Tong Ren Tang Technologies Co. Ltd.

北京同仁堂科技發展股份有限公司

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

(Stock Code: 8069)

Annual Report 2005

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This report, for which the directors of Tong Ren Tang Technologies Co. Ltd. collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited for the purpose of giving information with regard to Tong Ren Tang Technologies Co. Ltd. The directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief:– (1) the information contained in this report is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this report misleading; and (3) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

Contents

BOARD OF DIRECTORS

EXECUTIVE DIRECTORS

Yin Shun Hai *(Chairman)*
Mei Qun *(Vice-chairman)*
Ding Yong Ling
Bi Jie Ping *(Vice-chairman)*

NON-EXECUTIVE DIRECTOR

Zhao Bing Xian

INDEPENDENT NON-EXECUTIVE DIRECTORS

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

SUPERVISORS

Tian Da Fang
Wu Yi Gang
Liu Gui Rong

SENIOR MANAGEMENT

Kuang Gui Shen
Wang Yu Wei
Bai Jian
Liu Zi Lu
Zhu Gong Pei
Xie Su Hua
Deng Wen Lin
Zhang Jing Yan
Chan Ngai Chi, FCPA, FCCA

QUALIFIED ACCOUNTANT AND COMPANY SECRETARY

Chan Ngai Chi, FCPA, FCCA

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

Mei Qun
Ting Leung Huel, Stephen
Jin Shi Yuan

NOMINATION COMMITTEE

Mei Qun
Tam Wai Chu, Maria
Jin Shi Yuan

COMPLIANCE OFFICER

Mei Qun

AUTHORIZED REPRESENTATIVES

Mei Qun
Chan Ngai Chi, FCPA, FCCA

AUTHORIZED PERSON TO ACCEPT SERVICE OF PROCESS AND NOTICE

Chan Ngai Chi, FCPA, FCCA

AUDITORS

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

LEGAL ADVISORS

Mallesons Stephen Jaques
37th Floor, Two International Finance Centre,
8 Finance Street, Central, Hong Kong

PRINCIPAL BANKERS

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

H-SHARE REGISTRAR AND TRANSFER OFFICE

Hong Kong Registrars Limited
46th Floor
Hopewell Centre,
183 Queen's Road East, Wanchai, Hong Kong

REGISTERED OFFICE

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

OFFICE AND MAILING ADDRESS

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

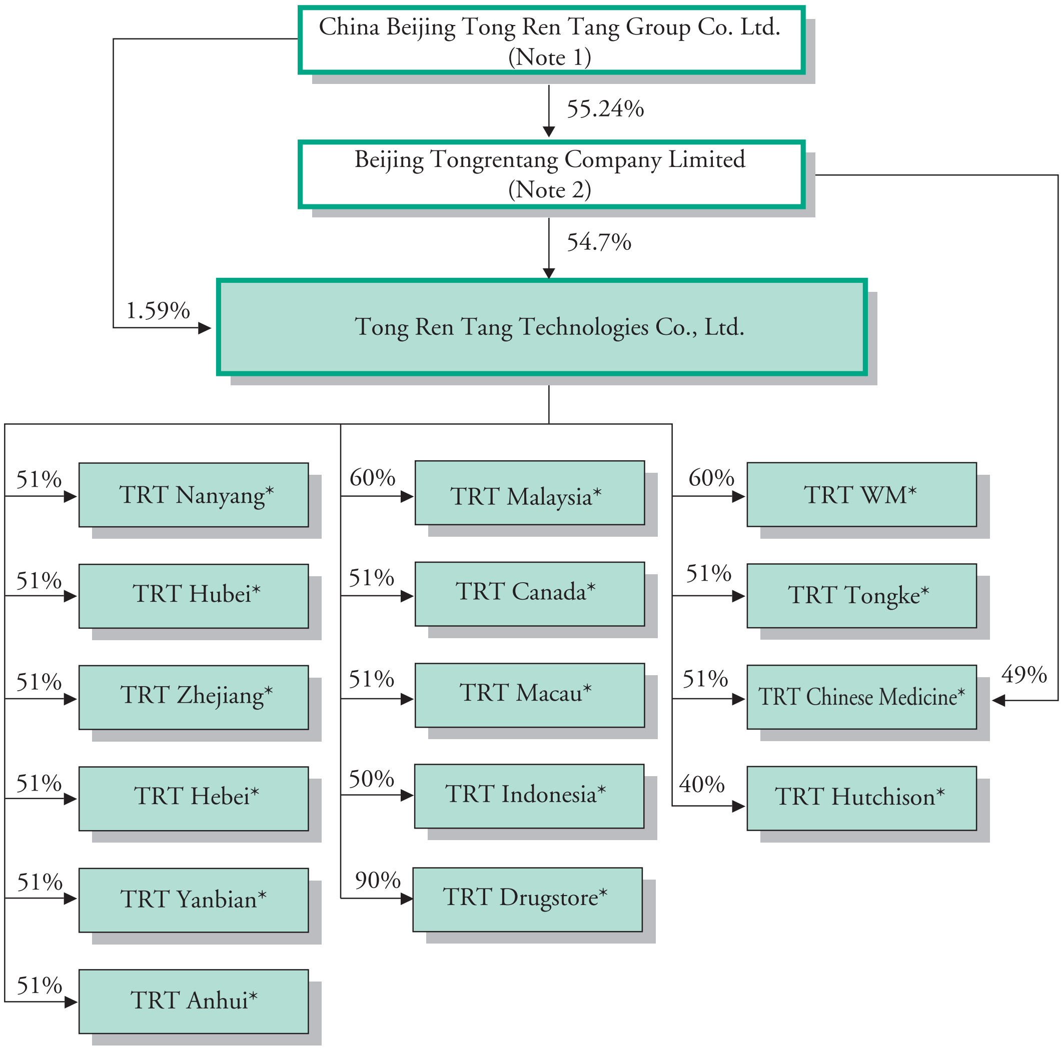
OFFICE IN HONG KONG

20th Floor, Park Avenue, No. 5 Moreton Terrace,
Causeway Bay, Hong Kong

GEM STOCK CODE

8069

Corporate Structure



Note 1: China Beijing Tong Ren Tang Group Co. Ltd. ("Tongrentang Holdings") is the ultimate holding company of Tong Ren Tang Technologies Co. Ltd. ("Tongrentang Technologies") or the "Company".

Note 2: Beijing Tongrentang Company Limited ("Tongrentang Ltd.") was incorporated in 1997 and listed on the Shanghai Stock Exchange in June of the same year. Tongrentang Ltd. is the holding company of Tongrentang Technologies.

* For the full names of the subsidiaries, joint ventures and associated company, please refer to note 1 to the financial statements for details.

