shares, which is 15% of the Offer Shares initially available under the Share Offer. Please refer to the sub-section headed “Over-allotment Option” above for details of the Over-allotment Option.

In Hong Kong, stabilizing activities must be carried out in accordance with the Securities and Futures (Price Stabilizing) Rules under the SFO. Stabilizing action permitted in Hong Kong pursuant to the Securities and Futures (Price Stabilizing) Rules includes: (i) over-allocation for the purpose of preventing or minimizing any reduction in the market price of the Shares; (ii) selling or agreeing to sell the Shares so as to establish a short position in them for the purpose of preventing or minimizing any reduction in the market price of the Shares; (iii) purchasing or subscribing for, or agreeing to purchase or subscribe for, the Shares pursuant to the Over-allotment Option in order to close out any position established under (i) or (ii) above; (iv) purchasing, or agreeing to purchase, any of the Shares for the sole purpose of preventing or minimizing any reduction in the market price of the Shares; (v) selling or agreeing to sell any Shares in order to liquidate any position held as a result of those purchases; and (vi) offering or attempting to do anything described in (ii), (iii), (iv) or (v).

Specifically, prospective applicants for and investors in the Placing Shares should note that:

- the Stabilisation Manager, or any person acting for it, may, in connection with the stabilizing action, maintain a long position in the Shares;
- there is no certainty regarding the extent to which and the time period for which the Stabilisation Manager, or any person acting for it, will maintain such a position;
- liquidation of any such long position by Stabilisation Manager may have an adverse impact on the market price of the Shares;

STRUCTURE OF THE SHARE OFFER

- no stabilizing action can be taken to support the price of the Shares for longer than the stabilizing period which will begin on the Listing Date following announcement of the Offer Price, and is expected to expire on the 30th day after the date of this prospectus. After this date, when no further stabilizing action may be taken, demand for the Shares, and therefore the price of the Shares, could fall;
- the price of the Shares cannot be assured to stay at or above the Offer Price either during or after the stabilizing period by the taking of any stabilizing action; and
- stabilizing bids may be made or transactions effected in the course of the stabilizing action at any price at or below the Offer Price, which means that stabilizing bids may be made or transactions effected at a price below the price paid by applicants for, or investors in, the Shares.

The Company will ensure or procure that a public announcement in compliance with the Securities and Futures (Price Stabilizing) Rules will be made within seven days of the expiration of the stabilizing period.

In connection with the Placing, the Stabilisation Manager may over-allocate up to and not more than an aggregate of 30,000,000 additional Shares and cover such over-allocations by the exercise of the Over-allotment Option, which will be exercisable by the Stabilisation Manager or its agent on behalf of the Underwriter, or by making purchases in the secondary market at prices that do not exceed the Offer Price or a combination of these means.

HOW TO APPLY FOR THE RESERVED SHARES

HOW TO APPLY FOR RESERVED SHARES

An application for Reserved Shares under the Preferential Offer may only be made by Qualifying TRT Technologies Shareholders using a **BLUE** Application Form which is being despatched to Qualifying TRT Technologies Shareholders by the Company. Using the **BLUE** Application Form, Qualifying TRT Technologies Shareholders may apply on an assured basis for a number of Reserved Shares less than or equal to their Assured Entitlement, which will be specified on their individual **BLUE** Application Form. Qualifying TRT Technologies Shareholders may also apply for a number of Reserved Shares in excess of their Assured Entitlement specified on their individual **BLUE** Application Form.

Qualifying TRT Technologies Shareholders who require a replacement **BLUE** Application Form should contact Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong or at its hotline 2862-8555.

Any Qualifying TRT Technologies Shareholder holding TRT Technologies Shares on the Record Date in CCASS indirectly through a broker or custodian and wishes to participate in the Preferential Offer, you should instruct the broker or custodian to apply for the Reserved Shares on your behalf no later than the deadline as set by HKSCC or HKSCC Nominees. In order to meet the deadline set by HKSCC, you should check with your broker or custodian for the timing on the processing of your instruction, and submit your instruction to your broker or custodian as required by them.

Any Qualifying TRT Technologies Shareholder holding shares on the Record Date in CCASS directly as a CCASS Investor Participant and wishes to participate in the Preferential Offer, you should give your instructions to HKSCC via the CCASS Phone System or CCASS Internet System no later than the deadline as set by HKSCC or HKSCC Nominees.

1. Despatch of **BLUE** Application Forms

A **BLUE** Application Form, together with this prospectus, is being despatched to you by the Company if you are a Qualifying TRT Technologies Shareholder with an Assured Entitlement.

2. Despatch of the prospectus

There are no electronic copies of this prospectus on CD-ROM. This prospectus is available, for information purpose only, during the business hours from 9:00 a.m. on Thursday, 25 April, 2013 to 12:00 noon on Tuesday, 30 April, 2013 (both days inclusive) at the office of Kim Eng at Level 30, Three Pacific Place, 1 Queen's Road East, Hong Kong.

3. How to complete the **BLUE** Application Forms

There are detailed instructions on each **BLUE** Application Form. You should read these instructions carefully. If you do not follow the instructions, your application may be rejected and returned by ordinary post together with the accompanying cheque to you at your own risk at the address stated in the **BLUE** Application Form. Further details regarding the refund procedures are stated under the paragraph headed "Collection/Despatch of Share Certificates/Refund Cheques" in this section.

HOW TO APPLY FOR THE RESERVED SHARES

All Qualifying TRT Technologies Shareholders who would like to apply for Reserved Shares must complete the **BLUE** Application Form. In the **BLUE** Application Form, Qualifying TRT Technologies Shareholders will be required to, inter alia, fill in the total number of Reserved Shares they are applying for.

If your application is made through a duly authorised attorney, the Company and the Sole Lead Manager (or their respective agents and nominees) as agents for the Company may accept it at their discretion and subject to any conditions they think fit, including production of evidence of the authority of your attorney. The Sole Lead Manager, in its capacity as agent for the Company, has full discretion to reject or accept any application, in full or in part, without assigning any reason.

In order for the **BLUE** Application Form to be valid, Qualifying TRT Technologies Shareholders should complete the **BLUE** Application Form and then submit the completed **BLUE** Application Form, with one cheque or one banker's cashier order as payment attached, to the special collection boxes provided at Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, before the latest time for lodgement of the **BLUE** Application Form, as specified in the section headed "How to Apply for the Reserved Shares – When to apply for Reserved Shares" below.

If the application is accepted, the Reserved Shares will be issued to and registered in the name of the relevant Qualifying TRT Technologies Shareholder.

You should note that by completing and submitting the **BLUE** Application Form, among other things, you:

- **instruct** and **authorise** each of the Company and/or the Sole Lead Manager (or their respective agents or nominees) to execute any transfer forms or other documents on your behalf and to do on your behalf all things necessary to register any Reserved Shares issued and allotted to you in your name(s) as required by the Articles of Association including the registration of Reserved Shares allocated to you in your name(s) on the Company's register of members and otherwise to give effect to the arrangements described in this prospectus and the **BLUE** Application Form;
- **undertake** to sign all documents to do all things necessary to enable you to be registered as the holder of the Reserved Shares allocated to you, and as required by the Articles of Association;
- **confirm** that you have only relied on the information and representation in this prospectus in making your application and will not rely on any other information and representations save as set forth in any supplement to this prospectus;
- **agree** that the Company, the Sole Lead Manager, the Sole Sponsor, the Underwriter and their respective directors and any other parties involved in the Share Offer are liable only for the information and representation contained in this prospectus and any supplement thereto;

HOW TO APPLY FOR THE RESERVED SHARES

- **agree** (without prejudice to any other rights which you may have) that once your application has been accepted, you may not rescind it because of an innocent misrepresentation or other than as provided in this prospectus;
- **agree** to disclose to the Company, the Hong Kong Share Registrar, with the exception of HKSCC Nominees, the Sole Lead Manager, the Sole Sponsor, the Underwriter and their respective advisors and agents personal data and any information which they require about you or the person(s) for whose benefit you have made the application;
- (if the application is made by an agent on your behalf) warrant that you have validly and irrevocably conferred on your agent all necessary power and authority to make the application;
- **warrant** that, in making an application, you or any person(s) on whose behalf you may be acting is/are Qualifying TRT Technologies Shareholder(s);
- **represent, warrant and undertake** that in making this application, you and/or, with the exception of HKSCC Nominees, any person(s) for whose behalf you may be acting are not connected person(s) or persons(s) who will become connected person(s) of the Company immediately upon completion of the Share Offer, the subscription for Reserved Shares by you and/or, with the exception of HKSCC Nominees, any person(s) on whose behalf you may be acting is not financed directly or indirectly by a connected person of the Company, and you and/or, with the exception of HKSCC Nominees, any person(s) on whose behalf you may be acting is not taking instructions from a connected person of the Company in making subscription for Reserved Shares;
- **represent, warrant and undertake** that you understand that the Shares have not been and will not be registered under the US Securities Act and you are outside the United States (as defined in Regulation S) when completing the Application Form or you are not a United States person (within the meaning of Regulation S);
- **agree** with the Company, for itself and for the benefit of each Shareholder (and so that the Company will be deemed by our acceptance in whole or in part of the application, to have agreed, for itself and on behalf of each Shareholder, to observe and comply with the Companies Ordinance, the Memorandum of Association and the Articles of Association;
- **agree** with the Company and each Shareholder that Shares are freely transferable by the holders thereof;

HOW TO APPLY FOR THE RESERVED SHARES

- **agree** that your application, any acceptance of it and the resulting contract will be governed by and construed in accordance with the laws of Hong Kong;
- **warrant** the truth and accuracy of the information contained in the **BLUE** Application Form; and
- **authorise** the Company to enter into a contract on your behalf with each Director and officer of the Company whereby such Directors and officers undertake to observe and comply with their obligations to Shareholders as stipulated in the Articles of Association.

4. Personal Data

The section headed “Personal Data” in the Application Form applies to any personal data held by the Company and the Hong Kong Share Registrar about you in the same way as it applies to personal data about applicants other than HKSCC Nominees.

5. When to apply for Reserved Shares

Completed **BLUE** Application Form, with one cheque or one banker’s cashier order as payment attached, must be lodged by 12:00 noon on 30 April 2013, or, if the application lists are not open on that day, by the time and date stated in the sub-paragraph headed “Effect of bad weather on the opening of application lists” below, and should be deposited in the special collection boxes provided at Computershare Hong Kong Investor Services Limited, 17M Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong at the following times:

25 April 2013	–	9:00 a.m. to 4:30 p.m.
26 April 2013	–	9:00 a.m. to 4:30 p.m.
29 April 2013	–	9:00 a.m. to 4:30 p.m.
30 April 2013	–	9:00 a.m. to 12:00 noon

The application lists will be opened from 11:45 a.m. to 12:00 noon on 30 April 2013, except as provided in the sub-paragraph headed “Effect of bad weather on the opening of the application lists” below.

The applications for the Reserved Shares will not be processed and no allocation of any such Reserved Shares will be made until the closing of the Application Lists. No allocation of any Reserved Shares will be made later than 30 April 2013, except as provided in the sub-paragraph headed “Effect of bad weather on the opening of the application lists” below.

6. Effect of bad weather on the opening of the application lists

The application lists will not be open if there is:

- a tropical cyclone warning signal number 8 or above; or
- a “black” rainstorm warning signal,

HOW TO APPLY FOR THE RESERVED SHARES

in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on 30 April 2013. Instead, the application lists will be open between 11:45 a.m. and 12:00 noon on the next Business Day which does not have either of those signals in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon.

If the application lists of the Preferential Offer do not open and close on, 30 April 2013, the dates mentioned in the section headed “Expected timetable” of this prospectus and the Application Forms and other dates mentioned in this prospectus (including, without limitation, the latest time for the exercise of termination rights under the Underwriting Agreement) may be affected. An announcement will be made in such event on the website of the Company at www.tongrentangcm.com and the HKEx website at www.hkexnews.hk.

CIRCUMSTANCES IN WHICH YOU WILL NOT BE ALLOCATED RESERVED SHARES

Full details of the circumstances in which you will not be allocated the Reserved Shares are set out in the notes attached to the Blue Application Forms, and you should read them carefully. You should note in particular the following situations in which the Reserved Shares will not be allocated to you or your application is liable to be rejected:

- **If your application is revoked or withdrawn**

By completing and submitting an Application Form, you agree that your application cannot be revoked on or before the end of the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is a Saturday, Sunday or public holiday in Hong Kong) of the Preferential Offer. This agreement will take effect as a collateral contract with the Company, and will become binding when you lodge your Application Form. This collateral contract will be in consideration of the Company agreeing that it will not offer any Reserved Shares to any person before the end of the fifth day after the time of the opening of the application lists except by means of one of the procedures referred to in this prospectus. Your application may only be revoked on or before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is a Saturday, Sunday or public holiday in Hong Kong) if a person responsible for this prospectus under section 40 of the Companies Ordinance gives a public notice under that section which excludes or limits the responsibility of that person for this prospectus before the end of the said fifth day.

If any supplement to this prospectus is issued, applicants who have already submitted an application may or may not (depending on the information contained in the supplement) be notified that they can withdraw their applications. If applicant(s) have not been so notified, or if applicant(s) have been notified but have not withdrawn their applications in accordance with the procedure to be notified, all applications that have been submitted will remain valid and may be accepted. Subject to the above and below, an application once made is irrevocable and applicants shall be deemed to have applied on the basis of this prospectus as supplemented.

HOW TO APPLY FOR THE RESERVED SHARES

If your application has been accepted, it cannot be revoked or withdrawn. Acceptance of applications which are not rejected will be constituted by notification in the announcement of the results of allocation, and where such basis of allocation is subject to certain conditions or provides for allocation by ballot, such acceptance will be subject to the satisfaction of such conditions or results of the ballot, respectively.

- **If the allotment of Reserved Shares is void**

Any allotment of Reserved Shares to you will be void if the Listing Division does not grant the approval of the listing of, and permission to deal in the Shares on the Stock Exchange either:

- within 3 weeks from the closing date of the application lists of the Preferential Offer; or
- within a longer period of up to 6 weeks if the Listing Division notifies the Company of that longer period within 3 weeks of the closing date of the application lists of the Preferential Offer.

- **Full discretion to reject or accept your application**

The Company, Sole Sponsor and the Sole Lead Manager or their respective agents or nominees, as agent of the Company have full discretion to reject or accept any application, in full or in part, without assigning any reason therefor.

- **If your application is rejected**

You will not receive any allocation if:

- you make multiple applications or suspected multiple applications;
- your payment is not made correctly;
- your Application Form is not filled in correctly in accordance with the instructions as stated in the Application Form;
- you pay by cheque or banker's cashier order and the cheque or banker's cashier order is dishonoured on its first presentation;
- the Company and/or the Sole Lead Manager or their respective agents or nominees as the agent of the Company believe that by accepting your application, it would violate the applicable securities laws or other laws, rules or regulations of the jurisdiction in which your application is received or your address is located.
- the Underwriting Agreement does not become unconditional in accordance with its terms and conditions; or
- the Underwriting Agreement is terminated in accordance with its terms and conditions.

HOW TO APPLY FOR THE RESERVED SHARES

PUBLICATION OF RESULTS

The Company expects to announce the level of applications in the Placing, the level of indications of interest in the Placing, the basis of allotment of the Reserved Shares and the number of Reserved Shares successfully applied for under **BLUE** Application Forms on or before Monday, 6 May 2013 on the Company's website at www.tongrentangcm.com and the HKEx website at www.hkexnews.hk.

Results of allocation in the Share Offer, including the Hong Kong identity card numbers, passport numbers or Hong Kong business registration certificate numbers of successful applicants (where supplied) and the number of Reserved Shares successfully applied for under **BLUE** Application Forms will be made available on the Company's website at www.tongrentangcm.com and the HKEx website at www.hkexnews.hk from 9:00 a.m., Monday, 6 May 2013 onward.

You should check the results made available by the Company and report any discrepancies to HKSCC before 5:00 p.m. on Monday, 6 May 2013 or any other date HKSCC or HKSCC Nominees chooses.

COLLECTION/DESPATCH OF SHARE CERTIFICATES/REFUND CHEQUES

If you apply using a BLUE Application Form:

Applicants (other than HKSCC Nominees) will receive one Share certificate for all the Reserved Shares allocated.

If you have applied for 1,000,000 or more Reserved Shares and have indicated on your **BLUE** Application Form that you wish to collect your Share certificate and/or refund cheque (if any) in person from the Hong Kong Share Registrar, you may collect it/them in person from Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong between 9:00 a.m. and 1:00 p.m. on the date to be notified by the Company in the announcement regarding the publication of results as at the date of despatch/collection of Share certificates/refund cheques. This is expected to be on Monday, 6 May 2013. The Company will not issue temporary documents of title. No receipt will be issued for any application monies paid. The Share certificates will only become evidence of title to the Offer Shares with effect from 8:00 a.m. on the Listing Date provided that (i) the Share Offer becomes unconditional in all respects; (ii) the Reserved Shares allocated and issued to you have been allotted and issued to you on the register of members of the Company; and (iii) the right of termination as described in the section headed "Underwriting – Grounds for termination" in the section headed "Underwriting" in this prospectus has not been exercised and has lapsed.

If you are an individual who has opted for personal collection, you must not authorise any other person to make the collection on your behalf. If you are a corporation which has opted for personal collection, you must attend by your authorised representative bearing a letter of authorisation from the corporation stamped with the corporation's chop. Both individuals and authorised representatives must produce, at the time of collection, evidence of identity and/or authorisation documents acceptable to Computershare Hong Kong Investor Services Limited.

HOW TO APPLY FOR THE RESERVED SHARES

If you have opted for collection in person but do not collect your Share certificate and/or refund cheque in person within the time specified for collection, it/they will be sent to the address on your Application Form by ordinary post at your own risk.

If you have applied for 1,000,000 or more Reserved Shares but have not indicated on your **BLUE** Application Form that you wish to collect your Share certificate(s) and/or refund cheque in person, or if you have applied for less than 1,000,000 Reserved Shares, then your share certificate(s) (if any) and/or refund cheque (if any) (without interest) will be sent to the address on your Application Form on the date of despatch of the Share certificates and/or refund cheques by ordinary post at your own risk.

REFUND OF YOUR MONIES

If you do not receive any Reserved Shares for any of, but not limited to the reason set out in this section, the Company will refund all your application monies, including brokerage, SFC transaction levy and Stock Exchange trading fee to you without interest. If your application is accepted only in part, the Company will refund the appropriate portion of your application monies, brokerage, SFC transaction levy and Stock Exchange trading fee to you, without interest. If the Offer Price, as finally determined, is less than HK\$3.04 per Offer Share that you initially paid upon application, the Company will refund the difference per Offer Share of your application monies, brokerage, SFC transaction levy and Stock Exchange trading fee to you, without interest. All such interest will be retained for the benefit of the Company.

Refund cheques will be crossed “Account Payee Only”, and made payable to you, or, if you are joint applicants, to the first-named applicant on your Application Form. Part of your Hong Kong identity card number/passport number, or, if you are joint applicants, part of the Hong Kong identity card number/passport number of the first-named applicant, provided by you on the Application Form may be printed on your refund cheque, if any. Such data would also be transferred to a third party for refund purpose. Your banker may require verification of your Hong Kong identity card number/passport number before encashment of your refund cheque. Inaccurate completion of your Hong Kong identity card number/passport number may lead to delay in encashment of or may invalidate your refund cheque. If your application has been rejected and the cheque has not been presented for clearance, the cheque will be returned to the address on your Application Form by ordinary post at your own risk.

THE SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

If the Stock Exchange grants the listing of and permission to deal in the Shares and the stock admission requirements of HKSCC are complied with, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Shares on the Stock Exchange or any other date HKSCC chooses. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second Business Day after any trading day. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time. Investors should seek the advice of their stockbroker or other professional advisor for details of the settlement arrangement as such arrangements may affect their rights and interests. All necessary arrangements have been made for the Shares to be admitted into CCASS.

Details of the Placing will be announced in accordance with Rules 10.12(4), 16.08 and 16.16 of the GEM Listing Rules.

The following is the text of a report received from the Company's reporting accountant, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this prospectus. It is prepared and addressed to the directors of the Company and to the sole sponsor pursuant to the requirements of Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the Hong Kong Institute of Certified Public Accountants.



羅兵咸永道

25 April 2013

The Directors
Beijing Tong Ren Tang Chinese Medicine Company Limited

Kim Eng Securities (Hong Kong) Limited

Dear Sirs,

We report on the financial information of Beijing Tong Ren Tang Chinese Medicine Company Limited (the "Company") and its subsidiaries (together, the "Group") which comprises the consolidated balance sheets as at 31 December 2011 and 31 December 2012, the balance sheets of the Company as at 31 December 2011 and 2012 and the consolidated income statements, the consolidated statements of comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows for each of the years ended 31 December 2011 and 2012 (the "Relevant Periods"), and a summary of significant accounting policies and other explanatory information. This financial information has been prepared by the directors of the Company and is set out in Sections I to III below for inclusion in Appendix I to the prospectus of the Company dated 25 April 2013 (the "Prospectus") in connection with the initial listing of shares of the Company on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited.

The Company was incorporated in Hong Kong on 18 March 2004 as a limited liability company under the Hong Kong Companies Ordinance. Pursuant to a group reorganisation as described in Note 2 of Section II headed "Group reorganisation and basis of presentation" below, which was completed on 20 October 2010, the Company became the holding company of the subsidiaries now comprising the Group (the "2010 Reorganisation").

As at the date of this report, the Company has direct and indirect interests in the subsidiaries, jointly controlled entities and an associated company as set out in Note 2(b) of Section II below. All of these companies are private companies.

.....
PricewaterhouseCoopers, 22/F Prince's Building, Central, Hong Kong
T: +852 2289 8888, F: +852 2810 9888, www.pwchk.com

The audited financial statements of the other companies now comprising the Group as at the date of this report for which there are statutory audit requirements have been prepared in accordance with the relevant accounting principles generally accepted in their place of incorporation. The details of the statutory auditors of these companies are set out in Note 2(b) of Section II below.

The directors of the Company have prepared the consolidated financial statements of the Company for the Relevant Periods, in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) (the “Underlying Financial Statements”). The directors of the Company are responsible for the preparation of the Underlying Financial Statements that give a true and fair view in accordance with HKFRSs. We have audited the Underlying Financial Statements in accordance with Hong Kong Standards on Auditing (“HKSA”) issued by the HKICPA pursuant to separate terms of engagement with the Company.

The financial information has been prepared based on the Underlying Financial Statements, with no adjustment made thereon.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL INFORMATION

The directors of the Company are responsible for the preparation of the financial information that gives a true and fair view in accordance with HKFRSs, and for such internal control as the directors determine is necessary to enable the preparation of financial information that is free from material misstatement, whether due to fraud or error.

REPORTING ACCOUNTANT'S RESPONSIBILITY

Our responsibility is to express an opinion on the financial information and to report our opinion to you. We carried out our procedures in accordance with Auditing Guideline 3.340 “Prospectuses and the Reporting Accountant” issued by the HKICPA.

OPINION

In our opinion, the financial information gives, for the purpose of this report, a true and fair view of the state of affairs of the Company as at 31 December 2011 and 2012 and of the state of affairs of the Group as at 31 December 2011 and 2012, and of the Group's results and cash flows for the Relevant Periods then ended.

I CONSOLIDATED FINANCIAL INFORMATION

The following is the financial information of the Group and the Company prepared by the directors of the Company as at 31 December 2011 and 2012, and for the years ended 31 December 2011 and 2012 (the "Financial Information"):

Consolidated Balance Sheets

	<i>Section II Note</i>	At 31 December	
		2011	2012
		<i>HK\$'000</i>	<i>HK\$'000</i>
ASSETS			
Non-current assets			
Leasehold land	6	49,293	18,723
Property, plant and equipment	7	163,391	115,537
Investment in an associated company	10	1,917	928
Deposits paid for purchase of property, plant and equipment		–	6,872
Deferred income tax assets	11	10,103	2,158
		<u>224,704</u>	<u>144,218</u>
Current assets			
Inventories	12	62,103	87,153
Trade receivables and other current assets	13	34,998	37,726
Short-term bank deposits	14	11,603	10,806
Cash and cash equivalents	14	151,650	237,572
Tax recoverable		937	178
		<u>261,291</u>	<u>373,435</u>
Assets of the disposal group classified as held for sale	15	–	162,985
		<u>261,291</u>	<u>536,420</u>
Total assets		<u><u>485,995</u></u>	<u><u>680,638</u></u>
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	16	201,430	201,430
Share premium	17	3,913	3,913
Reserves	17		
– Proposed dividend		–	100,000
– Others		136,380	189,540
		<u>341,723</u>	<u>494,883</u>
Non-controlling interests		<u>68,042</u>	<u>72,805</u>
Total equity		<u>409,765</u>	<u>567,688</u>
LIABILITIES			
Non-current liabilities			
Deferred income – government grant	20	20,245	–
Deferred income tax liabilities	11	4,666	3,997
		<u>24,911</u>	<u>3,997</u>
Current liabilities			
Bank borrowing	19	–	4,536
Trade and other payables	18	37,944	71,887
Current income tax liabilities		13,375	10,614
		<u>51,319</u>	<u>87,037</u>
Liabilities of the disposal group classified as held for sale	15	–	21,916
		<u>51,319</u>	<u>108,953</u>
Total liabilities		<u>76,230</u>	<u>112,950</u>
Total equity and liabilities		<u><u>485,995</u></u>	<u><u>680,638</u></u>
Net current assets		<u>209,972</u>	<u>427,467</u>
Total assets less current liabilities		<u><u>434,676</u></u>	<u><u>571,685</u></u>

Company's Balance Sheets

	Section II	At 31 December	
	Note	2011	2012
		HK\$'000	HK\$'000
ASSETS			
Non-current assets			
Leasehold land	6	19,265	18,723
Property, plant and equipment	7	98,526	95,202
Investment in subsidiaries	8	77,098	39,005
Investment in jointly controlled entities	9	25,439	25,439
Deposits paid for purchase of property, plant and equipment		–	5,228
		220,328	183,597
Current assets			
Inventories	12	17,522	38,013
Trade receivables and other current assets	13	78,217	84,158
Short-term bank deposits	14	590	592
Cash and cash equivalents	14	68,108	125,334
		164,437	248,097
Asset held for sale	15	–	98,027
		164,437	346,124
Total assets		384,765	529,721
EQUITY			
Equity attributable to the Company's equity holders			
Share capital	16	201,430	201,430
Share premium	17	3,913	3,913
Reserves	17		
– Proposed dividend		–	100,000
– Others		150,959	179,731
Total equity		356,302	485,074
LIABILITIES			
Non-current liabilities			
Deferred income tax liabilities	11	3,894	3,669
Current liabilities			
Trade and other payables	18	13,847	33,525
Current income tax liabilities		10,722	7,453
		24,569	40,978
Total liabilities		28,463	44,647
Total equity and liabilities		384,765	529,721
Net current assets		139,868	305,146
Total assets less current liabilities		360,196	488,743

Consolidated Income Statements

	Section II Note	Year ended 31 December	
		2011	2012
		HK\$'000	HK\$'000
Continuing operations			
Revenue	21	196,682	358,921
Cost of sales	22	(64,926)	(108,131)
Gross profit		131,756	250,790
Distribution and selling expenses	22	(62,342)	(85,922)
General and administrative expenses	22	(22,293)	(39,472)
Professional expenses incurred in connection with the Company's listing		(24,061)	(11,180)
Other (losses)/gains – net	25	(8,829)	4,205
Operating profit		14,231	118,421
Finance income		1,081	830
Finance costs		–	(25)
Finance income – net	26	1,081	805
Share of losses of an associated company	10	(1,575)	(992)
Profit before income tax		13,737	118,234
Income tax expense	27	(9,047)	(26,073)
Profit for the year from continuing operations		4,690	92,161
Discontinued operations			
Profit for the year from discontinued operations	15(b)	55,463	66,953
Profit for the year		<u>60,153</u>	<u>159,114</u>
Attributable to:			
Equity holders of the Company		58,738	155,935
Non-controlling interests		1,415	3,179
		<u>60,153</u>	<u>159,114</u>
Profit attributable to owners of the Company arises from:			
Continuing operations		3,275	88,982
Discontinued operations		55,463	66,953
		<u>58,738</u>	<u>155,935</u>
Earnings per share from continuing and discontinued operations attributable to owners of the Company during the year			
Basic and diluted (in HK\$)	28		
From continuing operations		0.01	0.22
From discontinued operations		0.14	0.17
From profit for the year		<u>0.15</u>	<u>0.39</u>

Consolidated Statements of Comprehensive Income

	Year ended 31 December	
	2011	2012
	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit for the year	60,153	159,114
Other comprehensive income:		
Currency translation	3,297	3,010
Total comprehensive income for the year	<u>63,450</u>	<u>162,124</u>
Attributable to:		
Equity holders of the Company	60,498	158,287
Non-controlling interests	2,952	3,837
	<u>63,450</u>	<u>162,124</u>
Total comprehensive income attributable to owners of the Company arises from:		
Continuing operations	4,397	91,300
Discontinued operations	56,101	66,987
	<u>60,498</u>	<u>158,287</u>

Consolidated Statements of Changes in Equity
The Group

	Share capital	Share premium	Merger reserve	Other reserve	Statutory reserve	Exchange reserves	Retained earnings	Total	Non- controlling interests	Total Equity
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
For the year ended										
31 December 2011										
At 1 January 2011	201,430	3,913	(13,124)	(3,366)	1,144	10,345	76,775	277,117	54,903	332,020
Profit for the year	-	-	-	-	-	-	58,738	58,738	1,415	60,153
Other comprehensive income										
Currency translation differences	-	-	-	-	-	1,760	-	1,760	1,537	3,297
Total comprehensive income	-	-	-	-	-	1,760	58,738	60,498	2,952	63,450
Transfer of retained profits to statutory reserve	-	-	-	-	208	-	(208)	-	-	-
Charge to Income Statement upon suspension of the listing (<i>Note 17(c)</i>)	-	-	-	4,108	-	-	-	4,108	-	4,108
Dividends (<i>Note 29</i>)	-	-	-	-	-	-	-	-	(2,511)	(2,511)
Total contributions by and distributions to owners	-	-	-	4,108	208	-	(208)	4,108	(2,511)	1,597
Step acquisition of a subsidiary	-	-	-	-	-	-	-	-	9,641	9,641
Capital contribution to a newly formed subsidiary	-	-	-	-	-	-	-	-	3,057	3,057
Change in ownership interests in subsidiaries	-	-	-	-	-	-	-	-	12,698	12,698
Total transactions with owners	-	-	-	4,108	208	-	(208)	4,108	10,187	14,295
At 31 December 2011	<u>201,430</u>	<u>3,913</u>	<u>(13,124)</u>	<u>742</u>	<u>1,352</u>	<u>12,105</u>	<u>135,305</u>	<u>341,723</u>	<u>68,042</u>	<u>409,765</u>

	Share capital	Share premium	Merger reserve	Other reserve	Statutory reserve	Exchange reserves	Retained earnings	Total	Non- controlling interests	Total Equity
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
For the year ended										
31 December 2012										
At 1 January 2012	201,430	3,913	(13,124)	742	1,352	12,105	135,305	341,723	68,042	409,765
Profit for the year	-	-	-	-	-	-	155,935	155,935	3,179	159,114
Other comprehensive income										
Currency translation differences	-	-	-	-	-	2,352	-	2,352	658	3,010
Total comprehensive income	-	-	-	-	-	2,352	155,935	158,287	3,837	162,124
Professional expenses incurred in connection with the Company's listing (<i>Note 17(c)</i>)	-	-	-	(4,747)	-	-	-	(4,747)	-	(4,747)
Dividends (<i>Note 29</i>)	-	-	-	-	-	-	-	-	(3,639)	(3,639)
Total contributions by and distributions to owners	-	-	-	(4,747)	-	-	-	(4,747)	(3,639)	(8,386)
Capital injection	-	-	-	-	-	-	-	-	4,185	4,185
Acquisition of additional interests in a subsidiary	-	-	-	(380)	-	-	-	(380)	380	-
Change in ownership interests in subsidiaries	-	-	-	(380)	-	-	-	(380)	4,565	4,185
Total transactions with owners	-	-	-	(5,127)	-	-	-	(5,127)	926	(4,201)
At 31 December 2012	<u>201,430</u>	<u>3,913</u>	<u>(13,124)</u>	<u>(4,385)</u>	<u>1,352</u>	<u>14,457</u>	<u>291,240</u>	<u>494,883</u>	<u>72,805</u>	<u>567,688</u>

Consolidated Statements of Cash Flows

	<i>Section II Note</i>	Year ended 31 December	
		2011	2012
		<i>HK\$'000</i>	<i>HK\$'000</i>
Cash flows from operating activities			
Net cash generated from operations	30	90,021	222,289
Income tax paid		(20,749)	(34,551)
Net cash generated from operating activities		69,272	187,738
Cash flows from investing activities			
Acquisition of a subsidiary	30	6,821	–
Interest received		1,253	1,048
(Increase)/decrease in short-term bank deposits with original maturity exceeding three months	14	(1,989)	797
Increase in deferred income – government grant		19,810	–
Purchase of property, plant and equipment		(62,120)	(67,409)
Sales proceeds from disposal of property, plant and machinery		–	89
Deposit paid for property, plant and machinery		–	(6,872)
Net cash used in investing activities		(36,225)	(72,347)
Cash flows from financing activities			
Capital injection by non-controlling interests		3,057	4,185
Professional expenses paid in connection with the Company's listing		(14,812)	(15,099)
Proceeds from bank borrowing		–	4,536
Interest expenses paid		–	(25)
Dividends paid	29	(2,511)	(3,639)
Net cash used in financing activities		(14,266)	(10,042)
Net increase in cash and cash equivalents		18,781	105,349
Cash and cash equivalents at beginning of year		132,761	151,650
Exchange gains on cash and cash equivalents		108	1,801
Cash and cash equivalents at end of year		151,650	258,800
Analysis of balances of cash and cash equivalents			
Cash at bank and on hand and deposits with banks with maturity within three months (<i>Note 14</i>)		151,650	237,572
Cash and cash equivalents classified as held for sale (<i>Note 15</i>)		–	21,228
		151,650	258,800

II NOTES TO THE FINANCIAL INFORMATION

1 GENERAL INFORMATION

The Company was incorporated on 18 March 2004 as a limited liability company under the Hong Kong Companies Ordinance. The address of its registered office is 3 Dai King Street, Tai Po Industrial Estate, Tai Po, New Territories, Hong Kong.

Tong Ren Tang Technologies Co., Ltd. and Beijing Tong Ren Tang Co., Ltd. directly own 53.1% and 46.9% shareholding respectively in the Company. Beijing Tong Ren Tang Co., Ltd. is also the controlling shareholder of Tong Ren Tang Technologies Co., Ltd.. Beijing Tong Ren Tang Co., Ltd. effectively owns 75% equity interest in the Company.

The Board of Directors of the Company regards Tong Ren Tang Technologies Co., Ltd. as the immediate holding company (the "Immediate Holding Company"), Beijing Tong Ren Tang Co., Ltd. as the intermediate holding company (the "Intermediate Holding Company") and China Beijing Tong Ren Tang as the ultimate holding company (the "Ultimate Holding Company"), all of which are incorporated in the People's Republic of China (the "PRC").

The Financial Information is presented in Hong Kong dollars, unless otherwise stated.