RESULTS

A summary of the consolidated results of the Company and its subsidiaries (hereafter collectively referred to as the "Group") and joint ventures for each of the five years ended 31 December 2005, as extracted from the audited financial statements of the Group, is set out below:

	Year ended 31 December				
	2005	2004	2003	2002	2001
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Revenue	**1,135,678**	983,249	864,976	662,891	497,373
Profit before income tax	**251,964**	225,422	193,414	148,632	92,768
Income tax expense	**(19,469)**	(18,162)	(16,493)	953	6,910
Profit for the year	**232,495**	207,260	176,921	149,585	99,678
Attributable to:					
Minority interests	**1,309**	1,653	2,578	2,351	(120)
Equity holders of the Company	**231,186**	205,607	174,343	147,234	99,798
	RMB	*RMB*	*RMB*	*RMB*	*RMB*
Basic earnings per share for profit attributable to equity shareholders of the Company during the year	**1.26**	1.12	0.95	0.81	0.55
Dividends per share	**0.46**	0.46	0.43	0.39	0.30

Financial Highlights

ASSETS AND LIABILITIES

A summary of the consolidated balance sheet of the Group as at each of the five years ended 31 December 2005, as extracted from the audited financial statements of the Group, is set out below:

	As at 31 December				
	2005	2004	2003	2002	2001
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
		(Restated)			
Non-current assets	**577,676**	445,554	316,341	245,669	127,601
Current assets	**872,422**	893,472	582,172	546,652	490,260
TOTAL ASSETS	**1,450,098**	1,339,026	898,513	792,321	617,861
Non-current liabilities	**14,583**	10,974	9,511	–	–
Current liabilities	**440,179**	511,151	220,030	228,941	149,217
Minority interests	**59,645**	38,195	17,059	14,481	12,130
TOTAL LIABILITIES AND MINORITY INTERESTS	**514,407**	560,320	246,600	243,422	161,347
NET ASSETS	**935,691**	778,706	651,913	548,899	456,514
	RMB	*RMB*	*RMB*	*RMB*	*RMB*
Net assets per share	**5.12**	4.26	3.57	3.00	2.50

I am pleased to present the audited consolidated results of Tong Ren Tang Technologies Co., Ltd. (the "Company") and its subsidiaries (hereafter collectively referred to as the "Group") and its joint ventures for the year ended 31 December 2005.

RESULTS OF THE YEAR

The performance of the Company's core business in manufacturing of Chinese Patent Medicine in 2005 was good and a sustained growth trend has been continuously maintained with a stable increase in profit. The Group's turnover for the year ended 31 December 2005 amounted to approximately RMB1,135,678,000, representing an increase of approximately 15.50% as compared with previous year. Net profit amounted to approximately RMB231,186,000, representing an increase of approximately 12.44% as compared with previous year. Earnings per share for the year ended 31 December 2005 was RMB1.26.

REVIEW OF THE YEAR

During the year 2005, amid increasingly fierce market competition, continuous expansion of our sales scale has brought about many difficulties for our continuous growth. Nevertheless, the Company has managed to report encouraging results in various aspects: both its sales amount and net profits achieved stable growth, of which sales amount recorded a break through record of over RMB1 billion, and market share of our products has seen further growth; construction of the production base in Yizhuang, which reached an advanced level in China, has been completed and successfully put into operation; construction work of the main body of Tongrentang Chinese Medicine production base in Hong Kong has completed top-out and the project was going smoothly throughout its construction process. For the year under review, the Company has successfully completed several missions, paving a solid foundation for its sustainable development.

OUTLOOK AND PROSPECTS

The year of 2006 is the first year of the 11th Five-Year Plan and thus it has very important meaning to the country. It is expected that the economy of the People's Republic of China ("China") will continue to record stable growth, of which growth in the pharmaceutical sector will slow down gradually but it will still grow faster than GDP. Overall profitability of the industry is expected to diminish as competition continues to increase. During the 11th Five-Year Plan period, the State will continue to promote the reformation of the country's healthcare system, with an aim to perfect the rural cooperative medical system and to expand the rural medical market; to support the development of the Chinese medicine sector and to foster modern Chinese medicine industry. As the restructuring of the industry, products and enterprises deepened, pharmaceutical industry will become more and more concentrated. It is a year full of opportunities and challenges. The Company will continue to manufacture Chinese medicine as its core business, with both mainland China and overseas market as major targets. Capitalizing on Tong Ren Tang's brand reputation, the Company will make further efforts in market penetration and coverage to become a stronger enterprise in terms of business scale.

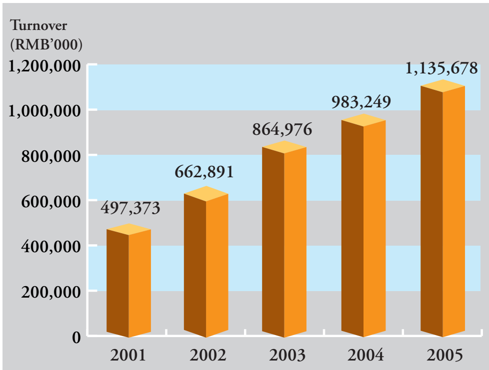
Chairman's Statement

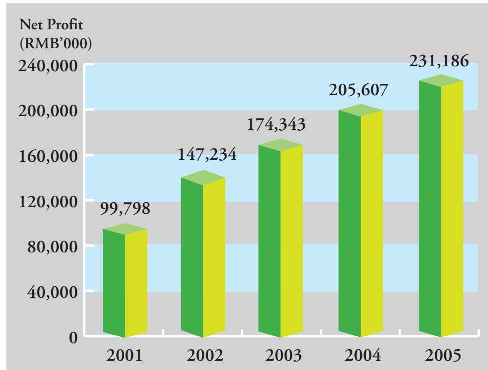
The board of directors (the "Board") and I have confidence in the future development of the Company while the Chinese medicine production business of the Company will continue to maintain a stable development trend. All the staff of the Company will continue to contribute their efforts for the development of the Company.

I would like to express my sincere gratitude to the Board and all the staff of the Company for their efforts and excellent performance. We will continue to make our best efforts to produce good results in order to achieve better returns to our shareholders.

By Order of the Board
Tong Ren Tang Technologies Co. Ltd.
Yin Shun Hai
Chairman

Beijing, the PRC
10 March 2006





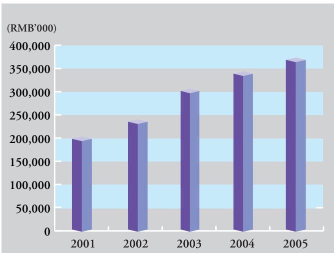
BUSINESS REVIEW

In 2005, according to the working target of "Sustainable, Strengthening and Expansions" set by the Board, the Company strived to keep recording stable growth to become a sustainable enterprise (sustainable); pursued to maximize its profit to become a strong enterprise (strengthening); consolidated and developed its sales network to become a large enterprise (expansion). The Company adhered to the guiding principle of "focusing on market demand and aiming at achieving economic efficiency", while upholding the concept of teamwork, hard working, actively responding to market trend. All these efforts gave a satisfactory result. During the year of 2005, the Company maintained good operating condition and managed to keep a stable development momentum. For the year ended 31 December 2005, the Group reported a turnover of RMB1,135,678,000, representing an increase of 15.50% as compared with the figures for the corresponding period last year; with net profit of RMB231,186,000, representing an increase of 12.44% as compared with the corresponding period last year.

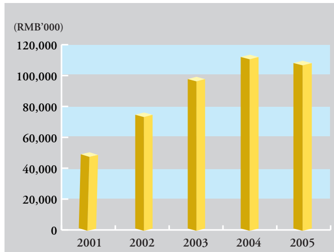
SALES

During the year of 2005, the Company continued to implement its principle of "all staff promotion"– creating a network of sales agents comprising its entire staff, with a focus on network building, a target on new product innovation, and reliance on brand and culture, and an aim to improve its sales modal. The Company has adjusted its network organization based on its existing marketing network consisting of primary level (agents), secondary level (distributors) and tertiary level (terminal network), pin-pointing to both "ends" to put tension to the "middle", that is, with focus put on the primary level agents and the tertiary level terminal network, to drive the secondary level of the network which mainly comprised of distributors, and to consolidate the network reversely from the terminal end in order to speed up turnover of the entire network. This can help effectively enhance the ability to control the network and profitability.