2 PRINCIPAL ACTIVITIES AND PRESENTATION OF FINANCIAL INFORMATION

(a) Principal activities of the Group and major changes

Prior to the track record period, a reorganisation ("Reorganisation") was carried out and completed in 2010 to transfer into the Company the ownerships of various overseas entities originally held by the ultimate holding company. As a result of the Reorganisation in 2010, the business of the Group during the track record period mainly included (a) Retail operations of Chinese medicine products in Hong Kong and various overseas markets; (b) manufacturing operation in Hong Kong on two main products: Angong Niu Huang Pills and ganoderma lucidum spores powder capsules ("GLSPC") as well as some ancillary health care products for distribution in PRC, Hong Kong and overseas markets and (c) agency services for Tong Ren Tang Technologies Co., Ltd. and Beijing Tong Ren Tang Co., Ltd. The principal activities of the Company's subsidiaries, jointly controlled entities and as associated company are set out in Note 2(b) below.

The Company refined its business strategy and listing plan from late 2011 to 2012. The various changes in business and their relevant impact to the Financial Information are summarised below:

- (i) In December 2011, in order to focus on its manufacturing operation of Angong Niu Huang Pills and GLSPC, the Group decided to cease production of other healthcare products and in February 2012 the Group decided to dispose of Beijing Tong Ren Tang (Tang Shan) Nutrition and Healthcare Co., Ltd. ("TRT (Tang Shan)") to a fellow subsidiary. The primary activity of TRT (Tang Shan) was construction of a factory to manufacture products other than Angong Niu Huang Pills and GLSPC. The assets and liabilities related to TRT (Tang Shan) are classified as held for sale at 31 December 2012. Further information is set out in Note 15(a) and Note 25 to the Financial Information. Up to the date of this report, the disposal is yet to be completed subject to the issuance of the new business registration of TRT (Tang Shan).
- (ii) In October 2012, the Group decided to cease its distribution business in the PRC which mainly consisted of sales of GLSPC. The PRC distribution business is presented as a discontinued operation in the income statements. Further information is set out in Note 15(b) to the Financial Information.
- (iii) In December 2012, the agency agreement between Tong Ren Tang Technologies Co., Ltd. and Beijing Tong Ren Tang Co., Ltd expired. Effective from 1 November 2012, a subsidiary of the Group, namely Beijing Tong Ren Tang International Natural-Pharm Co., Ltd. became the sole distributor for Tong Ren Tang Technologies Co., Ltd. and Beijing Tong Ren Tang Co., Ltd. for Tong Ren Tang branded products in Non-PRC markets. Agency services income for the year ended 31 December 2011 and 2012 amounted to HK\$24,491,000 and HK\$20,645,000, respectively.

(b) **The following is a list of the Group's significant subsidiaries, jointly controlled entities and an associated company**

The Company has direct or indirect equity interests in following subsidiaries, jointly controlled entities and an associated company:

			Attributable equity interest to the Company			
Company name	Country and date of incorporation	Issued and paid-in capital	At 31 December 2011	2012	Principle activities and place of operation	Name of the auditor for the years ended 31 December 2011 and 2012
Subsidiaries						
Directly held by the Company						
Beijing Tong Ren Tang International Natural-Pharm Co., Ltd.	PRC 6 March 2006	HK\$10,000,000	100%	100%	Sale and distribution of Chinese medicine and healthcare products Beijing, PRC	⁽⁸⁾
Beijing Tong Ren Tang (Australia) Pty. Ltd.	Australia 20 May 2004	AUD1,000,000	75%	75%	Wholesale and retail of Chinese medicine, healthcare products and provision of Chinese Medical Consultation and treatment Brisbane and Sydney, Australia	Richard F Notley Company
Beijing Tong Ren Tang Science Arts (Singapore) Co Pte. Ltd.	Singapore 1 December 2003	SGD857,000	51%	51%	Wholesale and retail of Chinese medicine, healthcare products and provision of Chinese Medical Consultation and treatment Singapore	Wu Chiew Ching & Company
Beijing Tong Ren Tang (B) Sdn Bhd	Brunei 20 May 2009	BND100	51%	51%	Retail of Chinese medicine and healthcare products Bandar Seri Begawan, Brunei	Deloitte Touche Tohmatsu Limited
Beijing Tong Ren Tang (Toronto) Inc.	Canada 24 June 2010	CAD100	51%	51%	Retail of Chinese medicine, healthcare products and provision of Chinese Medical Consultation and treatment Toronto, Canada	Hennick Herman, LLP Chartered Accountants ⁽³⁾
Beijing Tong Ren Tang (Tang Shan) Nutrition and Healthcare Co., Ltd. ⁽⁶⁾	PRC 13 September 2010	RMB120,000,000	50%	68%	Production and sale of healthcare products and Chinese medicine Beijing, PRC	⁽⁸⁾
Beijing Tong Ren Tang Gulf FZLLC	United Arab Emirates 8 June 2011	AED2,920,000	51%	51%	Retail of Chinese medicine, healthcare products and provision of Chinese Medical Consultation and treatment Dubai, United Arab Emirates	⁽²⁾
Beijing Tong Ren Tang (Macau) Company Limited ⁽⁷⁾	Macao, PRC 6 November 2002	MOP1,000,000	51%	51%	Wholesale and retail of Chinese medicine, healthcare products and provision of Chinese Medical Consultation and treatment Macao, PRC	Keng Ou Certificated Public Accountants
Beijing Tong Ren Tang Poland sp.zo.o.	Poland 26 July 2012	Zloty 50,000	N/A	100%	Retail of healthcare products and provision of Chinese Medical Consultation and treatment and setting up educational centre of Chinese regimen Poland	⁽⁴⁾
Indirectly held by the Company						
Beijing Tong Ren Tang Consulting Services Co., Ltd. ⁽⁸⁾ (北京同仁堂諮詢服務有限公司)	PRC 30 March 2010	RMB600,000	100%	100%	Provision of administrative services to group companies Beijing, PRC	⁽⁸⁾

			Attributable equity interest to the Company			Name of the auditor for the years ended 31 December 2011 and 2012
Company name	Country and date of incorporation	Issued and paid-in capital	At 31 December 2011	2012	Principle activities and place of operation	
Jointly controlled entities						
Directly held by the Company						
Peking Tongrentang (M) SDN. BHD ⁽¹⁾	Malaysia 19 January 2001	MYR1,900,000	60%	60%	Retail of Chinese medicine, healthcare products and provision of Chinese Medical Consultation and treatment Kuala Lumpur, Malaysia	BDO International Limited
Beijing Tong Ren Tang Canada Co., Ltd. ⁽¹⁾	Canada 11 January 2002	CAD100	51%	51%	Retail of Chinese medicine, healthcare products and provision of Chinese Medical Consultation and treatment Vancouver, Canada	Au Yeung & Company LLP Chartered Accountants ⁽³⁾
PT. Beijing Tong Ren Tang Indo ⁽³⁾	Indonesia 27 June 2003	US\$1,000,000	50%	50%	Investment holding Jakarta, Indonesia	⁽²⁾
Beijing Tong Ren Tang (Thailand) Co., Ltd. ⁽¹⁾	Thailand 23 March 2000	THB38,000,000	49%	49%	Wholesale and retail of Chinese medicine, healthcare products and provision of Chinese Medical Consultation and treatment Bangkok, Thailand	CS Accounting Firm
Beijing Tong Ren Tang (Boryung) Co., Ltd. ⁽¹⁾	South Korea 5 December 2002	WON1,829,835,000	51%	51%	Wholesale of Chinese medicine and healthcare products Seoul, Korea	⁽²⁾
Beijing Tong Ren Tang (Thai Boon Roong) Company Limited ⁽¹⁾	Cambodia 8 December 2005	US\$500,000	51%	51%	Retail of Chinese medicine and healthcare products Phnom Penh, Cambodia	⁽²⁾
Indirectly held by the Company						
PT. Klinik Beijing Tongrentang ⁽⁵⁾	Indonesia 22 December 2006	Rp 2,600,000,000	N/A	N/A	Retail of Chinese medicine and healthcare products Jakarta, Indonesia	⁽²⁾
Associated company						
Indirectly held by the Company						
Beijing Tong Ren Tang Health Preserving and Culture Co., Ltd.	PRC 24 May 2010	RMB8,000,000	41%	41%	Provision of Chinese Medical Consultation and treatment Beijing, PRC	⁽⁸⁾

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

⁽²⁾ No statutory financial statements have been issued since the date of incorporation as statutory financial statements are not mandatory in their respective jurisdictions.

⁽³⁾ There is no statutory audit requirement applicable to Canada. The audited financial statements for year ended 31 December 2011 and 2012 were issued for non statutory purpose.

⁽⁴⁾ No statutory financial statements have been issued in 2011 as that company was newly incorporated in 2012 and currently is in pre-operating stage.

- (5) On August 2010, TRT (Indonesia) and each of the then shareholders of PT. KLINIK BEIJING TONGRENTANG entered into a conditional sales and purchase agreement (collectively, the "S&P Agreements") to transfer their respective equity interests in PT. KLINIK BEIJING TONGRENTANG to TRT (Indonesia). Upon the signing of such S&P Agreements, TRT (Indonesia) is entitled to bear all benefits and losses arising from the shares of PT. KLINIK BEIJING TONGRENTANG and exercise all rights and assume all obligations as the owner of shares of PT. KLINIK BEIJING TONGRENTANG. TRT (Indonesia) has effective control over this entity. Thus, PT. KLINIK BEIJING TONGRENTANG is deemed as a subsidiary of TRT (Indonesia) pursuant to Hong Kong Accounting Standard 27 (Revised).
- (6) The Company holds 50% of the equity interest in Beijing Tong Ren Tang (Tang Shan) Nutrition and Healthcare Co., Ltd. ("TRT (Tang Shan)"). Pursuant to the shareholder agreement, the board of directors of TRT (Tang Shan) consists of five directors and the Company is entitled to appoint three directors of TRT (Tang Shan). Ordinary resolutions are voted by simple majority. Accordingly, the Company controls the board of directors of TRT (Tang Shan) and controls the operating, investing and financing activities of TRT (Tang Shan).
- (7) The Company holds 51% of the equity interest in Beijing Tong Ren Tang (Macau) Company Limited ("TRT (Macau)"), a then jointly controlled entity. On 29 November 2011, the articles of association of TRT (Macau) was amended such that ordinary resolutions relating to operating, investing and financing activities of TRT (Macau) can be passed by simple majority instead of 66% of total shareholding. Accordingly, the Company controls the board of shareholders of TRT (Macau) and controls the operating, investing and financing activities of TRT (Macau). TRT (Macau) has become a subsidiary of the Company since 29 November 2011.
- (8) The companies were audited by Beijing Zhongjiayu Certified Public Accountants Co. Ltd. for the year ended 31 December 2011 and were audited by PricewaterhouseCoopers Zhong Tian CPAs Limited Company for the year ended 31 December 2012.

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

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies applied in the preparation of the Financial Information are set out below. These policies have been consistently applied throughout the Relevant Periods unless otherwise stated.

(a) Basis of preparation

The Financial Information has been prepared in accordance with HKFRS issued by the HKICPA and under the historical cost convention. The Financial Information is presented in thousands of units of Hong Kong dollar (HK\$'000), unless otherwise stated.

The preparation of Financial Information in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Financial Information are disclosed in Note 5.

The following are 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 2013 or later periods, but have not been early adopted by the Group.

Effective for the accounting periods beginning on or after 1 January 2013

HKFRS 1 (Amendment)	Government Loans
HKFRS 7 (Amendment)	Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities
HKFRS 10	Consolidated Financial Statements
HKFRS 11	Joint Arrangements
HKFRS 12	Disclosure of Interests in Other Entities
HKFRS 13	Fair Value Measurements
Amendments to HKFRS 10, HKFRS 11 and HKFRS12	Consolidated Financial Statement, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance
HKAS 19 (Revised 2011)	Employee Benefits
HKAS 27 (Revised 2011)	Separate Financial Statements
HKAS 28 (Revised 2011)	Investments in Associates and Joint Ventures
Annual Improvements Project	Annual Improvements 2009-2011 cycle

Effective for the accounting periods beginning on or after 1 January 2014

HKAS 32 (Amendment)	Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities

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

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

The Group has started to assess the impact of the above new standards, amendment and interpretations and believes that it will be impacted by HKFRS 11 and HKAS 28 (revised 2011). Upon the adoption of the amendments in HKAS 28 (revised 2011), the accounting of the Group's investment in jointly controlled entities will change from proportionate consolidation to equity method of accounting. If the equity method of accounting was used to account for the Group's investment in jointly controlled entities, for the year ended 31 December 2011 and 2012, net profit for the relevant periods and net assets as at the relevant period end dates will remain unchanged. Its revenue and other income would be reduced by HK\$36,968,000 and HK\$28,809,000, respectively, its expenses (including cost of sales and tax expenses) would be reduced by HK\$33,223,000 and HK\$24,701,000, respectively, while its share of profit from jointly controlled entities would be increased by HK\$3,745,000 and HK\$4,108,000, respectively.

(b) Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. The Group also assesses existence of control where it does not have more than 50% of the voting power but is able to govern the financial and operating policies by virtue of de-facto control. De-facto control may arise from circumstances such as enhanced minority rights or contractual terms between shareholders, etc.

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

Inter-company transactions, balances, income and expenses on transactions between group companies are eliminated. Profits and losses resulting from inter-company transactions that are recognised in assets are also eliminated. Accounting policies of subsidiaries have been changed when necessary to ensure consistency with the policies adopted by the Group.

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

Goodwill is initially measured as the excess of the aggregate of the consideration transferred and the fair value of non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in the income statement.

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions – that is, as transactions with the owners 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.

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

In the Company's balance sheet, investments in subsidiaries are accounted for at cost less impairment. Cost also includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

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

(c) Jointly controlled entities

Jointly controlled entities are those companies held for the long-term, over which the Group is in a position to exercise joint control with other venturers in accordance with contractual arrangements, and where none of the participating parties has unilateral control over the economic activity of the joint venture.

The Group's interests in jointly controlled entities are accounted for by proportionate consolidation. The Group combines its share of the joint ventures' individual income and expenses, assets and liabilities and cash flows on a line-by-line basis with similar items in the Group's financial information. The Group recognises the portion of gains or losses on the sale of assets by the Group to the joint venture that is attributable to the other venturers. The Company recognises its share of profits or losses from the joint venture that result from the sale

of assets by the Company to the joint venture until it re-sells the assets to an independent party. However, a loss on the transaction is recognised immediately if the loss provides evidence of a reduction in the net realisable value of current assets, or an impairment loss.

The Group recognises the disposal of an interest in a jointly controlled entity when it ceases to have joint control and the risks and rewards of ownership have passed to the acquirer.

Unrealised gains on transactions between the Group and its jointly controlled entity are eliminated to the extent of the Group's interest in these companies. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of jointly controlled entity have been changed where necessary to ensure consistency with the policies adopted by the Group.

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

In the Company's balance sheet, impairment testing of the investments in jointly controlled entities is required upon receiving dividends from these investments if the dividend exceeds the total comprehensive income of the jointly controlled entity 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.

(d) Associates

Associates are all entities 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 investors's share of the profit and loss of the investee after the date of acquisition. The Group's investment in associates includes goodwill identified on acquisition.

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

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

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

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

Dilution gains and losses arising in investments in associates are recognised in the income statement.

(e) Property, plant and equipment

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

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

Freehold land is not depreciated. Leasehold land classified as finance lease commences amortisation from the time when the land interest becomes available for its intended use. Amortisation on leasehold land classified as finance lease and depreciation on other assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

Leasehold land held under finance lease	Over the lease period
Buildings	33 to 50 years
Leasehold improvement	Over the lease term
Plant and machinery	3 to 12 years
Motor vehicles	5 to 8 years
Office equipment	2.5 to 12 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within "other gains/(losses) – net" in the income statement.

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

(f) Impairment of non-financial assets

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

(g) 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.

(h) Trade receivables and other current assets

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

Trade receivables and other current assets are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables and other current assets is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the assets is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement within administrative expenses. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited to the income statement.

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

Assets and liabilities of the disposal groups are classified as held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. The non-current assets, except for certain assets as explained below, or disposal groups, are stated at the lower of carrying amount and fair value less costs to sell. Deferred tax assets, assets arising from employee benefits, financial assets other than investments in subsidiaries and associates and investment properties, even if held for sale, would continue to be measured in accordance with the policies set out elsewhere in Note 3.

(j) Discontinued operations

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

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

(k) Cash and cash equivalents

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

(l) 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.

(m) Trade and other payables

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

(n) Provisions

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

If the Group has a contract that is onerous, the present obligation under the contract should be recognised and measured as a provision. An onerous contract is one in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it.

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.

(o) Share capital

Ordinary shares are classified as equity.

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

(p) Revenue recognition

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

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

(i) Sales of goods

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

For 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.

The Group also sells products to individual customers through its retail outlets. Sales of goods are recognised when the retail outlet sells a product to the customer. Retail sales are usually settled in cash or by credit card.

(ii) Service income

The Group provides Chinese Medical Consultation service in retail outlets. Chinese Medical Consultation income is recognised when the service is provided to the customer and it is settled in cash or by credit card.

(iii) Agency fee income

The Company acts as a sales agents of the Immediate Holding Company and the Intermediate Holding Company for "Tong Ren Tang" branded products outside the PRC and finds overseas customers for them. Agency fee income is based on specified rates on the total overseas sales of "Tong Ren Tang" branded products by the Immediate Holding Company and the Intermediate Holding Company to the customers. Agency fee income is recognised when the Immediate Holding Company and the Intermediate Holding Company have received the settlements from these overseas customers.

(iv) Royalty fee income

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

(v) Interest income

Interest income is recognised using the effective interest method.

(q) 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.

(r) Foreign currency translation**(i) Functional and presentation currency**

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

(ii) Transactions and balances

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

(iii) Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary 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 dates of the transactions); and
- all resulting exchange differences are recognised in other comprehensive income.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings and other currency instruments designated as hedges of such investments, are taken to other comprehensive income. When a foreign operation is partially disposed of or sold, exchange differences that were recorded in equity are recognised in the income statement as part of the gain or loss on sale.

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. Exchange differences arising from such translation are recognised in other comprehensive income.

(s) **Employee benefits**

(i) ***Pension obligations***

Group companies operate various pension schemes. The schemes are generally funded through payments to insurance companies or trustee-administered funds.

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

The Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due.

(ii) ***Bonus plans***

The expected cost of bonus payments wholly due within 12 months after the balance sheet date are recognised as a liability where the Group has a present legal or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made.

(t) **Operating leases**

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

(u) **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.

The current income tax charge is calculated on the basis of the tax laws enacted or substantially enacted at the balance sheet date in the countries where the Company's subsidiaries, jointly controlled entities and associated company 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.

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 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 substantially 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.

Deferred income tax is provided on temporary differences arising from investments in subsidiaries, jointly controlled entities and associates, except for deferred income tax liability where the timing of 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.

(v) Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's and the Company's financial information in the period in which the dividends are approved by the Company's shareholders.

(w) Government grants

Grants from the government are recognised at their fair value when 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 assets 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 useful lives of the related assets.

(x) 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 executive board of directors of the Company that makes strategic decisions.

4 FINANCIAL RISK MANAGEMENT

(a) Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk and cash flow interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. Risk management is carried out by management of each individual entity within the Group.

(i) Foreign exchange risk

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

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

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 tax for the years ended 31 December 2011 and 2012 would increase/decrease as follows:

	Year ended 31 December			
	2011		2012	
	Increase/(decrease) on profit attributable to the Shareholders of the Company if exchange rates change by		Increase/(decrease) on profit attributable to the Shareholders of the Company if exchange rates change by	
	+5%	-5%	+5%	-5%
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
The Group				
Hong Kong dollar	(2,901)	2,901	(1,170)	1,170
Renminbi	–	–	1	(1)
United States dollar	247	(247)	298	(298)
	<u>(2,654)</u>	<u>2,654</u>	<u>(871)</u>	<u>871</u>

(ii) Interest rate risk

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

At 31 December 2011 and 2012, if the interest rates on bank deposits had been 50 basis-points higher/lower with all other variables held constant, profit before income tax for the years would have been HK\$811,000 and HK\$1,242,000 higher/lower, respectively, mainly as a result of higher/lower interest income on bank deposits.

(iii) Credit risk

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

All the bank deposits are placed with banks with good credit ratings to mitigate the risk. For trade receivables and other current assets (including trade receivables from group companies), the Group assesses the credit quality of the counter parties by taking into account their financial position, credit history and other factors. Management also regularly reviews the recoverability of these receivables and follows up on the disputes or amounts overdue, if any. The directors are of the opinion that the risk of default by counterparties is low.

The Group does not hold any collateral as security.

At the end of each balance sheet date, our concentration of trade receivables is as follows:

	At 31 December	
	2011 HK\$'000	2012 HK\$'000
Ultimate Holding Company and entities controlled by the Ultimate Holding Company	2,454	188
Customer A.	5,198	6,660
Customer B.	3,352	580
As a % of the Group's trade receivable.	60%	33%
	Year ended 31 December	
	2011 HK\$'000	2012 HK\$'000
Ultimate Holding Company and entities controlled by the Ultimate Holding Company (excluding the Group's associated company)	102,039	127,142
Customer A.	18,413	49,256
Customer B.	11,323	40,900
As a % of the Group's revenue (including discontinued operations)	47%	46%

Customer B represents TRT Hong Kong Medicine which is 25% held by the Parent Company. The Parent Company did not participate in the management of TRT Hong Kong Medicine nor had any board representation in TRT Hong Kong Medicine. Therefore, the Parent Company does not have significant influence over TRT Hong Kong Medicine.

(iv) **Liquidity risk**

The Group's policy is to maintain sufficient cash and cash equivalents to meet its working capital requirements. The accrued expenses and other payables are repayable within 12 months.

The following tables show the remaining contractual maturities at the end of the reporting period of the Group's financial liabilities based on undiscounted cash flows and the earliest date the Group can be required to pay. Specifically, for the bank loans which contain a repayment on demand clause which can be exercised at the banks' sole discretion, the analysis shows the cash outflow based on the earliest

period in which the Group can be required to pay, that is if the lenders were to invoke their unconditional rights to call the loans with immediate effect. Balances due within 12 months equal their carrying balances (including both interest and principal) as the impact of discounting is not significant.

	On demand <i>HK\$'000</i>	Less than 1 year <i>HK\$'000</i>	Total undiscounted cash outflow <i>HK\$'000</i>
The Group			
At 31 December 2012			
Bank borrowing	4,536	–	4,536
Trade and other payables	–	71,887	71,887
At 31 December 2011			
Bank borrowing	–	–	–
Trade and other payables	–	37,944	37,944
Company			
At 31 December 2012			
Trade and other payables	–	33,525	33,525
At 31 December 2011			
Trade and other payables	–	13,847	13,847

The maturity analysis of bank borrowings with a repayment on demand clause based on agreed scheduled repayment set out in the loan agreement has been disclosed in Note 19(a).

(b) Capital risk management

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

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

(c) Fair value estimation

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

The carrying amounts of the Group's financial liabilities, including bank borrowing and trade and other payables are measured at amortised cost. The fixed-rate borrowing approximates its fair value due to its short maturities of less than one year.

5 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

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

(i) **Inventories**

- ***Net realisable value***

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

- ***Impairment assessment***

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

(ii) **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 transactions and calculations for which the ultimate tax determination is uncertain. The Group recognises liabilities for anticipated tax 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.

(iii) **Property, plant and equipment**

- ***Useful lives***

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

Management considers that the determination of useful lives of certain plant and machinery held in Hong Kong involves critical estimate and judgement. If the useful lives of these plant and machinery were shortened by 2 years, the profit before tax for the years ended 31 December 2011 and 2012 would be decreased by HK\$474,000 and HK\$1,040,000 respectively.

- ***Impairment assessment***

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

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

(iv) **Impairment of trade receivables and other current assets**

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

6 LEASEHOLD LAND

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

The Group

	At 31 December	
	2011	2012
	<i>HK\$'000</i>	<i>HK\$'000</i>
Land held in Hong Kong under lease of between 10 to 50 years	19,265	18,723
Land held in the PRC under lease of between 10 to 50 years	30,028	—
	<u>49,293</u>	<u>18,723</u>
At the beginning of the year	19,807	49,293
Additions	29,915	—
Amortisation	(1,091)	(1,152)
Exchange differences	662	230
Transfer to assets held for sale	—	(29,648)
At the end of the year	<u>49,293</u>	<u>18,723</u>

The Company

	At 31 December	
	2011	2012
	<i>HK\$'000</i>	<i>HK\$'000</i>
Land held in Hong Kong under lease of between 10 to 50 years	<u>19,265</u>	<u>18,723</u>
At the beginning of the year	19,807	19,265
Amortisation	(542)	(542)
At the end of the year	<u>19,265</u>	<u>18,723</u>

7 PROPERTY, PLANT AND EQUIPMENT

The Group

	Freehold land and leasehold land held under finance lease	Buildings	Leasehold improvement	Plant and machinery	Furniture and equipment	Motor vehicles	Construction in progress	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cost								
At January 2011	3,991	80,282	13,496	41,906	10,597	1,290	1,340	152,902
Additions	–	8	8,716	2,790	2,156	609	50,600	64,879
Disposals	–	–	(1,708)	–	(562)	(132)	–	(2,402)
Exchange differences	(37)	(40)	(143)	–	(135)	4	1,197	846
At 31 December 2011	3,954	80,250	20,361	44,696	12,056	1,771	53,137	216,225
Additions	6,604	1,202	6,387	143	2,016	352	50,994	67,698
Disposals	–	–	(2,101)	–	(1,585)	–	(274)	(3,960)
Exchange differences	77	44	296	–	323	33	1,003	1,776
Transfer to assets held for sale ...	–	–	–	–	(407)	(356)	(104,860)	(105,623)
At 31 December 2012	10,635	81,496	24,943	44,839	12,403	1,800	–	176,116
Accumulated depreciation and impairment								
At 1 January 2011	428	8,988	7,134	15,497	6,254	845	–	39,146
Charge for the year	72	1,823	2,990	3,793	1,203	242	–	10,123
Provision for impairment	–	–	–	5,551	–	–	–	5,551
Disposals	–	–	(1,389)	–	(395)	(29)	–	(1,813)
Exchange differences	–	(13)	(82)	–	(59)	(19)	–	(173)
At 31 December 2011	500	10,798	8,653	24,841	7,003	1,039	–	52,834
Charge for the year	71	1,828	3,921	2,952	1,678	294	–	10,744
Disposals	–	–	(2,096)	–	(1,312)	–	–	(3,408)
Exchange differences	–	10	218	–	227	19	–	474
Transfer to assets held for sale ...	–	–	–	–	(45)	(20)	–	(65)
At 31 December 2012	571	12,636	10,696	27,793	7,551	1,332	–	60,579
Net book amount								
At 31 December 2011	3,454	69,452	11,708	19,855	5,053	732	53,137	163,391
At 31 December 2012	10,064	68,860	14,247	17,046	4,852	468	–	115,537

Construction in progress as at 31 December 2011 solely comprises the new factory being constructed in the PRC. It is not subject to depreciation charge until the completion of the construction and when it is available for use.

As the Company has decided to dispose of TRT (Tang Shan), the construction in progress of TRT (Tang Shan) are classified as assets held for sale at 31 December 2012.

Freehold land and buildings with carrying amount of HK\$6,644,000 and HK\$1,210,000 respectively (2011: Nil) are pledged as security for the Group's bank borrowing (Note 19).

The Company

	Leasehold land held under finance lease	Buildings	Leasehold improvement	Plant and machinery	Furniture and equipment	Motor vehicles	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cost							
At 1 January 2011	2,850	79,132	5,382	41,906	1,986	235	131,491
Additions	–	–	4,294	2,790	44	–	7,128
At 31 December 2011.....	2,850	79,132	9,676	44,696	2,030	235	138,619
Additions	–	–	3,805	143	109	–	4,057
At 31 December 2012.....	2,850	79,132	13,481	44,839	2,139	235	142,676
Accumulated depreciation and impairment							
At 1 January 2011	428	8,704	1,245	15,497	898	196	26,968
Charge for the year.....	72	1,801	1,631	3,794	237	39	7,574
Provision for impairment	–	–	–	5,551	–	–	5,551
At 31 December 2011.....	500	10,505	2,876	24,842	1,135	235	40,093
Charge for the year.....	71	1,801	2,309	2,952	248	–	7,381
At 31 December 2012.....	571	12,306	5,185	27,794	1,383	235	47,474
Net book amount							
At 31 December 2011.....	2,350	68,627	6,800	19,854	895	–	98,526
At 31 December 2012.....	2,279	66,826	8,296	17,045	756	–	95,202

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

	Year ended 31 December	
	2011	2012
	HK\$'000	HK\$'000
Cost of sales	5,191	5,443
Distribution and selling expenses	2,871	4,860
General and administrative expenses	2,061	441
	10,123	10,744

As a result of adjustment to the Group's business strategy from December 2011, the Group determined that certain product lines would be abandoned and the related plant and machinery would be no longer in use. The Group assessed the impairment of the abandoned plant and machinery by comparing the recovering amount with the carrying amount. The recoverable amounts of the abandoned assets have been determined based on the fair value less costs to sell, taking into account the latest market information, past experience and current business performance. Impairment is resulted from the recoverable amounts of the assets lower than their carrying value. The impairment loss on abandoned assets amounting to HK\$5,551,000 has been included in "Other gains/(losses) – net" (*Note 25*) in the consolidated income statement for the year ended 31 December 2011.

Freehold land and land held under finance lease

The Group

	At 31 December	
	2011	2012
	HK\$'000	HK\$'000
Net book amount:		
Land held in Hong Kong under finance		
lease of between 10 to 50 years	2,350	2,279
Freehold land held outside Hong Kong	1,104	7,785
	<u>3,454</u>	<u>10,064</u>

The Company

Net book amount:		
Land held in Hong Kong under finance		
lease of between 10 to 50 years	<u>2,350</u>	<u>2,279</u>

8 INVESTMENT IN SUBSIDIARIES

The Company

	At 31 December	
	2011	2012
	HK\$'000	HK\$'000
Unlisted investments at cost		
At the beginning of the year	70,031	77,098
Additions (<i>Note (a)</i>)	7,067	59,934
Transfer to asset held for sale (<i>Note (b)</i>)	–	(98,027)
At the end of the year	<u>77,098</u>	<u>39,005</u>

Notes:

- (a) The additions in 2011 represent acquisition of control in TRT (Macau), a then jointly controlled entity (*Note 32*) and the establishment of a subsidiary, Beijing Tong Ren Tang Gulf FZLLC. The addition in 2012 represents further capital injection in TRT (Tang Shan) and the establishment of a subsidiary, Beijing Tong Ren Tang, Poland.
- (b) Following management's decision to dispose of TRT (Tang Shan), the investment in TRT (Tang Shan) is classified as asset held for sale at 31 December 2012.

9 INVESTMENT IN JOINTLY CONTROLLED ENTITIES**The Group**

The following amounts represent the Group's share of the assets and liabilities, and revenue and results of the jointly controlled entities. Upon the adoption of the amendments in HKAS 28 (revised 2011) effective 1 January 2013, the accounting of the Group's investment in jointly controlled entities will change from proportionate consolidation to equity method of accounting.

	At 31 December	
	2011	2012
	<i>HK\$'000</i>	<i>HK\$'000</i>
Assets		
Non-current assets	3,170	11,884
Current assets	22,720	24,887
.....	25,890	36,771
Liabilities		
Current liabilities	(6,628)	(13,330)
Net assets	<u>19,262</u>	<u>23,441</u>
	Year ended 31 December	
	2011	2012
	<i>HK\$'000</i>	<i>HK\$'000</i>
Income	39,207	29,496
Expenses	(35,462)	(25,388)
Profit for the year	<u>3,745</u>	<u>4,108</u>
Proportionate interest in jointly controlled entities' commitments	<u>7,371</u>	<u>6,864</u>

The Company

	At 31 December	
	2011	2012
	<i>HK\$'000</i>	<i>HK\$'000</i>
Unlisted investments at cost		
At the beginning of the year	29,324	25,439
Step acquisition of TRT (Macau) (<i>Note 32</i>).	(3,885)	–
At the end of the year	<u>25,439</u>	<u>25,439</u>

Notes:

- (a) The particulars of the jointly controlled entities of the Company at the date of this report are set out in Note 2(b) of Section II.

10 INVESTMENT IN AN ASSOCIATED COMPANY**The Group**

	At 31 December	
	2011	2012
	<i>HK\$'000</i>	<i>HK\$'000</i>
Investment at cost, unlisted shares	3,742	3,742
Share of accumulated losses	(2,049)	(3,041)
Exchange differences	224	227
	<u>1,917</u>	<u>928</u>

The particulars for the investment in an associated company are set out in Note 2(b) of Section II.

The Group's share of results of the associated company and its aggregated assets and liabilities, are as follows:

	At 31 December	
	2011	2012
	<i>HK\$'000</i>	<i>HK\$'000</i>
Assets		
Current assets	2,352	1,505
Liabilities		
Current liabilities	(435)	(577)
Net assets	<u>1,917</u>	<u>928</u>

	Year ended 31 December	
	2011	2012
	HK\$'000	HK\$'000
Income	292	604
Expenses	(1,867)	(1,596)
Loss for the year	<u>(1,575)</u>	<u>(992)</u>

11 DEFERRED INCOME TAX

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The analysis of deferred tax assets and liabilities is as follows:

The Group

	At 31 December	
	2011	2012
	HK\$'000	HK\$'000
Deferred income tax assets		
– to be recovered after more than 12 months	181	–
– to be recovered within 12 months	<u>9,922</u>	<u>2,158</u>
	<u>10,103</u>	<u>2,158</u>
Deferred income tax liabilities		
– to be settled after more than 12 months	(4,509)	(3,045)
– to be settled within 12 months	<u>(157)</u>	<u>(952)</u>
	<u>(4,666)</u>	<u>(3,997)</u>
Deferred income tax assets/(liabilities), net	<u><u>5,437</u></u>	<u><u>(1,839)</u></u>

The gross movements on the net deferred income tax account are as follows:

	Year ended 31 December	
	2011	2012
	HK\$'000	HK\$'000
At the beginning of the year	(3,239)	5,437
Step acquisition of TRT (Macau) (Note 32)	(731)	–
Credited/(charged) to the consolidated		
income statement under continuing operations (Note 27)	1,988	689
Credited/(changed) to the consolidated income statement		
under discontinued operations	7,413	(7,983)
Exchange differences	<u>6</u>	<u>18</u>
At the end of the year	<u><u>5,437</u></u>	<u><u>(1,839)</u></u>

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

	Tax losses	Accelerated accounting depreciation	Unrealised profit	Provision	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Deferred income tax assets					
At 1 January 2011	237	163	2,503	–	2,903
(Charged)/credited to the consolidated income statement (continuing operations)	(158)	(57)	–	–	(215)
Credited to the consolidated income statement under discontinued operations	–	–	7,185	228	7,413
Exchange differences	(1)	(3)	–	6	2
At 31 December 2011	78	103	9,688	234	10,103
(Charged)/credited to the consolidated income statement under continuing operations	(79)	(16)	108	–	13
(Charged)/credited to the consolidated income statement under discontinued operations	–	–	(9,688)	1,705	(7,983)
Exchange differences	1	3	–	21	25
At 31 December 2012	<u>–</u>	<u>90</u>	<u>108</u>	<u>1,960</u>	<u>2,158</u>

	Accelerated tax depreciation	Others	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Deferred income tax liabilities			
At 1 January 2011	(6,142)	–	(6,142)
Consolidation of TRT (Macau) (<i>Note 32</i>)	–	(731)	(731)
Credited to the consolidated income statement under continuing operations	2,118	85	2,203
Exchange differences	4	–	4
At 31 December 2011	(4,020)	(646)	(4,666)
Credited to the consolidated income statement under continuing operations	96	580	676
Exchange differences	(7)	–	(7)
At 31 December 2012	<u>(3,931)</u>	<u>(66)</u>	<u>(3,997)</u>

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

The Group did not recognise deferred income tax assets of approximately HK\$877,000 and HK\$2,585,000⁽¹⁾ in respect of tax losses amounting to approximately HK\$5,328,000 and HK\$12,369,000⁽¹⁾ at 31 December 2011 and 2012, respectively. At 31 December 2012, tax losses will expire between 2012 and 2021.