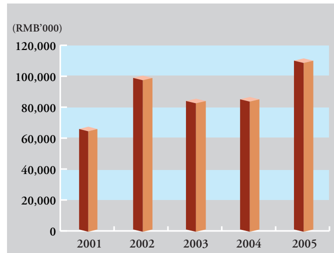
Turnover of major products



Series of Liuwei Dihuang Pill



Series of Niuhuang Jiedu Tablet



Series of Ganmao Qingre Granule

With an aim of building a comprehensive product portfolio, the Company, on the basis of ensuring steady growth of its major products, has focused on developing competitive products with market potential, and has effectively expanded its product portfolio. The Company has made use of analysis of market demand by product types to design and develop marketable products. More than ten types of products have, through reform of formula, packaging and addition to packing specification, etc., been adapted to consumer demand of different regions and consumption level in order to realize marketing differentiation. That was achieved by subdividing product classification and market segment, defining responsibility of product, concentrating on examination of a single product type in the integrated examination for salespersons; setting up taskforce for particular products within the marketing branches designated to promote and market newly developed product lines, with a focus put on market strategies and market building, and fostering the entrance of the Company's products to the market.

The Company took advantage of its own branding to promote its culture and products actively. Combining product and demand with theme activities, the Company purposefully conducted marketing promotions to uphold the culture of "Tong Ren Tang". The Company analyzed various factors including season, region, consumption capability and number of competitors, etc and employed different forms of promotion to cater for dealers, large and medium pharmaceutical chained stores and hospitals. All these had positive effect on fostering product demand from the terminal end and promoting consumption.

In 2005, sales of primary products continued to grow, of which Liuwei Dihuang Pill (六味地黃丸) has increased by 7.56% when compared with last year. Sales of Ganmao Qingre Granule (感冒清熱顆粒) has increased by over 20% compared with the corresponding period last year. Sales of Niuhuang Jiedu Tablet (牛黃解毒片) decreased slightly compared with the previous year. Products with remarkable increase included Jingui Shenqi Pill (金匱腎氣丸), Fufang Danshen Tablet (複方丹參片), Xihuang Pill (西黃丸) and Niuhuang Jiangya Pill (牛黃降壓丸), etc. Sales of all these products increased by over 20% compared with the corresponding period last year.

PRODUCTION

In 2005, the Company continued to focus on the production base in Yizhuang and conducted an overall production organization restructuring. Based on different production frameworks, the Company has established a management division for each production base designated to oversee production operation of each production base. In addition, the Company has, through organizational restructuring, created a smooth internal management flow. The Company also implemented remote management by upgrading the management program of its computer network to strengthen control on its production and its ability to direct production, establishing a production controlling system to complement the Company's rapid development need. Based on their respective conditions, the potential of each of our production bases has been maximized in terms of equipment utilization rate, quality control rate, working hour utilization rate, process-to-process connection ratio, and ability to respond to emergency, with proper allocation of resources and scientific adjustment of each working process, overall productivity of these production bases has been further enhanced.

In the production base in Yizhuang, installation and testing of equipment of the pill and granule production workshops and training for workers have been successfully completed, and have been accredited with a GMP certificate by the PRC. These two workshops have commenced operation subsequently. With deployment of new equipment and facilities and commencement of operation of these equipment and facilities, our production staff have managed to revise various operation guidelines in a timely manner, realizing optimum combination of production process and equipment and maximizing production capability and thus improving productivity. Yizhuang production base has become the main production base for our products in the forms of tablet, pill and granule. Beijing Tong Ren Tang Tongke Pharmaceutical Company Limited (北京同仁堂通科藥業有限責任公司) is constructing a Chinese medicine preprocessing workshop in Tongzhou district of Beijing City. Construction work of the plant has been completed, and installation and testing of equipment is in progress. Upon commencement of operation, this workshop will produce semi-finished products for different forms of medicine of the Company. This will help to enhance overall productivity of the Company.

Beijing Tong Ren Tang Chinese Medicine Company Limited ("Tongrentang Chinese Medicine") in Hong Kong is constructing a production base in Tai Po Industrial Estate. Tongrentang Chinese Medicine was jointly established by the Company and Beijing Tongrentang Company Limited. Planned total investment was HK$150,000,000, in which the Company would contribute HK$76,500,000, which accounted for 51% of its interest, while Beijing Tongrentang would contribute HK$73,500,000, accounting for 49% of its interest. By the end of the year 2005, the Company has invested HK$50,000,000 in total. Tongrentang Chinese Medicine has commenced the construction of production base in 2005. Construction work has been finished and the top-out has also completed. It is expected that the entire project will be completed by the end of 2006. Upon completion of this production base, the Company will shift to focus on overseas market and concentrate on production of products for export, and overseas market sales is expected to enhance effectively as a result.

MANAGEMENT AND RESEARCH AND DEVELOPMENT

In 2005, the Company continued to implement ISO9001 Quality Management System. By focusing on system establishment, strengthening of basic management, standardization of working procedures and appraisal system, the Company aimed to improve our level of management on an ongoing basis. The Company continued to implement its comprehensive budget control system, conduct detailed classification of budget targets and budget items, and to perform its financial monitoring function thoroughly by strengthening control on cashflow, profits, costs and expenses, thus enhancing the profitability of the Company.

The research center was responsible for formulating and implementing short-term and medium to long-term scientific research plans of developing innovative products and secondary research on existing products based on its research results under the principle of market-oriented and feasibility in production, paving a solid platform for the Company's continuous steady growth in the future. At present, the Company has four new product projects underway, and these projects were under pre-clinical study and clinical study respectively. Meanwhile, the research center will expand and enrich the portfolio of new product projects through technological experimentation.

The research center conducted secondary research work actively, and formulated systematic secondary research scheme for the existing products to reposition these products, adjust their structure and establish a new product mix according to the market demand and the need of production and operation. During 2005, the research centre has completed a number of secondary research projects and new technology application research. It has also completed the research on the application of membrane filtration technology for various tablet products. Certain products have obtained approval for production and have been introduced to the market.

SALES NETWORK

The Company developed its sales network step by step under the principles of prudence and stable development.

the drug store in Malaysia

the drug store in Canada

the drug store in Macau

Currently, the Company has investment in four overseas joint ventures, being Peking Tongrentang (M) Sdn. Bhd., Beijing Tong Ren Tang Canada Co. Ltd., Beijing Tong Ren Tang (Macau) Company Limited and Beijing Tong Ren Tang (Indonesia) Company Limited, with a view to develop our distribution business and set up drug retail outlets in the different countries in order to increase the sales of the Company's products. These four joint ventures are located in Malaysia, Canada, Macau Special Administrative Region and Indonesia respectively, and all have set up local drug retail outlets with good operating performance. In 2005, the above four joint ventures realized revenues of RMB9,637,300, RMB4,201,300, RMB7,374,300 and RMB9,786,200 respectively. Beijing Tong Ren Tang Nansanhuan Zhonglu Drugstore Co., Limited (北京同仁堂南三環中路藥店有限公司) invested by the Company in Beijing is a retail drug store located at Nansanhuan Zhonglu, Fengtai District, Beijing (北京豐台區南三環中路). Its operating performance was good and realized a revenue of RMB12,011,300 in 2005.

CHINESE MEDICINAL RAW MATERIALS PRODUCTION BASES

In 2005, the affiliated production bases for Chinese medicinal raw materials of the Company have completed the implementation of planting, harvesting, processing, etc. At the same time, they proactively worked for GAP (Good Agriculture Practice) Certification, and strictly complied with the requirements of the certification by quality supervision over the planting, processing and the whole process of Chinese medicinal production. It has enhanced the hardware and software deployment and construction of ever-improving operational management system, ensuring the high quality, stable and controllable Chinese medicinal raw material supplies for the industrial production of the Company.

In addition to the original five bases of the four companies that passed the on-site GAP inspections, the Ku Diding base under Beijing Tong Ren Tang Hebei Chinese Medicine Technological Development Company Limited (北京同仁堂河北中藥材科技開發有限公司) successfully passed the on-site GAP Certification inspection conducted by the State Food and Drug Administration in 2005. Currently, the Company has set up six companies in Hebei, Henan, Hubei, Zhejiang, Anhui, Jilin to provide the major Chinese medicinal raw materials required for producing products such as cornel (山茱萸), tuckahoe (茯苓), catnip (荊芥) and isatis root

Map of plantation fields of Beijing Tong Ren Tang Hubei Chinese Medicinal Raw Materials Co., Limited etc. In 2005, the revenue of the affiliated production bases for Chinese medicinal raw materials of the Company amounted to RMB36,161,100, amongst which Chinese medicinal raw material supplied to the Company accounted for RMB28,788,300. The production bases for Chinese medicinal raw materials are important in ensuring the supply and quality of Chinese medicinal raw materials for the major products of the Company.

FINANCIAL REVIEW

Liquidity and Financial Resources

The Group has maintained a sound financial position in this year. As at 31 December 2005, the Group had cash and bank balances amounting to RMB234,032,000 (2004: RMB277,408,000) and short-term borrowings of RMB85,000,000 (2004: RMB75,000,000). The borrowings bear fixed interest at 5.02% (2004: 4.78%) per annum. As at 31 December 2005, the Group had total assets of RMB1,450,098,000 (2004: RMB1,339,026,000) which were financed by non-current liabilities of RMB14,583,000 (2004: RMB10,974,000), current liabilities of RMB440,179,000 (2004: RMB511,151,000), shareholders' equity of RMB935,691,000 (2004: RMB778,706,000) and minority interests of RMB59,645,000 (2004: RMB38,195,000).

Capital Structure

There has been no material change in the capital structure of the Group as at 31 December 2005 as compared with that as at 31 December 2004.

Gearing and liquidity ratio

The Group's gearing ratio, defined as the ratio between total borrowings and shareholders' equity, was 0.09 (2004: 0.10). The liquidity ratio of the Group, represented by a ratio between current assets over current liabilities, was 1.98 (2004: 1.75), reflecting the abundance of financial resources.

Charges on group assets

As at 31 December 2005, none of the Group's assets was pledged as security for liabilities (2004: Nil).

Foreign currency risk

The Group is subject to foreign currency risk as certain of its payables to equipment suppliers and certain accounts receivable arising from export sales are denominated in foreign currencies, principally U.S. dollars. Fluctuation of the exchange rates of Renminbi against foreign currencies could affect the Group's results of operations, but the effect is not expected to be significant.

Contingent liabilities

Other than those disclosed in the note 21(a), the Group had no contingent liabilities as at 31 December 2005 (2004: Nil).

Capital commitments

At as 31 December 2005, the Group had the following capital commitments which had been authorised and contracted for in the consolidated financial statements of the Group:

(i) Commitments relating to the construction of production facilities amounting to approximately RMB3,600,000 (2004: RMB3,300,000).

(ii) Commitments relating to investment contributions to investee entities amounting to approximately RMB28,508,000 (2004: RMB79,730,000).

Those capital commitments will be financed by the Group with its internal cashflows.

PROSPECTS

In 2006, the Company will, based on the management target of "hardship and consolidation" set by the Board, stick to our two major themes of "reform" and "management", and firmly adhere to our working requirements of "emphasizing on profit and focusing on cash flow". We have confirmed our guiding principle of establishing a cost saving and highly efficient enterprise that focuses on exploring income sources and saving costs, and will firmly adhere to the objectives of enhancing revenue and cost saving in performing our work in order to further improve the profitability and management level of the Company. Based on the above objectives, the Company's focus of work in 2006 is as follows:

The marketing work will focus on changing operation mode. The Company will continuously make adjustment and innovation on the marketing policy, channel management, promotion method, after-sale service as well as establishment of our sales team. The Company will establish the sales network mainly from the terminal end of the network, and strengthen the overall planning of the marketing work in order to foster consumption demand effectively.

The Company will continuously back up its work by scientific research and technologies so as to enhance the competitiveness of our products in the market, pay attention to the new product development and the secondary research of the existing products, and focus on the development of products that can cater for market needs. The Company will fully leverage our technology advantages to improve and enhance production techniques and speed up the process of introducing new products to the market.

The Company will consolidate its business foundation with an eye on efficiency of cost saving and management. We will strengthen the control of production cost in every process of operation to maximise the advantage of scale, strengthen the budgeting management and auditing of sales cost, strengthen the management of procurement work to further optimize the structure of raw material inventories, and amend and optimize the appraisal system and reward measures to further raise the enthusiasm of employees.

The directors of Tong Ren Tang Technologies Co. Ltd. (the "Directors") have pleasure in presenting their annual report together with the audited financial statements of the Group for the year ended 31 December 2005.

PRINCIPAL ACTIVITIES

The Group is principally engaged in the manufacturing and sales of Chinese Patent Medicine.

An analysis of the Group's revenue is as follows:

	2005	2004
	RMB'000	*RMB'000*
Sales of medicine:		
Domestic	**1,090,910**	929,737
Overseas	**44,768**	53,512
	1,135,678	983,249

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the percentage of sales attributable to Group's major customers are as follows:

	2005	2004
The largest customer	**8%**	7%
Five largest customers combined	**30%**	27%

During the year under review, the Group's purchases from the five largest suppliers accounted for less than 30% of the Group's purchases.

Save as disclosed herein, none of the Directors, their associates, or any shareholders, which to the knowledge of the Directors owned more than 5% of the Company's share capital, had a beneficial interest in the Group five largest customers and five largest suppliers.

RESULTS

The results and the statement of affairs of the Group for the year ended 31 December 2005 are set out on page 33 to 79 of the annual report.

DIVIDENDS

The Directors recommend the payment of a final dividend of RMB0.46 (including tax) per share in respect of the year, to shareholders whose names appear on the register of shareholders of the Company on 18 May 2006.

SHARE CAPITAL

Details of movement in share capital of the Company for the year are set out in note 11 to the financial statements.

RESERVES

Details of movement in reserves of the Group for the year are set out in the Consolidated Statement of Changes in Equity and note 12 to the financial statements. As at 31 December 2005, the Group's retained profits of approximately RMB343,427,000 (2004: RMB250,865,000) were available for distribution to its shareholders.

PROPERTY, PLANT AND EQUIPMENT

Details of movement in property, plant and equipment of the Group for the year are set out in note 4(a) to the financial statements. LCH (Asia-Pacific) Surveyors Limited, an independent valuer, has performed valuation on the fixed assets as at 31 December 2005. Increases in the carrying amount of fixed assets of approximately RMB13,571,000 arising on revaluation have been credited to the reserves as increases in fair value of the assets and in shareholders' equity.

STAFF RETIREMENT SCHEME

Details of staff retirement scheme of the Group are set out in notes 2(p), 20 and 25 to the financial statements.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2005, the Company had 1,851 employees (2004: 1,855 employees). Remuneration is determined by reference to market terms and the performance, qualifications and experience of individual employee. Discretionary bonuses based on individual performance will be paid to employees as recognition of and reward for their contribution. Other benefits include contributions to pension scheme, medical insurance scheme, unemployment insurance scheme, industrial accident insurance scheme, female worker insurance scheme and housing fund.

STAFF QUARTERS

During the reporting period,

1. the Group did not provide any staff quarters to its staff (2004: Nil);

2. the details of housing fund benefits provided by the Group to its staff are set out in note 26 to the financial statements;

3. the Group also provides housing subsidies to staff at an average of approximately RMB90 per person per month (2004: RMB90 per person per month).