The Group did not recognise the deferred income tax liabilities of HK\$579,000 and HK\$170,000 in respect of the withholding tax that would be payable on the unremitted earnings of certain subsidiaries amounting to HK\$9,364,000 and HK\$726,000 at 31 December 2011 and 2012 respectively, as these unremitted earnings have been reinvested.

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

The Company

The movements of deferred income tax liabilities which arise from accelerated tax depreciation, are as follows:

	Year ended 31 December	
	2011	2012
	HK\$'000	HK\$'000
At the beginning of the year	(6,026)	(3,894)
Credited to the income statement	2,132	225
At the end of the year	<u>(3,894)</u>	<u>(3,669)</u>

12 INVENTORIES

	The Group		The Company	
	At 31 December		At 31 December	
	2011	2012	2011	2012
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Raw materials	7,290	37,226	7,290	14,640
Work in progress	1,100	4,106	1,100	4,106
Finished goods and trading merchandise	53,713	45,821	9,132	19,267
	<u>62,103</u>	<u>87,153</u>	<u>17,522</u>	<u>38,013</u>

The cost of inventories recognised as expense and included in "cost of sales" under continuing operations amounted to HK\$50,937,000 and HK\$91,750,000 for the years ended 31 December 2011 and 2012 respectively. For discontinued operations, the cost of inventories recognised as cost of sales in Note 15(b) amounted to HK\$7,075,000 and HK\$13,926,000 for the years ended 31 December 2011 and 2012 respectively. Impairment of inventories included in cost of sales are HK\$3,593,000 and HK\$5,768,000 for the years ended 31 December 2011 and 2012 respectively.

13 TRADE RECEIVABLES AND OTHER CURRENT ASSETS

	The Group		The Company	
	At 31 December		At 31 December	
	2011	2012	2011	2012
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Trade receivables				
– subsidiaries	–	–	59,645	54,569
– fellow subsidiaries	–	188	–	–
– Intermediate Holding Company	2,454	–	2,454	–
– Immediate Holding Company	–	–	–	–
– jointly controlled entities	351	545	748	1,131
– third parties	15,504	21,628	8,551	20,961
Trade receivables.	18,309	22,361	71,398	76,661
Prepayment and other				
receivables.	7,602	7,476	1,573	1,713
Deposits	6,454	7,300	3,322	4,670
Amounts due from fellow				
subsidiaries (<i>Note (b)</i>).	810	–	810	–
Amounts due from Immediate				
Holding Company (<i>Note (b)</i>)	662	21	–	–
Amounts due from Intermediate				
Holding Company (<i>Note (b)</i>)	593	–	–	–
Amounts due from jointly				
controlled entities (<i>Note (b)</i>).	568	568	1,114	1,114
	<u>34,998</u>	<u>37,726</u>	<u>78,217</u>	<u>84,158</u>

Notes:

- (a) The fair values of trade receivables and other currents assets approximate their carrying amounts.
- (b) The amounts receivable are unsecured, interest free and repayable on demand.

- (c) Retail sales at the Group's stores are usually made in cash or by debit or credit cards. For wholesale to distributors (including group companies), the Group normally grants credit period of 30 to 90 days. For agency fee, the Group grants credit period of 30 days to the group companies. The aging analysis of trade receivables based on invoice date (including trade receivables from group companies) is as follows:

	The Group		The Company	
	At 31 December		At 31 December	
	2011	2012	2011	2012
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Up to 3 months	18,151	22,353	27,885	25,241
3 to 6 months	157	8	20,784	–
6 months to 1 year	1	–	22,729	37,565
1 to 2 years	–	–	–	13,855
	<u>18,309</u>	<u>22,361</u>	<u>71,398</u>	<u>76,661</u>

At 31 December 2011 and 2012, the Group's trade receivables of HK\$4,674,000 and HK\$588,000 respectively were past due but not impaired. These trade receivables relate to a number of customers, including group companies, for whom there is no recent history of default.

As of 31 December 2012, the trade receivables of the Company amounted to HK\$13.8 million due over 1 year represents the balance due from TRT International Natural-Pharm, a wholly-owned subsidiary of the Company, in relation to purchase of products manufactured by the Company. In February 2013, such balance was fully settled by TRT International Natural-Pharm in cash.

The aging analysis of trade receivables that were past due but not impaired is as follows:

	The Group		The Company	
	At 31 December		At 31 December	
	2011	2012	2011	2012
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Past due less than				
3 months	4,615	580	25,300	580
Past due within				
3 to 6 months	58	8	22,729	–
Past due within				
6 months to 1 year	1	–	–	37,565
Past due within				
1 to 2 years	–	–	–	13,855
	<u>4,674</u>	<u>588</u>	<u>48,029</u>	<u>52,000</u>

- (d) At 31 December 2011 and 2012, no trade receivables of the Group and the Company were impaired.

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

The Group

	At 31 December	
	2011	2012
	HK\$'000	HK\$'000
Hong Kong dollar	17,094	20,631
Renminbi	11,295	7,018
Australian dollar	2,490	882
Korean won	535	663
Singapore dollar	906	1,232
Indonesian rupiah	120	18
United States dollar	22	—
Malaysian ringgit	350	237
Canadian dollar	591	1,142
Macao pataca	77	78
Thai baht	437	4,206
Brunei dollar	140	117
Arab Emirates dirham	941	1,117
Poland zloty	—	385
	<u>34,998</u>	<u>37,726</u>

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

14 SHORT-TERM BANK DEPOSITS AND CASH AND CASH EQUIVALENTS**The Group**

	At 31 December	
	2011	2012
	HK\$'000	HK\$'000
Cash at bank and on hand	142,078	225,486
Short-term bank deposits with original maturity within three months	<u>9,572</u>	<u>12,086</u>
Cash and cash equivalents	151,650	237,572
Short-term bank deposits with original maturity exceeding three months	<u>11,603</u>	<u>10,806</u>
Total	<u>163,253</u>	<u>248,378</u>

The Company

	At 31 December	
	2011	2012
	<i>HK\$'000</i>	<i>HK\$'000</i>
Cash and cash equivalents		
Cash at bank and on hand	68,108	125,334
Short-term bank deposits with original		
maturity exceeding three months	590	592
Total	<u>68,698</u>	<u>125,926</u>

At 31 December 2011 and 2012, the Group's cash and cash equivalents and short-term bank deposits included balances of HK\$31,812,000 and HK\$56,459,000 respectively, which were deposits with banks in the PRC. The remittance of such balances out of the PRC is subject to the rules and regulations of foreign exchange control promulgated by the PRC government.

Cash and cash equivalents and short-term bank deposits held by the Group's jointly controlled entities and accounted for under proportionate consolidation amounted to HK\$15,527,000 and HK\$12,934,000 at 31 December 2011 and 2012 respectively.

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

The Group

	At 31 December	
	2011	2012
	<i>HK\$'000</i>	<i>HK\$'000</i>
Hong Kong dollar	68,316	123,388
Singapore dollar	15,988	17,812
United States dollar	8,275	6,719
Australian dollar	11,827	15,403
Malaysian ringgit	5,314	3,239
Macao pataca	10,055	10,205
Korean won	631	134
Renminbi	31,848	56,505
Thai baht	819	735
Indonesian rupiah	1,530	1,517
Arab Emirates dirham	2,365	2,424
Canadian dollar	3,584	6,343
Brunei dollar	2,701	3,057
Poland zloty	—	576
Euro	—	321
	<u>163,253</u>	<u>248,378</u>

The Company

	At 31 December	
	2011	2012
	<i>HK\$'000</i>	<i>HK\$'000</i>
Hong Kong dollar	67,054	121,757
United States dollar	992	1,387
Singapore dollar	652	2,169
Others	—	613
	68,698	125,926

15 ASSETS OF THE DISPOSAL GROUP HELD FOR SALE AND DISCONTINUED OPERATIONS**(a) Disposal of Beijing Tong Ren Tang (Tang Shan) Nutrition and Healthcare Co., Ltd.**

In February 2012, in order to focus its operations on ganoderma lucidum spores powder capsules and Angong Niu Huang Pills, the Company has decided to dispose of Beijing Tong Ren Tang (Tang Shan) Nutrition and Healthcare Co., Ltd. ("TRT (Tang Shan)") to its fellow subsidiary as part of the Listing Plan. The primary activity of TRT (Tang Shan) was construction of a factory to manufacture products other than ganoderma lucidum spores powder capsules and Angong Niu Huang Pills. Accordingly, the assets and liabilities of TRT (Tang Shan) are classified as held for sale at 31 December 2012. The Company entered into a sales and purchase agreement dated 4 March 2013 to dispose of all its equity interests in TRT (Tang Shan), a subsidiary of the Group, to a fellow subsidiary at a cash consideration of RMB84,600,000 which was fully paid on 16 April 2013. Up to the date of this report, the disposal is yet to be completed subject to the issuance of the new business registration of TRT (Tang Shan).

The assets and liabilities related to TRT (Tang Shan), a 68% owned subsidiary of the Company, have been presented as held for sale following management's decision.

The Group**(i) Assets of the disposal group classified as held for sale**

	At 31 December
	2012
	<i>HK\$'000</i>
Leasehold land	29,648
Property, plant and equipment	105,558
Inventory	333
Other current assets	6,218
Cash and cash equivalents	21,228
Total	162,985

(ii) *Liabilities of the disposal group classified as held for sale*

	At 31 December 2012
	<i>HK\$'000</i>
Other payables	1,927
Deferred income – government grant	19,989
Total	21,916

The cost of investment in TRT (Tang Shan) carried in the Company balance sheet as at 31 December 2012 is as follows:

The Company

Asset classified as held for sale	At 31 December 2012
	<i>HK\$'000</i>
Investment in subsidiary	98,027

(b) Discontinued operations of PRC distribution

The Group has a PRC distribution operation substantially distributing its self-manufactured products to the Parent Group and Independent Third Parties PRC market for the year ended 31 December 2011. The Group has terminated its PRC distribution business from 1 November 2012. The PRC distribution business is presented as a discontinued operation in the consolidated financial information.

Financial information relating to the PRC distribution operation is set out below.

(i) *Analysis of the result of discontinued operations, and the result recognised on the re-measurement of assets of disposal group*

	Year ended 31 December	
	2011	2012
	HK\$'000	HK\$'000
Revenue	84,300	115,031
Cost of sales	(12,314)	(24,285)
Gross profit	71,986	90,746
Other expenses	(8,052)	(10,047)
Profit before tax of discontinued operations	63,934	80,699
Tax	(8,471)	(13,746)
Profit for the year from discontinued operations	55,463	66,953
Profit for the year from discontinued operations attributable to:		
– Owners of the Company	55,463	66,953
– Non-controlling interests	–	–
	55,463	66,953

(ii) *Analysis of the cash flows of discontinued operations of PRC distribution*

	Year ended 31 December	
	2011	2012
	HK\$'000	HK\$'000
Operating cash flows	47,737	105,495
Investing cash flows	(117)	(26)
Total cash flows	47,620	105,469

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

(iii) *Cumulative income or expense recognised in other comprehensive income relating to disposal group classified as held for sale*

	Year ended 31 December	
	2011	2012
	HK\$'000	HK\$'000
Foreign exchange translation adjustments	638	34
Total	638	34

16 SHARE CAPITAL

	At 31 December			
	2011		2012	
	Number of shares	HK\$'000	Number of shares	HK\$'000
Authorised:				
Ordinary shares of HK\$1 each:				
At the end of the year	<u>1,000,000,000</u>	<u>1,000,000</u>	<u>1,000,000,000</u>	<u>1,000,000</u>
Issued and fully paid:				
Ordinary shares of HK\$1 each:				
At the end of the year	<u>201,430,473</u>	<u>201,430</u>	<u>201,430,473</u>	<u>201,430</u>

17 RESERVES

The Group

	Share premium (Note (d)) HK\$'000	Merger reserve (Note (a)) HK\$'000	Other reserve (Note (b)) HK\$'000	Statutory reserve (Note (b)) HK\$'000	Exchange reserve HK\$'000	Retained earnings HK\$'000	Total HK\$'000
At 1 January 2011	3,913	(13,124)	(3,366)	1,144	10,345	76,775	75,687
Profit for the year	–	–	–	–	–	58,738	58,738
Other comprehensive income							
Exchange differences	–	–	–	–	1,760	–	1,760
Total comprehensive income	–	–	–	–	1,760	58,738	60,498
Transfer of retained profits to statutory reserve	–	–	–	208	–	(208)	–
Charge to Income Statement upon suspension of the listing (Note (c))	–	–	4,108	–	–	–	4,108
Total contributions by and distributions to owners ..	–	–	4,108	208	–	(208)	4,108
Total transactions with owners	–	–	4,108	208	–	(208)	4,108
At 31 December 2011	<u>3,913</u>	<u>(13,124)</u>	<u>742</u>	<u>1,352</u>	<u>12,105</u>	<u>135,305</u>	<u>140,293</u>

	Share premium (Note (d)) HK\$'000	Merger reserve (Note (a)) HK\$'000	Other reserve (Note (b)) HK\$'000	Statutory reserve (Note (b)) HK\$'000	Exchange reserve HK\$'000	Retained earnings HK\$'000	Total HK\$'000
At 1 January 2012.....	3,913	(13,124)	742	1,352	12,105	135,305	140,293
Profit for the year.....	-	-	-	-	-	155,935	155,935
Other comprehensive income							
Currency translation differences.....	-	-	-	-	2,352	-	2,352
Total comprehensive income.....	-	-	-	-	2,352	155,935	158,287
Professional expenses incurred in connection with the Company's listing (Note (c))......	-	-	(4,747)	-	-	-	(4,747)
Total contributions by and distributions to owners..	-	-	(4,747)	-	-	-	(4,747)
Acquisition of additional interests in a subsidiary..	-	-	(380)	-	-	-	(380)
Change in ownership interests in subsidiaries.....	-	-	(380)	-	-	-	(380)
Total transactions with owners.....	-	-	(5,127)	-	-	-	(5,127)
At 31 December 2012.....	<u>3,913</u>	<u>(13,124)</u>	<u>(4,385)</u>	<u>1,352</u>	<u>14,457</u>	<u>291,240</u>	<u>293,453</u>

The Company

	Share premium (Note (d)) HK\$'000	Other reserve HK\$'000	Retained earnings HK\$'000	Total HK\$'000
At 1 January 2011	3,913	(4,108)	78,260	78,065
Profit for the year.....	-	-	72,699	72,699
Charge to Income Statement upon suspension of the listing (Note (c)) ...	-	4,108	-	4,108
Transactions with owners.....	-	4,108	-	4,108
At 31 December 2011	<u>3,913</u>	<u>-</u>	<u>150,959</u>	<u>154,872</u>
At 1 January 2012	3,913	-	150,959	154,872
Profit for the year.....	-	-	133,519	133,519
Professional expenses incurred in connection with the Company's listing (Note (c))......	-	(4,747)	-	(4,747)
Transaction with owners.....	-	(4,747)	-	(4,747)
At 31 December 2012	<u>3,913</u>	<u>(4,747)</u>	<u>284,478</u>	<u>283,644</u>

Notes:

- (a) Merger reserve of the Group represents the difference between the net book value of the entities that had been acquired and the investment consideration paid by the Company to effect a reorganisation that took place in 2010.
- (b) The PRC laws and regulations require companies registered in the PRC to provide for certain statutory reserves, which are to be appropriated from the net profit (after offsetting accumulated losses from prior years) as reported in their respective statutory financial statements, before profit distributions to equity holders. All statutory reserves are created for specific purposes. PRC company is required to appropriate 10% of statutory net profits to statutory surplus reserves, upon distribution of its post-tax profits of the current year. A company may discontinue the contribution when the aggregate sum of the statutory surplus reserve is more than 50% of its registered capital. The statutory surplus reserves shall only be used to make up losses of the companies, to expand the companies' production operations, or to increase the capital of the companies. In addition, a company may make further contribution to the statutory surplus reserve using its post-tax profits in accordance with resolutions of the board of directors.
- (c) In 2010, the Company initiated an initial public offering plan ("IPO"). Before 1 January 2011, the Company incurred HK\$4,108,000 of IPO related expenses and included these in other reserves. These expenses, together with an additional amount of HK\$19,953,000 incurred in the year ended 31 December 2011, were charged to the income statement upon suspension of the listing at the end of 2011. In 2012, the Company resumed its IPO plan and incurred HK\$17,487,000 IPO related expenses for the year ended 31 December 2012, of which HK\$4,747,000 was included in other reserves. The relevant amounts in the other reserves will be transferred out and net off against Share Premium upon the completion of IPO in the future.
- (d) Share premium represents the difference between the par value of shares issued in October 2010 to the immediate holding company and the intermediate holding company to acquire equity interests of certain subsidiaries and jointly controlled entities.
- (e) The profit attributable to equity holders of the Company is dealt with in the financial statements of the Company to the extent of HK\$72,699,000 and HK\$133,519,000 for the years ended 31 December 2011 and 2012 respectively.

18 TRADE AND OTHER PAYABLES

	The Group		The Company	
	At 31 December		At 31 December	
	2011	2012	2011	2012
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Trade payables				
– Fellow subsidiaries	2,275	–	–	12,594
– Intermediate Holding Company	11,523	1,491	2,072	–
– Immediate Holding Company	–	1,003	–	–
– third parties	7,031	45,662	620	7,663
Trade payables	20,829	48,156	2,692	20,257
Accruals, deposits, onerous contracts provision and other payables	10,838	14,047	4,504	1,732
Listing fee provision	6,277	7,104	6,277	8,270
Amounts due to fellow subsidiaries (<i>Note (a)</i>)	–	2,100	–	2,100
Amounts due to subsidiaries (<i>Note (a)</i>)	–	–	374	153
Amounts due to jointly controlled entities (<i>Note (a)</i>)	–	480	–	1,013
	37,944	71,887	13,847	33,525

Notes:

- (a) The amounts payable are unsecured, interest free and repayable on demand. The amounts were fully settled on 31 March 2013.
- (b) On 31 December 2011, the Company has made a provision of HK\$3,321,000 for the onerous contracts of purchasing machineries in relation to the product lines to be abandoned. The provision of the onerous contracts has been fully settled in March 2012.
- (c) The aging analysis of trade payables at respective balance sheet dates is as follows:

	The Group		The Company	
	At 31 December		At 31 December	
	2011	2012	2011	2012
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Up to 3 months	10,686	44,324	2,692	17,908
3 to 6 months	8,623	1,910	–	1,172
6 months to 1 year	1,517	1,852	–	1,177
1 to 2 years	2	68	–	–
Over 2 years	1	2	–	–
	20,829	48,156	2,692	20,257

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

The Group

	At 31 December	
	2011	2012
	HK\$'000	HK\$'000
Hong Kong dollar	22,502	18,911
Singapore dollar	1,097	3,179
Thai baht	2,210	2,955
Australian dollar	2,281	3,300
Malaysian ringgit	1,088	1,970
Indonesian rupiah	168	47
Macao pataca	705	1,023
Renminbi	2,154	37,109
United States dollar	3,092	—
Canadian dollar	1,366	2,152
Korean won	63	66
Brunei dollar	103	284
New Zealand dollar	28	—
Arab Emirates dirham	1,087	493
Poland zloty	—	398
	<u>37,944</u>	<u>71,887</u>

The carrying amounts of the Company's trade and other payables are denominated in Hong Kong dollar.

19 BANK BORROWING**The Group**

	At 31 December	
	2011	2012
	HK\$'000	HK\$'000
Current		
Bank borrowings due for repayment within one year	<u>—</u>	<u>252</u>
Bank borrowings due for repayment after one year which contain a repayment on demand clause	<u>—</u>	<u>4,284</u>
Total borrowings	<u>—</u>	<u>4,536</u>

(a) Borrowings

A jointly controlled entity of the group, Peking Tongrentang (M) SDN. BHD. had a bank borrowing, which is repayable up to 2016 and bears average interest of 4.4% per annum (2011: Nil).

According to HK Int-5 "Presentative of financial statements – classification by the borrower of a term loan that contains a repayment on demand clause", bank loans contain a repayment on demand clause which can be exercised at the bank's direction have been classified as current liabilities on the balance sheets. The analysis below shows the cash flow (included interest expenses) based on the scheduled repayment dates set out in the loan agreements and ignores the effect of any repayment on demand clauses.

	Group	
	Bank borrowings	
	2011	2012
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within 1 year.	–	414
Between 1 and 2 years.	–	414
Between 2 and 5 years.	–	1,241
Over 5 years.	–	3,908
	<u>–</u>	<u>5,977</u>

The carrying amounts of the Group's borrowings are denominated in Malaysian ringgit.

Bank borrowings are secured by the freehold land and building of Peking Tongrentang (M) SDN. BHD., a jointly controlled entity of the group, and their proportional carrying values attributable to the Group amounted to HK\$6,644,000 and HK\$1,210,000 respectively (2011: Nil) (Note 7).

20 DEFERRED INCOME – GOVERNMENT GRANT**The Group**

	<i>HK\$'000</i>
At 1 January 2011	–
Government grant received.	19,810
Amount recognised in the consolidated income statement	(370)
Exchange differences	805
	<u>20,245</u>
At 31 December 2011	
Amount recognised in the consolidated income statement	(411)
Exchange differences	155
Transfer to liabilities held for sale.	(19,989)
	<u>–</u>
At 31 December 2012	

In 2011, the Group's subsidiary, TRT (Tang Shan) obtained a government grant from the local government in relation to its acquisition of leasehold land. The Group's subsidiary is required to fulfill certain investment requirements and achieve certain revenue and income targets by 2015, which the Group believes that there is a reasonable assurance that the conditions will be met. The government grant is deferred and recognised in the consolidated income statement over the lease period of the leasehold land. Following management's decision to dispose of TRT (Tang Shan), the government grant and the related land use right are classified as assets/liabilities held for sale at 31 December 2012.

21 REVENUE

Turnover represents the Group's revenues.

	Year ended 31 December	
	2011	2012
	HK\$'000	HK\$'000
Continuing operations		
Hong Kong and overseas distribution.	171,293	337,602
Agency fee income (<i>Note 33(b)(ii)</i>).	24,491	20,645
Royalty fee income	898	674
	<u>196,682</u>	<u>358,921</u>

22 EXPENSES BY NATURE

	Year ended 31 December	
	2011	2012
	HK\$'000	HK\$'000
Continuing operations		
Cost of inventories sold	50,937	91,750
Employee benefit expenses (<i>Note 23</i>)	47,331	71,520
Operating leases in respect of buildings.	19,725	31,140
Amortisation of leasehold land (<i>Note 6</i>)	1,091	1,152
Depreciation of property, plant and equipment	8,130	8,278
Loss on disposal of property, plant and equipment	61	463
Utilities.	3,212	4,978
Impairment of inventories	1,443	–
Government rent and rate.	550	–
Auditors' remuneration	372	123
Promotion and advertising expenses	2,052	2,730
Repair and maintenance.	1,667	1,916
Legal and professional expenses	702	1,275
Net exchange loss/(gain)	254	(289)
Transportation	988	703
Entertainment and travelling	1,963	3,662
Bank charges	1,186	2,052
Office supplies	490	456
Store supplies	1,801	2,494
Other taxes	1,408	2,751
Insurance	543	715
Telecommunication, postage and courier	613	606
Amortisation of government grant (<i>Note 20</i>)	(370)	(411)
Others	3,412	5,461
Total cost of sales, distribution and selling expenses and general and administrative expenses	149,561	233,525

Cost of sales of HK\$64,926,000 and HK\$108,131,000 as set out in the consolidated income statements, for the years ended 31 December 2011 and 2012 respectively, mainly comprised of cost of inventories sold, impairment on inventories and certain portion of employee benefit expenses, depreciation and amortisation, repair and maintenance, utilities cost and other overhead expenses in relation to the production of inventories.

23 EMPLOYEE BENEFIT EXPENSES, INCLUDING DIRECTORS' REMUNERATION

	Year ended 31 December	
	2011	2012
	HK\$'000	HK\$'000
Salaries, wages and bonuses.	41,773	63,618
Pension costs – defined contribution plans.	2,225	2,418
Other benefits	3,333	5,484
.	47,331	71,520

24 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) Directors' emoluments

The remunerations of the directors for the years ended 31 December 2011 and 2012 are set out below:

	Salary	Discretionary bonuses	Other benefits	Employer's contribution to pension scheme	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Year ended 31 December 2011					
<i>Executive Directors:</i>					
Ms. Ding Yong Ling	769	–	–	12	781
Mr. Zhang Huan Ping ¹	272	–	–	6	278
Ms. Lin Man ¹	430	–	–	6	436
Mr. Mei Qun ²	–	–	–	–	–
Mr. Gao Zhen Kun ²	–	–	–	–	–
Mr. Wang Yu Wei ²	–	–	–	–	–
<i>Non-executive Director:</i>					
Mr. Yin Shun Hai	–	–	–	–	–
	<u>1,471</u>	<u>–</u>	<u>–</u>	<u>24</u>	<u>1,495</u>

For the year ended 31 December 2012

<i>Executive Directors:</i>					
Ms. Ding Yong Ling	780	820	–	14	1,614
Mr. Zhang Huan Ping ¹	416	215	–	14	645
Ms. Lin Man ¹	416	345	–	14	775
Mr. Mei Qun ²	–	–	–	–	–
Mr. Gao Zhen Kun ²	–	–	–	–	–
Mr. Wang Yu Wei ²	–	–	–	–	–
<i>Non-executive Director:</i>					
Mr. Yin Shun Hai	–	–	–	–	–
	<u>1,612</u>	<u>1,380</u>	<u>–</u>	<u>42</u>	<u>3,034</u>

¹ Directors were appointed by the Company on 1 February 2011.

² Directors resigned on 1 February 2011

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

(b) Five highest paid individuals

The five highest paid individuals include nil and one director for the years ended 31 December 2011 and 2012.

The remunerations of the five highest paid individuals for the years ended 31 December 2011 and the remaining four highest paid individuals for the year ended 31 December 2012 are set out below:

	Year ended 31 December	
	2011	2012
	HK\$'000	HK\$'000
Salaries	3,633	2,825
Discretionary bonuses	250	1,585
Employer's contribution to pension scheme	243	154
Other benefits	214	176
	<u>4,340</u>	<u>4,740</u>
	Year ended 31 December	
	2011	2012
	HK\$'000	HK\$'000
In the band of:		
HK\$0 – HK\$1,000,000	4	2
HK\$1,000,001 – HK\$1,500,000	1	1
HK\$1,500,001 – HK\$2,000,000	–	1
	<u>–</u>	<u>1</u>

- (c) For the years ended 31 December 2011 and 2012, no emoluments were paid by the Group to any of the directors, or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office, and no arrangement under which a director or a supervisor or the highest paid individuals waived or agreed to waive any of the emoluments.

25 OTHER (LOSSES)/GAINS – NET

	Year ended 31 December	
	2011	2012
	HK\$'000	HK\$'000
Continuing operations		
Impairment loss on machinery	(5,551)	–
Loss arising from onerous contracts of purchase of machines	(6,553)	–
Gain on remeasuring existing interest in TRT (Macau) on acquisition (<i>Note 32</i>)	2,431	–
Others ⁽¹⁾	844	4,205
	<u>(8,829)</u>	<u>4,205</u>

- (1) For the year ended 31 December 2012, the other gains primarily consist of compensation from Thailand government in relation to the removal of shop due to land redevelopment and sub-let rental income.

As a result of adjustment to the Group's business strategy in December 2011 (Note 2(a)), the Group determined that certain product lines would be abandoned and the related plant and machinery would be no longer in use. At 31 December 2011, an impairment loss on such plant and machinery amounted to HK\$5,551,000 was recognised. In addition, a loss of HK\$6,553,000 was recognised for onerous contracts of purchasing machineries in relation to the product lines to be abandoned.

26 FINANCE INCOME AND COSTS

	Year ended 31 December	
	2011	2012
	HK\$'000	HK\$'000
Continuing Operations		
Finance income		
Interest income on bank deposits	1,081	830
Finance costs		
Interest on bank borrowing.	—	(25)
	<u> </u>	<u> </u>
Finance income, net	<u>1,081</u>	<u>805</u>

27 INCOME TAX EXPENSE

Income tax of the Group's entities has been calculated on the estimated assessable profit for the years at the rates of taxation prevailing in the countries in which the entities operate.

Set out below are the major tax jurisdictions where the Group operates in for the years ended 31 December 2011 and 2012.

Hong Kong profits tax

The Company is subject to Hong Kong profits tax which is provided at the rate of 16.5% on the estimated assessable profit for the years ended 31 December 2011 and 2012.

PRC enterprise income tax

The PRC incorporated subsidiaries are subject to enterprise income tax rate of 25% under the Corporate Income Tax Law of the People's Republic of China.

Australia company tax

The subsidiary of the Group, Beijing Tong Ren Tang (Australia) Pty. Ltd., which was incorporated and operated in Australia, is subject to company tax which is provided at 30% on the estimated taxable income.

Singapore corporate tax

The subsidiary of the Group, Beijing Tong Ren Tang (Singapore) Co Pte. Ltd., which was established and operates in Singapore, is subject to Singapore corporate tax rate of 17%. In addition, 75% of up to the first S\$10,000, and 50% of up to the next S\$290,000, of a chargeable income otherwise subject to normal taxation is exempt from corporate tax. The remaining chargeable income will be fully taxable at the corporate tax rate.

Thailand corporate income tax

The jointly controlled entity of the Group, Beijing Tong Ren Tang (Thailand) Co., Ltd., (TRT Thailand) was established and operates in Thailand and is subject to Thai corporate income tax at the rate of 30% of the net profit under the Thai Revenue Code. The tax rate has been temporarily reduced to 23% with effective from 1 January 2012. TRT Thailand is required to pay for corporate income tax twice a year i.e. half year and annual taxes. The half year corporate income tax, which is due within 2 months after the first six months of the accounting period, is calculated on the estimated net profit. The annual corporate income tax, due within 150 days after the end of the accounting period, is computed on the actual net profit.

Canada corporate income tax

In Canada, corporations are subject to taxation at both the federal and provincial level. The effective federal corporate tax rate is 18%, the effective British Columbia corporate tax rate is 10.5%, and the effective Ontario corporate tax rate is 12.99%. The subsidiary of the Group, Beijing Tong Ren Tang (Toronto) Inc. which operates in Ontario, is subject to a combined tax rate of 30.99% on active business income for the taxable year 2011. In 2012, the combined tax rate was reduced from 30.99% to 26.5%. Another subsidiary of the Group, Beijing Tong Ren Tang Canada Co., Ltd. which operates in British Columbia, is subject to a combined tax rate of 26.5% and 25% on active business income for the taxable years ended 31 December 2011 and 2012 respectively.

As a result of the changes in British Columbia corporation tax rate from 28.5% to 26.5% and from 26.5% to 25% that were substantively effective from 1 January 2011 and 1 January 2012 respectively, the relevant deferred tax balances have been remeasured. Deferred tax has been measured using the corresponding effective rate that applied in Canada for the period.

Macao complementary tax

The jointly controlled entity of the Group, Beijing Tong Ren Tang (Macau) Company Limited is subject to Macao complementary tax at a progressive rate scale ranging from 3% to 9% for taxable profits below or equal to Macao Pataca ("MOP") 300,000 and 12% for taxable profits over MOP 300,000. Taxable profits below MOP32,000 are exempt from tax. The tax-free income threshold has been increased from MOP32,000 to MOP200,000 in the taxable year 2011. The next MOP100,000 of taxable income is taxed at 9% and taxable income in excess of MOP300,000 is taxed at 12%

	Year ended 31 December	
	2011	2012
	HK\$'000	HK\$'000
Continuing operations		
Current income tax		
Hong Kong.	7,658	22,779
The PRC	—	(456)
Overseas.	3,377	4,439
	11,035	26,762
Deferred income tax	(1,988)	(689)
	9,047	26,073

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

	Year ended 31 December	
	2011	2012
	HK\$'000	HK\$'000
Continuing operations		
Profit before income tax	13,737	118,234
Share of losses of an associated company	1,575	992
	15,312	119,226
Tax calculated at applicable tax rate of the respective entities	3,100	23,447
Income not subject to tax	(9)	(1,394)
Expenses not deductible for tax purpose	5,576	2,177
Utilisation of tax losses previously not recognised	(33)	–
Tax losses not recognised	416	1,746
Withholding income tax on royalty from overseas entities	246	369
Over provision in prior years	(822)	(308)
Others	573	36
Income tax expense	9,047	26,073
The effective tax rate	59.1%	21.9%

The decrease in effective tax rate was primarily due to decrease in non tax deductible expenses including listing expenses and loss arising from onerous contracts of purchase of machines in 2011.

28 EARNINGS PER SHARE

The calculation of basic and diluted earnings per share is based on the following:

	Year ended 31 December	
	2011	2012
	HK\$'000	HK\$'000
Profit attributable to equity holders of the Company		
– Continuing operations	3,275	88,982
– Discontinued operations	55,463	66,953
	58,738	155,935
Weighted average number of shares in issue (<i>thousand shares</i>)	402,861	402,861
Earnings per share (<i>HK\$</i>)		
– Continuing operations	0.01	0.22
– Discontinued operations	0.14	0.17
	0.15	0.39

The basic and diluted earnings per share as presented on the consolidated income statements have taken into account the effect of the sub division of each ordinary share with par value of HK\$1.00 each into 2 shares of par value of HK\$0.50 each as described in note 35(a).

The basic and diluted earnings per share as presented on the consolidated income statements have not taken into account the proposed capitalisation issue pursuant to the shareholders' resolution dated 28 March 2013 (Note 35(b)) because the proposed capitalisation issue has not become effective as of the date of this report.

The diluted earnings per share equals to the basic earnings per share since there are no dilutive potential shares in issue 2011 and 2012 for the year ended 31 December.

29 DIVIDENDS

	Year ended 31 December	
	2011	2012
	HK\$'000	HK\$'000
Dividend paid to non-controlling interest ⁽¹⁾	2,511	3,639
Dividends paid	2,511	3,639

⁽¹⁾ The amount represented dividends declared by Beijing Ton Ren Tang (Singapore) Co Pte. Ltd. and TRT (Macau). The above dividends are not subject to withholding tax in respective overseas jurisdictions.

⁽²⁾ At the meeting of the Board of Directors of the Company held on 15 April 2013, the Directors recommended a dividend of HK\$0.2482 per share. This proposed dividend was not reflected as a dividend payable in these financial statements, but will be reflected as an appropriation of retained profits for the year ending 31 December 2013. Such dividend was fully paid on 18 April 2013.