Report of the Directors

DIRECTORS AND SUPERVISORS

The Directors and supervisors of the Company who held office during the year and up to the date of this report were:

Executive Directors

Yin Shun Hai *(Chairman)*
Mei Qun *(Vice-chairman)*
Ding Yong Ling *(appointed on 16th May 2005)*
Bi Jie Ping *(Vice-chairman)*

Non-Executive Directors

Zhao Bing Xian
Li Lian Ying *(resigned on 16th May 2005)*

Independent Non-Executive Directors

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

Supervisors

Tian Da Fang
Wu Yi Gang
Liu Gui Rong

DIRECTORS' AND SUPERVISORS' SERVICE CONTRACTS

Each of Mr. Yin Shun Hai, Mr. Mei Qun and Mr. Tian Da Fang has entered into a service contract with the Company for a term of three years commencing on 9 March 2000. Upon the reappointment at the annual general meeting in 2003, the term of the original service contracts continue until the conclusion of the annual general meeting in 2006. Each of Mr. Wu Yi Gang and Ms. Liu Gui Rong has entered into a service contract with the Company for a term commencing on their respective appointment dates to the conclusion of the annual general meeting in 2006. Mr. Bi Jie Ping has also entered into a service contract with the Company commencing from 3 August 2004 to the conclusion of the annual general meeting in 2006. Ms. Ding Yong Ling has also entered into a service contract with the Company commencing from 16 May 2005 to the conclusion of the annual general meeting in 2006.

Save as disclosed above, none of the Directors or Supervisors has any service contract with the Company that is not terminable by the Company within one year without payment of compensation other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS

There was no contract of significance to which the Company was a party and in which a Director had a material interest, whether directly and indirectly, subsisted at the end of the year or at any time during the year.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Profiles of Directors, Supervisors and Senior Management are set out on pages 29 to 31.

EMOLUMENTS OF DIRECTORS AND THE FIVE HIGHEST PAID INDIVIDUALS

Details of the Directors' emoluments and of the five highest paid individuals in the Company are set out in note 24 to the financial statements.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS

As at 31 December 2005, the interests and short positions of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (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 minimum standards of dealing by directors as referred to in Rule 5.46 of the Rules Governing the Listing of Securities on the GEM (the "GEM Listing Rules"), were as follows:

Long positions in shares

The Company

Name	Type of interests	Capacity	Number of shares *(Note)*	Percentage of domestic shares	Percentage of total registered share capital
Mr. Yin Shun Hai	Personal	Beneficial owner	500,000	0.455%	0.274%
Mr. Mei Qun	Personal	Beneficial owner	500,000	0.455%	0.274%
Mr. Zhao Bing Xian	Personal	Beneficial owner	5,000,000	4.546%	2.735%

Note: All represented domestic shares.

Tongrentang Ltd.

Name	Type of interests	Capacity	Number of shares *(Note)*	Percentage of total registered share capital
Mr. Yin Shun Hai	Personal	Beneficial owner	38,850	0.009%
Mr. Mei Qun	Personal	Beneficial owner	31,081	0.007%

Note: All represented A shares.

Beijing Tong Ren Tang International Co., Limited

Name	Type of interests	Capacity	Percentage of shares	Percentage of total issued share capital
Mr. Yin Shun Hai	Personal	Beneficial owner	39,000	0.500%
Mr. Mei Qun	Personal	Beneficial owner	78,000	1.000%
Ms. Ding Yong Ling	Personal	Beneficial owner	39,000	0.500%

Save as disclosed above, as at 31 December 2005, none of the Directors and chief executives of the Company has any interests and short positions in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the standards of dealing by directors as referred to in Rule 5.46 of the GEM Listing Rules.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2005, the following persons (other than the Directors and chief executives of the Company) had interests and short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO:

Long positions in shares

Name of shareholder	Capacity	Number of shares	Percentage of domestic shares	Percentage of H shares	Percentage of total registered share capital
Tongrentang Ltd.	Beneficial owner	100,000,000	90.909%	–	54.705%
Tongrentang Holdings *(Note 1)*	Interest in a controlled corporation	100,000,000	90.909%	–	54.705%
	Beneficial owner	2,900,000	2.636%	–	1.586%
First State Investments (Hong Kong) Limited	Investment manager	5,736,000	–	7.879%	3.138%
First State (Hong Kong) LLC *(Note 2)*	Interest in a controlled corporation	5,736,000	–	7.879%	3.138%
First State Investments (Bermuda) Ltd *(Note 2)*	Interest in a controlled corporation	5,736,000	–	7.879%	3.138%
First State Investment Managers (Asia) Ltd *(Note 2)*	Interest in a controlled corporation	5,736,000	–	7.879%	3.138%
Colonial First State Group Ltd *(Note 2)*	Interest in a controlled corporation	5,736,000	–	7.879%	3.138%
The Colonial Mutual Life Assurance Society Ltd *(Note 2)*	Interest in a controlled corporation	5,736,000	–	7.879%	3.138%
Colonial Holding Company (No.2) Pty Limited *(Note 2)*	Interest in a controlled corporation	5,736,000	–	7.879%	3.138%
Colonial Holding Company Pty Ltd *(Note 2)*	Interest in a controlled corporation	5,736,000	–	7.879%	3.138%
Colonial Ltd *(Note 2)*	Interest in a controlled corporation	5,736,000	–	7.879%	3.138%
Commonwealth Bank of Australia *(Note 2)*	Interest in a controlled corporation	5,736,000	–	7.879%	3.138%

Notes:

(1) Such shares were held through Tongrentang Ltd. As at 31 December 2005, Tongrentang Ltd. was owned as to 55.24% by Tongrentang Holdings. According to Part XV of the SFO, Tongrentang Holdings is deemed to be interested in the 100,000,000 shares held by Tongrentang Ltd.

(2) Commonwealth Bank of Australia owns 100% of Colonial Ltd. Colonial Ltd owns 100% of Colonial Holding Company Pty Ltd. Colonial Holding Company Pty Ltd owns 100% of Colonial Holding Company (No.2) Pty Limited. Colonial Holding Company (No.2) Pty Limited owns 100% of The Colonial Mutual Life Assurance Society Ltd. The Colonial Mutual Life Assurance Society Ltd owns 100% of Colonial First State Group Ltd. Colonial First State Group Ltd owns 100% of First State Investment Managers (Asia) Ltd. First State Investment Managers (Asia) Ltd owns 100% of First State Investments (Bermuda) Ltd. First State Investments (Bermuda) Ltd owns 100% of First State (Hong Kong) LLC. First State (Hong Kong) LLC owns 100% of First State Investments (Hong Kong) Limited. Accordingly, Commonwealth Bank of Australia, Colonial Ltd, Colonial Holding Company Pty Ltd, Colonial Holding Company (No.2) Pty Limited, The Colonial Mutual Life Assurance Society Ltd, Colonial First State Group Ltd, First State Investment Managers (Asia) Ltd, First State Investments (Bermuda) Ltd and First State (Hong Kong) LLC are deemed by Part XV of the SFO to be interested in the 5,736,000 shares held by First State Investments (Hong Kong) Limited.

Save as disclosed above, as at 31 December 2005, the Directors were not aware of any other person (other than the Directors and chief executives of the Company) who had interests and short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO.

COMPETING INTERESTS

Direct competition with Tongrentang Ltd. and Tongrentang Holdings

The curative effects of Chinese medicine are brought about by not only treating the symptoms of the disease, but also treating and regulating other implicit problems of the body which may have a direct or indirect influence on the explicit symptoms. As such, the curative effects of Chinese medicine are usually very broad. The proper medicine is selected with reference to a number of variables such as the patient's state of illness, gender, age and constitution, the occurring season of the disease and its curative effects on the implicit problems of the patient. As such, any particular type of Chinese medicine usually has several curative effects, some of which may be in common with those of other products under different names. Given this nature of Chinese medicine, there may exist direct competition between the products of the Company and those of Tongrentang Holdings and Tongrentang Ltd.