30 NOTE TO CONSOLIDATED STATEMENTS OF CASH FLOWS

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

	Year ended 31 December	
	2011	2012
	HK\$'000	HK\$'000
Profit before income tax	77,671	198,933
Depreciation on property, plant and equipment	10,123	10,744
Amortisation of leasehold land	1,091	1,152
Impairment of inventories	3,593	6,084
Write back of impairment of inventories	–	(316)
Impairment loss on property, plant and equipment	5,551	–
Loss for onerous contracts	6,553	–
Loss on disposal of property, plant and equipment	61	463
Gain on remeasuring existing interest in TRT (Macau) on acquisition	(2,431)	–
Finance income	(1,253)	(1,048)
Finance cost	–	25
Share of loss from an associated company	1,575	992
Charge to Income Statement upon suspension of the listing (<i>Note 17(c)</i>)	4,108	–
Professional expenses incurred in connection with the Company's listing	19,953	11,180
Deferred income – government grant	(370)	(411)
Operating profit before changes in working capital	126,225	227,798
Increase in inventories	(21,713)	(30,607)
Increase in trade receivables and other current assets	(19,589)	(8,723)
Increase in trade and other payables	5,098	33,821
Cash generated from operations	90,021	222,289

(b) Non-cash transaction*Step acquisition of TRT (Macau) (Note 32)*

	Year ended 31 December 2011
	HK\$'000
Cash and bank balance	13,920
Property, plant and equipment	437
Inventories	17,000
Trade receivables and other current assets	263
Trade and other payables	(10,913)
Tax payable	(300)
Deferred tax liabilities	(731)
Non-controlling interest	(9,641)
Fair value of net assets acquired (Note 32)	10,035
Carrying amount of interest originally held by the Group as a jointly controlled entity	7,604
Gain on remeasuring existing interest in TRT (Macau) on acquisition	2,431
Consideration	—

(c) Analysis of net cash flow in respect of acquisition of TRT (Macau)

	Total
	HK\$'000
Cash consideration settled in cash (Note 32)	—
Cash and bank balance acquired	6,821
Total cash inflow from the acquisition	6,821

The cash and bank balance acquired excluded the cash and bank balance of HK\$7,099,000 originally held by the Group under the proportionate consolidation.

31 COMMITMENTS**(a) Capital commitments**

	The Group		The Company	
	At 31 December		At 31 December	
	2011	2012	2011	2012
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Property, plant and equipment:				
– contracted but not provided for	23,590	120,784 ^{(1),(2)}	3,625	97,378 ⁽²⁾

⁽¹⁾ Included in the commitment is HK\$23,406,000 relating to commitment of the disposal group classified as held for sale at 31 December 2012.

⁽²⁾ Included in the commitment is HK\$96,352,000 relating to commitment to acquire office units and staff quarter in Hong Kong.

(b) Operating lease commitments

The Group acts as a lessee under operating leases. The Group and the Company have future minimum lease payments under non-cancellable operating leases of land and buildings as follows:

	The Group		The Company	
	At 31 December		At 31 December	
	2011	2012	2011	2012
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Within 1 year	23,070	36,573	10,477	21,080
Later than 1 year and not later than 5 years	39,393	62,560	15,764	26,813
Later than 5 years	2,508	1,918	–	68
	<u>64,971</u>	<u>101,051</u>	<u>26,241</u>	<u>47,961</u>

These leases typically run for an initial period of one to ten years. Certain operating leases contain renewal options which allow the Group to renew the existing leases upon expiry at the then market rental for specified periods.

32 BUSINESS COMBINATION

The Company and the Group has held 51% equity interest in TRT (Macau) since 28 October 2002. Pursuant to board resolution of TRT (Macau) passed on 25 November 2011, the articles of association of TRT (Macau) was amended with effective from 29 November 2011. The preceding joint venturers have given up the joint control due to the change of business focus in the Macao market. As a result, the Company has obtained the control over the financial and operating policies of TRT (Macau). TRT (Macau) has changed its status from a jointly controlled entity to a subsidiary of the Company. The Group consolidated the results of TRT (Macau) from 29 November 2011 onwards.

The Group has obtained control of TRT (Macau) without any consideration. There was no change in equity interest and profit-sharing ratio. The carrying value of the Group's interest in TRT (Macau) immediately before the acquisition date was HK\$7,604,000. The fair value of the identified net assets of TRT (Macau) shared by the Group at the acquisition date was HK\$10,035,000. As a result, a gain on business combination arose.

The following table summarises the gain on remeasuring existing interest in TRT (Macau) on acquisition, fair value of the assets and liabilities acquired and non-controlling interest at the acquisition date.

Consideration:

At 29 November 2011	<i>HK\$'000</i>
Total consideration	
Fair value of equity interest in TRT (Macau) held before the business combination . . .	10,035
Fair value of net assets	
Cash and bank balance	13,920
Property, plant and equipment	437
Inventories	17,000
Trade receivables and other current assets	263
Trade and other payables	(10,913)
Tax payables	(300)
Deferred liabilities	(731)
Total identifiable net assets	19,676
Non-controlling interest	(9,641)
Fair value of net assets acquired	10,035
Carrying amount of interest originally held by the Group as a jointly controlled entity .	7,604
Gain on remeasuring existing interest in TRT (Macau) on acquisition	2,431

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

The Group recognised a gain of HK\$2,431,000 as a result of measuring at fair value its 51% equity interest in TRT (Macau) held before the business combination. The gain is included in other income in the Group's income statement for the year ended 31 December 2011.

The revenue included in the consolidated income statement since 30 November 2011 contributed by TRT (Macau) was HK\$2,577,000. TRT (Macau) also contributed a loss of HK\$540,000 over the same period.

Had TRT (Macau) been consolidated as a subsidiary, rather than proportionately consolidated as a jointly controlled entity from 1 January 2011, the consolidated revenue and net profit of the Group would be HK\$294,477,000 and HK\$63,170,000 respectively, inclusive of the Group's 51% share of the revenue and net profit of TRT (Macau) for the period before the business combination amounting to HK\$14,723,000 and HK\$3,140,000 respectively.

33 SIGNIFICANT RELATED PARTY TRANSACTIONS

In addition to those related parties transactions disclosed in Notes 13, 15(a) and 18 of Section II above, the Company and the Group had the following material transactions with related parties, which were entered into at terms mutually agreed with these related parties. The Group uses proportionate consolidation to account for its interests in jointly controlled entities. Related party transactions disclosed here are arrived at after taking into account the Group's proportionate share in the transactions undertaken by the jointly controlled entities.

(a) Continuing transactions:

(i) sales and purchases of products

The Group

	Year ended 31 December	
	2011	2012
	HK\$'000	HK\$'000
Purchases of products from:		
Immediate Holding		
Company ⁽¹⁾	5,120	5,427
Intermediate Holding		
Company ⁽¹⁾	23,701	35,008
	<u>28,821</u>	<u>40,435</u>

The Company

	Year ended 31 December	
	2011	2012
	HK\$'000	HK\$'000
Sales of products to:		
Subsidiaries:		
Beijing Tong Ren Tang (Australia) Pty. Ltd.	363	—
Beijing Tong Ren Tang (B) Sdn Bhd.	6	—
Beijing Tong Ren Tang (Macau) Company Limited	—	1,039
	369	1,039
Jointly controlled entities:		
Beijing Tong Ren Tang (Macau) Company Limited	605	—
Beijing Tong Ren Tang (Thai Boon Roong) Company Limited	5	—
	610	—
	979	1,039
Purchases of products from:		
Immediate Holding Company ⁽¹⁾	1,152	250
Intermediate Holding Company ⁽¹⁾	10,407	12,432
	11,559	12,682

- (1) Included in purchases of products from Immediate Holding Company and the Intermediate Holding Company are purchases of certain raw materials and products that are non-continuing.

(ii) *Royalty fee and income**The Group*

	Year ended 31 December	
	2011	2012
	HK\$'000	HK\$'000
Royalty fee income from		
jointly controlled entities		
Beijing Tong Ren Tang		
(Macau) Company		
Limited	410	–
Beijing Tong Ren Tang		
(Thai Boon Roong)		
Company Limited	22	13
Peking Tongrentang (M)		
Sdn Bhd.	171	158
Beijing Tong Ren Tang		
Canada Co., Ltd.	186	224
PT. Beijing Tong Ren		
Tang Indo.	–	78
Beijing Tong Ren Tang		
(Thailand) Co., Ltd.....	109	130
	<u>898</u>	<u>603</u>

The Company

	Year ended 31 December	
	2011	2012
	HK\$'000	HK\$'000
Royalty fee income from:		
Subsidiaries:		
Beijing Tong Ren Tang (Australia) Pty. Ltd.	653	724
Beijing Tong Ren Tang Science Arts (Singapore) Co Pte. Ltd.	854	903
Beijing Tong Ren Tang (B) Sdn Bhd.	66	47
Beijing Tong Ren Tang (Macau) Company Limited	77	1,316
Beijing Tong Ren Tang (Toronto) Inc	—	141
	<u>1,650</u>	<u>3,131</u>
Jointly controlled entities:		
Peking Tongrentang (M) SDN. BND.	427	395
Beijing Tong Ren Tang Canada Co., Ltd.	379	457
Beijing Tong Ren Tang (Macau) Company Limited.	836	—
Beijing Tong Ren Tang (Thailand) Co., Ltd.	215	256
Beijing Tong Ren Tang (Thai Boon Roong) Company Limited.	45	26
PT. Beijing Tong Ren Tang Indo.	—	156
	<u>1,902</u>	<u>1,290</u>
	<u><u>3,552</u></u>	<u><u>4,421</u></u>

Certain subsidiaries and jointly controlled entities signed royalty agreements with the Ultimate Holding Company and a fellow subsidiary, TRT International. The royalty fee is charged annually at pre-determined rates ranging from 2% to 3% on turnover of the entities according to the royalty agreement. Pursuant to these agreements, these subsidiaries and jointly controlled entities are allowed to trade under “Tong Ren Tang” brand name.

On 28 September 2010, the Ultimate Holding Company issued an authorisation letter to the Company that the Ultimate Holding Company licensed to the Company for the right to use the “Tong Ren Tang” trademark outside of the PRC including but not limited to the right to sub-license the “Tong Ren Tang” trademark without consideration from 1 October 2010 to 30 September 2013. Accordingly, the Company receives royalty fee from subsidiaries and jointly controlled entities since 1 October 2010.

(iii) **Rental expense**

The Group and the Company

	Year ended 31 December	
	2011	2012
	HK\$'000	HK\$'000
Rental expense to a fellow subsidiary:		
Beijing Tong Ren Tang International Co., Ltd.....	300	1,800

(iv) **Key management compensation**

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

	Year ended 31 December	
	2011	2012
	HK\$'000	HK\$'000
Short-term employee benefits	2,384	4,285
Post-employment benefits – defined contribution plan.....	48	70
	2,432	4,355

(b) Non-continuing transactions:

(i) Sales and purchases of products

The Group

	Year ended 31 December	
	2011	2012
	HK\$'000	HK\$'000
Sales of products to:		
Ultimate Holding Company	22	–
Fellow subsidiaries:		
Beijing Tong Ren Tang Health Pharmaceutical Co., Ltd. (Note)	61,625	86,098
Beijing Tong Ren Tang Commercial Investment Development Co., Ltd. (Note)	15,592	18,986
Beijing Tong Ren Tang Ginseng and Antler Co., Ltd.	309	1,413
	<u>77,548</u>	<u>106,497</u>
An associated company:		
Beijing Tong Ren Tang Health Preserving and Culture Co., Ltd.	144	862
	<u>77,692</u>	<u>107,359</u>

The Company

	Year ended 31 December	
	2011	2012
	HK\$'000	HK\$'000
Sales of products to a subsidiary:		
Beijing Tong Ren Tang International Natural Pharm Co. Ltd.	<u>109,966</u>	<u>59,520</u>

Note:

In October 2012, the Company has ceased its PRC distribution business. The Company has disposed of majority of the inventory in relation to this PRC distributions business to its fellow subsidiaries. The sales proceeds of this one-off sales amounted to approximately HK\$45.5 million.

(ii) *Agency fee income**The Group and the Company*

	Year ended 31 December	
	2011	2012
	HK\$'000	HK\$'000
Agency fee income from		
Immediate Holding		
Company	3,351	4,919
Intermediate Holding		
Company	21,140	15,726
	<u>24,491</u>	<u>20,645</u>

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

34 SEGMENT INFORMATION

The chief operating decision-maker has been identified as the executive directors and non-executive director of the Company (the “Executive Directors” and the “Non-executive Director”). The executive directors and non-executive director review the Group’s internal reporting in order to assess performance and allocate resources and has determined the operating segments based on these reports.

The Executive Directors and Non-executive Director consider the Group’s business from a geographic perspective and have determined that the Group has three reportable operating segments as follows:

- (i) Hong Kong – sale of healthcare products and Chinese medicine and provision of Chinese Medicine Consultation services through retail outlets as well as wholesale of healthcare products and Chinese medicine in Hong Kong. In addition, it includes the agency fee income for acting as the sales agent of the Immediate Holding Company and the Intermediate Holding Company for their “Tong Ren Tang” branded products sold outside the PRC until the expiry of the agency agreements in December 2012. Also, it includes the royalty fee income received from overseas entities for using “Tong Ren Tang” brand name.
- (ii) PRC (excluded Hong Kong and Macao) – wholesale of healthcare products in the PRC as well as the operations of TRT (Tang Shan). The wholesale of healthcare products in the PRC was ceased after October 2012. From management perspective, the wholesale business in the PRC is not considered as a reportable operating segment. To reflect the result of the discontinued operation. The wholesale business in the PRC is presented as discontinued operations in the segment information. Aside from the wholesale business in the PRC, the PRC operations mainly represent the sole distributor operation for Tong Ren Tang Technologies Co., Ltd on Beijing Tong Ren Tang Co., Ltd for Tong Ren Tang brand products in the non-PRC markets. In 2012, the Group also decided to dispose of TRT (Tang Shan) to a fellow subsidiary. Assets and liabilities of TRT (Tang Shan) were presented as assets held for sale in the segment information as at 31 December 2012. Since November 2012, a subsidiary of the Group in the PRC becomes the sole distributor for Tong Ren Tang Technologies Co., Ltd. and Beijing Tong Ren Tang Co., Ltd for Tong Ren Tang branded products in Non-PRC markets.

- (iii) Overseas – sale of healthcare products and Chinese medicine and provision of Chinese medicine consultation services in other overseas countries.

Unallocated items comprise mainly corporate expenses and finance income.

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

The executive directors and non-executive director assess the performance of the operating segments based on revenue and segment results of each segment.

(a) Analysis of consolidated income statements

	Hong Kong	PRC	Overseas	Continuing operations	Discontinued operations	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Year ended 31 December 2011						
Revenue	197,458	–	112,963	310,421	84,539	394,960
Inter-segment revenue				(113,739)	(239)	(113,978)
Revenue from external customers				<u>196,682</u>	<u>84,300</u>	<u>280,982</u>
Contribution to segment results ..	74,440	(1,471)	12,606	85,575	67,905	153,480
Depreciation and amortisation ...	(6,285)	(560)	(2,376)	(9,221)	(1,993)	(11,214)
Impairment loss on machinery and loss arising from onerous contracts of purchase of machines	(12,104)	–	–	(12,104)	–	(12,104)
Impairment loss on inventories ..	<u>(1,066)</u>	<u>–</u>	<u>(377)</u>	<u>(1,443)</u>	<u>(2,150)</u>	<u>(3,593)</u>
Segment results	54,985	(2,031)	9,853	62,807	63,762	126,569
Inter-segment elimination						(26,946)
Gain on remeasuring existing interest in TRT (Macau) on acquisition						2,431
Professional fee in connection with the Company's listing						<u>(24,061)</u>
Operating profit						77,993
Finance income						1,253
Share of loss of an associated company	<u>–</u>	<u>(1,575)</u>	<u>–</u>	<u>(1,575)</u>	<u>–</u>	<u>(1,575)</u>
Profit before tax						77,671
Income tax expense						<u>(17,518)</u>
Profit for the year						<u><u>60,153</u></u>

	Hong Kong	PRC	Overseas	Continuing operations	Discontinued operations	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Year ended 31 December 2012						
Revenue	269,575	10,663	153,723	433,961	115,031	548,992
Inter-segment revenue				(75,040)	–	(75,040)
Revenue from external customers				<u>358,921</u>	<u>115,031</u>	<u>473,952</u>
Contribution to segment results ..	78,803	(7,308)	27,107	98,602	88,715	187,317
Depreciation and amortisation ...	(5,612)	(693)	(3,125)	(9,430)	(2,466)	(11,896)
Impairment loss on inventories ..	–	–	–	–	(5,768)	(5,768)
Segment results	73,191	(8,001)	23,982	89,172	80,481	169,653
Inter-segment elimination.						40,429
Professional fee in connection with the Company's listing.						(11,180)
Operating profit						198,902
Finance income – net.						1,023
Share of loss of an associated company	–	(992)	–	(992)	–	(992)
Profit before tax						198,933
Income tax expense						(39,819)
Profit for the year.						<u>159,114</u>

During the years ended 31 December 2011 and 2012, revenue from a single customer accounted for more than ten per cent of the Group's total revenues for the respective years. These revenues are attributable to the Hong Kong segment and the PRC segment. It represents a group of entities under common control considered as a single customer. The revenue from this customer and its segment are summarised below:

	Year ended 31 December	
	2011	2012
	HK\$'000	HK\$'000
Sales to the Ultimate Holding Company and entities controlled by the Ultimate Holding Company	77,692	107,359
Agency fee income from the entities controlled by the Ultimate Holding Company	<u>24,491</u>	<u>20,645</u>
	<u>102,183</u>	<u>128,004</u>

There are no customers of other segments individually accounted for ten percent or more of the Group's total revenues for the years ended 31 December 2011 and 2012.

(b) Analysis of consolidated balance sheets

	<u>Hong Kong</u>	<u>PRC</u>	<u>Overseas</u>	<u>Total</u>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
At 31 December 2011				
Segment assets and liabilities				
Total assets	<u>191,391</u>	<u>184,349</u>	<u>110,255</u>	<u>485,995</u>
Investment in an associated company . . .	<u>—</u>	<u>1,917</u>	<u>—</u>	<u>1,917</u>
Additions to non-current assets	7,128	80,734	6,932	94,794
Total liabilities	<u>(27,989)</u>	<u>(22,972)</u>	<u>(25,269)</u>	<u>(76,230)</u>
At 31 December 2012				
Segment assets and liabilities				
Total assets	<u>309,895</u>	<u>247,589</u>	<u>123,154</u>	<u>680,638</u>
Investment in an associated company . . .	<u>—</u>	<u>928</u>	<u>—</u>	<u>928</u>
Assets of disposal group held for sale . . .	<u>—</u>	<u>162,985</u>	<u>—</u>	<u>162,985</u>
Additions to non-current assets	9,286	26	13,613	22,925
Total liabilities	<u>(31,367)</u>	<u>(56,788)</u>	<u>(24,795)</u>	<u>(112,950)</u>
Liabilities of disposal group held for sale	<u>—</u>	<u>(21,916)</u>	<u>—</u>	<u>(21,916)</u>

Management has determined the operating segments based on the location of the entities and the information reviewed by the Group's chief operating decision maker for the purposes of allocating resources and assessing performance. Segment assets include leasehold land, property, plant and equipment, investment in an associated company, deferred tax assets, deposits paid for purchase of leasehold land and property, plant and equipment, inventories, trade receivables and other current assets, short-term bank deposits and cash and cash equivalents. Segment liabilities include trade and other payables, current and deferred income tax liabilities.

(c) Information about geographical areas

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

(i) Revenues

	Year ended 31 December	
	2011	2012
	HK\$'000	HK\$'000
Hong Kong	83,719	205,197
Mainland China	84,300	115,031
Singapore	28,453	30,099
Malaysia	8,544	7,907
Macao	16,850	43,995
Thailand	5,238	6,288
Other countries ¹	7,791	12,063
Australia	32,660	36,213
Canada	13,427	17,159
	<u>280,982</u>	<u>473,952</u>

Revenues are allocated based on the customer's location.

(ii) Non-current assets (other than deferred tax assets)

	At 31 December	
	2011	2012
	HK\$'000	HK\$'000
Hong Kong	117,791	118,456
Mainland China	85,828	2,125
Singapore	767	575
Malaysia	2,379	10,441
Macao	426	332
Thailand	305	852
Other countries ¹	3,055	3,871
Australia	1,857	3,231
Canada	2,193	2,177
	<u>214,601</u>	<u>142,060</u>

Non-current assets are located based on where the entity holds assets.

¹ Other countries include entities located in Cambodia, South Korea, Indonesia, Brunei, United Arab Emirates and Poland.

35 SUBSEQUENT EVENTS

Saved as disclosed in note 15(a) of Section II to this report, certain significant subsequent events are disclosed as follows:

- (a) Pursuant to the written resolution passed by the shareholders of the Company on 27 March 2013, the authorised ordinary shares of the Company was subdivided from 1,000,000,000 shares with a par value of HK\$1.00 each into 2,000,000,000 shares of HK\$0.50 each while the issued share capital was subdivided from 201,430,473 shares of par value of HK\$1.00 each into 402,860,946 shares of HK\$0.50 each.
- (b) Pursuant to the written resolution passed by the shareholders of the Company on 28 March 2013, conditional on the share premium account of the Company being credited as a result of the issue of the offer shares by the Company pursuant to the proposed share offer as described in the prospectus, the Company will capitalise an amount of HK\$98,569,527, standing to the credit of its share premium account of the Company by applying such sum to pay up in full at par a total of 197,139,054 shares for allotment and issue to the shareholders as at 25 April 2013 on a pro rata basis.

III SUBSEQUENT FINANCIAL STATEMENTS

No audited consolidated financial statements of the Group have been prepared by the Company and its subsidiaries in respect of any period subsequent to 31 December 2012 up to the date of this report. Save as disclosed in note 29 of Section II to this report, no dividend or other distribution has been declared, made or paid by the Company or any of its subsidiaries in respect of any period subsequent to 31 December 2012.

Yours faithfully,
PricewaterhouseCoopers
Certified Public Accountants
Hong Kong

The information set out in this Appendix II does not form part of the Accountant's Report from PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, the reporting accountant of the Company, as set out in Appendix I to this prospectus, and is included herein for illustrative purposes only. The unaudited pro forma financial information should be read in conjunction with the section headed "Financial Information" in this prospectus and the Accountant's Report set out in Appendix I to this prospectus.

A. UNAUDITED PRO FORMA STATEMENT OF ADJUSTED NET TANGIBLE ASSETS

The following is an illustrative and unaudited pro forma statement of adjusted net tangible assets of the Group prepared on the basis of the notes set out below for the purpose of illustrating the effect of the Share Offer on the net tangible assets of the Group attributable to equity holders of the Company as at 31 December 2012 as if the Share Offer had taken place on 31 December 2012.

This unaudited pro forma statement of adjusted net tangible assets has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the consolidated net tangible assets of the Group as at 31 December 2012 or at any future dates following the completion of the Share Offer.

	Audited consolidated net tangible assets of the Group attributable to equity holders of the Company as at 31 December 2012	Estimated net proceeds from the Share Offer	Unaudited pro forma adjusted net tangible assets attributable to equity holders of the Company as at 31 December 2012	Unaudited pro forma adjusted net tangible assets per Share
	HK\$'000 (Note 1)	HK\$'000 (Note 2)	HK\$'000	HK\$ (Note 3)
Based on an Offer Price of HK\$2.59 per Share	494,883	486,682	981,565	1.23
Based on an Offer Price of HK\$3.04 per Share	494,883	573,659	1,068,542	1.34

Notes:

- (1) The unadjusted audited consolidated net tangible assets attributable to the equity holders of the Company as of 31 December 2012 is extracted from the section headed “Appendix I – Accountant’s report” to this prospectus, which is based on the audited consolidated net assets of the Group attributable to the equity holders of the Company of HK\$494,883,000.
- (2) The estimated net proceeds from the Share Offer are based on the indicative Offer Prices of HK\$2.59 per Share and HK\$3.04 per Share after deduction of the underwriting fees and other related expenses and takes no account of any Shares which may be allotted and issued upon the exercise of the Over-allotment Option.
- (3) The unaudited pro forma net tangible assets per Share is arrived at after the adjustments referred to in Note (2) above and on the basis that 800,000,000 Shares were in issue assuming that the sub-division of Shares, the Capitalisation Issue and the Share Offer have been completed on 31 December 2012 but takes no account of any Shares which may be allotted and issued upon the exercise of the Over-allotment Option.
- (4) By comparing the valuation of the Group’s property interests (including jointly controlled entities) of HK\$322,020,000 as set out in Appendix III to this prospectus and the unaudited net book value of these properties as at 28 February 2013, the net valuation surplus is approximately HK\$119,039,000, which has not been included in the above net tangible assets attributable to equity holders of the Company as at 31 December 2012. The revaluation of the Group’s property interests will not be incorporated in the Group’s financial information. If the revaluation surplus is to be included in the Group’s financial information, an additional depreciation and amortisation charge of approximately HK\$864,000 per annum related to buildings, leasehold land held under finance lease and lease prepayments would be recorded.
- (5) Except as disclosed above, no adjustment has been made to reflect any trading result or other transaction of the Group entered into subsequent to 31 December 2012. In particular, the unaudited pro forma adjusted net tangible assets of the Group has not taken into account the payment of a dividend of HK\$100 million which was approved by the Board of Directors of the Company on 15 April 2013 and was fully paid on 18 April 2013.

B. REPORT FROM THE REPORTING ACCOUNTANT ON THE UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following is the text of a report received from PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this prospectus.



羅兵咸永道

ACCOUNTANT'S REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION TO THE DIRECTORS OF BEIJING TONG REN TANG CHINESE MEDICINE COMPANY LIMITED

We report on the unaudited pro forma financial information of Beijing Tong Ren Tang Chinese Medicine Company Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") set out on pages II-1 to II-2 under the heading of "Unaudited Pro Forma Statement of Adjusted Net Tangible Assets" (the "Unaudited Pro Forma Financial Information") in Appendix II of the Company's prospectus dated 25 April 2013 (the "Prospectus"), in connection with the proposed initial public offering of the shares of the Company. The Unaudited Pro Forma Financial Information has been prepared by the directors of the Company, for illustrative purposes only, to provide information about how the proposed initial public offering might have affected the relevant financial information of the Group. The basis of preparation of the Unaudited Pro Forma Financial Information is set out on pages II-1 to II-2 of the Prospectus.

Respective Responsibilities of Directors of the Company and the Reporting Accountant

It is the responsibility solely of the directors of the Company to prepare the Unaudited Pro Forma Financial Information in accordance with paragraph 7.31 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "Listing Rules") and Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

It is our responsibility to form an opinion, as required by paragraph 7.31(7) of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

.....
PricewaterhouseCoopers, 22/F Prince's Building, Central, Hong Kong
T: +852 2289 8888, F: +852 2810 9888, www.pwchk.com

Basis of Opinion

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 300 “Accountants’ Reports on Pro Forma Financial Information in Investment Circulars” issued by the HKICPA. Our work, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the audited consolidated net assets of the Group as at 31 December 2012 with the accountant’s report as set out in Appendix I of the Prospectus, considering the evidence supporting the adjustments and discussing the Unaudited Pro Forma Financial Information with the directors of the Company.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 7.31(1) of the Listing Rules.

The Unaudited Pro Forma Financial Information is for illustrative purposes only, based on the judgements and assumptions of the directors of the Company, and, because of its hypothetical nature, does not provide any assurance or indication that any event will take place in the future and may not be indicative of the adjusted net tangible assets of the Group as at 31 December 2012 or any future date.

Opinion

In our opinion:

- a) the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated;
- b) such basis is consistent with the accounting policies of the Group; and
- c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 7.31(1) of the Listing Rules.

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong, 25 April 2013

The following is the text of a letter, summary of values and valuation certificates prepared for the purpose of incorporation in this prospectus received from LCH (Asia-Pacific) Surveyors Limited, an independent professional surveyor, in connection with its valuations as at 28 February 2013 of the property interests held by the Group.



利駿行測量師有限公司

LCH (Asia-Pacific) Surveyors Limited

PROFESSIONAL SURVEYOR

PLANT AND MACHINERY VALUER

BUSINESS & FINANCIAL ASSETS VALUER

The readers are reminded that the report which follows has been prepared in accordance with the reporting guidelines set by the International Valuation Standard 2011 (the “IVS”) published by the International Valuation Standards Council as well as the HKIS Valuation Standards on Properties, First Edition, 2005 (the “HKIS Standards”) published by the Hong Kong Institute of Surveyors (the “HKIS”). Both standards entitle the valuer to make assumptions which may on further investigation, for instance by the readers’ legal representative, prove to be inaccurate. Any exception is clearly stated below. Headings are inserted for convenient reference only and have no effect in limiting or extending the language of the paragraphs to which they refer. Translations of terms in English or in Chinese are for reader’s identification purpose only and have no legal status or implication in this report. This report was prepared and signed off in English format, translation of this report in language other than English shall only be used as a reference and should not be regarded as a substitute to this report. Piecemeal reference to this report is considered to be inappropriate and no responsibility is assumed from our part for such piecemeal reference. It is emphasised that the findings and conclusion presented below are based on the documents and facts known to the valuer at the Latest Practicable Date of this prospectus. If additional documents and facts are made available, the valuer reserves the right to amend this report and its conclusions.

17th Floor
Champion Building
Nos. 287-291 Des Voeux Road Central
Hong Kong

25 April 2013

The Board of Directors
Beijing Tong Ren Tang Chinese Medicine Company Limited
No. 3 Dai King Street
Tai Po Industrial Estate
Tai Po, New Territories
Hong Kong

Dear Sirs,

In accordance with the instructions given by the management of Beijing Tong Ren Tang Chinese Medicine Company Limited (hereinafter referred to as the “Company”) to us to value certain properties presently held by the Company or its subsidiaries (collectively, together with the Company hereinafter

referred to as the “Group”) in Hong Kong, Malaysia and the People’s Republic of China (hereinafter referred to as the “PRC” or “China”), we confirm that we have conducted inspections, made relevant enquiries and obtained such further information as we consider necessary to support our findings and our conclusion of values of the property interests as at 28 February 2013 (hereinafter referred to as the “Date of Valuation”) for the Company’s internal management reference purpose.

We understand that the use of our work product (regardless of form of presentation) will form part of the Company’s due diligence but we have not been engaged to make specific sales or purchase recommendations, or give opinion for financing arrangement. We further understand that the use of our work product will not supplant other due diligence which the management of the Company should conduct in reaching its business decision regarding the properties valued. Our work is designed solely to provide information that will give the management of the Company a reference in its due diligence process, and our work should not be the only factor to be referenced by the Company. Our findings and conclusion of values of the property interests are documented in a valuation report and submitted to the Company at today’s date.

At the request of the management of the Company, we prepared this summary report (including this letter, summary of values and the valuation certificates) to summarise our findings and conclusion of values as documented in the valuation report for the purpose of inclusion in this prospectus at today’s date for the Company’s shareholders’ reference. Terms herein used without definition shall have the same meanings as in the valuation report, and the assumptions and caveats adopted in the valuation report also applied to this summary report.

BASIS OF VALUATION AND ASSUMPTIONS

According to the IVS which the HKIS Standards also follows, there are two valuation bases, namely market value basis and valuation bases other than market value. In this engagement, we have provided our conclusion of values of the properties on the market value basis.

The term “Market Value” is defined by the HKIS Standards as “the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm’s-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion”.

Unless otherwise stated, our valuations of the properties held by the Group have been made on the assumptions that, as at the Date of Valuation,

1. the legally interested party in each of the properties has free and uninterrupted rights to assign its relevant property interest for the whole of the unexpired terms as granted, and any premium payable have already been fully paid; and
2. the legally interested party in each of the properties can sell its relevant property interest in the market in its existing state without the benefit of a deferred terms contract, leaseback, joint venture, management agreement or any other similar arrangement which could serve to increase the value of the property interest.

In addition, unless otherwise stated, our valuations of the properties in Group II and III have been made on further assumptions that, as at the Date of Valuation,

1. the legally interested party in each of the properties has absolute title to its relevant property interest;
2. each of the properties has obtained relevant government's approvals for the sale of the property and is able to dispose of and transfer free of all encumbrances (including but not limited to the cost of transaction) in the market; and
3. the properties can be freely disposed of and transferred free of all encumbrances as at the Date of Valuation for its existing use in the market to both local and overseas purchasers without payment of any premium to the government.

In valuing the property interests in Hong Kong which are held under various Government Leases expiring before 30 June 1997, we have taken account of the provisions contained in Annex III of the Joint Declaration of the Government of the United Kingdom and the Government of the People's Republic of China on the Question of Hong Kong, and the New Territories Leases (Extension) Ordinance 1988 that such leases have been extended without premium until 30 June 2047, and that rents of three per cent of the rateable value for the time being of such property interests are charged per annum from the date of extension.

Should any of the above not be the case, it will have adverse impact to the values as reported.

APPROACH TO VALUE

There are three generally accepted approaches in arriving at the market value of a property on an absolute title basis, namely the Sales Comparison Approach (or known as the Market Approach), the Cost Approach and the Income Approach.

Having considered the general and inherent characteristics of Property No. 1 in Group I and Property No. 11 in Group III we have adopted the depreciated replacement cost ("DRC") approach. The DRC approach is a procedural valuation approach and is an application of the Cost Approach in valuing specialised properties like the properties. The use of this approach requires an estimate of the market value of the land for its existing use, and an estimate of the new replacement cost of the buildings and other site works from which deductions are then made to allow for age, condition, and functional obsolescence taken into account of the site formation cost and those public utilities connection charges to the buildings.

The valuations of the properties are on the assumption that the properties are subject to the test of adequate potential profitability of the business having due regard to the value of the total assets employed and the nature of the operation.

By using this approach, the land should be assumed to have the benefit of planning permission for the replacement of the existing buildings and it is always necessary when valuing the land, to have regard to the manner in which the land is developed by the existing buildings and site works, and the extent to which these realise the full potential value of the land. When considering a notional replacement site, it should normally be regarded as having the same physical and location characteristics as the actual site, other than characteristics of the actual site which are not relevant, or are of no value, to the existing use. In considering the buildings, the gross replacement cost of the buildings should take into consideration of everything which is necessary to complete the construction from a new green field site to provide buildings as they are, at the date of valuation, fit for and capable of being occupied and used for the current use. These costs to be estimated are not to erect buildings in the future but have the buildings available for occupation as at the date of valuation, the work having commenced at the appropriate time.

We need to state that our opinion of value of each of these two properties is not necessarily intended to represent the amount that might be realised from disposal of the land or various buildings of the property on piecemeal basis in the open market.

Unless otherwise stated, in valuing the remaining properties in Group I and the properties in Group II, we have adopted the Sales Comparison Approach on the assumption that each of the properties was sold with the benefit of vacant possession as at the Date of Valuation. This approach considers the sales, listings or offering of similar or substitute properties and related market data, and establishes a value of a property that a reasonable investor would have to pay for a similar property of comparable utility and with an absolute title. However, we have factored in the term of the existing tenancy in each of Property 8 of Group I and Property 10 of Group II, and considered the respective reversionary interests of the said two properties in our valuations.

Unless otherwise stated, we have not carried out any valuation on a redevelopment basis to the properties and the study of possible alternative development options, and the related economics do not come within the scope of our work.

MATTERS THAT MIGHT AFFECT THE VALUES REPORTED

For the sake of valuation, we have adopted the areas as appeared in the copies of the documents as provided and no further verification work has been conducted. Should it be established subsequently that the adopted areas were not the latest approved, we reserve the right to revise our report and the valuations accordingly.