The Company, Tongrentang Ltd. and Tongrentang Holdings are all engaged in the manufacturing of Chinese Patent Medicine. Their businesses are delineated in accordance with their differences in focus on the forms of medicine they produce. Tongrentang Ltd. mainly produces Chinese Patent Medicine in traditional form such as large pill, powder, ointment, pellet and medicinal wine. It also has some minor production lines for the production of granules and pills. On the other hand, the Company focuses on manufacturing products in forms of granules, pills, tablets and soft capsules. Tongrentang Ltd.'s main products include Angong Niuhuang Pills (安宮牛黃丸), Tongren Wuji Baifen Pills (同仁烏雞白鳳丸), Tongren Dahuolo Pills (同仁大活絡丸) and Guogong Wine (國公酒).

In order to ensure that the business delineation between the Company and Tongrentang Holdings and Tongrentang Ltd. are properly documented and formalized, pursuant to an undertaking dated 19 October 2000 given by Tongrentang Holdings and Tongrentang Ltd. in favor of the Company ("October Undertaking"), Tongrentang Holdings and Tongrentang Ltd. undertook that, except for Angong Niuhuang Pills (安宮牛黃丸), Tongrentang Holdings, Tongrentang Ltd. and their respective subsidiaries would not produce any common products of the same names or under the same names with different forms that may compete directly with those of the Company in the future. Only one of them, Angong Niuhuang Pills (安宮牛黃丸), would be manufactured by both the Company and Tongrentang Ltd. in the future.

Both the Company and Tongrentang Ltd. produce Angong Niuhuang Pills (安宮牛黃丸). The Directors consider that, except for Angong Niuhuang Pills (安宮牛黃丸) produced by the Company and Tongrentang Ltd., there is no other competition among the Company, Tongrentang Ltd. and Tongrentang Holdings. The Directors consider that as Angong Niuhuang Pills (安宮牛黃丸) only represents a small percentage of Company's turnover and is not one of the major forms of medicine for development after the listing of the Company, the Company will continue to manufacture and sell Angong Niuhuang Pills (安宮牛黃丸). Save as mentioned herein, the Directors confirm that no other products of the Company have any competition with Tongrentang Ltd. or Tongrentang Holdings.

FIRST RIGHT OF REFUSAL

Although the Company, Tongrentang Ltd. and Tongrentang Holdings all engage in the business of production, manufacturing and sale of Chinese medicine, the principal products by each of these companies are different. It had been decided that the Company would concentrate on new forms of products which were believed to be more competitive against western pharmaceutical products while Tongrentang Ltd. and Tongrentang Holdings would continue to focus on developing existing traditional forms of products.

To provide for the Company's focus on developing the four major forms of products (namely, granules, pills, tablets and soft capsules), pursuant to the October Undertaking, Tongrentang Holdings and Tongrentang Ltd. have granted to the Company a first right of refusal to manufacture and sell any of the new products developed by Tongrentang Holdings, Tongrentang Ltd. or any of their respective subsidiaries and which belong to one of the four main forms of the Company. Once the first right of refusal is exercised, both Tongrentang Ltd. and Tongrentang Holdings or their respective subsidiaries are not allowed to manufacture any of such new products. In the event the Company develops any new product based on the existing products of Tongrentang Holdings, Tongrentang Ltd. or their respective subsidiaries, and such new product falls into one of the major forms of the Company, the Company will be entitled to manufacture such new product and Tongrentang Holdings, Tongrentang Ltd. and their respective subsidiaries will not be allowed to manufacture such new product. The Directors believe that the above undertaking would clarify that both Tongrentang Ltd. and Tongrentang Holdings would support the Company in its development of the four major forms of products in the future.

In order for the Company to have an independent review in deciding whether to proceed with the research and development of new products, the Company confirms that one of the independent non-executive Directors is a reputable person in the Chinese medicine industry and will determine whether to exercise the first right of refusal granted by Tongrentang Holdings or Tongrentang Ltd. to develop any proposed new products which belong to one of the major forms (namely, granules, pills, tablets and soft capsules) of the Company. In the event that the

Company refuses the first right of refusal offered by Tongrentang Ltd. and/or Tongrentang Holdings, terms of the option to be offered to independent third party should not be more favourable than that originally offered to the Company. Otherwise, the Company should be given the opportunity to re-consider the option under the new terms. The above undertaking would no longer be valid in the event that the direct or indirect aggregate shareholdings of Tongrentang Holdings or Tongrentang Ltd. in the Company falls below 30%.

CONNECTED TRANSACTIONS

The connected transactions undertaken by the Group are set out in note 28 to the financial statements.

The independent non-executive Directors have examined and confirmed that:

(i) these transactions were executed in the ordinary and usual course of business of the Company;

(ii) these transactions were executed on normal commercial terms or on terms not less favorable than those given to (or obtained from, wherever applicable) independent third parties (if no comparable transaction can be referred to judge whether the transaction was executed on normal commercial terms);

(iii) these transactions were executed in accordance with the relevant agreement governing them on terms that are fair and reasonable and in the interest of the Company's shareholders as a whole;

(iv) the aggregate amount of each of these transactions has not exceeded the cap amount as agreed with the Stock Exchange in this regard; and

(v) the Company should continue with these transactions.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

During the year, neither the Company nor its subsidiaries has purchased, sold or redeemed any of the Company's listed shares.

AUDITORS

The accompanying financial statements were audited by PricewaterhouseCoopers. A resolution for the reappointment of PricewaterhouseCoopers as auditors of the Company for the year 2006 is to be proposed at the forthcoming annual general meeting.

By the Order of the Board

Yin Shun Hai
Chairman

Beijing, the PRC
10 March 2006

Report of the Supervisory Committee

To the Shareholders:

The Supervisory Committee of Tong Ren Tang Technologies Co. Ltd. (the "Supervisory Committee"), in compliance with the provisions of the Company Law of the People's Republic of China (the "PRC Company Law"), the relevant laws and regulations of Hong Kong and the Articles of Association of the Company, under their fiduciary duty, took up an active role to work reasonably and cautiously with diligence to protect the interests of the Company and its shareholders.

During the year, Supervisory Committee had reviewed cautiously the operation and development plans of the Company and provided reasonable suggestions and opinions to the Board of Directors. It also strictly and effectively monitored and supervised the Company's management in making significant policies and decisions to ensure that they are in compliance with the laws and regulations of the PRC and the Articles of Association of the Company, and in the interests of its shareholders.

We have reviewed and agreed to the report of the Directors, audited financial statements and the dividend to be proposed by the Board of Directors for presentation at the forthcoming annual general meeting. We are of the opinion that the Directors, the general manager and other senior management of the Company were able to strictly observe their fiduciary duty, to act diligently and to exercise their authority faithfully in the best interests of the Company. The transactions between the Company and connected parties are in the interests of the shareholders as a whole and under fair and reasonable price. Up till now, none of the Directors, general manager and senior management staff had been found abusing their authority, damaging the interests of the Company and infringing upon the interests of its shareholders and employees. And none of them were found to be in breach of any laws and regulations or the Articles of Association of the Company.

The Supervisory Committee is satisfied with the achievement and cost-effectiveness of the Company in 2005 and has great confidence in the future of the Company.

By Order of the Supervisory Committee

Tian Da Fang
Chairman

Beijing, the PRC
10 March 2006

Rule 5.35 to Rule 5.45 of the GEM Listing Rules setting out the provisions of the practice and procedure of the board of directors have been replaced by Appendix 15 of the Code on Corporate Governance Practices, which took effect from 1 January 2005.

For the year ended 31 December 2005, the Company complied with all the code provisions set out in Appendix 15 of the Code on Corporate Governance Practices of the GEM Listing Rules.

DIRECTORS' DEALING IN SECURITIES

The Company has formulated and implemented its Code on Dealing in Securities pursuant to the required standard of dealings set out in Rule 5.48 to Rule 5.67 of the GEM Listing Rules to regulate the directors' dealing in securities. The Code on Dealing in Securities of the Company are no less exacting terms than the required standard of dealings and these requirements are also applicable to specific persons such as the senior management.