No allowance has been made in our valuations for any charges, mortgages, outstanding premium or amounts owing on the properties valued nor any expenses or taxation which may be incurred in affecting a sale of each of the properties. Unless otherwise stated, it is assumed that the properties are free from all encumbrances, restrictions, and outgoings of an onerous nature which could affect their values.

In our valuations, we have assumed that Property No. 1 in Group I is able to be sold and purchased, subject to the terms and conditions as agreed in the subject Lease, without any legal impediment (including but not limited to the relevant organisation). Should this not be the case, it will affect the reported value significantly. The readers are reminded to have their own legal due diligence work on such issue. No responsibility or liability is assumed.

Also, we have assumed that the properties in Groups II and III are able to be sold and purchased in the market without any legal impediment (especially from the regulators). Should this not be the case, it will affect the reported values significantly. The readers are reminded to have their own legal due diligence work on such issue. No responsibility or liability is assumed.

As at the Latest Practicable Date of this prospectus, we were unable to identify any adverse news against the properties which may affect the reported values in our work product. Thus, we are not in the position to report and comment on its impact (if any) to the properties. However, should it be established subsequently that such news did exist at the Date of Valuation, we reserve the right to adjust the value(s) reported herein.

ESTABLISHMENT OF TITLES

Due to the purpose of this engagement, the management of the Company provided us the necessary copies of documents to support that the legally interested party in the properties (in this instance, the Group) has free and uninterrupted rights to transfer, to mortgage or to let its relevant property interests (in this instance, an absolute title) for the whole of the unexpired terms as granted, free of all encumbrances and any premiums payable have already been paid in full or outstanding procedures have been completed. However, our procedures to value as agreed with the management of the Company did not require us to conduct legal due diligence on the legality and formality on the way that the legally interested party obtained the properties from the relevant authorities. We agreed with the management of the Company that this should be the responsibility of the legal advisor to the management of the Company. Thus, no responsibility or liability is assumed from our part to the origin and continuity of the titles to the properties.

We have caused searches to be made at the Land Registry regarding the properties in Group I. We are unable to accept any responsibility for the information that contained in the searches, or any liabilities against the properties which were unrecorded at the time of our searches.

For properties in Group II, we have relied solely on the copies of document and the copy of the legal opinions provided by the management of the Company with regards to the legal title of the properties. We are given to understand the legal opinions was prepared by the Group's legal advisor, Raja, Darryl & Loh dated 24 April 2013.

For property in Group III, the land registration system of China forbids us to search the original documents of the property that are filed in the relevant authorities, and to verify legal titles or to verify any material encumbrances or amendment which may not appear on the copies handed to us. For the purpose of valuation, we have relied solely on a copy of the PRC legal opinions provided by the management of the Company with regards to the legal title of the property. We are given to understand that the PRC legal opinions was prepared by a qualified PRC legal advisor Tian Yin Law Firm dated 24 April 2013.

We need to state that we are not legal professionals and are not qualified to ascertain the titles and to report any encumbrances that may be registered against the properties. However, we have complied with the requirements as stated in Chapter 8 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited and relied solely on the copies of documents and the various copies of legal opinions provided by the management of the Company in our valuations. No responsibility or liability from our part is assumed in relation to those legal opinions.

In our report, we have assumed that the Group has obtained all the approval and/or endorsement from the relevant authorities to own the properties, and that there would be no legal impediment (especially from the regulators) for the Group to continue the legal titles to the subject properties. Should this not be the case, it will affect our findings or conclusion of values in this report significantly. The readers are reminded to have their own legal due diligence work on such issues. No responsibility or liability is assumed.

INSPECTIONS AND INVESTIGATIONS OF THE PROPERTIES IN ACCORDANCE WITH VALUATION STANDARD 4 OF THE HKIS STANDARDS

We have conducted inspections to the exterior, and where possible, the interior of the properties in respect of which we have been provided with such information as we have requested for the purpose of the engagement. The properties were inspected by graduate surveyors, namely Mr. Ivan Mak and Mr. Sam Ngai; Sr Elsa Ng and Sr Joseph Ho between January 2011 and April 2013. We have not inspected those parts of the properties which were covered, unexposed or inaccessible and such parts have been assumed to be in a reasonable condition. We cannot express an opinion about or advice upon the condition of the properties and our work product should not be taken as making any implied representation or statement about the condition of the properties. No structural survey, investigation or examination has been made, but in the course of our inspections, we did not note any serious defects in the properties inspected. We are not, however, able to report that the properties are free from rot, infestation or any other structural defects. No tests were carried out to the utilities (if any) and we are unable to identify those utilities covered, unexposed or inaccessible.

We have not carried out on-site measurements to verify the correctness of the areas of the properties, but have assumed that the areas shown on the documents and official layout plans handed to us are correct. All dimensions, measurements and areas are approximations.

Our engagement and the agreed procedures to value the properties did not include an independent land survey to verify the legal boundaries of the properties. We need to state that we are not land survey profession, therefore, we are not in the position to verify or ascertain the correctness of the legal boundaries of such properties that appeared on the documents handed to us. No responsibility from our part is assumed. The management of the Company or interested party in the properties should conduct their own legal boundaries due diligence work.

We have not arranged for any investigation to be carried out to determine whether or not any deleterious or hazardous material has been used in the construction of the properties, or has since been incorporated, and we are therefore unable to report that the properties are free from risk in this respect, and therefore we have not considered such factors in our valuations.

We are not aware of the content of any environmental audit or other environmental investigation or soil survey which may have been carried out on the properties and which may draw attention to any contamination or the possibility of any such contamination. In undertaking our work, we have been instructed to assume that no contaminative or potentially contaminative uses have ever been carried out in the properties. We have not carried out any investigation into past or present uses, either of the properties or of any neighbouring land, to establish whether there is any contamination or potential

for contamination to the properties from these uses or sites, and have therefore assumed that none exists. However, should it be established subsequently that contamination, seepage or pollution exists at the properties or on any neighbouring land, or that the premises have been or are being put to a contaminative use, this might reduce the values now reported or affect our findings.

SOURCES OF INFORMATION AND ITS VERIFICATION IN ACCORDANCE WITH VALUATION STANDARD 5 OF THE HKIS STANDARDS

In the course of our work, we have been provided with copies of the documents regarding the properties, and these copies have been referenced without further verifying with the relevant bodies and/or authorities. Our procedures did not require us to conduct any searches or to inspect the original documents to verify ownership or any amendment which may not appear on the copies handed to us. We need to state that we are not legal professionals, therefore, we are not in the position to advise and comment on the legality and effectiveness of the documents provided by the management of the Company.

We have relied solely on the information provided by the management of the Company or its appointed personnel without further verification and have fully accepted advice given to us on such matters as planning approvals or statutory notices, locations, titles, easements, tenure, occupation, tenancy, site and floor areas, and all other relevant matters.

The scope of work has been determined by reference to the property list provided by the management of the Company. All properties on the list have been included in our report. The management of the Company has confirmed to us that it has no property interest other than those specified on the list supplied to us.

Our valuations have been made only based on the advice and information made available to us. While a limited scope of general inquiries had been made to the local property market practitioners, we are not in the position to verify and ascertain the correctness of the advice given by the relevant personnel. No responsibility and liability is assumed.

Information furnished by others, upon which all or portions of our report are based, is believed to be reliable but has not been verified in all cases. Our procedures to work do not constitute an audit, review, or compilation of the information provided. Thus, no warranty is made nor liability is assumed for the accuracy of any data, advices, opinions, or estimates identified as being furnished by others which have been used in formulating our work product.

When we adopted the work products from other professions, external data providers and the management of the Company or its appointed personnel in our works, the assumptions and caveats that adopted by them in arriving at their figures also applied to this report. The procedures we have taken do not provide all the evidence that would be required in an audit and, as we have not performed an audit, accordingly, we do not express an audit opinion.

We are unable to accept any responsibility for the information that has not been supplied to us by the management of the Company or its appointed personnel. Also, we have sought and received confirmation from the management of the Company or its appointed personnel that no material factors have been omitted from the information supplied. Our analysis and valuations are based upon full disclosure between us and the Company of material and latent facts that may affect our works.

We have had no reason to doubt the truth and accuracy of the information provided to us by the management of the Company or its appointed personnel. We consider that we have been provided with sufficient information to reach an informed view, and have had no reasons to suspect that any material information has been withheld.

Unless otherwise stated, all monetary amounts are in Hong Kong dollars (“HK\$”). In valuing the properties in Malaysia, the adopted exchange rate was the prevailing rate as at the Date of Valuation, being Malaysian Ringgit (“RM”) 0.398 per HK\$1. In valuing the property in the PRC, the adopted exchange rate was the prevailing rate as at the Date of Valuation, being Renminbi Yuan (“RMB”) 0.801 per HK\$1. No significant fluctuation in exchange rate has been found between the Date of Valuation and the date of this summary report.

LIMITING CONDITIONS IN THIS SUMMARY REPORT

Our findings and conclusion of values of the properties in this summary report are valid only for the stated purpose and only for the Date of Valuation. We or our personnel shall not be required to give testimony or attendance in court or to any government agency by reason of this summary report, and the valuer accepts no responsibility whatsoever to any other person.

Our valuations have been made on the assumption that no unauthorised alteration, extension or addition to the structure of the properties has been made, and that the inspections and the use of this report do not purport to be a building survey of the properties. The Company or interested party in each of the properties should have their own building survey due diligence work in all cases. We have assumed that the properties are free of rot and inherent danger or unsuitable materials and techniques.

No responsibility is taken for changes in market conditions and local government policy, and no obligation is assumed to revise this summary report to reflect events or conditions, which occur or make known to us subsequent to the date hereof.

Neither the whole nor any part of this summary report or any reference made hereto may be included in any published documents, prospectus or statement, or published in any way, without our written approval of the form and context in which it may appear. Nonetheless, we consent to the publication of this summary report in this prospectus to the Company’s shareholders’ reference.

Our maximum liability relating to services rendered under this engagement (regardless of form of action, whether in contract, negligence or otherwise) shall be limited to the charges paid to us for the portion of its services or work products giving rise to liability. In no event shall we be liable for consequential, special, incidental or punitive loss, damage or expense (including without limitation, lost profits, opportunity costs, etc.), even if it has been advised of their possible existence.

It is agreed that the Company is required to indemnify and hold us and our personnel harmless from any claims, liabilities, costs and expenses (including, without limitation, attorney's fees and the time of our personnel involved) brought against, paid or incurred by us at a time and in any way based on the information made available in connection with our work product except to the extent that any such losses, expenses, damages or liabilities are ultimately determined to be the result of gross negligence of our engagement team in conducting its work. This provision shall survive even after the termination of this engagement for any reason.

STATEMENTS

The attached valuation certificate is prepared in line with the requirements contained in Chapter 8 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited as well as the reporting guidelines contained in both the IVS and the HKIS Standards. The valuations have been undertaken by valuer, acting as external valuer, qualified for the purpose of the valuations.

We retain a copy of this summary report and the detailed valuation report together with the data from which it was prepared, and these data and documents will, according to the Laws of Hong Kong, keep for a period of 6 years from the date of this report and to be destroyed thereafter. We consider these records confidential, and we do not permit access to them by anyone, with the exception for law enforcement authorities or court order, without the Company's authorisation and prior arrangement made with us. Moreover, we will add the Company's information into our client list for our future reference.

The analyses or valuations of the properties depend solely on the assumptions made in this report and not all of which can be easily quantified or ascertained exactly. Should some or all of the assumptions prove to be inaccurate at a later date, it will affect the reported findings or conclusion of values significantly.

We hereby certify that the fee for this service is not contingent upon our conclusion and we have no significant interest in the properties, the Group or the values reported.

Our valuations are summarised below and the valuation certificate is attached.

Yours faithfully,
For and on behalf of
LCH (Asia-Pacific) Surveyors Limited

Ho Chin Choi, Joseph BSc PgD MSc RPS (GP) (PFM)
Managing Director

Contributing Valuers:
Mr. Ivan Mak Kin Hong BSc
Mr. Sam Ngai Yat Lun BSc

Mr. Joseph Ho Chin Choi has been conducting asset valuations and/or advisory work in Hong Kong, Macao, Taiwan, mainland China, the Philippines, Vietnam, Malaysia, Singapore, Thailand, Bangladesh, Japan, Australia, Kazakhstan, Madagascar, Scotland, Finland, Germany, Switzerland, Poland, Brazil, Argentina, Guyana, Venezuela, Canada and the United States of America for various purposes since 1988. He is a Fellow of The HKIS and a valuer on the List of Property Valuers for Undertaking Valuation for Incorporation or Reference in Listing Particulars and Circulars and Valuation in Connection with Takeovers and Mergers published by The HKIS.

SUMMARY OF VALUES

Group I – Properties held and/or occupied by the Group in Hong Kong and valued on market value basis

Property	Amount of valuation in its existing state as at 28 February 2013 HK\$	Interest of the Group	Amount of valuation in its existing state attributable to the Group as at 28 February 2013 HK\$
1. A factory complex located at Subsection 1 of Section K of Tai Po Town Lot No.13 and The Extension Thereto (also known as No.3 Dai King Street) Tai Po Industrial Estate Tai Po, New Territories Hong Kong	106,500,000	100 per cent.	106,500,000
2. Flat 12 on 22nd Floor of Block A (also known as Chung Chun House) Chung Nga Court No. 8 Chung Nga Road Tai Po New Territories Hong Kong	2,890,000	N/A	Nil
3. Flat G on 4th Floor of Block 4 (Wah Cheong Court) Fortune Plaza No. 4 On Chee Road Tai Po New Territories Hong Kong	2,980,000	100 per cent.	2,980,000
4. Unit A on 8th Floor of Block 5 (Hong Man Court) Sun Hing Garden No. 2 On Po Lane Tai Po New Territories Hong Kong	3,510,000	100 per cent.	3,510,000

APPENDIX III

PROPERTY VALUATION

	Property	Amount	Interest	Amount of valuation
		of valuation in its existing state as at 28 February 2013 HK\$		in its existing state attributable to the Group as at 28 February 2013 HK\$
5.	Flat E on 16th Floor Riviera Lodge No. 61 Ting Kok Road Tai Po New Territories Hong Kong	4,930,000	N/A	Nil
6.	Flat E on 32nd Floor and a car parking space No.807 on 5th Floor Riviera Lodge No. 61 Ting Kok Road Tai Po New Territories Hong Kong	5,650,000	100 per cent.	5,650,000
7.	Flat F on 17th Floor Riviera Lodge No. 61 Ting Kok Road Tai Po New Territories Hong Kong	2,830,000	100 per cent.	2,830,000
8.	Offices 1405, 1406 and 1407 on 14th Floor Office Tower of Convention Plaza No. 1 Harbour Road Wanchai Hong Kong	98,600,000	100 per cent.	98,600,000
Sub-total:		HK\$227,890,000		HK\$220,070,000

APPENDIX III

PROPERTY VALUATION

Group II – Properties held and occupied by the Group in Malaysia and valued on market value basis

Property	Amount of valuation in its existing state as at 28 February 2013 HK\$	Interest of the Group	Amount of valuation in its existing state attributable to the Group as at 28 February 2013 HK\$
9. A 3-storey building located at Nos. 72 and 74 Lebuh Campbell 10100 Pulau Pinang (known as Lot Nos. 1334 and 1335, Section 18, Town of Georgetown North-East District State of Pulau Pinang) Malaysia	10,040,000	60 per cent.	6,020,000
10. A 4-storey building located at No. 42, Jalan SS 2/67 47300 Petaling Jaya (known as Lot No. 25564 Daerah Petaling Bandar Petaling Jaya State of Selangor) Selangor Malaysia	12,550,000	60 per cent.	7,530,000
Sub-total:	HK\$22,590,000		HK\$13,550,000

Group III – Property held for sale by the Group in the PRC and valued on market value basis

Property	Amount of valuation in its existing state as at 28 February 2013 HK\$	Interest of the Group	Amount of valuation in its existing state attributable to the Group as at 28 February 2013 HK\$
11. A factory complex located at south side of Yutai Industrial Park Yutian County Tangshan City Hebei Province The PRC	130,000,000	68 per cent.	88,400,000
Sub-total:	HK\$130,000,000		HK\$88,400,000
Grand-total:	HK\$380,480,000		HK\$322,020,000

VALUATION CERTIFICATE

Group I – Properties held and/or occupied by the Group in Hong Kong and valued on market value basis

Property	Description and tenure	Particulars of occupancy	Amount of valuation in its existing state attributable to the Group as at 28 February 2013
1. A factory complex located at Subsection 1 of Section K of Tai Po Town Lot No. 13 and The Extension Thereto (also known as No. 3 Dai King Street) Tai Po Industrial Estate Tai Po, New Territories Hong Kong	The property comprises a parcel of land having a site area of approximately 11,700 sq. m. together with a 3-storey workshop and a 3-storey ancillary office building erected thereon. The factory complex was completed in about 2006. According to the information made available to us, the property has a total gross area of approximately 109,554 sq. ft. (10,177.82 sq. m.). The property is subject to a right to use the land for a term till 27 June 2047 for construction of a factory building and the installation of machinery, plant and equipment. The Government rent payable is 3% of the rateable value of the property per annum.	We have inspected the property and confirmed with the management of the Company that the property is occupied by the Group for workshop, storage and ancillary office purposes.	HK\$106,500,000 (100% interest)

Notes:

1. The registered owner for the lot is Hong Kong Science and Technology Parks Corporation vide assignment dated 15 May 2001 and registered in the Land Registry by Memorial No. TP663440 on 17 May 2001.
2. In accordance to the land registration record of the lot, the following encumbrances were registered against the lot:
 - Agreement for Lease dated 23 December 2004 in favour of Beijing Tong Ren Tang Chinese Medicine Company Limited and registered in the Land Registry by Memorial No. TP737087 on 19 January 2005; and
 - Lease dated 5 November 2012 in favour of Beijing Tong Ren Tang Chinese Medicine Company Limited and registered in the Land Registry by Memorial No. 12110802580128 on 8 November 2012.

Property	Description and tenure	Particulars of occupancy	Amount of valuation in its existing state attributable to the Group as at 28 February 2013
2. Flat 12 on 22nd Floor of Block A (also known as Chung Chun House) Chung Nga Court No. 8 Chung Nga Road Tai Po New Territories Hong Kong 31/57853 shares of and in Tai Po Town Lot No. 89 (the "Lot")	The property comprises a residential unit on the 22nd Floor of a 35-storey residential building which was completed in about 1991. The gross floor area of the property is approximately 642 sq. ft. (59.64 sq. m.), and the saleable area of the property is approximately 489 sq. ft. (45.40 sq. m.). The Lot is held under a Government Lease for a term commencing from 24 January 1990 to 30 June 2047. The Government rent payable is 3% of the rateable value of the property per annum.	We have inspected the property and confirmed by the management of the Company that the property is occupied by the Group as staff quarters.	Nil (See Note 4)

Notes:

- The registered owner of the property is Beijing Tong Ren Tang Chinese Medicine Company Limited (hereinafter referred as "Company") vide an Assignment dated 2 December 2005 and registered in the Land Registry by Memorial No. 05123000140066 on 30 December 2005.
- In accordance to the land registration record of the property, the following encumbrance was registered against the property:
 - Letter of removal of alienation restrictions from the Hong Kong Housing Authority dated 25 November 1999 and registered in the Land Registry by Memorial No. TP618601 on 14 December 1999.
- According to a declaration dated July 2006 and signed by the Company, the property is held on trust of China Beijing Tong Ren Tang Holdings Corp (hereinafter referred as "TRT Holdings").
- Pursuant to the on trust declaration provided by the Company as mentioned in Note 3 above, the ultimate owner of the property is TRT Holdings. As confirmed by the Company, the property does not include in the Company's financial statements. Thus, we have assigned no attributable market value of this property interest to the Group. Should this not be the case, the market value of the property that attributable to the Group would be in the region of HK\$2,890,000.

Property	Description and tenure	Particulars of occupancy	Amount of valuation in its existing state attributable to the Group as at 28 February 2013
3. Flat G on 4th Floor of Block 4 (Wah Cheong Court) Fortune Plaza No. 4 On Chee Road Tai Po New Territories Hong Kong	The property comprises a residential unit on the 4th Floor of a 25-storey residential building erected on top of a 3-storey garden/retail podium with a basement carpark which was completed in about 1988.	We have inspected the property and confirmed by the management of the Company, the property is occupied by the Group as staff quarters.	HK\$2,980,000 (100% interest)
40/58213 shares of and in Tai Po Town Lot No. 3 (the "Lot")	The gross floor area and saleable area of the property are approximately 451 sq. ft. (41.90 sq. m.) and 339 sq.ft. (31.5 sq.m.), respectively. The Lot is held under a New Grant No. TP11815 for a term commencing from 1 July 1898 and extended till 30 June 2047 by ordinance. The Government rent payable is 3% of the rateable value of the property per annum.		

Note:

The registered owner of the property is Beijing Tong Ren Tang Chinese Medicine Company Limited vide an Assignment dated 21 January 2013 and registered in the Land Registry by Memorial No. 13020601240035 on 6 February 2013.

Property	Description and tenure	Particulars of occupancy	Amount of valuation in its existing state attributable to the Group as at 28 February 2013
4. Unit A on 8th Floor of Block 5 (Hong Man Court) Sun Hing Garden No. 2 On Po Lane Tai Po New Territories Hong Kong	The property comprises a residential unit on the 8th Floor of a 18-storey residential building erected on a 2-storey shopping podium with a basement carpark which was completed in about 1986.	We have inspected the property and confirmed by the management of the Company that the property is occupied by the Group as staff quarters.	HK\$3,510,000 (100% interest)
47/64,299 shares of and in Tai Po Town Lot No. 26 (the "Lot")	The gross floor area and the saleable area of the property are approximately 685 sq. ft. (63.64 sq. m.) and 591 sq. ft. (54.90 sq. m.), respectively.	The Lot is held under a New Grant No. 12063 for a term of 99 years commencing from 1 July 1898. The lease term was extended till 30 June 2047 by ordinance.	
	The Government rent payable is 3% of the rateable value of the property per annum.		

Notes:

1. The registered owner of the property is Beijing Tong Ren Tang Chinese Medicine Company Limited vide an Assignment dated 28 February 2005 and registered in the Land Registry by Memorial No. 05031702360010 on 17 March 2005.
2. In accordance to the land registration record of the property, the following encumbrance was registered against the property:
 - letter of removal of alienation restrictions from the Hong Kong Housing Authority dated 8 September 2004 and registered in the Land Registry by Memorial No. TP737643 on 27 January 2005.

Property	Description and tenure	Particulars of occupancy	Amount of valuation in its existing state attributable to the Group as at 28 February 2013
5. Flat E on 16th Floor Riviera Lodge No. 61 Ting Kok Road Tai Po New Territories Hong Kong 69/11,377 shares of and in Section A of Lot No. 1662 in D.D. 11 and the Remaining Portion of Lot No. 1662 in D.D. 11 (the "Lot")	The property comprises a residential unit on the 16th Floor of a 29- storey residential building erected on top of a 7-storey carpark/ garden podium which was completed in about 1995. The gross floor area and the saleable area of the property are approximately 925 sq. ft. (85.93 sq. m.) and 690 sq. ft. (64.10 sq. m.), respectively. The Lot is held under a New Grant No. TP9657 for a term of 99 years commencing from 1 July 1898. The lease term was extended till 30 June 2047 by ordinance. The Government rent payable is 3% of the rateable value of the property per annum.	We have inspected the property and confirmed by the management of the Company that the property is occupied by the Group as staff quarters.	Nil <i>(See Note 3)</i>

Notes:

- The registered owner of the property is Beijing Tong Ren Tang Chinese Medicine Company Limited (hereinafter referred as "Company") vide an Assignment dated 21 November 2005 and registered in the Land Registry by Memorial No. 05121500370175 on 15 December 2005.
- According to a declaration dated July 2006 and signed by the Company, the property is held on trust of China Beijing Tong Ren Tang Holdings Corp (hereinafter referred as "TRT Holding").
- Pursuant to the on trust declaration provided by the Company as mentioned in Note 2 above, the ultimate owner of the property is TRT Holdings. As confirmed by the Company, the property does not include in the Company's financial statements. Thus, we have assigned no attributable market value of this property to the Group. Should this not be the case, the market value of the property that attributable to the Group would be in the region of HK\$4,930,000.

Property	Description and tenure	Particulars of occupancy	Amount of valuation in its existing state attributable to the Group as at 28 February 2013
6. Flat E on 32nd Floor and a car parking space No. 807 on the 5th Floor Riviera Lodge No. 61 Ting Kok Road Tai Po New Territories Hong Kong 84/11,377 shares of and in Section A of Lot No. 1662 in D.D. 11 and the Remaining Portion of Lot No. 1662 in D.D. 11 (the "Lot")	The property comprises a residential unit on the 32nd Floor of a 29- storey residential building erected on top of a 7-storey carpark/ garden podium and a car parking space on the 5th Floor of the carpark/ garden podium. The building was completed in about 1995. The gross floor area and the saleable area of the property (excluding the car parking space) are approximately 925 sq. ft. (85.93 sq. m.) and 690 sq. ft. (64.1 sq. m.), respectively. The Lot is held under a New Grant No. TP9657 for a term of 99 years commencing from 1 July 1898. The lease term was extended till 30 June 2047 by ordinance. The Government rent payable is 3% of the rateable value of the property per annum.	We have inspected the property and confirmed by the management of the Company that the property is occupied by the Group as staff quarters.	HK\$5,650,000 (100% interest)

Note:

The registered owner of the property is Beijing Tong Ren Tang Chinese Medicine Company Limited vide an Assignment dated 12 January 2005 and registered in the Land Registry by Memorial No. TP738315 on 5 February 2005.

Property	Description and tenure	Particulars of occupancy	Amount of valuation in its existing state attributable to the Group as at 28 February 2013
7. Flat F on 17th Floor Riviera Lodge No. 61 Ting Kok Road Tai Po New Territories Hong Kong 39/11,377 shares of and in Section A of Lot No. 1662 in D.D. 11 and the Remaining Portion of Lot No. 1662 in D.D. 11 (the "Lot")	The property comprises a residential unit on the 17th Floor of a 29- storey residential building erected on top of a 7-storey carpark/ garden podium which was completed in about 1995. The gross floor area and the saleable area of the property are approximately 520 sq. ft. (48.31 sq. m.) and 377 sq. ft. (35.0 sq. m.), respectively. The Lot is held under a New Grant No. TP9657 for a term of 99 years commencing from 1 July 1898. The lease term was extended till 30 June 2047 by ordinance. The Government rent payable is 3% of the rateable value of the property per annum.	We have inspected the property and confirmed by the management of the Company that the property is occupied by the Group as staff quarters.	HK\$2,830,000 (100% interest)

Note:

The registered owner of the property is Beijing Tong Ren Tang Chinese Medicine Company Limited, vide an Assignment dated 6 July 2007 and registered in the Land Registry by Memorial No. 07080200650478 on 2 August 2007.

Property	Description and tenure	Particulars of occupancy	Amount of valuation in its existing state attributable to the Group as at 28 February 2013
8. Offices 1405, 1406 and 1407 on 14th Floor Office Tower of Convention Plaza No. 1 Harbour Road Wanchai Hong Kong 27,661/64,170 of 10,726/4,000,000 shares of and in Inland Lot No. 8593 (the "Lot")	The property comprises three adjoining office units on the 14th Floor of a 39-storey office building erected on top of 15-storey (including mezzanine floor and basements) carpark/ garden/retail podium which was completed in about 1990. The total saleable area of the property is approximately 2,695 sq.ft (250.37 sq.m.). The Lot is held under a Government Lease for a term of 75 years commencing from 19 February 1985. The Government rent for the Lot is \$1,000 per annum.	We have inspected the property and confirmed by the management of the Company that the property is subject to a tenancy for a term of 3 years commencing from 17 December 2010 to 16 December 2013 at a monthly rental of HK\$154,070 exclusive of Government Rates and rent, management fee, air-conditioning charges and other outgoings. The property is occupied by a third party for office purpose.	HK\$98,600,000 (100% interest)

Notes:

- The registered owner of the property is Beijing Tong Ren Tang Chinese Medicine Company Limited vide an Assignment dated 31 January 2013 and registered in Land Registry by Memorial No. 13022601210101 on 26 February 2013.
- As advised by the management of the Company, the Company intends to take back the property for its own use upon the expiration of the existing tenancy.

Group II – Properties held and occupied by the Group in Malaysia and valued on market value basis

Property	Description and tenure	Particulars of occupancy	Amount of valuation in its existing state attributable to the Group as at 28 February 2013
9. A 3-storey building located at Nos. 72 and 74 Lebuhr Campbell 10100 Pulau Pinang (known as Lot Nos. 1334 and 1335, Section 18, Town of Georgetown North-East District, State of Pualau Pinang) Malaysia	The property comprises 2 parcels of adjoining land having a total site area of approximately 419 sq. m.. There is a three-storey shophouses erected thereon and were completed in about 1952. According to the information made available to us, the property has a total floor area of approximately 1,110.31 sq. m. The property is held under freehold under Title Nos. GRN 46863 and GRN 46864.	We have inspected the property and confirmed by the management of the Company that the property is occupied by the Group under the tradename of “Kedai Ubat Peking Tongrentang (M) Sdn Bhd” for retail, office and staff quarters purposes.	HK\$10,040,000 (100% interest) HK\$6,020,000 (60% interest)

Notes:

1. The registered owner of the property is Peking Tongrentang (M) Sdn Bhd (hereinafter referred as “Peking TRT”), which is a 60%-owned subsidiary of the Company.
2. According to the legal opinion as prepared by the Group’s legal advisor, Raja, Darryl & Loh dated 24 April 2013, the following opinions are noted:
 - (i) Peking TRT is the registered owner of the property;
 - (ii) the property is free from encumbrances; and
 - (iii) Peking TRT has the right to use, assign, transfer, lease or mortgage the property at their absolutely discretion in accordance with the laws of Malaysia. Such right is subject to contractual restrictions imposed on Peking TRT, if any.

Property	Description and tenure	Particulars of occupancy	Amount of valuation in its existing state attributable to the Group as at 28 February 2013
10. A 4-storey building located at No. 42, Jalan SS 2/67 47300 Petaling Jaya (known as Lot No. 25564 Daerah Petaling Bandar Petaling Jaya State of Selangor) Selangor Malaysia	The property comprises a parcel of land having a site area of approximately 156.072 sq. m.. There is a four-storey shophouses erected thereon and was completed in about 1971. According to the information available to us, the property has a total floor area of approximately 608.702 sq. m.. The property is held under freehold under Title No. H.S. (D) 161484.	We have inspected the property and confirmed by the management of the Company that the mezzanine floor of the property is subject to a tenancy for a term of 2 years commencing from 1 March 2013 to 28 February 2015 at a monthly rental of RM2500. The rest of the property is occupied by the Group under the tradename of “Kedai Ubat Peking Tongrentang (M) Sdn Bhd” for retail, office and staff quarters purposes.	HK\$12,550,000 (100% interest) HK\$7,530,000 (60% interest)

Notes:

1. The registered owner of the property is Peking Tongrentang (M) Sdn Bhd (hereinafter referred as “Peking TRT”), which is a 60%-owned subsidiary of the Company.
2. The property was purchased by Peking TRT via a sales and purchase agreement dated 27 July 2012 at a consideration of RM5,000,000.
3. According to the legal opinion as prepared by the Group’s legal advisor, Raja, Darryl & Loh dated 24 April 2013, the following opinions are noted:
 - (i) Peking TRT is the registered owner of the property;
 - (ii) the property is subject to a charge in favour of the Bank of China (Malaysia) Berhad; and
 - (iii) Peking TRT has the right to use, assign, transfer, lease or mortgage the property at their absolutely discretion in accordance with the laws of Malaysia. Such right is subject to:
 - the terms of the loan granted by the Bank of China (Malaysia) Berhad to Peking TRT to finance the acquisition of this property; and
 - contractual restrictions imposed on Peking TRT, if any.

Group III – Property held for sale by the Group in the PRC and valued on market value basis

Property	Description and tenure	Particulars of occupancy	Amount of valuation in its existing state attributable to the Group as at 28 February 2013
11. A factory complex located at south side of Yutai Industrial Park Yutian County Tangshan City Hebei Province The PRC	The property comprises a parcel of land having a site area of approximately 112,547 sq. m. (see Note 1 below) with 8 various major buildings and structures erected thereon. The buildings and structures include a 4-storey composite building, 2 various single to 2-storey workshops, a single storey warehouse, and 4 various single to 2-storey supporting facilities buildings which were completed in December 2012. Together they have a total gross floor area of approximately 25,412.1 sq. m. (<i>See Note 5 below</i>). The property is subject to a right to use the land for a term till January 2061 for industrial usage.	As inspected and confirmed by the management of the Company that the property is occupied by the Group for manufacturing, ancillary office, warehouse and other supporting facilities purposes.	HK\$130,000,000 (100% interest) HK\$88,400,000 (68% interest) (<i>See Note 6</i>)

Notes:

1. The right to possess the land is held by the State and the right to use the land has been granted by the State to Beijing Tong Ren Tang (Tang Shan) Nutrition and Healthcare Co., Ltd. (hereinafter referred to as “TRT (Tang Shan)”), which is a 68%-owned subsidiary of the Company via the following way:
 - (i) pursuant to an agreement dated 8 December 2010 made between 玉田縣財政局 (translated as Yutian County Financial Bureau) and TRT (Tang Shan), a parcel of land having a site area of approximately 112,548 sq. m. was granted to TRT (Tang Shan) at a consideration of RMB24,873,100.
 - (ii) pursuant to a State-owned Land Use Rights Certificate known as Yutian Guo Yong (2011) Di 601 Hao (玉田國用(2011)第601號) and issued by the People’s Government of Yutian County, the legally interested party in the land having a site area of approximately 112,547 sq. m. is TRT (Tang Shan) for a term till January 2061 for industrial usage.

2. Pursuant to a 建設用地規劃許可證 Planning Permit on Land for Construction Use known as 地字第 130229201012001號 Di Zi Di130229201012001 Hao and dated 22 December 2010, TRT (Tang Shan) was permitted to develop the property with a construction size of 73,880 sq.m. in accordance with its designated usages.
3. Pursuant to a 建設工程規劃許可證 Planning Permits for Construction Engineering Works known as 建字第 13022920110001號 Jian Zi Di 13022920110001 Hao and issued on 4 January 2011, TRT (Tang Shan) was permitted to construct a factory and its related facilities which will have a construction size of 23,468 sq. m. upon completion on the land.
4. Pursuant to a 建築工程施工許可證 Permit to Commence Construction known as 編號130229X110020201 No. 130229X110020201 and issued on 9 April 2011, TRT (Tang Shan) was permitted to construct buildings and its related works which will have a construction size of 21,738 sq. m. upon completion.
5. Pursuant to 8 various 建設工程竣工驗收報告 Construction Work Completion Reports issued in December 2012, a total gross floor area of the buildings and structures of the property is approximately 25,412.1 sq. m. and was completed on 28 December 2012 to a satisfactory standard. The area breakdowns of each of the major buildings and structures covered in the reports are as follows:

Buildings (no. of storey)	Gross Floor Area (sq. m.)
(i). Composite Building (4-storey)	4,932.0
(ii). Workshop (2-storey)	12,340.0
(iii). Workshop (single storey)	2,196.0
(iv). Warehouse (single storey)	2,270.0
(v). Boiler Room (single storey)	1,071.0
(vi). Electricity Room (single storey)	370.0
(vii). Pump Room and water pool (single storey)	856.1
(viii). Office Building (2-storey)	1,377.0
Total:	<u><u>25,412.1</u></u>

6. We were advised that as at the Date of Valuation, the incurred cost of construction for the buildings and structures was approximately RMB70,990,000. In our valuation, we have considered this cost into our valuation.
7. According to the information provided by the Company, the Company entered into an agreement to transfer its 68% equity interest in TRT (Tang Shan) to TRT Chinese Medicine Holdings on 4 March 2013. As advised, the relevant legal procedure is expected to be completed by the end of May 2013.
8. Pursuant to a copy of an Enterprise Legal Person Business Licence dated 14 June 2012, TRT (Tang Shan) is a limited liability company (sino-foreign joint venture) for an operational period commencing from 13 September 2010 to 12 September 2020.
9. According to the legal opinion as prepared by the Group's PRC legal advisor, Tian Yin Law Firm dated 24 April 2013, the following opinions are noted:
 - (i) TRT (Tang Shan) is a company incorporated in the PRC with limited liability on 13 September 2010, which is held as to 68%, 6%, 6% and 20% by the Company, Tong Ren Tang Technologies Co., Ltd., 亳州市京樵醫藥有限責任公司 (translated as Bozhou Jingqiao Pharmaceutical Co., Ltd.) and 河北省唐山佳億包裝工業有限公司 (translated as Hebei Tang Shan Jiayi Packaging Industry Co., Ltd.), respectively.
 - (ii) TRT (Tang Shan) has obtained the land use right of the property legally;
 - (iii) TRT (Tang Shan) has the right to occupy, use, transfer, lease or mortgage the land of the property during the term of the land use right; and
 - (iv) TRT (Tang Shan) is not subject to any guarantee or other encumbrances.