After enquiry by the Company to all the Directors, all the Directors have confirmed that they have been complying with the required standard of dealings set out the GEM Listing Rules and the Code on Dealing in Securities of the Company.

BOARD OF DIRECTORS

The second session of the Board currently comprises of eight Directors and their term of office will end upon the conclusion of the annual general meeting in 2006. The Board includes three influential independent non-executive Directors and one non-executive Director. Non-executive Directors are independent of the management and in possession of solid experience in the business of the industry that the Company is in and finance. They provide significant contribution to the development of the Company.

For the year ended 31 December 2005, the Board fulfilled the minimum requirement of appointing at least three independent non-executive directors as required by the GEM Listing Rules and the number of independent non-executive Directors exceeded one-third of the members of the Board, and it also met the requirement of having one independent non-executive director with appropriate professional qualification or professional accounting or financial management expertise.

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

The Board conducts meetings at least at each quarter or in case there is important decision to make. The Board conducted five meetings in 2005 to discuss and decide development strategies, important operational issues, financial issues and other important issues under the Company's memorandum and articles of association. The following table sets out the attendance of Directors' meeting in 2005:

Directors	**Attendance/ Number of meetings**
Executive Directors	
Yin Shun Hai	5/5
Mei Qun	5/5
Ding Yong Ling *(Note)*	4/5
Bi Jie Ping	5/5
Non-executive Director	
Zhao Bing Xian	5/5
Independent non-executive Directors	
Tam Wai Chu, Maria	5/5
Ting Leung Huel, Stephen	5/5
Jin Shi Yuan	5/5

Note: Appointed as an executive director on 16 May 2005.

CHAIRMAN OF THE BOARD AND GENERAL MANAGER

Mr. Yin Shun Hai and Mr. Kuang Gui Shen are chairman of the Board and general manager respectively, which are two clearly defined positions. The chairman is responsible for the operation of the Board while the general manager is in charge of ordinary business management. The Articles of Association of the Company set out the respective functions of the chairman and the general manager in detail.

DIRECTORS' REMUNERATION

In 2005, Mr. Yin Shun Hai, Mr. Mei Qun, Ms. Ding Yong Ling (executive directors) and Mr. Zhao Bing Xian (non-executive director), in their capacities as Directors, did not receive Directors' remuneration. Mr. Bi Jie Ping (executive director), in his capacity as the general manager of the Company, received remuneration that is composed of three parts; basic salary (including subsidies), bonus and contributions to retirement scheme for the period from January to November 2005. Ms. Tam Wai Chu, Maria, Mr. Ting Leung Huel, Stephen and Mr. Jin Shi Yuan (independent non-executive directors), in their capacities as Directors, received Directors' fee. Details of directors' remuneration are set out in note 24 to the financial statements.

APPOINTMENT OF DIRECTORS

Directors of the Company were elected at general meetings with a term of three years for each session. Directors can be re-elected upon expiration of the term. All eight Directors currently in office were elected at an annual general meeting or a special general meeting. In 2005, Ms. Li Lian Ying resigned from the directorship and Ms. Ding Yong Ling was appointed as executive Director of the Company with proper approval at the annual general meeting.

AUDIT COMMITTEE

Pursuant to Rule 5.28 of the GEM Listing Rules, the Company has set up an audit committee according to "A Guide For The Formation of An Audit Committee" compiled by the Hong Kong Institute of Certified Public Accountants. In compliance with Rule of 5.29 of the GEM Listing Rules, the authority and responsibility of the audit committee have been properly written out. The primary duties of the audit committee are to review and monitor the Company's financial reporting process and internal control system. The committee comprises of Ms. Tam Wai Chu, Maria, Mr. Ting Leung Huel, Stephen and Mr. Jin Shi Yuan, who are independent non-executive Directors. Mr. Ting Leung Huel, Stephen, the Chairman of the Committee, possesses appropriate professional qualification and financial experience.

Two meetings have been conducted by the audit committee in 2005. The first meeting was held on 28 February 2005 for discussion of the operating results, statements of affairs and accounting policies with respect to the audited financial statements of the Company for the year ended 31 December 2004 and taking advice of auditors. The second meeting was held on 1 August 2005 for discussion of the operating results, statements of affairs and accounting policies with respect to the unaudited interim report of the Company for the six months ended 30 June 2005.

The following table sets out the attendance of the committee's meeting in 2005:

Committee members	**Attendance/ Number of meetings**
Ting Leung Huel, Stephen *(Chairman)*	2/2
Tam Wai Chu, Maria	2/2
Jin Shi Yuan	2/2

The audit committee held a meeting on 3 March 2006 to review and discuss the operating results, statements of affairs, major accounting policies and internal audit issues of the Company for the year ended 31 December 2005 and to take advice from auditors.

REMUNERATION COMMITTEE

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

The Remuneration Committee comprises of one executive Director, Mr. Mei Qun and two independent non-executive Directors, Mr. Ting Leung Huel, Stephen and Mr. Jin Shi Yuan, which is in compliance with the requirement of the GEM Listing Rules that independent non-executive Directors should form the majority of the remuneration committee.

On 3 March 2006, the Committee reviewed and discussed the Directors' and senior executives' emoluments for the year ended 31 December 2005.

NOMINATION COMMITTEE

The Company has established the Nomination Committee according to the relevant provisions of the GEM Listing Rules with written terms of reference. Its primary responsibilities include reviewing and supervising the framework, number of members and composition of the Board and making proposals to the Board in respect of any changes and identifying and nominating suitable persons for appointment of Director.

The Nomination Committee comprises of one executive Director, Mr. Mei Qun and two independent non-executive Directors, Ms. Tam Wai Chu, Maria and Mr. Jin Shi Yuan, which is in compliance with the requirement of the GEM Listing Rules that independent non-executive Directors should form the majority of the nomination committee.

On 3 March 2006, the Committee reviewed and discussed the framework, number of members and composition of the Board, and identified and made proposals in respect of the appointment of Directors.

AUDITORS' REMUNERATION

PricewaterhouseCoopers ("PwC") was the auditors of the Company for the year ended 31 December 2005. Other than annual auditing services, PwC did not provide non-auditing services to the Company or any of the Group's companies during the year.

Auditors' remuneration for year ended 31 December 2005 is set out in note 20. Besides, the Company paid for auditors' expenses of lodging, meals and traveling during the period the auditing services were provided.

Directors, Supervisors and Senior Management

EXECUTIVE DIRECTORS

Mr. Yin Shun Hai, aged 52, chairman of the Company, is a senior economist with postgraduate qualification. He was formerly the factory manager of Factory No.2, the deputy general manager and general manager of Tongrengtong Holdings. He is now the chairman of Tongrentang Holdings, chairman of Tongrentang Ltd., the vice president of China Chinese Medicine Research Society Councillor Committee, an executive member of the ninth committee of All-China Federation of Industry and Commerce and a delegate to the 12th Beijing's People's Congress. He is responsible for the overall decision making of the Company. He will tentatively spend approximately half of his time on the business of the Company. He is one of the promoters of the Company.

Mr. Mei Qun, aged 49, vice-chairman of the Company, is a deputy pharmacist with postgraduate qualification. He was formerly the deputy chief of the education section of Beijing Tongrentang Pharmaceutical Factory, assistant to the manager of Beijing Medicinal Materials Company and assistant to the general manager and deputy general manager of Tongrengtang Holdings. He is now the general manager of Tongrentang Holdings, vice-chairman of Tongrentang Ltd. and executive committee member of Beijing Trade and Industry Association. He is the compliance officer of the Company and responsible for overseeing all matters relating to the listing of the Company. He will spend approximately one-fifth of his time in the business of the Company. He is one of the promoters of the Company.