This Appendix contains a summary of our Articles of Association. The principal objective is to provide potential investors with an overview of our Articles of Association. As the information contained below is in a summary form, it does not contain all the information that may be important to potential investors. As stated in the paragraph headed “Documents Delivered to the Registrar of Companies and Available for Inspection” in Appendix VI, a copy of the Articles of Association is available for inspection.

The Articles of Association were approved by the Shareholders on 28 March 2013. The following is a summary of certain provisions of the Articles of Association. Unless otherwise stated, terms used in this Appendix shall have the same meanings as ascribed to them in the Articles of Association.

ALTERATION OF CAPITAL

The Company may from time to time by ordinary resolution increase the share capital by such sum, to be divided into Shares of such amount, as the resolution shall prescribe.

The Company may by ordinary resolution:

- (a) consolidate, or consolidate and then divide all or any of its share capital into Shares of a larger or smaller amount than its existing Shares;
- (b) cancel any Shares which, at the date of the passing of the resolution, have not been taken or agreed to be taken by any person, and diminish the amount of its share capital by the amount of the Shares so cancelled;
- (c) divide or sub-divide its Shares or any of them into Shares of smaller amount than its existing Shares, subject nevertheless to the provisions of the Companies Ordinance, and so that the resolution whereby any Share is sub-divided may determine that, without prejudice to any special rights previously conferred on holders of existing Shares, as between the holders of the Shares resulting from such sub-division, one or more of the Shares may have any such preferred or other special rights over, or may have such deferred rights or be subject to any such restrictions as compared with the others as the Company has power to attach to unissued or new Shares; and
- (d) divide any Shares into several classes and without prejudice to any special rights previously conferred on holders of existing Shares, attach thereto respectively any preferred, deferred, qualified or other special rights, privileges, conditions or restrictions, whether in regard to dividend, voting, return of capital or otherwise as the Company has power to attach to unissued or new Shares, provided always that where the Company issues Shares which do not carry voting rights, the words “non-voting” shall appear in the designation of such Shares and where the equity capital includes Shares with different voting rights, the designation of each class of Shares, other than those with the most favourable voting rights, must include the words “restricted voting” or “limited voting.”

The Company may by special resolution reduce its share capital, any capital redemption reserve fund or any share premium account in any manner prescribed by law and/or the rules prescribed by the Stock Exchange from time to time.

Subject always to the provisions of the Companies Ordinance and/or the rules prescribed by the Stock Exchange from time to time, the Board may issue any Shares on terms that is to be redeemed or is liable to be redeemed at the option of the Company or its holder, and the Board may exercise the power of the Company to purchase or otherwise acquire its own Shares (including any redeemable Shares) and/or warrants upon such terms and subject to such conditions as the Board may deem fit, provided that in the case of purchase of redeemable shares, (a) purchase not made through market or by tender shall be limited to a maximum price and (b) if purchase are by tender, tenders shall be available to all Shareholders alike.

MODIFICATION OF RIGHTS

If at any time the share capital is divided into different classes of Shares, the rights attaching to any class of Shares (unless otherwise provided by the terms of issue of the Shares of that class) may, subject to the provisions of the Companies Ordinance, be varied with the consent in writing of the holders of three-fourths of the issued Shares of that class, or with the sanction of a special resolution passed at a separate general meeting of the holders of the Shares of the relevant class. Subject to the applicable laws and the rules prescribed by the Stock Exchange from time to time, at every such separate general meeting the provisions of the Articles of Association relating to general meetings shall apply, mutatis mutandis, but so that the necessary quorum at any such meeting (other than an adjourned meeting) shall be one or more persons holding or representing by proxy at least one-third of the issued Shares of the class and that any holder of Shares of the relevant class present in person or by proxy may demand a poll.

TRANSFER OF SHARES

All transfers of Shares shall be effected by an instrument of transfer and in any standard form prescribed by the Stock Exchange or in any other form which the Directors may approve and shall be executed under hand or, if the transferor or transferee is a clearing house or its nominee(s), the instrument of transfer shall be executed by hand or by machine imprinted signature or in such other form as the Board may approve by such manner of execution as the Board may approve from time to time. The instrument of transfer shall be executed by or on behalf of the transferor and by or on behalf of the transferee provided that the Board may dispense with the execution of the instrument of transfer by the transferee in any case which it thinks fit in its discretion to do so. Without prejudice to the above, the Board may also resolve, either generally or in any particular case, upon request by either the transferor or transferee, to accept mechanically executed transfers. The transferor shall be deemed to remain the holder of the Shares concerned until the name of the transferee is entered into the Company's register of members in respect thereof. Nothing in the Articles shall preclude the Directors from recognising a renunciation of the allotment or provisional allotment of any Share by the allottee in favour of some other person.

The Board may in its absolute discretion decline to register any transfer of Shares (not being a fully paid Share) to any person provided that it shall register any transfer of Shares for the purpose of enforcing a security interest over such Shares. The Board shall not register a transfer to a person who is known to them to be an infant or a person of unsound mind but the Board shall not be bound to enquire into the age or soundness of mind of any transferee. In the case of a transfer to joint holders, the Board may also decline to register the transfer unless the number of transferees does not exceed four.

The Board may also decline to recognise any instrument of transfer unless:

- (a) a fee of such maximum sum as the Stock Exchange may determine to be payable or such lesser sum as the Board may from time to time require is paid to the Company in respect thereof;
- (b) the instrument of transfer is accompanied by the certificate of the Shares to which it relates, and such other evidence as the Directors may reasonably require to show the right of the transferor to make the transfer and is delivered to the registered office of the Company;
- (c) such other conditions as the Board may from time to time impose for the purpose of guarding against losses arising from forgery are satisfied;
- (d) the instrument of transfer is in respect of only one (1) class of Share;
- (e) the Shares concerned are free of any lien in favour of the Company; and
- (f) if applicable, the instrument of transfer is duly and properly stamped.

Every instrument of transfer shall be left at the registered office of the Company for registration (or at such other place as the Board may appoint for such purpose) accompanied by the certificate of the Shares to be transferred and such other evidence as the Board may require to prove the title of the transferor or his right to transfer the Shares. If the Board refuses to register a transfer it shall within two (2) months after the date on which the transfer was lodged with the Company send to the transferor and the transferee notice of the refusal. All instruments of transfer which are registered may be retained by the Company but any instrument of transfer which the Board may decline to register shall (except in the case of fraud or suspected fraud) be returned to the person depositing the same together with the share certificate within two (2) months after the date on which the transfer was lodged with the Company.

SHARE CERTIFICATES

Every certificate for Shares or warrants or debentures or representing any other form of securities of the Company shall be issued under the common seal of the Company, which shall only be affixed with the authority of the Board, or in such other manner as the Board may authorise, having regard to the terms of the issue, the statutes and the rules prescribed by the Stock Exchange from time to time. Without limiting the generality of the foregoing, the Board may resolve that the common seal of the Company and/or signatures on any share certificates shall be applied to the certificates by mechanical means or shall be printed on them or that the certificates need not be signed at all. A share certificate shall specify the number and class of Shares to which it relates. If a certificate for Shares or warrants is defaced, lost or destroyed, it may be replaced on payment of a fee, if any, not exceeding the amount as the Stock Exchange may from time to time permit and on such terms, if any, as the Board thinks fit as to evidence and indemnity. The Board can also require the Member to pay

the out-of-pocket expenses of the Company incurred in investigating any evidence and in preparing the form of indemnity as the Board thinks fit, provided always that where share warrants have been issued to bearer, no new share warrant shall be issued to replace one that has been lost, unless the Company is satisfied beyond reasonable doubt that the original has been destroyed.

VOTES OF MEMBERS

Subject to the rules prescribed by the Stock Exchange from time to time, at every general meeting a resolution put to the vote of the meeting shall be decided on a show of hands, unless (before or upon the declaration of the result of the show of hands) a poll be demanded by:

- (a) the chairman of the meeting; or
- (b) at least three (3) members present in person or by proxy having the right to vote on the resolution; or
- (c) a member or members present in person or by proxy representing in aggregate not less than one-tenth of the total voting rights of all the members having the right to attend and vote at the meeting; or
- (d) a member or members present in person or by proxy holding Shares conferring the right to attend and vote at the meeting on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all the Shares conferring that right; or
- (e) if required by the rules prescribed by the Stock Exchange from time to time, any Director or Directors who, individually or collectively, hold proxies in respect of Shares representing five (5) per cent. or more of the total voting rights at such meeting;

and a demand for a poll by a person as proxy for a member shall be as valid as if the demand were made by the member himself. A Shareholder of unsound mind, or in respect of whom an order has been made by any court having jurisdiction in lunacy, may vote, whether on a show of hands or on a poll, by his committee, receiver, curator bonis, or other person in the nature of a committee, receiver or curator bonis appointed by that court, and any such committee, receiver, curator bonis or other person may, on a poll, vote by proxy. Any instrument appointing a proxy may be in any usual or common form or in any other form which the Board may approve, provided that this shall not preclude the use of the two-way form, and may be expressed to be valid for a particular meeting or generally until revoked.

Subject to the provision of the Articles of Association summarised in the two paragraphs below and to the rights or restrictions for the time being attached to any class or classes of Shares, on a show of hands every member present in person or by proxy or representative shall have one (1) vote, and on a poll every member present in person or by proxy or representative shall have one (1) vote for each Share of which he is the holder and which is fully paid up (but so that no amount paid

up on a Share in advance of calls or instalments shall be treated for the purpose of the Articles of Association as paid up on the Share). A person entitled to cast more than one (1) vote upon a poll need not use all his votes or cast all the votes he uses in the same way.

Any corporation which is a Shareholder may, by resolution of its directors or other governing body, authorise such person as it thinks fit to act as its representative at any meeting of the Company or of any class of members, and the person so authorised shall be entitled to exercise the same powers on behalf of the corporation which he represents as that corporation could exercise if it were an individual Shareholder.

If a clearing house recognised under the SFO (or its nominee(s)) is a member of the Company, it (or, as the case may be, its nominee) may authorise such person or persons as it thinks fit to act as its representative(s) or proxy(ies) at any general meeting of the Company or at any meeting of any class of members of the Company provided that, if more than one (1) person is so authorised, the authorisation or proxy form shall specify the number and class of Shares in respect of which each such person is so authorised. A person so authorised under the provisions of the Articles of Association shall be entitled to exercise the same rights and powers on behalf of the clearing house recognised under the SFO (or its nominee(s)) which he represents as that clearing house recognised under the SFO (or its nominee(s)) could exercise as if such person were an individual member of the Company.

Where the Company has knowledge that any member is required under the Listing Rules to abstain from voting on any particular resolution of the Company or restricted to voting only for or only against any particular resolution of the Company, any vote(s) cast by or on behalf of such member in contravention of such requirement or restriction shall not be counted.

BORROWING POWERS

The Board may exercise all powers of the Company to borrow money for the purposes of the Company, without limit and upon such terms as they may think fit, and to mortgage or charge its undertaking, property (both present and future) and uncalled capital, or any part thereof, and (subject, to the extent applicable, to the provisions of the statutes) to issue bonds, debentures, debenture stock, and, subject to section 57B of the Companies Ordinance, convertible debentures and convertible debenture stock and other securities, whether outright or as a security for any debt, liability or obligation of the Company or of any third party.

QUALIFICATION OF DIRECTORS

Unless otherwise determined by ordinary resolution of the members of the Company, the number of Directors shall not be less than the minimum required by the Companies Ordinance and there shall not be a maximum number of Directors. A Director need not be a member of the Company and shall not be required to hold any Shares by way of qualification. The Board may appoint any person as an additional Director or to fill a casual vacancy, provided that any person so appointed shall hold office only until the conclusion of the next following general meeting of the Company (in the case of filling a casual vacancy) or until the next following annual general meeting of the Company (in the case of an addition to the Board), and shall then be eligible for re-election provided that any Director

so retires shall not be taken into account in determining the Directors or the number of Directors who are to retire at such meeting by rotation. However, no person (other than a Director retiring in accordance with the Articles) shall be appointed or re-appointed a Director at any general meeting unless (i) he is recommended by the Board or (ii) not earlier than the day after the dispatch of the notice of the meeting and not later than seven days prior to the date appointed for the meeting there has been at the registered office of the Company a letter, signed by at least two (2) Members (other than the person to be proposed) entitled to vote at the meeting together holding not less than ten (10) per cent, of the entire issued share capital of the Company, notice of his intention to propose a resolution for the appointment or reappointment of that person and a notice executed by that person of his willingness to be appointed or reappointed. There are no provisions relating to retirement of Directors upon reaching any age limit.

A Director may be removed by an ordinary resolution of the Company before the expiration of his period of office.

DIRECTORS' REMUNERATION

The Directors shall be entitled to receive by way of remuneration for their services such sum as shall from time to time be determined by the Company in general meeting, such sum (unless otherwise directed by the resolution by which it is voted) to be divided amongst the Directors in such proportions and in such manner as the Directors may agree or, failing agreement, equally, except that if any Director holding office for less than the whole of the relevant period in respect of which the remuneration is paid shall only rank in such division in proportion to the time during such period for which he has held office.

Any Director who holds any executive office or who serves on any committee, or who otherwise performs services which in the opinion of the Board are outside the scope of the ordinary duties of a Director, may be paid such extra remuneration by way of salary, commission or otherwise as the Board may determine.

The Board may repay to any Director all such reasonable expenses as he may incur in attending and returning from meetings of the Board or of any committee of the Board or general meetings or otherwise in or about the business of the Company.

DIRECTORS' INTERESTS

A Director may be or become a director or other officer of, or otherwise interested in, any company promoted by the Company or in which the Company may be interested as vendor, shareholder or otherwise and, subject to the Companies Ordinance, no such Director shall be accountable to the Company for any remuneration or benefits received by him as a director or officer of, or from his interest in, such other company unless the Company otherwise directs.

A Director may hold other office or place of profit under the Company (other than the office of auditor) in conjunction with his office of Director for such period and on such terms as to remuneration (whether by way of salary, commission, participation in profits or otherwise) as the Board may determine. No Director or intending Director shall be disqualified by his office from contracting

with the Company either with regard to his tenure of any such office or place of profit or as vendor, purchaser or otherwise nor shall any such contract or any contract or arrangement entered into by or on behalf of the Company in which any Director is in any way, whether directly or indirectly, interested (whether or not such contract or arrangement is with any person, company or partnership of or in which any Director shall be a member) be liable to be avoided on that account nor shall any Director so contracting or being so interested be liable to account to the Company for any profit realised by any such contract or arrangement by reason of such Director holding that office or of the fiduciary relationship thereby established provided that such Director shall forthwith disclose the nature of his interest in any contract or arrangement in which he is interested as required by and subject to the provisions of the Companies Ordinance and the Articles of Association.

A Director who is in any way, whether directly or indirectly, materially interested in a contract, arrangement or transaction or proposed contract, arrangement or transaction with the Company and which is of significance in relation to the Company's business shall declare the nature of his interest at the earliest meeting of the Board at which it is practicable for him to do so, in accordance with the Companies Ordinance. A general notice to the Board by a Director stating that, by reason of facts specified in the notice, he is to be regarded as interested in contracts, arrangements or transactions or proposed contracts, arrangements or transactions of any description which may subsequently be made or contemplated by the Company shall be deemed for the purposes of the Articles of Association to be a sufficient declaration of his interest, so far as attributable to those facts, in relation to any contract, arrangement or transaction or proposed contract, arrangement or transaction of that description which may subsequently be made or contemplated by the Company, but no such general notice shall have effect in relation to any contract, arrangement or transaction or proposed contract, arrangement or transaction unless it is given before the date on which the question of entering into the same is first taken into consideration on behalf of the Company.

Save as otherwise provided by the Articles of Association, a Director and his associates shall not vote on any resolution of the Board nor be counted in the quorum in respect of any contract, arrangement or any matters which he or any of his associates, is/are to his knowledge materially interested, and if he shall do so his vote shall not be counted, but this prohibition shall not apply in respect of the following matters:

- (a) the giving of any security or indemnity either:
 - (i) to the Director or his associate(s) in respect of money lent or obligations incurred or undertaken by him or any of them at the request of or for the benefit of the Company or any of its subsidiaries;
 - (ii) to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or his associate(s) has/have himself/themselves assumed responsibility in whole or in part and whether alone or jointly under a guarantee or indemnity or by the giving of security;

- (b) any contract, arrangement or proposal concerning an offer of Shares or debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase where the Director or his associate(s) is/are or is/ are to be interested as a participant in the underwriting or sub-underwriting of the offer;
- (c) any contract, arrangement or proposal concerning any other company in which the Director or his associate(s) is/are interested only, whether directly or indirectly, as an officer or executive or shareholder or in which the Director or his associate(s) is/are beneficially interested in Shares of that company, provided that the Director and any of his associates are not in aggregate beneficially interested in five (5) per cent. or more of the issued Shares of any class of such company (or of any third company through which his interest or that of his associates is derived) or of the voting rights;
- (d) any proposal or arrangement concerning the benefit of employees of the Company or its subsidiaries including:
 - (i) the adoption, modification or operation of any employees' share scheme or any share incentive or share option scheme under which the Director or his associate(s) may benefit; or
 - (ii) the adoption, modification or operation of a pension fund or retirement, death or disability benefits scheme which relates both to Directors, his associates and employees of the Company or any of its subsidiaries and does not provide in respect of any Director, or his associate(s), as such any privilege or advantage not generally accorded to the class of persons to which such scheme or fund relates; and
- (e) any contract or arrangement in which the Director or his associate(s) is/are interested in the same manner as other holders of Shares or debentures or other securities of the Company by virtue only of his/their interest in Shares or debentures or other securities of the Company.

DIVIDENDS

The Company in general meeting may declare dividends in any currency, but no dividend shall exceed the amount recommended by the Directors.

Subject to the rights of persons, if any, entitled to Shares with special rights as to dividend, all dividends shall be declared and paid according to the amounts paid or credited as paid on the Shares in respect whereof the dividend is paid, but no amount paid or credited as paid on a Share in advance of calls shall be treated for the purposes of the Articles of Association as paid on the Share. All dividends shall be apportioned and paid proportionately to the amounts paid or credited as paid on the Shares during any portion or portions of the period in respect of which the dividend is paid; but if any Share is issued on terms providing that it shall rank for dividend as from a particular date such Share shall rank for dividend accordingly.

All dividends or bonuses unclaimed for one (1) year after having been declared may be invested or otherwise made use of by the Board for the benefit of the Company until claimed. Any dividends or bonuses unclaimed after a period of six (6) years from the date of declaration shall be forfeited and shall revert to the Company. The payment by the Company of any unclaimed dividend or other sum payable on or in respect of a Share in to a separate account shall not constitute the Company a trustee in respect thereof.

UNTRACED MEMBERS

Without prejudice to the rights of the Company, the Company may cease sending such cheques for dividend entitlements or dividend warrants by post if such cheques or warrants have been left uncashed on two consecutive occasions. However, the Company may exercise the power to cease sending cheques for dividend entitlements or dividend warrants after the first occasion on which such a cheque or warrant is returned undelivered.

The Company may sell any Shares if:

- (i) during the relevant period at least three dividends or other distributions in respect of the Shares in question have become payable and no dividend or distribution during that period has been claimed;
- (ii) the Company has given notice of its intention to sell the Shares by way of an advertisement published in the newspapers in accordance with the requirements of the Listing Rules and has notified the Stock Exchange and a period of three months or shorter period as may be allowed by the Stock Exchange has elapsed since the date of such advertisement; and
- (iii) so far as it is aware at the end of the relevant period, the Company has not at any time during the relevant period received any indication of the existence of the Shareholder or of any person who is entitled to such Shares by death, bankruptcy or operation of law.

For the purpose of the foregoing, the “relevant period” means the period commencing 12 years after the date of publication of advertisement in paragraph (ii) above and ending at the expiry of the period referred to in that paragraph.

ACCOUNTS

The Board shall cause proper books of account to be kept and the books of account shall be kept at the registered office of the Company or, subject to the Companies Ordinance, at such other place or places as the Board thinks fit and shall always be open to inspection by any Director.

A copy of every balance sheet (including every document required by law to be annexed thereto) and every profit and loss account of the Company together with a copy of the Directors’ report and a copy of the auditors’ report shall be sent to every Shareholder not less than 21 days before the date of the general meeting.

NOTICES

Any notice to be given to or by any person shall be in writing or, to the extent permitted by the statutes and the rules prescribed by the Stock Exchange from time to time, contained in an electronic communication. The Company may send or supply corporate communications to any Shareholder by making them available on the Company's website, subject to the statutes and the rules prescribed by the Stock Exchange from time to time. A notice calling a meeting of the Board need not be in writing.

A notice or other document (including a Share certificate) may be served on or delivered to any Shareholder by the Company either personally or by sending by mail, postage prepaid (and, in any case where the registered address of a Shareholder is outside Hong Kong, by prepaid airmail), addressed to such Shareholder at his registered address or by leaving it at that address addressed to the Shareholder or by any other means authorised in writing by the Shareholder or, except for a share certificate, by publishing it by way of advertisement in at least one English language newspaper and one Chinese language newspaper circulating in Hong Kong.

A. FURTHER INFORMATION ABOUT THE COMPANY**1. Incorporation**

The Company was incorporated in Hong Kong on 18 March 2004 under the name of Beijing Tong Ren Tang Chinese Medicine Company Limited 北京同仁堂國藥有限公司. The Company's registered address is at No. 3 Dai King Street, Tai Po Industrial Estate, Tai Po, New Territories, Hong Kong.

2. Changes in share capital of the Company

- (a) As at the date of our incorporation, our authorised share capital was HK\$10,000 divided into 10,000 shares of nominal value of HK\$1.00 each.
- (b) Pursuant to the written resolutions of the Shareholders passed on 30 June 2005, the authorised share capital of the Company was increased by HK\$99,990,000 by the creation of 99,990,000 shares of nominal value of HK\$1.00 each.
- (c) Pursuant to the written resolutions of the Shareholders passed on 20 October 2010, the authorised share capital of the Company was increased by HK\$900,000,000 by the creation of 900,000,000 shares of nominal value of HK\$1.00 each.
- (d) On 20 October 2010, the Company issued and allotted an additional 65,094,378 shares of nominal value of HK\$1.00 each and 76,336,095 shares of nominal value of HK\$1.00 each to TRT Ltd. and TRT Technologies. Upon completion of the share allotment, the Company was held as to 46.91% and 53.09% by TRT Ltd. and TRT Technologies, respectively.
- (e) On 27 March 2013, the Company subdivided all its issued and unissued shares with nominal value of HK\$1.00 each into 2 shares with nominal value of HK\$0.5 each.

Assuming the Share Offer becomes unconditional and immediately following completion of the Share Offer and the Capitalisation Issue but taking into no account of any Share which may be issued upon the exercise of the Over-allotment Option, the authorised share capital of the Company will be HK\$1,000,000,000 divided into 2,000,000,000 Shares and the issued share capital of the Company will be HK\$400,000,000 divided into 800,000,000 Shares, all fully paid or credited as fully paid, with 1,200,000,000 Shares remaining unissued.

The Directors do not have any present intention to issue any of the authorised but unissued share capital of the Company and, without the prior approval of the Shareholders at general meeting, no issue of Shares will be made which would effectively alter the control of the Company.

Save for aforesaid and as disclosed in this prospectus, there has been no alteration in the share capital of the Company since its incorporation.

3. Written resolutions of our Shareholders passed on 28 March 2013

Pursuant to the written resolutions passed by our Shareholders on 28 March 2013:

- (a) the Company conditionally approved and adopted the Articles of Association;
- (b) conditional on (i) the Listing Division of the Stock Exchange granting the listing of, and permission to deal in, the Shares in issue and to be issued in connection with the Share Offer (including any Shares which may be issued pursuant to the exercised of the Over-allotment Option any Shares to be issued under the Capitalisation Issue); (ii) the execution and delivery of the agreement on the Offer Price between the Sole Lead Manager and the Company on the Price Determination Date; and (iii) the obligations of the Underwriter under the Underwriting Agreement becoming unconditional and not being terminated in accordance with the terms therein or otherwise, in each case on or before such dates as may be specified in the Underwriting Agreement:
 - the Share Offer was approved and the Directors were authorised to approve the same and to allot and issue the Offer Shares pursuant thereto and subject to the terms and conditions thereof as set out in this prospectus and the Application Form;
 - the Over-allotment Option was approved and the Directors were authorised to approve the same and to allot and issue any Shares which may be required to be issued if the Over-allotment Option is exercised; and
 - conditional upon the share premium account of the Company being credited as a result of the issue of the Offer Shares pursuant to the Share Offer, the Directors were authorised to capitalise the amount of HK\$98,569,527 standing on the credit of the share premium account of the Company to pay up in full at par 197,139,054 Shares for allotment and issue to the persons whose names appear on the register of members of the Company at the close of business on the date of the written resolutions (or as the Directors may direct) in proportion to their respective shareholdings (as nearly as possible without involving fractions) in the Company, and such that the Shares allotted and issued shall rank *pari passu* in all respects with the then existing issued Shares, and the Directors were authorised to effect the same and to allot and issue the Shares pursuant thereto;
- (c) a general unconditional mandate was given to the Directors to exercise all the powers of the Company to allot, issue and deal with (otherwise than pursuant to a rights issue, or pursuant to any scrip dividend schemes or similar arrangements providing for the allotment and issue of Shares in lieu of the whole or part of a dividend on Shares in accordance with the Articles of Association, or pursuant to the exercise of options granted under any option scheme or similar arrangement) such number of Shares with a total nominal value not exceeding 20% of the aggregate nominal

value of the share capital of the Company in issue immediately following completion of the Share Offer and the Capitalisation Issue, such mandate to remain in effect until (i) the conclusion of the next annual general meeting of the Company, or (ii) the expiration of the period within which the next annual general meeting of the Company is required by the Articles of Association or any applicable laws to be held, or (iii) until revoked or varied by an ordinary resolution of the Shareholders in general meeting, whichever occurs first;

- (d) a general unconditional mandate was given to the Directors authorising them to exercise all powers of the Company to repurchase on the Stock Exchange or on any other approved stock exchange on which the securities of the Company may be listed and which is recognised by the SFC and the Stock Exchange for this purpose, subject to and in accordance with all applicable laws and the requirements of the Listing Rules or equivalent rules or regulations of any other stock exchanges as amended from time to time, such number of Shares with a total nominal value not exceeding 10% of the aggregate nominal value of the share capital of the Company in issue immediately following completion of the Share Offer and the Capitalisation Issue (but taking into no account of any Shares which may be issued pursuant to the exercise of the Over-allotment Option), such mandate to remain in effect until (i) the conclusion of the next annual general meeting of the Company, or (ii) the expiration of the period within which the next annual general meeting of the Company is required by the Articles of Association or any applicable laws to be held, or (iii) until revoked or varied by an ordinary resolution of the Shareholders in general meeting, whichever occurs first;
- (e) the general unconditional mandate mentioned in paragraph (c) above was extended by the addition to the aggregate nominal value of the share capital of the Company which may be allotted or agreed conditionally or unconditionally to be allotted by the Directors pursuant to such general mandate of an amount representing the aggregate nominal value of the share capital of the Company repurchased by the Company pursuant to the mandate to repurchase Shares referred to in paragraph (d) above provided that such extended amount shall not exceed 10% of the aggregate of the total nominal value of the share capital of the Company in issue immediately following completion of the Share Offer and the Capitalisation Issue but excluding any Shares which may be issued upon exercise of the Over-allotment Option.

4. Changes in share capital of subsidiaries

Our subsidiaries are referred to in the Accountant's Report of the Company, the text of which is set out in Appendix I to this prospectus. The following alterations in the share capital of our subsidiaries have taken place within the two years preceding the date of this prospectus:

- (a) TRT (UAE) was incorporated in UAE on 8 June 2011 with an issued share capital of AED2,920,000 divided into 2,920 shares of AED1,000 each and was held by the Company and Emirates China Group L.L.C. as to 51% and 49%, respectively.

- (b) TRT (Poland) was incorporated in Poland on 24 April 2012 with an issued share capital of 50,000 zloty divided into 1,000 shares of 50 zloty each and was wholly owned by the Company.
- (c) On 21 May 2012, the Company completed its increase of equity interest in TRT (Tang Shan) from 50% to 68% by contributing additional capital in sum of RMB46,600,000. Further, on 4 March 2013, the Company entered into an agreement to transfer its 68% equity interest in TRT (Tang Shan) to TRT Chinese Medicine Holdings at the consideration of RMB84.6 million, which was determined with reference to the fair value of TRT (Tang Shan) as at 31 December 2012. Upon the completion of the said transfer, the Group will cease to have any interest in TRT (Tang Shan).

Save as disclosed in this prospectus, there has been no alteration in the share capital of any subsidiary of the Company within the two years preceding the date of this prospectus.

5. Further information about the Group's overseas and PRC establishments

(i) *Our subsidiaries*

(a) *TRT International Natural-Pharm*

Place of Incorporation	: PRC
Date of Establishment	: 6 March 2006
Type of Company	: Wholly foreign-owned limited company
Registered Capital	: HK\$10,000,000
Paid-up Capital	: HK\$10,000,000
Holder(s) of Equity Interest and Percentage of Equity Interest	: Company (100%)
Legal Representative	: Ding Yongling
Term of Business	: 6 March 2006 to 5 March 2026
Business Scope	: Research and development of Chinese medicine, foodstuffs, cosmetics; production of pills (honey pills, water-honeyed pills), tablets, granules; packaging of honey; sale of self-manufactured products; provision of the transfer of self-developed technology; running of the export businesses of Chinese medicine; running

of the import and export businesses of Chinese herbal medicine permitted by national policies; running of the businesses of import and export and wholesale of health food; running of the businesses of import and export and wholesale of pharmaceutical equipment on its own and as an agent; running of the import and export businesses of raw materials required by the enterprise; the businesses of import and export and wholesale of plant extracts, cosmetics, stereotyped packaging food and honey products. (The import and export of the above commodities does not involve commodities under special management of the state-run trading import and export quota permit, export quota bidding, export permit, etc.) (If there are requirements involving quota, permit or national special management, it shall be submitted for approval separately in accordance with the relevant provisions of the State and the business shall be run with the production of certificates; fields prohibited from foreign investment by the State are excluded.)

Corporate Development : For details of the corporate changes of TRT International Natural-Pharm, please refer to the section headed “History and Corporate Structure – Our Corporate History – The Group – Our major subsidiaries” in this prospectus.

(b) *TRT (Australia)*

Place of Incorporation : Australia

Date of Establishment : 20 May 2004

Authorised Share Capital : A\$1,000,000

Issued Share Capital : A\$1,000,000

Holder(s) of Equity : Ma Anyang (15%)

Interest and Percentage of
Equity Interest : Zhang Bei (10%)

Company (75%)

Business Scope : Importing and supplying (wholesale and retail) a wide range of traditional Chinese medicine products; importing and supplying (wholesale and retail) a small range of food products; and providing professional traditional Chinese medicine consultation, herbal dispensary and acupuncture treatment services.

Corporate Development : For details of the corporate changes of TRT (Australia), please refer to the section headed “History and Corporate Structure – Our Corporate History – The Group – Our major subsidiaries” in this prospectus.

(c) *TRT (Singapore)*

Place of Incorporation : Singapore

Date of Establishment : 1 December 2003

Authorised Share Capital : N/A

Paid-up Capital : S\$857,000

Holder(s) of Equity : Science Arts (49%)
Interest and Percentage of
Equity Interest Company (51%)

Principal Business Activities : Sales of traditional Chinese medicine, healthcare products and provision of Chinese Medical Consultation and treatment

Corporate Development : For details of the corporate changes of TRT (Singapore), please refer to the section headed “History and Corporate Structure – Our Corporate History – The Group – Our major subsidiaries” in this prospectus.

(d) *TRT (Brunei)*

Place of Incorporation : Brunei

Date of Establishment : 20 May 2009

Authorised Share Capital : BN\$750,000

Issued Share Capital : BN\$100

Holder(s) of Equity : Ang Ju Ming (20%)
Interest and Percentage of
Equity Interest Lim Yee Suan (20%)

Ang Bee Fong (9%)

Company (51%)

- Business Scope : Carrying on (i) the business as a health, acupuncture, massage, beauty, cosmetic, skin, face, body care and spa treatments centre; (ii) all of the business of importers, exporters, wholesalers, buyers, sellers, manufacturing and distributing agents of and dealers in all kinds of patent, veterinary and related services and products in health food and care, pharmaceutical, medicinal, traditional Chinese medicine, drugs, herbs, chemicals, acids, salts, alkalis, antibiotics pharmaceutical, medical and chemical preparations articles and compounds, beauty, cosmetics, skin care, perfumes, colours, glues and gums, creams, unguents, hair dressings, washes, pomades, dyes, cosmetics, skin preparations, soaps, oils, oleaginous and vaporaceous substances, beauty specialities, preparations and accessories of every description, pigments, vanishes, resins, synthetic and man-made materials and fabrics of whatsoever nature and of and in pharmaceutical, medicinal, proprietary and industrial preparations, compounds and articles of all kinds, chemists, druggists and chemical manufacturers, merchants and dealers; and to manufacture, make-up, prepare, buy, sell and deal in all articles, substances, and things commonly or conveniently used in or for making up, preparing or packing any of the products in which the company is authorised to deal, or which may be required by customers of or persons having dealings with the company; (iii) the business of wholesale and retail pharmaceutical chemists and druggists and of the dispensing of medicine; (iv) the business of makers, dealers in anatomical orthopedic, surgical instruments, appliances and artificial limbs, eyes and other aids for the relief of defects of blind, insight of hearing and to make and deal in the laboratory, surgical and scientific furniture, equipment, apparatus and materials and all kinds of requisites for hospitals, patients and invalid.
- Corporate Development : TRT (Brunei) was incorporated in Brunei on 20 May 2009 with an authorised share capital of BN\$750,000 divided into 750,000 shares of BN\$1.00 each.

Prior to the incorporation of TRT (Brunei), for better management of the cooperation relationship and TRT (Brunei), TRT International and Bao Jian Healthcare (汶萊保健公司) entered into an agreement on 26 February 2009 in respect of TRT (Brunei), the salient terms of which are set out in the sub-paragraph (iii) headed “Cooperative agreements” below of this Appendix.

As at the date of incorporation, 100 shares of TRT (Brunei) were issued and was held as to 51% by Ding Yong Ling (as trustee on behalf of TRT International), our executive Director, and 49% by Ang Ju Ming. On 2 July 2010, Ang Ju Ming transferred 9 shares of TRT (Brunei) and 20 shares of TRT (Brunei) to Ang Bee Fong and Lim Yee Suan, respectively. On the same date, Ding Yong Ling transferred 1 share of TRT (Brunei) and 1 share of TRT (Brunei) to Liu Hui Zhen and Wang Qing Fu, respectively. Upon completion of the relevant transfers, TRT (Brunei) was held as to 49%, 20%, 20%, 9%, 1% and 1% by Ding Yong Ling, Ang Ju Ming, Lim Yee Suan, Ang Bee Fong, Liu Hui Zeng and Wang Qing Fu, respectively. On 24 July 2010, for the purpose of administrative convenience, Ding Yong Ling, Liu Hui Zhen and Wang Qing Fu entered into a deed of trust in favour of TRT International, pursuant to which these three individuals held the 51% equity interest in TRT (Brunei) on trust for TRT International as to 49%, 1% and 1%, respectively. As advised by our legal advisors as to Brunei laws, prior to its termination, the trust declared was legally binding and could be enforced in the courts of Brunei if so required. Upon execution of the trust deed, TRT (Brunei) was beneficially held as to 51%, 20%, 20% and 9% by TRT International, Ang Ju Ming, Lim Yee Suan and Ang Bee Fong, respectively.

On 20 October 2010, as part of the reorganization for the proposed spin-off of the Company, the Company and TRT International entered into an equity transfer agreement, pursuant to which TRT International agreed to transfer its entire equity interest in TRT (Brunei) to the Company. On 10 March 2011, Ding Yong Ling, Liu Hui Zhen and Wang Qing Fu transferred 49 shares of TRT (Brunei), 1 share of TRT (Brunei) and 1 share of TRT (Brunei) to the Company at nil consideration. There was no longer any trust arrangement by Ding Yong Ling, Liu Hui Zhen and Wang Qing Fu. Upon completion of the equity transfers, TRT (Brunei) was held as to 51%, 20%, 20% and 9% by the Company, Ang Ju Ming, Lim Yee Suan and Ang Bee Fong, respectively. Ang Ju Ming is the registered proprietor of Bao Jian Healthcare. To the best knowledge of the Directors, Ang Ju Ming, Lim Yee Suan and Ang Bee Fong are family members and are private investors. Each of Ang Ju Ming and Lim Yee Suan is our connected person at subsidiary level and Ang Bee Fong is an Independent Third Party for the purpose of the GEM Listing Rules.

On 17 April 2013, a deed of ratification was entered into among the Company, TRT International, Bao Jian Healthcare and TRT (Brunei), pursuant to which the obligations and the rights of TRT International under the said agreement are assumed by the Company.

As advised by our legal advisors, the various deeds and agreements mentioned above in relation to TRT (Brunei) are legally valid and enforceable pursuant to their respective governing laws.

(e) *TRT (Toronto)*

Place of Incorporation	:	Ontario, Canada
Date of Incorporation	:	24 June 2010
Authorised Share Capital	:	Unlimited
Issued Share Capital	:	100 common shares
Holder(s) of Equity	:	Company (51%)
Interest and Percentage of Equity Interest	:	Finchdene (49%)
Principal Business Activities	:	Carrying on the retail business for foods, natural health products and a small amount of cosmetics and devices used to promote natural health; and provision of traditional Chinese medicine services.
Corporate Development	:	For details of the corporate changes of TRT (Toronto), please refer to the section headed “History and Corporate Structure – Our Corporate History – The Group – Our major subsidiaries” in this prospectus.

(f) *TRT Consulting Services*

Place of Incorporation	:	PRC
Date of Establishment	:	30 March 2010
Type of Company	:	Limited liability company
Registered Capital	:	RMB600,000

Paid-up Capital	:	RMB600,000
Registered Holder(s) of Equity Interest and Percentage of Equity Interest	:	TRT International Natural-Pharm (100%)
Legal Representative	:	Ding Yong Ling
Term of Business	:	30 March 2010 to 29 March 2025
Business Scope	:	Economic and trading consultancy; technical services.
Corporate Development	:	TRT Consulting Services was incorporated in the PRC on 30 March 2010 with a registered capital of RMB600,000. TRT Consulting Services has been a wholly-owned subsidiary of TRT International Natural-Pharm since its incorporation.
<i>(g) TRT (UAE)</i>		
Place of Incorporation	:	UAE
Date of Establishment	:	8 June 2011
Type of Company	:	Limited liability company
Authorised Share Capital	:	AED2,920,000
Issue Share Capital	:	AED2,920,000
Holder(s) of Equity Interest and Percentage of Equity Interest	:	Emirates China Group L.L.C. (approximately 49%) Company (approximately 51%)
Licensed Business Activities	:	Carrying out the principal activity of a “Multispeciality Clinic” with the following specialties: (i) naturopathy; (ii) therapeutic massage; (iii) traditional Chinese medicine; and (iv) internal pharmacy.
Corporate Development	:	TRT (UAE) was incorporated under the laws of UAE on 8 June 2011 with an authorised share capital of AED 2,920,000 divided into 2,920 shares of AED1,000 each. As at the date of incorporation, TRT (UAE) was held as to 51% by the Company and as to 49% by Emirates China Group L.L.C.. To the best knowledge of the Directors,

Emirates China Group L.L.C. is principally engaged in the business of Sino-UAE investment, company management and consultation. Emirates China Group L.L.C. is our connected person at subsidiary level for the purpose of the GEM Listing Rules.

Prior to the incorporation of TRT (UAE), for better management of the cooperation relationship and TRT (UAE), the Company and Emirates China Group L.L.C. entered into a joint venture agreement on 8 November 2010 in respect of TRT (UAE), the salient terms of which are set out in the sub-paragraph (iii) headed “Cooperative agreements” below of this Appendix.

As advised by our legal advisors, the joint venture agreement mentioned above in relation to TRT (UAE) is legally valid and enforceable pursuant to its governing law.

(h) *TRT (Macau)*

Place of Incorporation	:	Macao
Date of Establishment	:	6 November 2002
Authorised Share Capital	:	MOP\$1,000,000
Issued Share Capital	:	MOP\$1,000,000
Holder(s) of Equity Interest and Percentage of Equity Interest	:	BMI Trading (44%) Ho Cheung, Lai Kwan; Ho, Eric King Fung; Ho, Kelvin King Lun; Ho, Wing Yiu (also known as Ho, Wing Yiu Vicci) and Ho Queenie (also known as Ho, Wing Yee, Queenie) (5%) Company (51%)
Business Scope	:	Operating pharmacies for retailing Chinese medicines, medicinal liquor, nutritional health products, cosmetics and other commodities; offering medical services such as acupuncture, massage, Chinese medicine prescription etc.; operating import and export trading for wholesaling the Chinese medicines, medicinal liquor, nutritional health products, cosmetics and other commodities.
Corporate Development	:	For details of the corporate changes of TRT (Macau), please refer to the section headed “History and Corporate Structure – Our Corporate History – The Group – Our major subsidiaries” in this prospectus.

(i) TRT (Poland)

Place of Incorporation	:	Poland
Date of Establishment	:	26 April 2012
Authorised Share Capital	:	50,000 zloty divided into 1,000 shares of 50 zloty each
Issued Share Capital	:	50,000 zloty divided into 1,000 shares of 50 zloty each
Holder(s) of Equity Interest and Percentage of Equity Interest	:	Company (100%)
Business scope	:	Retail of Chinese medicine, healthcare products and provision of Chinese medical consultation and treatment
Corporate Development	:	TRT (Poland) was incorporated under the laws of Poland on 24 April 2012 with an authorized share capital of 50,000 zloty divided into 1,000 shares of 50 zloty each. As at the date of incorporation, the entire issued share capital was owned by the Company.

*(ii) Our jointly controlled entities**(a) TRT (Malaysia)*

Place of Incorporation	:	Malaysia
Date of Establishment	:	19 January 2001
Authorised Share Capital	:	MYR5,000,000
Issued Share Capital	:	MYR1,900,000
Holder(s) of Equity Interest and Percentage of Equity Interest	:	Hai-O (40%) Company (60%)
Business Scope	:	Wholesaling and retailing traditional Chinese medicine; and providing traditional Chinese physician services.
Corporate Development	:	For details of the corporate changes of TRT (Malaysia), please refer to the section headed “History and Corporate Structure – Our Corporate History – The Group – Our major jointly controlled entities” in this prospectus.

(b) TRT (Canada)

Place of Incorporation	:	British Columbia, Canada
Date of Establishment	:	11 January 2002
Authorised Share Capital	:	Unlimited
Issued Share Capital	:	100 Class A shares and 999,900 Class B shares
Holder(s) of Equity Interest and Percentage of Equity Interest	:	Company (51%) Chuan Chiong Company Ltd (49%)
Principal Business Activities	:	Retail of natural health products and Chinese herbs, import of Chinese herbs for retail sales and the provision of traditional Chinese Medicine Practitioner services.
Corporate Development	:	For details of the corporate changes of TRT (Canada), please refer to the section headed “History and Corporate Structure – Our Corporate History – The Group – Our major jointly controlled entities” in this prospectus.

(c) TRT (Indonesia)

Place of Incorporation	:	Indonesia
Date of Establishment	:	27 June 2003
Authorised Share Capital	:	US\$1,000,000
Issued Share Capital	:	US\$1,000,000
Holder(s) of Equity Interest and Percentage of Equity Interest	:	Pt Saras (50%) Company (50%)
Business Scope	:	Exporting medicine and herbal products; importing medicine (final product of medicine, materials for traditional medicine, health and supplement products) and medication equipments (such as acupuncture equipments).

Corporate Development : TRT (Indonesia) was incorporated in Indonesia on 27 June 2003 with an authorised share capital of US\$1,000,000 divided into 1,000 shares of US\$1,000 each. As at the date of incorporation, TRT (Indonesia) was held as to 50% each by TRT Technologies and Pt Saras. Prior to the incorporation of TRT (Indonesia), for better management of the cooperation relationship and TRT (Indonesia), TRT Technologies and Pt Saras entered into a joint venture agreement on 8 August 2002 in respect of TRT (Indonesia), the salient terms of which are set out in the sub-paragraph (iii) headed “Cooperative agreements” below of this Appendix.

On 20 October 2010, as part of the reorganization for the proposed spin-off of the Company, the Company and TRT Technologies entered into an equity transfer agreement, pursuant to which TRT Technologies agreed to transfer its entire equity interest in TRT (Indonesia) to the Company. Upon completion of the equity transfer, TRT (Indonesia) was held as to 50% each by the Company and Pt Saras, respectively. On 25 March 2012, an amendment to the joint venture agreement was entered into among the Company, TRT Technologies and Pt Saras pursuant to which the obligations and the rights of TRT Technologies under the said joint venture agreement are assumed by the Company.

To the best knowledge of the Directors, St Paras is principally engaged in the import sales of Chinese medicine products in Indonesia. Save for the aforesaid, Pt Saras is an Independent Third Party for the purpose of the GEM Listing Rules.

As advised by our legal advisors, the various deeds and agreements mentioned above in relation to TRT (Indonesia) are legally valid and enforceable pursuant to their respective governing laws.

(d) *TRT (Thailand)*

Place of Incorporation : Thailand

Date of Establishment : 23 March 2000

Authorised Share Capital : THB38,000,000

Issued Share Capital : THB38,000,000

Holder(s) of Equity Interest and Percentage of Equity Interest	:	V.P. Pharmacy Registered Ordinary Partnership (through 11 individual nominees) (51%) Company (49%)
Principal Business Activities	:	Importing and selling herbs and traditional premixed Chinese medicines (wholesale and retail); and operating a traditional Chinese medicine clinic.
Corporate Development	:	For details of the corporate changes of TRT (Thailand), please refer to the section headed “History and Corporate Structure – Our Corporate History – The Group – Our major jointly controlled entities” in this prospectus.

(e) *TRT (Boryung)*

Place of Incorporation	:	South Korea
Date of Establishment	:	5 December 2002
Authorised Share Capital	:	KRW7,319,340,000
Issued Share Capital	:	KRW1,829,835,000
Holder(s) of Equity Interest and Percentage of Equity Interest	:	Korea Boryung (49%) Company (51%)
Principal Business Activities	:	Importing and selling (wholesale) of medical products.
Corporate Development	:	TRT (Boryung) was incorporated in South Korea on 5 December 2002 with an authorised share capital of KRW7,319,340,000 divided into 1,463,868 shares of KRW5,000 each. As at the date of incorporation, TRT (Boryung) was held as to 51% and 49% by TRT Ltd. and Korea Boryung, respectively. Prior to the incorporation of TRT (Boryung), for better management of the cooperation relationship and TRT (Boryung), TRT Ltd. and Korea Boryung entered into a joint venture agreement on 10 May 2002 in respect of TRT (Boryung), the salient terms of which are set out in the sub-paragraph (iii) headed “Cooperative agreements” below in this Appendix.

On 20 October 2010, as part of the reorganization for the proposed spin-off of the Company, the Company and TRT Ltd. entered into an equity transfer agreement, pursuant to which TRT Ltd. agreed to transfer its entire equity interest in TRT (Boryung) to the Company. Upon completion of the equity transfer, TRT (Boryung) was held as to 51% and 49% by the Company and Korea Boryung, respectively. On the same date, pursuant to an agreement among the Company, Korea Boryung and TRT Ltd., Korea Boryung agreed to waive its right of first refusal with respect to the 51% equity interest in TRT (Boryung) held by TRT Ltd. and the Company shall assume the rights and the obligations of TRT Ltd. under the joint venture agreement.

On 5 December 2012, upon expiry of the initial term of 10 years of TRT (Boryung), the Company and Korea Boryung agreed to extend the term of joint venture for a further term of two years until 5 December 2014.

To the best knowledge and belief of the Directors, Korea Boryung is principally engaged in dealing in medicine products in South Korea. Korea Boryung is our connected person at subsidiary level for the purpose of the GEM Listing Rules.

As advised by our legal advisors, the various deeds and agreements mentioned above in relation to TRT (Boryung) are legally valid and enforceable pursuant to their respective governing laws.

(f) *TRT (Thai Boon Roong)*

Place of Incorporation	:	Cambodia
Date of Establishment	:	8 December 2005
Authorised Share Capital	:	US\$500,000
Issued Share Capital	:	US\$500,000
Holder(s) of Equity	:	Company (51%)
Interest and Percentage of Equity Interest	:	Thai Boon Roong Co., Ltd. (49%)

- Business Scope : Commercial operation of buying, selling, importing-exporting all kinds of goods, especially importing, retailing and wholesale of medicine, medical equipments, nutrition & healthcare products, cosmetics & beauty products; hospital for consulting and treating diseases; currency exchange; producing, purchasing and selling of jewelry; school establishing; service for commission, commercial agency and commercial representative; financial and commercial consultation service; job services for clients inside and outside the country; advertising services; publishing; production of cinema and video CD; transportation: by sea, by land and by air, goods forwarding and distributing service; construction, repairing of buildings, bridges and roads; tourism: hotels, restaurants, entertainment centers; investment in the field of agriculture: planting, livestock; and investment in the field of industry: factory, handicraft.
- Corporate Development : TRT (Thai Boon Roong) was incorporated in Cambodia on 8 December 2005 with an authorised share capital of US\$500,000 divided into 500,000 shares of US\$1.00 each. As at the date of incorporation, TRT (Thai Boon Roong) was held as to 51% and 49% by the Company and Thai Boon Roong Co., Ltd., respectively. To the best knowledge and belief of the Directors, Thai Boon Roong Co., Ltd. is principally engaged in business investment in Cambodia. Thai Boon Roong Co., Ltd. is our connected person at subsidiary level for the purpose of the GEM Listing Rules. On 8 December 2005, for better management of the cooperation relationship and TRT (Thai Boon Roong), the Company and Thai Boon Roong Co., Ltd. entered into a joint venture agreement in respect of TRT (Thai Boon Roong), the salient terms of which are set out in the sub-paragraph (iii) headed “Cooperative agreements” below in this Appendix. As advised by our legal advisors, the joint venture agreement mentioned above in relation to TRT (Thai Boon Roong) is legally valid and enforceable pursuant to its governing law.

*(iii) Our associate company**(a) TRT Health Preserving and Culture*

Place of Incorporation	:	PRC
Date of Establishment	:	24 May 2010
Type of Company	:	Limited liability company
Registered Capital	:	RMB8,000,000
Paid-up Capital	:	RMB8,000,000
Holder(s) of Equity	:	TRT International Natural-Pharm (41%)
Interest and Percentage of Equity Interest		Li Kai Yu (29%)
		Beijing Tai Yi Tang Technologies Development Co., Ltd. (10%)
		Beijing Tong Ren Tang Commercial Investment Development Co., Ltd. (10%)
		Zhang Yan (5%)
		Zhu Dan (5%)
Legal Representative	:	Li Xingyi
Term of Business	:	24 May 2010 to 23 May 2020
Business Scope	:	Permitted operating projects: Cosmetics (only non-medical cosmetics), sale and packaging of foodstuffs and sale of health foodstuffs; and general operating projects: Organising arts and cultural exchange activities (other than); technology development, technology consultation, technical services, technology transfer, technology promotion.
Corporate Development	:	TRT Health Preserving and Culture was incorporated in the PRC on 24 May 2010 with a registered capital of RMB8,000,000. TRT Health Preserving and Culture has been held as to 41%, 29%, 10%, 10%, 5% and 5% by

TRT International Natural-Pharm, Li Kai Yu, Beijing Tai Yi Tang Technologies Development, TRT Commercial Investment, Zhang Yan and Zhu Dan, respectively since its incorporation.

On 27 May 2010, for better management of the cooperation relationship and TRT Health Preserving and Culture), the shareholders of TRT Health Preserving and Culture entered into a joint venture agreement in respect of TRT Health Preserving and Culture, the salient terms of which are set out in the sub-paragraph (iii) headed “Cooperative agreements” below in this Appendix. As advised by our legal advisors, the joint venture agreement mentioned above in relation to TRT Health Preserving and Culture is legally valid and enforceable pursuant to its governing law.

Beijing Tai Yi Tang Technologies Development is principally engaged in manufacturing Chinese Medicine products and offering healthcare preserving services. TRT Commercial Investment is principally engaged in wholesale and retail of Chinese medicines and Chinese herbs. To the best knowledge and belief of the Directors, (i) Li Kai Yu has previous experience in managing the investment and real estate business; (ii) Zhang Yan is currently engaged in retail business; and (iii) Zhu Dan has previous experience of managing chain stores and a company carrying on the business of Chinese medicine.

Li Kai Yu is a director of TRT Health Preserving and Culture and involved in the daily management of TRT Health Preserving and Culture. On the other hand, each of Beijing Tai Yi Tang Technologies Development, TRT Commercial Investment, Zhang Yan and Zhu Dan has no management role in TRT Health Preserving and Culture.

Save for the aforesaid, each of Li Kai Yu, Beijing Tai Yi Tang Technologies Development, TRT Commercial Investment, Zhang Yan and Zhu Dan is an Independent Third Party for the purpose of the GEM Listing Rules.

(iii) Cooperative agreements

The following table sets out the salient terms of the cooperative agreements with respect to our non wholly-owned subsidiaries/jointly controlled entities/associate company:

Non wholly-owned Subsidiaries/Jointly controlled Entities/ Associate Company	Holders and Percentages of Equity Interest	Salient Terms of the Cooperative Agreements
TRT (Australia)	The Company (75%) Ma An Yang (15%) Zhang Bei (10%)	- The term of the cooperation is 15 years since 8 October 2004 the date of the Cooperative agreement. - The duties of the Company include contributing capital in the sum of A\$900,000; assisting the registration procedures for the products and TRT (Australia); selection of address in Australia; provision of the products to be distributed by TRT (Australia); handling the publicity, promotion and marketing work for TRT (Australia) in Australia; provision of the management staff or recruitment of the local staff. - The duties of Zhang Bei include contributing the capital in the sum of A\$100,000 and assisting in the matters entrusted by the Company in respect of TRT (Australia). - The profit and loss of TRT (Australia) is shared by the parties according to their capital contribution. - TRT (Australia) shall have four directors, out of which two to be appointed by the Company, one to be appointed by Zhang Bei and one to be the company secretary engaged in Australia. - The following matters have to be resolved by all directors: (i) amendment of the agreement and constitution of TRT (Australia); (ii) the termination, dissolution or merger of TRT (Australia); (iii) the approval of budget and distribution of profit; (iv) establishing sales outlets outside Australia; and (v) liquidation matters after the expiration of the cooperation. - The cooperation shall terminate upon the occurrence of the following events: (i) the expiry of the cooperation and the parties do not extend the cooperation; (ii) TRT (Australia) suffers serious losses causing it unable to continue operations; and (iii) TRT (Australia) suffers serious losses due to the occurrence of force majeure events such as natural disasters and war which causes TRT (Australia) unable to continue operations. - Upon the termination of the cooperation, a liquidation committee will be appointed to handle and distribute the assets of TRT (Australia).

Non wholly-owned Subsidiaries/Jointly controlled Entities/ Associate Company	Holders and Percentages of Equity Interest	Salient Terms of the Cooperative Agreements
TRT (Singapore)	The Company (51%) Science Arts (49%)	• The term of the cooperation is ten years since 21 November 2003 being the date of the joint venture agreement. • The duties of the Company include assisting the registration procedures for products and TRT (Singapore); provision of the products distributed by TRT (Singapore) and deciding on the types of drinking tablets to market; assigning the management staff, technical staff and medicine practitioners to participate in work at TRT (Singapore) and providing them with knowledge and technical training; and development of marketing plans. • The duties of Science Arts include assisting the registration procedures for TRT (Singapore) and products; handling the address selection in Singapore; assisting in product publicity, promotion and early market development before TRT (Singapore) opened its business; employing suitable lawyers or legal organisations to resolve the legal matters for TRT (Singapore); and provision of management staff and employing working staff locally. • The board of directors of TRT (Singapore) shall consist of five directors, out of which three to be appointed by the Company and two to be appointed by Science Arts. • The following matters must be resolved by a two-third majority by shareholders' resolutions: (i) election and change of directors and the matters on the directors' remuneration; (ii) approval for the board of directors' reports; (iii) the merger, separation, change of company structure of TRT (Singapore) and other economic organizational cooperation, dissolution and liquidation of TRT (Singapore); (iv) transfer of capital in TRT (Singapore) to others that are not shareholders of TRT (Singapore); and (v) amendment of the constitution of TRT (Singapore). • The cooperation shall terminate upon the occurrence of the following events: (i) the expiry of the cooperation and the parties do not extend the cooperation; (ii) TRT (Singapore) suffers serious losses causing it unable to continue operations; (iii) TRT (Singapore) suffers serious losses due to the occurrence of force majeure events such as natural disasters and wars which causes TRT (Singapore) unable to continue operations; (iv) the bankruptcy of TRT (Singapore); and (v) any party fails to carry out the agreement or constitution resulting in TRT (Singapore) being unable to continue operations or is unable to satisfy the operational objectives stated in the cooperation agreement. • Upon the termination of the cooperation, the parties have the right of first refusal to purchase such assets on the same terms as offered to any third party.

Non wholly-owned Subsidiaries/Jointly controlled Entities/ Associate Company	Holders and Percentages of Equity Interest	Salient Terms of the Cooperative Agreements
TRT (Brunei)	The Company (51%) Ang Ju Ming (20%) Lim Yee Suan (20%) Ang Bee Fong (9%)	• The term of the cooperation is ten years since 26 February 2009 being the date of the Cooperative agreement. • The duties of the Company include assisting the registration procedures for the medicines and TRT (Brunei); provision of the products to be distributed by TRT (Brunei); recommending the management staff, technical staff and Chinese healthcare consultants to participate in work at TRT (Brunei); assisting the formation of the product development and marketing plans for TRT (Brunei); and contributing 51% of the registered capital. • The duties of Bao Jian Healthcare include assisting the registration procedures for TRT (Brunei) and products; handling the address selection in Brunei; assisting in the matters entrusted by the Company before TRT (Brunei) opened its business; recruiting the local staff; assisting in the publicity, promotion and initial marketing of TRT (Brunei), handling the legal matters for TRT (Brunei); and contributing 49% of the registered capital. • The profit and loss of TRT (Brunei) is shared by the parties according to their capital contribution. • The board of directors of TRT (Brunei) shall consist of six directors. Each of the Company and Bao Jian Healthcare is entitled to appoint three directors. • The following matters have to be resolved by all directors: (i) amendment of the constitution of TRT (Brunei); (ii) the liquidation or merger of TRT (Brunei); (iii) increase, reduction or transfer of the share capital in TRT (Brunei); (iv) the approval of budget, distribution of profit or a resolution to deal with a loss situation; (v) the obtaining of loan; and (vi) the setting up of a branch in Brunei. • The cooperation shall terminate upon the occurrence of the following events: (i) the expiry of the cooperation and the parties do not extend the cooperation; (ii) TRT (Brunei) suffers serious losses due to the occurrence of force majeure events such as natural disasters and wars which causes TRT (Brunei) unable to continue operations; (iii) TRT (Brunei) suffers serious losses causing it unable to continue operations; (iv) the insolvency or winding up of the parties; and (v) any party fails to carry out the agreement or constitutions resulting in TRT (Brunei) unable to continue operations or unable to satisfy the operational objectives stated in the agreement. • Upon the termination of the cooperation, the parties have the right of first refusal to purchase such assets on the same terms as offered to any third party and the surplus of the assets in accordance with the capital contribution by the parties.

Non wholly-owned Subsidiaries/Jointly controlled Entities/ Associate Company	Holders and Percentages of Equity Interest	Salient Terms of the Cooperative Agreements
TRT (Toronto)	The Company (51%) Finchdene (49%)	• The Company's duties include procuring all necessary documentation for licensing of all of the products and services in Canada and in Ontario; entering into an exclusive distribution agreement with TRT (Toronto) to deal in the products and provide services in Canada and providing Finchdene or its designees the opportunity to supply approved goods to TRT (Toronto); and consulting generally with TRT (Toronto) with respect to its general operations. • Finchdene's duties include applying for all necessary licensing of the products and services in Canada and Ontario; seeking and acquiring an adequate leased location; following the direction of the Company as to the layout, inventory and other matters for opening of the Toronto retail location; and keeping all appropriate accounting records. • The initial board of directors of TRT (Toronto) shall consist of seven directors, out of which four were appointed by the Company and three were appointed by Finchdene. • The following matters shall only be approved by the votes of the shareholders holding two third of the shares issued: the issuance of shares; change of the share capital in TRT (Toronto); redemption or purchase of its shares by TRT (Toronto); merger or any plan of arrangement of TRT (Toronto); winding up, re-organization or dissolution of TRT (Toronto); enactment, re-vocation or amendment of any by-laws of TRT (Toronto); sale, lease, exchange or disposition of substantially all assets of TRT (Toronto); incurring of indebtedness by TRT (Toronto) for more than CDN\$500,000; declaration and distribution of dividends or surplus; provision of financial assistance to any shareholder; making any non-fair-market-value contract with any person not dealing at arm's length with a shareholder; repayment of loan owed to shareholders; the terms and conditions of any shareholders' loan; appointment of new auditors or accountants. • The agreement shall be terminated on the earliest of (i) the written agreement of all shareholders; (ii) the dissolution, bankruptcy or winding-up of TRT (Toronto); and (iii) the occurrence of circumstances in which only one shareholder of TRT (Toronto) remains a shareholder. The parties agree that they shall have the opportunity of restructuring the agreement on mutual agreement at any time after 10 years of the effective date of the agreement.

Non wholly-owned Subsidiaries/Jointly controlled Entities/ Associate Company	Holders and Percentages of Equity Interest	Salient Terms of the Cooperative Agreements
TRT (UAE)	The Company (51%) Emirates China Group L.L.C. (49%)	• The operation of TRT (UAE) is 10 years since 8 November 2010 being the date of the joint venture agreement and the parties may extend the operation period. • The duties of the Company include delivering the data for registration of TRT (UAE) and medicine registration or archiving in the UAE; going through relevant formalities in China for establishment of TRT (UAE); supplying TRT (UAE) with products for sale; recommending managers, technicians and traditional Chinese Medicine doctor to work for TRT (UAE); cooperating with TRT (UAE) to make product sales plan and making capital contribution in the sum of USD408,000. • The duties of Emirates China Group L.L.C. include assisting in the formalities of registration and product archiving of TRT (UAE) in the UAE; assisting the site selection of TRT (UAE) and related local work; handling the matters authorized by the Company prior to the commencement of TRT (UAE); assisting local staff recruitment; assisting the publicity, promotion and early market development of the products; cooperating with TRT (UAE) to solve legal matters in the UAE and making capital contribution in the sum of USD392,000. • The board of directors of TRT (UAE) shall consist of five directors, out of which three to be appointed by the Company and two to be appointed by Emirates China Group L.L.C. • The following matters have to be resolved by all directors: (i) amendment of the articles of association of TRT (UAE); (ii) termination and dissolution of TRT(UAE), merger with another economic organization and division; and (iii) the increase, decrease and assignment of registered capital of TRT(UAE). • The joint venture shall be terminated upon the occurrence of the following events: (i) the expiry of the operation period of the joint venture and the parties do not extend the joint venture; (ii) TRT (UAE) cannot continue its operation for sake of severe loss resulting from natural disaster, war or other force majeure; (iii) TRT (UAE) faces severe losses and fails to continue its operation or had losses of over 50% of total investment; (iv) either the Company or Emirates China Group L.L.C. faces the risk of bankruptcy or winding up proceedings; and (v) TRT (UAE) fails to continue its operation or to achieve its business objective since either party has not performed its obligation under the joint venture agreement or the articles of association of TRT (UAE).

Non wholly-owned Subsidiaries/Jointly controlled Entities/ Associate Company	Holders and Percentages of Equity Interest	Salient Terms of the Cooperative Agreements
TRT (Macau)	The Company (51%) BMI Trading (44%) Ho Cheung Lai Kwan; Ho King Fung, Eric; Ho King Lun, Kevin; Ho Wing Yiu and Ho Wing Yee, Queenie (5%)	• The term of the joint venture is 15 years since 30 October 2002 being the date of the joint venture agreement. • The duties of the Company include assisting the registration procedures for the medicines and TRT (Macau); provision of the products to be distributed by TRT (Macau); assigning the management staff, technical staff and medicine practitioners to participate in work at TRT (Macau); and assisting the formation of the product development and marketing plans for TRT (Macau). • The duties of the joint venture partners include assisting the registration procedures for TRT (Macau) and products; handling the address selection; assisting in the matters entrusted by TRT Technologies before TRT (Macau) opened its business; assisting in the initial publicity, promotion and marketing of TRT (Macau), engaging lawyers or legal organisations to resolve legal matters for TRT (Macau); and providing management staff and assisting the recruitment of local staff. • The profit and loss of TRT (Macau) is shared by the parties according to their capital contribution. • The following matters must be resolved by a two-third majority by shareholders' resolutions: (i) election and removal of the administrative body; (ii) approval for the accounts and reports from the administrative body; (iii) the use of annual surplus; (iv) the handling for the annual loss; (v) the amendment of the constitution; (vi) the increase or reduction of share capital; (vii) the change of company structure, separation and merger of TRT (Macau); and (viii) the dissolution of TRT (Macau). • The joint venture shall terminate upon the occurrence of the following events: (i) the expiry of the joint venture and the parties do not extend the joint venture; (ii) TRT (Macau) suffers serious losses causing it unable to continue operations; (iii) TRT (Macau) suffers serious losses due to the occurrence of natural disasters, war and other force majeure events causing it unable to continue operations; (iv) the bankruptcy of TRT (Macau); and (v) any party or two parties fail to carry out the joint venture agreement or constitution resulting in TRT (Macau) being unable to continue operations or unable to satisfy the operational objectives stated in the joint venture agreement. • Upon the termination of the joint venture, a liquidation committee will be appointed to handle the assets of the joint venture and the parties have the right of first refusal to purchase such assets on the same terms as offered to any third party.

Non wholly-owned Subsidiaries/Jointly controlled Entities/ Associate Company	Holders and Percentages of Equity Interest	Salient Terms of the Cooperative Agreements
TRT (Malaysia)	The Company (60%) Hai-O (40%)	• The term of the joint venture is 15 years since 25 June 2001 being the date of the joint venture agreement. • The duties of the Company include providing all necessary information for the registration of TRT (Malaysia) and for the registration of the products in Malaysia, carrying out and fulfilling all requirements in China for the registration of TRT (Malaysia) in Malaysia, providing the products to be distributed by TRT (Malaysia), recommending management staff, technical staff and medicine practitioners to TRT (Malaysia) in accordance with TRT (Malaysia)'s requirements and assisting in preparing the sales plan for TRT (Malaysia). • The duties of Hai-O include incorporating TRT (Malaysia) and registering the products in Malaysia, selecting TRT (Malaysia)'s address, handling all matters as instructed by the Company prior to TRT (Malaysia)'s commencement of business, assisting in product advertising, promotion and initial market development in Malaysia, handling law suits and other legal matters in Malaysia in respect of TRT (Malaysia) and providing management staff and employing local employees. • The profit and loss of TRT (Malaysia) is shared by the parties according to their capital contribution. • TRT (Malaysia) shall have five directors, out of which three to be appointed by the Company and two to be appointed by Hai-O. • The following matters have to be resolved by all directors: (i) the amendment of the constitution of TRT (Malaysia); (ii) the termination, dissolution or merger of TRT (Malaysia); (iii) the increase or transfer of the registered share capital in TRT (Malaysia); (iv) the approval of budget and distribution of profit; (v) the obtaining of loan; and (vi) other important matters. • The joint venture shall terminate upon the occurrence of the following events: (i) the expiry of the joint venture and the parties do not extend the joint venture; (ii) TRT (Malaysia) suffers serious losses causing it unable to continue operations; (iii) TRT (Malaysia) suffers serious losses due to the occurrence of natural disasters, war and other force majeure events which causes TRT (Malaysia) unable to continue operations; (iv) the winding up of TRT (Malaysia); and (v) any party fails to carry out the joint venture agreement or constitutions resulting in TRT (Malaysia) being unable to continue operations or unable to satisfy the operational objectives stated in the joint venture agreement. • Upon the termination of the joint venture, a liquidation committee will be appointed to handle the assets of the joint venture and the parties have the right of first refusal to purchase such assets on the same terms as offered to any third party.

Non wholly-owned Subsidiaries/Jointly controlled Entities/ Associate Company	Holders and Percentages of Equity Interest	Salient Terms of the Cooperative Agreements
TRT (Canada)	The Company (51%) Chuan Chiong (49%)	- The term of the joint venture is 20 years since 10 November 2001 being the date of the joint venture agreement. - The duties of the Company include assisting with the registration procedures for the medicines and TRT (Canada) in Canada and China; provision of the products to be distributed by TRT (Canada); appointing the management staff, technical staff and traditional Chinese Medicine practitioners to participate in work at TRT (Canada); and assisting with product development and marketing plans for TRT (Canada). - The duties of Chuan Chiong include assisting with the registration procedures for TRT (Canada) and products in Canada; handling the address selection in Canada; assisting in the matters entrusted by TRT Technologies before TRT (Canada) opened its business; assisting in the publicity, promotion and initial marketing of TRT (Canada); handling the legal matters for TRT (Canada); and providing management staff and employing working staff locally. - The profit and loss of TRT (Canada) is shared by the parties according to their capital contribution. - The board of directors of TRT (Canada) shall consist of five directors, out of which three to be appointed by the Company and two to be appointed by Chuan Chiong. - The following matters have to be resolved unanimously by the directors: (i) the amendment of the Articles of Association of TRT (Canada); (ii) the termination, dissolution or merger of TRT (Canada); (iii) the increase or transfer of the share capital in TRT (Canada); (iv) the approval of budget and distribution of profit; (v) borrowing by TRT (Canada); and (vi) other important matters. - The joint venture shall terminate upon the occurrence of the following events: (i) the expiry of the term of the joint venture and the parties do not extend the joint venture; (ii) TRT (Canada) suffers serious losses causing it to be unable to continue operations; (iii) TRT (Canada) suffers serious losses due to the occurrence of natural disasters, war and other force majeure events; (iv) the bankruptcy of TRT (Canada); and (v) any party fails to carry out the joint venture agreement or Articles of Association leaving TRT (Canada) unable to continue operations or unable to reach the operational objectives stated in the joint venture agreement. - Upon the termination of the joint venture, the board shall appoint a liquidation committee to handle the assets of the joint venture and the parties have the right of first refusal to purchase such assets on the same terms as offered to any third party.

Non wholly-owned Subsidiaries/Jointly controlled Entities/ Associate Company	Holders and Percentages of Equity Interest	Salient Terms of the Cooperative Agreements
TRT (Indonesia)	The Company (50%) Pt Saras (50%)	- The term of the joint venture is 15 years since 8 August 2002 being the date of the joint venture agreement. - The duties of the Company include assisting the registration procedures for the products and TRT (Indonesia); provision of the products to be distributed by TRT (Indonesia) and deciding on the types of drinking tablets to market; assigning the management staff, technical staff and medicine practitioners to participate in work at TRT (Indonesia); and assisting the formation of the product development and marketing plans for TRT (Indonesia). - The duties of Pt Saras include assisting the registration procedures for TRT (Indonesia) and products; handling the address selection in Indonesia; assisting in the matters entrusted by TRT Technologies before TRT (Indonesia) opened its business; assisting in the initial publicity, promotion and marketing of TRT (Indonesia), handling the legal matters for TRT (Indonesia); and recruiting management staff and employing working staff locally. - The profit and loss of TRT (Indonesia) is shared by the parties according to their capital contribution. - The board of directors of TRT (Indonesia) shall consist of five directors, out of which three to be appointed by the Company and two to be appointed by Pt Saras. - The following matters have to be resolved by all directors: (i) the amendment of the constitution of TRT (Indonesia); (ii) the liquidation or merger of TRT (Indonesia); (iii) the increase or transfer of the share capital in TRT (Indonesia); (iv) the approval of budget and distribution of profit; (v) the obtaining of loan; and (vi) other important matters. - The joint venture shall terminate upon the occurrence of the following events: (i) the expiry of the joint venture and the parties do not extend the joint venture; (ii) TRT (Indonesia) suffers serious losses causing it unable to continue operations; (iii) TRT (Indonesia) suffers serious losses due to the occurrence of natural disasters, war and other force majeure events causing TRT (Indonesia) unable to continue operations; (iv) the bankruptcy of TRT (Indonesia); and (v) any party fails to carry out the joint venture agreement or constitutions resulting in TRT (Indonesia) being unable to continue operations or unable to satisfy the operational objectives stated in the joint venture agreement. - Upon the termination of the joint venture, a liquidation committee will be appointed to handle the assets of the joint venture and the parties have the right of first refusal to purchase such assets on the same terms as offered to any third party.

Non wholly-owned Subsidiaries/Jointly controlled Entities/ Associate Company	Holders and Percentages of Equity Interest	Salient Terms of the Cooperative Agreements
TRT (Thailand)	The Company (49%) V.P. Pharmacy Registered Ordinary Partnership (through 11 individual nominees) (51%)	- The term of the joint venture is 10 years from 1 June 2010 being the date of the joint venture agreement. - The duties of the Company include assisting the registration procedures for TRT (Thailand); handling the approval procedures with the PRC authorities; provision of Chinese staff and providing training; contributing the capital of US\$490,000; and assisting TRT (Thailand) to purchase products. - The duties of V.P. Pharmacy Registered Ordinary Partnership include assisting the approval procedures with the PRC authorities; handling the address selection in Thailand; doing market research and giving proposal for the products to be imported; contributing the capital of US\$510,000; and ensuring TRT (Thailand) purchase the products through legitimate channel. - The profit of TRT (Thailand) is shared by the parties according to their shareholding and loss of TRT (Thailand) is to be shared by the parties up to the amount of their respective capital contribution. - The board of directors of TRT (Thailand) shall consist of seven directors, out of which three to be appointed by the Company and four to be appointed by V.P. Pharmacy Registered Ordinary Partnership. - The following matters have to be resolved by more than 75% of the directors: (i) the amendment of the constitution of TRT (Thailand); (ii) the termination, dissolution or merger of TRT (Thailand); (iii) increase or transfer of the registered capital in TRT (Thailand); (iv) setting up of sales outlet outside Thailand; (v) the liquidation procedures of TRT (Thailand); and (vi) other important matters. - The joint venture shall terminate upon the occurrence of the following events: (i) the expiry of the joint venture and the parties do not extend the joint venture; (ii) TRT (Thailand) suffer serious losses for three consecutive years; (iii) TRT (Thailand) suffers serious losses due to the occurrence of natural disasters, war and other force majeure events causing TRT (Thailand) unable to continue operations; (iv) the bankruptcy of TRT (Thailand); and (v) any party fails to carry out the joint venture agreement or constitution resulting in TRT (Thailand) being unable to continue operations or unable to satisfy the operational objectives stated in the joint venture agreement. - Upon the termination of the joint venture, a liquidation committee is appointed to handle and distribute the assets of the joint venture and the parties have the right of first refusal to purchase such assets on the same terms as offered to any third party.

Non wholly-owned Subsidiaries/Jointly controlled Entities/ Associate Company	Holders and Percentages of Equity Interest	Salient Terms of the Cooperative Agreements
TRT (Boryung)	The Company (51%) Korea Boryung (49%)	• The initial term of the joint venture is 10 years from 5 December 2002 being the date of incorporation of TRT (Boryung) which is extended for a further term of two years until 5 December 2014. • The duties of the Company include assisting the registration procedures for the products and TRT (Boryung); provision of the products to be distributed by TRT (Boryung); assigning the management staff, technical staff and medicine practitioners to participate in work at TRT (Boryung); and assisting the formation of the product development and marketing plans for TRT (Boryung). • The duties of Korea Boryung include assisting the registration procedures for TRT (Boryung) and products; handling the address selection and decoration of the shops; assisting in the matters entrusted by the Company, before TRT (Boryung) opened its business; assisting in the publicity and promotion related to the marketing of the products; handling the legal matters for TRT (Boryung); and recommending management staff and assisting in recruiting local staff. • The profit of TRT (Boryung) is shared by the parties according to their capital contribution. • The board of directors of TRT (Boryung) shall consist of seven directors, out of which four to be appointed by the Company and three to be appointed by Korea Boryung. • The following matters have to be resolved by all directors: (i) the approval of budget and distribution of profit; (ii) obtaining the loan other than for the daily operations of TRT (Boryung); (iii) the issue of new shares or debentures; (iv) the sale, transfer or disposal of assets of value over US\$100,000; (v) obtaining or leasing assets of value over US\$100,000; (vi) investing more than US\$100,000 in immovable assets, factory, machinery and other equipment; (vii) widening the scope of operation; (viii) establishing any sales outlet outside Korea; and (ix) other important matters. • The joint venture shall terminate upon the occurrence of the following events: (i) the expiry of the joint venture and the parties do not extend the joint venture; (ii) TRT (Boryung) suffers serious losses for three consecutive years causing it unable to continue operations; (iii) TRT (Boryung) suffers serious losses due to the occurrence of natural disasters, war and other force majeure events causing TRT (Boryung) unable to continue operations; (iv) the bankruptcy of TRT (Boryung); and (v) any party fails to carry out the joint venture agreement or constitutions which resulting in TRT (Boryung) being unable to continue operations or unable to satisfy the operational objectives stated in the joint venture agreement. • Upon the termination of the joint venture, a liquidation committee will be appointed by shareholders' resolutions to handle the assets of the joint venture and to distribute the surplus of the assets in accordance with the capital contribution by the parties.

Non wholly-owned Subsidiaries/Jointly controlled Entities/ Associate Company	Holders and Percentages of Equity Interest	Salient Terms of the Cooperative Agreements
TRT (Thai Boon Roong)	The Company (51%) Thai Boon Roong Co., Ltd. (49%)	- The joint venture is valid for ten years from 8 December 2005 being the date of the joint venture agreement. - The Company and Thai Boon Roong Co., Ltd. shall contribute US\$255,000 and US\$245,000 into the joint venture, respectively. - The Company's duties include assisting the registration procedures for products and TRT (Thai Boon Roong); sale of the products produced by the Company to TRT (Thai Boon Roong); recommending the management and technical staff and Chinese Medicine Practitioners to the TRT (Thai Boon Roong); and assisting in preparing the sales plan for TRT (Thai Boon Roong). - The duties of Thai Boon Roong Co., Ltd. include assisting the registration procedures for TRT (Thai Boon Roong) and products; handling the address selection in Cambodia; assisting in the initial publicity, promotion and marketing; assisting the local recruitment of staff; and handling Cambodian legal matters of TRT (Thai Boon Roong). - The board of directors of TRT (Thai Boon Roong) shall consist of five directors, out of which three to be appointed by the Company and two to be appointed by Thai Boon Roong Co., Ltd. - The following matters have to be resolved by a two-third majority of the board of directors: (i) operational plan and investment proposal of TRT (Thai Boon Roong); (ii) basic regulatory system of TRT (Thai Boon Roong); (iii) establishment of internal management department of TRT (Thai Boon Roong); (iv) recruitment of senior management of TRT (Thai Boon Roong); and (v) salary and emoluments of senior management of TRT (Thai Boon Roong). - The profit of TRT (Thai Boon Roong) is shared by the parties according to their capital contribution. - The joint venture shall terminate upon the occurrence of the following events: (i) the expiry of the joint venture and the parties do not extend the joint venture; (ii) TRT (Thai Boon Roong) suffers serious losses due to the occurrence of force majeure events such as natural disasters and war causing TRT (Thai Boon Roong) unable to continue operations; (iii) TRT (Thai Boon Roong) suffers serious losses causing it unable to continue operations; (iv) any party is facing bankruptcy or liquidation procedures; (v) any party fails to carry out the obligations under the joint venture agreement and constitution, resulting in TRT (Thai Boon Roong) being unable to continue operations or satisfy the operational objectives stated in the joint venture agreement. - Upon the termination of the joint venture, a liquidation committee is appointed to handle and distribute the assets of the joint venture. The parties have the right of first refusal to purchase such assets on the same terms as offered to any third party. Surplus assets after paying off liabilities of TRT (Thai Boon Roong) will be distributed to the parties according to their respective capital contribution.

Non wholly-owned Subsidiaries/Jointly controlled Entities/ Associate Company	Holders and Percentages of Equity Interest	Salient Terms of the Cooperative Agreements
TRT Health Preserving and Culture	TRT International Natural- Pharm (41%) Li Kai Yu (29%) Beijing Tai Yi Tang Technologies Development Co., Ltd. (10%) Beijing Tong Ren Tang Commercial Investment Development Co., Ltd. (10%) Zhang Yan (5%) Zhu Dan (5%)	• The term of the joint venture is 10 years from 27 May 2010 being the date of the cooperative agreement. • The profit and loss of TRT Health Preserving and Culture is shared by the parties according to their capital contribution. • The board of directors of TRT Health Preserving and Culture shall consist of three directors, out of which two to be appointed by the Company and one to be appointed by Li Kai Yu. • The joint venture shall terminate upon the occurrence of the following events: (i) the expiry of the joint venture and the parties do not extend the joint venture; (ii) any party commits a serious breach causing TRT Health Preserving and Culture unable to continue operations; (iii) force majeure events causing TRT Health Preserving and Culture unable to continue operations; (iv) TRT Health Preserving and Culture suffers serious loss for three consecutive years; (v) by the shareholders' resolutions; (vi) any shareholder is subject to liquidation proceedings or its business licence is revoked; (vii) TRT Health Preserving and Culture commits serious illegal activities resulting in its business licence being revoked; (viii) any shareholder refuses to comply with its duties or attend shareholders' meeting, or cannot be located and such event causing a serious effect on the operation of TRT Health Preserving and Culture; (ix) TRT Holdings legally revokes the licence for "Tong Ren Tang" brand and the shareholders cannot reach agreement on the new name of joint venture within 30 days; and (x) the reputation of the "Tong Ren Tang" brand is seriously damaged due to the operation of TRT Health Preserving and Culture.

6. Repurchase of Shares by the Company

This section includes information required by the Stock Exchange to be included in this prospectus concerning the repurchase by the Company of its own securities:

(a) *Provisions of the GEM Listing Rules*

The GEM Listing Rules permit companies whose primary listing is on GEM to repurchase their securities on the Stock Exchange subject to certain restrictions, a summary of which is set out below:

(i) *Shareholders' approval*

All proposed repurchases of securities, which must be fully paid up in the case of shares, on the Stock Exchange by a company with its primary listing on the Stock Exchange must be approved in advance by an ordinary resolution of shareholders, either by way of a general mandate or by a specific approval of a particular transaction.

Note:

Pursuant to a written resolution passed by the shareholders of the Company on 28 March 2013, a general unconditional mandate (the “repurchase mandate”) was granted to the Directors authorising them to exercise all powers for and on behalf of the Company to repurchase its Shares on the Stock Exchange, or on any other approved stock exchange on which the securities of the Company may be listed and which is recognised by the SFC and the Stock Exchange for this purpose, with an aggregate nominal value not exceeding 10% of the aggregate nominal amount of the share capital of the Company in issue immediately following completion of the Share Offer and the Capitalisation Issue (but excluding any Shares which may be issued pursuant to the exercise of the Over-allotment Option) at any time until the conclusion of the next annual general meeting of the Company, the expiration of the period within which the next annual general meeting of the Company is required by the Articles of Association or any applicable laws of Hong Kong to be held or when such mandate is revoked, varied or renewed by an ordinary resolution of the Shareholders of the Company in a general meeting, whichever is the earliest.

(ii) *Source of funds*

Repurchases must be funded out of funds legally available for such purpose in accordance with the Articles of Association, the applicable laws of Hong Kong and the GEM Listing Rules. A company may not repurchase its own securities on the Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange from time to time.

(iii) *Shares to be repurchased*

The GEM Listing Rules provide that the shares which are proposed to be repurchased by a company must be fully paid up.

(b) *Reasons for repurchases*

The Directors believe that it is in the best interest of the Company and the Shareholders for the Directors to have a general authority from the Shareholders to enable the Company to repurchase the Shares in the market. Repurchases of the Shares will only be made when the Directors believe that such repurchases will benefit the Company and the Shareholders as a whole. Such repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net asset value per Share and/or earnings per Share.

(c) *Exercise of the purchase mandate*

Exercise in full of the repurchase mandate on the basis of 800,000,000 Shares in issue immediately after the Listing (assuming the Over-allotment Option is not exercised) could accordingly result in up to 80,000,000 Shares being purchased by the Company during the period prior to (1) the conclusion of the next annual general meeting of the Company; (2) the expiration of the period within which the next annual general of the Company is required by the laws of Hong Kong or the Articles of Association; or (3) the revocation or variation of the purchase mandate by ordinary resolution of the Shareholders of the Company in a general meeting, whichever occurs first.

(d) *Funding of repurchases*

Repurchases pursuant to the repurchase mandate would be financed out of funds of the Company legally available for such purpose in accordance with the Articles of Association, the GEM Listing Rules and the applicable laws of Hong Kong. The Directors consider that, if the repurchase mandate was to be exercised in full, it might have a material adverse effect on the working capital and/or the gearing position of the Company as compared with the position disclosed in this prospectus. However, the Directors do not propose to exercise the repurchase mandate to such an extent as would, in the circumstances, have a material adverse effect on the working capital requirements of the Company or its gearing levels.

(e) *Director's undertaking*

The Directors have undertaken to the Stock Exchange that they will exercise the power of the Company to make purchases of the Company's securities in accordance with the GEM Listing Rules, the applicable laws of Hong Kong and the Articles of Association.

(f) *Disclosure of interests*

None of the Directors, to the best of their knowledge, having made all reasonable enquiries, or any of their respective associates, as defined in the GEM Listing Rules, has any present intention to sell any Shares to the Company or our subsidiaries. No connected person, as defined in the GEM Listing Rules, has notified the Company that he or she has a present intention to sell Shares to the Company, or has undertaken not to do so, if the repurchase mandate is exercised.

(g) *Takeovers Code consequences*

If, as a result of a securities repurchase pursuant to the repurchase mandate, a Shareholder's proportionate interest in the voting rights of the Company increases, such increase will be treated as an acquisition for the purpose of the Takeovers Code.

Accordingly, a Shareholder, or a group of Shareholders acting in concert, depending on the level of increase of shareholders' interest, could obtain or consolidate control of the Company and become obliged to make a mandatory offer in accordance with Rule 26 of the Takeovers Code as a result of any such increase. Save as aforesaid, the Directors are not aware of any consequences which may arise under the Takeovers Code if the repurchase mandate is exercised.

The Directors have no present intention to exercise the repurchase mandate to such an extent as would result in takeover obligations under the Takeovers Code.

B. FURTHER INFORMATION ABOUT THE BUSINESS OF THE GROUP

1. Summary of material contracts

The following contracts (not being contracts in the ordinary course of business) have been entered into by the Company or any of our subsidiaries within the two years immediately preceding the date of this prospectus and are or may be material:

- (1) Amendment to Joint Venture Agreement dated 5 December 2012 entered into between the Company and Korea Boryung, pursuant to which the term of the joint venture of TRT (Boryung) was extended until 5 December 2014;
- (2) Deed of Ratification and Accession dated 12 February 2013 entered into among the Company, TRT International and Zhang Bei, pursuant to which the obligations and the rights of TRT International under the joint venture agreement with respect to TRT (Australia) are assumed by the Company with effect from the date of transfer of the equity interest in TRT (Australia) by TRT International to the Company;
- (3) Equity Transfer Agreement dated 4 March 2013 entered into between the Company and TRT Chinese Medicine Holdings, pursuant to which the Company disposed of 68% equity interest in TRT (Tang Shan) to TRT Chinese Medicine Holdings at a consideration of RMB84.6 million;
- (4) Amendment to Joint Venture Contract dated 25 March 2013 entered into among the Company, TRT Technologies and Pt Saras, pursuant to which the obligations and the rights of TRT Technologies under the joint venture agreement with respect to TRT (Indonesia) are assumed by the Company with effect from the date of transfer of the equity interest in TRT (Indonesia) by TRT Technologies to the Company;

- (5) Deed of Ratification and Accession dated 17 April 2013 entered into among the Company, TRT International, Bao Jian Healthcare and TRT (Brunei), pursuant to which the obligations and the rights of TRT International under the joint venture agreement with respect to TRT (Brunei) are assumed by the Company with effect from the date of transfer of the equity interest in TRT (Brunei) by TRT International to the Company;
- (6) Deed of Non-competition dated 18 April 2013 given by each of TRT Holdings, TRT Ltd. and TRT Technologies as covenantor in favour of the Company, details of which are set out in the section headed “Relationship with Controlling Shareholders” in this prospectus;
- (7) Deed of Indemnity dated 18 April 2013 given by TRT Holdings in favour of the Company containing the indemnities more particularly referred to in the section headed “Other information – Estate duty and tax indemnity” of this Appendix; and
- (8) Underwriting Agreement.

2. Intellectual property rights of the Group

(a) *Domain names*

As at the Latest Practicable Date, the Group had registered the following domain name:

Domain name	Expiry Date	Registered owner	Registration Date
www.tongrentangcm.com	2 December 2013	The Company	2 December 2010

Note: Contents in the domain do not form part of this prospectus.

(b) *Trademark license agreement and authorisation letter*

Pursuant to a trademark license agreement and authorization letter dated 15 April 2013 (the “Trademark License Agreement and Authorization Letter”), TRT Holdings licensed to the Company the “Tong Ren Tang” trademark for its production operations and authorized the Company to use the “Tong Ren Tang” trademark outside of the PRC including but not limited to the right to sub-license the said trademark at nil consideration for a term up to 13 May 2021 which will be automatically renewed on the same terms and conditions on a perpetual basis for terms of 10 years upon its expiry. For further details of the Trademark License Agreement and Authorization Letter, please refer to the section headed “Business – Intellectual Property” in this prospectus.

C. FURTHER INFORMATION ABOUT DIRECTORS, SUBSTANTIAL SHAREHOLDERS AND EXPERTS

1. Directors

Immediately following completion of the Share Offer and the Capitalisation Issue and taking no account of any Shares which may be issued upon the exercise of the Over-allotment Option, the interest or short position of the Directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO) which will be required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which will be required to be notified to the Company and the Stock Exchange pursuant to the required standards of dealings by directors as referred to in Rule 5.46 to 5.67 of the GEM Listing Rules, once the Shares are listed are as follows:

TRT Technologies

Name of the Director	Long/short position	Capacity	Nature of interest	Number of shares (Note)	Approximate percentage of domestic shares	Approximate percentage of total registered share capital
Yin Shun Hai	Long position	Beneficial owner	Personal	1,500,000	0.460%	0.255%

Note: All are domestic shares.

TRT Ltd.

Name of the Director	Long/short position	Capacity	Nature of interest	Number of shares (Note)	Approximate percentage of total registered share capital
Yin Shun Hai	Long position	Beneficial owner	Personal	116,550	0.009%

Note: All are A shares.

TRT International

Name of the Director	Long/short position	Capacity	Nature of interest	Number of shares	Approximate percentage of total registered share capital
Yin Shun Hai	Long position	Beneficial owner	Personal	39,000	0.125%
Ding Yong Ling	Long position	Beneficial owner	Personal	39,000	0.125%

Save as disclosed above, none of the Directors or 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 Stock Exchange pursuant to the standards of dealing by directors as referred to in Rules 5.46 to 5.67 of the GEM Listing Rules.

2. Substantial Shareholders

Save as disclosed in the section headed “Substantial Shareholders” in this prospectus, our Directors confirm that they are not aware of any persons who will, immediately following completion of the Share Offer and the Capitalisation Issue, taking into no account of any Shares which may be issued pursuant to the exercise of the Over-allotment Option (i) have an interest or short position in our Shares or underlying Shares or debentures which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or (ii) be interested, directly or indirectly, in 10% or more of the nominal value of any class of the share capital carrying rights to vote in all circumstances at general meetings of any member of the Group.

3. Particulars of Directors’ service contracts

- (a) Each of the executive Directors has entered into a service contract with the Company commencing from 15 April 2013 for a term of three years. Each of the executive Directors will not receive remuneration in their capacities as Directors.
- (b) The non-executive Director has entered into a service contract with the Company commencing from 15 April 2013 for a term of three years. The non-executive Director will not receive remuneration in his capacity as Director.
- (c) Each of the independent non-executive Directors has entered into a letter of appointment with the Company for a term of three years. The current basic annual remuneration payable by the Group to the independent non-executive Directors are set out below.

Independent non-executive Directors

Leung, Oi Sie Elsie	HK\$180,000
Chan Ngai Chi	HK\$180,000
Zhao Zhong Zhen	HK\$180,000

4. Directors' remuneration

During the year ended 31 December 2011 and 31 December 2012, the aggregate of the remuneration paid and benefits in kind granted to the Directors by the Group were approximately HK\$1,495,000 and HK\$3,034,000. Further information in respect of the Directors' remuneration is set out in Appendix I to this prospectus.

Under the arrangements currently in force, the estimated amount of directors' fees and other emoluments payable to the Directors for the year ending 31 December 2013 will be approximately HK\$0.4 million.

5. Related party transactions

The Group entered into certain related party transactions within the two years immediately preceding the date of this prospectus as mentioned in note 33 to the Accountant's Report as set out in Appendix I to this prospectus and the section headed "Connected Transactions" in this prospectus.

6. Agency fees or commissions received

Save as disclosed in this prospectus, no commissions, discounts, brokerages or other special terms were granted within the two years preceding the date of this prospectus in connection with the issue or sale of any capital of any member of the Group.

7. Disclaimers

Save as disclosed herein:

- (a) none of the Directors or the chief executive of the Company has any interest or short position in the shares, underlying shares or debentures of the Company or any of our associated corporation (within the meaning of the SFO) which will be required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which will be required to be notified to the Company and the Stock Exchange, pursuant to the required standards of dealing by directors as referred to in Rules 5.46 to 5.67 of the GEM Listing Rules, once the Shares are listed;

- (b) none of the Directors or experts referred to under the section headed “Other information – Consents of experts” in this Appendix has any direct or indirect interest in the promotion of the Company, or in any assets which have within the two years immediately preceding the date of this prospectus been acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group;
- (c) none of the Directors or experts referred to under the section headed “Other information – Consents of experts” is materially interested in any contract or arrangement subsisting at the date of this prospectus which is significant in relation to the business of the Group taken as a whole;
- (d) none of the Directors has any existing or proposed service contracts with any member of the Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation));
- (e) the Directors are not aware of any person (not being a Director or the chief executive of the Company) who will, immediately following completion of the Share Offer and the Capitalisation Issue, have an interest or short position in the Shares or underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or be interested, directly or indirectly, in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group; and
- (f) none of the experts referred to under the under the section headed “Other information – Consents of experts” in this Appendix has any shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

D. OTHER INFORMATION

1. Estate Duty

The Directors have been advised that no material liability for estate duty is likely to fall on any member of the Group in Hong Kong, the PRC and other jurisdictions in which the companies comprising the Group are incorporated.

2. Estate Duty and Tax Indemnity

TRT Holdings has entered into a deed of indemnity dated 18 April 2013 (being a material contract referred to in the section headed “Further information about the business of the Group – Summary of material contracts” of this Appendix) in favor of the Group. TRT Holdings has given indemnities in respect of, among other things, (a) any liability for Hong Kong estate duty which might be incurred by any member of the Group by virtue of any transfer of property

(within the meaning of section 35 of the Estate Duty Ordinance (Chapter 111 of the Laws of Hong Kong, as amended from time to time)) to any member of the Group on or before the Listing Date, and (b) any tax liability which might be payable by any member of the Group in respect of any income, profits or gains earned, accrued or received or deemed to have been earned, accrued or received on or before the Listing Date.

TRT Holdings will, however, not be liable under the deed of indemnity for taxation and other liabilities where, among others, provision has been made for such taxation and other liabilities in the audited accounts of the Group for the two years ended 31 December 2012 as set out in the Accountant's Report in Appendix I to this prospectus and provision, reserve or allowance for which will be made in the audited accounts of the Company and the subsidiaries covering the period from 31 December 2012 to the Listing Date on a basis consistent with that made in the said audited accounts.

3. Litigation

Save as disclosed in "Business – Legal Proceedings and Regulations" in this prospectus, as at the Latest Practicable Date, no member of the Group was engaged in any litigation, arbitration or claim of material importance and, so far as the Directors are aware, no litigation, arbitration or claim of material importance is pending or threatened by or against any member of the Group.

4. Sole Sponsor

The Sole Sponsor has made an application on behalf of the Company to the Stock Exchange for a listing of, and permission to deal in, all the Shares in issue and to be issued as mentioned in this prospectus (including any Shares falling to be issued pursuant to the exercise the Over-allotment Option).

The Sole Sponsor has confirmed to the Stock Exchange that it satisfies the independence test as stipulated under Rule 6A.07 of the GEM Listing Rules.

5. Preliminary expenses

No preliminary expenses have been or are proposed to be incurred.

6. Promoter

The Company has no promoter for the purposes of the GEM Listing Rules. Save as disclosed in this prospectus, no cash, securities or other benefits has been paid, allotted or given to any promoters in connection with the Share Offer and the related transactions described in this prospectus within the two years preceding the date of this prospectus.

7. Qualifications of experts

The following are the qualifications of the experts who have given opinion or advice in connection with this prospectus:

Name	Qualifications
Kim Eng Securities (Hong Kong) Limited	Licensed to conduct type 1 (dealing in securities), type 4 (advising on securities) and type 6 (advising on corporate finance) regulated activities under the SFO
PricewaterhouseCoopers	Certified public accountants
Bei Jing Tian Yin Law Firm	PRC legal advisors
LCH (Asia-Pacific) Surveyors Limited	Professional Surveyor
Ling Chun Wai	Hong Kong barrister-at-law
C&C Lawyers	Legal advisors as to Macao laws
Moisson Legal	Legal advisors as to Australian laws
Cambodia Legal Affairs Office	Legal advisors as to Cambodian laws
Cheok Advocates & Solicitors	Legal advisors as to Brunei laws
Yulchon LLC	Legal advisors as to Korean laws
Raja, Darryl & Loh	Legal advisors as to Malaysian laws
Dherakupt International Law Office Ltd.	Legal advisors as to Thai laws
Straits Law Practice LLC	Legal advisors as to Singapore laws
Koemala & Partners	Legal advisors as to Indonesian laws
Davis LLP	Legal advisors as to Canadian laws
DLA Piper Middle East LLP	Legal advisors as to UAE laws

8. Consents of experts

Each of Kim Eng Securities (Hong Kong) Limited, PricewaterhouseCoopers, Bei Jing Tian Yin Law Firm, LCH (Asia - Pacific) Surveyors Limited, Ling Chun Wai, C&C Lawyers, Moisson Legal, Cambodia Legal Affairs Office, Cheok Advocates & Solicitors, Yulchon LLC, Raja, Darryl & Loh, Dherakupt International Law Office Ltd., Straits Law Practice LLC, Koemala & Partners, Davis LLP, and DLA Piper Middle East LLP has given and has not withdrawn its/his written consent to the issue of this prospectus with the inclusion of its/his report and/or letter and/or valuation certificate and/or the references to its/his name included herein in the form and context in which it is respectively included.

9. Binding effect

This prospectus shall have the effect, if an application is made in pursuance hereof, of rendering all persons concerned bound by all of the provisions (other than the penal provisions) of sections 44A and 44B of the Companies Ordinance insofar as applicable.

10. Bilingual prospectus

The English language and Chinese language versions of this prospectus are being published separately, in reliance upon the exemption provided by section 4 of the Companies Ordinance (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

11. Advisory fees or commissions received

The Underwriter will receive an underwriting commission and the Sole Sponsor will in addition receive a financial advisory (sponsorship) and documentation fee as referred to in the section headed “Underwriting – Underwriting Arrangements and Expenses – Total commission, fee and expenses” in this prospectus.

12. Miscellaneous

- (a) Save as disclosed in this prospectus, within the two years immediately preceding the date of this prospectus:
 - (i) no share or loan capital of the Company or any of our subsidiaries has been issued or agreed to be issued fully or partly paid either for cash or for a consideration other than cash;
 - (ii) no share or loan capital of the Company or any of our subsidiaries is under option or is agreed conditionally or unconditionally to be put under option;

- (iii) no founder, management or deferred shares of the Company or any of our subsidiaries have been issued or agreed to be issued;
 - (iv) no commissions, discounts, brokerages or other special terms have been granted or agreed to be granted in connection with the issue or sale of any share or loan capital of the Company or any of our subsidiaries;
 - (v) no commission has been paid or is payable for subscription, agreeing to subscribe, procuring subscription or agreeing to procure subscription of any share in the Company or any of our subsidiaries; and
 - (vi) the Group has no outstanding convertible debt securities or debentures.
- (b) No member of the Group is presently listed on any stock exchange or traded on any trading system.
 - (c) There has not been any interruption in the business of the Group which may have or have had a significant effect on the financial position of the Group in the twenty-four (24) months immediately preceding the date of this prospectus.
 - (d) All necessary arrangements have been made to enable the Shares to be admitted into the CCASS for clearing and settlement.
 - (e) The Directors confirm that there has been no material adverse change in the financial or trading position or prospectus of the Group since 31 December 2012 (being the date to which the latest audited consolidated financial statements of the Group were made up).
 - (f) There is no arrangement under which future dividends are waived or agreed to be waived.
 - (g) As at the Latest Practicable Date, there was no restriction affecting the remittance of profits or repatriation of capital into Hong Kong from places outside Hong Kong.

DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES

The documents attached to the copy of this prospectus and delivered to the Registrar of Companies in Hong Kong for registration are:

- copies of the BLUE Application Form;
- the written consents referred to in the paragraph headed “Other information – Consents of experts” in Appendix V to this prospectus; and
- copies of the material contracts referred to in the paragraph headed “Further information about the business of the Group – Summary of material contracts” in Appendix V to this prospectus.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the office of DLA Piper Hong Kong at 17th Floor, Edinburgh Tower, The Landmark, 15 Queen’s Road, Hong Kong during normal business hours up to and including the date which is 14 days from the date of this prospectus:

- the Memorandum of Association and the Articles of Association;
- the accountant’s report received from PricewaterhouseCoopers, the text of which is set out in Appendix I to this prospectus;
- the report from PricewaterhouseCoopers relating to the unaudited pro forma financial information, the text of which is set out in Appendix II to this prospectus;
- the letter dated 24 April 2013 issued by Ling Chun Wai as to applicable rules and regulations in Hong Kong;
- the legal opinion dated 24 April 2013 issued by Bei Jing Tian Yin Law Firm as to PRC laws;
- the legal opinion dated 24 April 2013 issued by C&C Lawyers as to Macao laws;
- the legal opinion dated 24 April 2013 issued by Moisson Legal as to Australian laws;
- the legal opinion dated 24 April 2013 issued by Cambodia Legal Affairs Office as to Cambodian laws;

- the legal opinion dated 24 April 2013 issued by Cheok Advocates & Solicitors as to Brunei laws;
- the legal opinion dated 24 April 2013 issued by Yulchon LLC as to Korean laws;
- the legal opinion dated 24 April 2013 issued by Raja, Darryl & Loh as to Malaysian laws;
- the legal opinion dated 24 April 2013 issued by Dherakupt International Law Office Ltd. as to Thai laws;
- the legal opinion dated 24 April 2013 issued by Straits Law Practice LLC as to Singapore laws;
- the legal opinion dated 24 April 2013 issued by Koemala & Partners as to Indonesian laws;
- the legal opinions dated 24 April 2013 issued by Davis LLP as to Canadian laws;
- the legal opinion dated 24 April 2013 issued by DLA Piper Middle East LLP;
- the letter, summary of values and valuation certificates prepared by LCH (Asia – Pacific) Surveyors Limited on the property interests of the Group, the texts of which are set out in Appendix III to this prospectus;
- the audited financial statements prepared for the companies comprising the Group for the financial years ended 31 December 2011 and 2012;
- the service contracts referred to in the section headed “Further information about Directors, substantial shareholders and experts – Particulars of Directors’ service contracts” in Appendix V to this prospectus;
- the material contracts referred to in the section headed “Further information about the business of the Group – Summary of material contracts” in Appendix V to this prospectus; and
- the written consents referred to in the section headed “Other information – Consents of experts” in the section headed “Other information” in Appendix V to this prospectus.

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