Ms. Ding Yong Ling, aged 42, is a deputy pharmacist with a bachelor's degree. She served as the deputy head of the foreign trade department, the assistant to the general manager, the deputy manager, manager of the import and export branch, under Tongrentang Holdings, the manager of the import and export branch of Tongrentang Ltd., the deputy general manager of the Company and the manager of the import and export branch of the Company. She currently served as the deputy general manager of Tongrentang Holdings and the managing director of Beijing Tong Ren Tang International Co., Limited and Tong Ren Tang Chinese Medicine.

Mr. Bi Jie Ping, aged 49, vice-chairman of the Company, is a deputy pharmacist with a bachelor's degree. He was formerly the deputy head of factory, the acting head of factory and the head of factory of Beijing Tong Ren Tang Chinese Medicinal Wine Factory, the deputy general manager of Tongrentang Ltd. and the manager of the branch office of Tongrentang Ltd., the general manager of Tongrentang Ltd. and the general manager of the Company. He is currently serving as the general manager of Tongrentang Ltd. Mr. Bi was transferred to be an executive director from non-executive director on 3 August 2004.

NON-EXECUTIVE DIRECTOR

Mr. Zhao Bing Xian, aged 42, is a management engineering postgraduate of Shanghai Communications University. He is the chairman of the board of directors and president of Beijing Zhong Zheng Wan Rong Investment Service Company Limited. He has extensive experience in corporate finance and securities investment. He is one of the promoters of the Company.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Ms. Tam Wai Chu, Maria, GBS, JP, LL.D (Honoris Causa), LL.B (Honours), barrister, is a non-executive director of eight listed companies, namely, Guangnan (Holdings) Limited, ONFEM Holdings Limited, Sinopec Kantons Holdings Limited, Wing On Company International Limited, eSun Holdings Limited, Sa Sa International

Holdings Limited, Titan Petrochemicals Group Limited and Nine Dragons Paper (Holdings) Limited respectively. She is also a board member of the Urban Renewal Authority, a member of the Advisory Committee on Corruption of the ICAC and a committee member of the Commission on Strategic Development. Her other public offices include being member of the Basic Law Committee of Hong Kong and a delegate to the 10th National People's Congress. She was appointed as an independent non-executive director on 11 October 2000 and was re-elected at the annual general meeting in 2003.

Mr. Ting Leung Huel, Stephen, MH, FCCA, FCPA (Practising), ACA, FHKIoD, aged 52, is an accountant in public practice as Managing Partner of Ting Ho Kwan & Chan, Certified Public Accountants (Practising) since 1987. He is an non-executive director of Chow Sang Sang Holdings International Limited, and an independent non-executive director of six listed companies in Hong Kong namely eForce Holdings Limited, Tongda Group Holdings Limited, Minmetals Resources Limited, MACROLINK International Holdings Limited, Computer And Technologies Holdings Limited and Texhong Textile Group Limited respectively. He was appointed as an independent non-executive director on 11 October 2000 and was reappointed at the annual general meeting in 2003.

Mr. Jin Shi Yuan, aged 79, chief pharmacist, is an expert serving the investigation team for the state secret technology of the State Science Commission, and a member of the Committee for Clinical Medicine Appraisal Experts of the Chinese Medicine Society of China. He is also a consultant to the Eighth Council of the Beijing Chinese Medicine Society, visiting professor of Chinese medicine at the Chinese Medical Institute of the Beijing Union of University and consultant to the Fourth Expert Committee of the Chinese Health Food Association. He was appointed as an independent non-executive director on 16 October 2000 and was re-elected at the annual general meeting in 2003.

SUPERVISORS

Mr. Tian Da Fang, aged 59, chairman of the Supervisory Committee, is a senior economist with a postgraduate qualification. He was formerly the deputy manager, secretary of the party committee of Beijing Medicinal Materials Company, the deputy secretary to the party committee, secretary to disciplinary committee of the Headquarters of Beijing Medicine Company. He is now the vice-chairman and secretary to the party committee of Tongrentang Holdings, vice-chairman of Tongrentang Ltd., the president of Beijing Pharmaceutical Profession Association. He is one of the promoters of the Company.

Mr. Wu Yi Gang, aged 47, obtained a bachelor degree of laws at Peking University. Mr. Wu was called to the Bar in 1984 and started law practice from then on. Mr. Wu was the cofounder and has been the managing partner of Wu Luan Zhao Yan, a Beijing law firm established in 1994. Mr. Wu served as one of the arbitrators of the first session of the Beijing Arbitration Commission from 1995. At present, Mr. Wu served as the council member, director of Disciplinary Committee and deputy director of Foreign Affairs Committee of Beijing Municipal Lawyers Association. Mr. Wu was appointed to be the supervisor of the Company on 22 October 2003.

Ms. Liu Gui Rong, aged 51, is a senior political engineer with a bachelor's degree. Ms. Liu has been the Chairman of the labour union of Tongrentang Holdings, the secretary to the party committee of the retailing department of Northern city of Tongrentang Holdings, the deputy factory head of Beijing Tong Ren Tang Chinese Medicine Factory, the deputy factory head and the assistant secretary to the party committee of the Company. Ms. Liu is currently serving as the assistant secretary to the party committee and the secretary to the disciplinary committee of the Company. Ms. Liu was appointed as a supervisor of the Company on 22 October 2003.

SENIOR MANAGEMENT

Mr. Kuang Gui Shen, aged 49, is a senior economist with a postgraduate qualification. He served as Vice Factory Manager of Factory No.5, Factory Manager of Chinese Pharmaceutical Factory No.5, Manager of the Operation Company of Tongrentang Holdings, Factory Manager of Chinese Pharmaceutical Factory No.3, Factory Manager of Da Xing New Factory, the general manager of the Company and the general manager of Tongrentang Ltd.. He is now the acting general manager of the Company.

Mr. Wang Yu Wei, aged 38, is a senior engineer with a postgraduate qualification. He formerly served as deputy officer of the new technology research and development centre of Factory No.2, deputy factory manager of Factory No.2 and assistant to the general manager of the Company. He is currently the deputy general manager of the Company.

Mr. Bai Jian, aged 46, is a deputy pharmacist with a bachelor's degree. He formerly served as section head of the foreign trade section, assistant to factory manager and deputy factory manager of Factory No.2, deputy factory manager of pharmaceutical factory of Tongrentang Ltd. and factory manager of south pharmaceutical branch factory of Tongrentang Ltd.. He is currently the deputy general manager of the Company.

Ms. Liu Zi Lu, aged 50, was an accountant with tertiary qualification. She formerly served as a deputy section head and section head of the financial department of Factory No.2 and a deputy manager and deputy chief accountant of the financial department of the Company and is currently the chief accountant of the Company.

Mr. Zhu Gong Pei, aged 46, is a senior economist with a bachelor's degree. He formerly served as the section head of the production section of Tongrentang pharmaceutical manufacturing plant, assistant to factory manager and deputy factory manager of Factory No.2, and assistant to the general manager of the Company. He is currently the deputy general manager of the Company.

Ms. Xie Su Hua, aged 41, is a senior engineer and licensed pharmacist with a postgraduate qualification. She formerly served as the deputy section head, assistant to factory manager and deputy factory manager of Factory No.2, assistant to the general manager and deputy general manager of the Company. She is currently the chief engineer of the Company.

Mr. Deng Wen Lin, aged 51, was a deputy pharmacist with tertiary qualification. He formerly served as a deputy manager and manager of the supplies and logistics department of a pharmaceutical company in Beijing, a manager of the supplies and logistics department of Tongrentang Group, an assistant to general manager of the Company and is currently the deputy general manager of the Company.

Ms. Zhang Jing Yan, aged 32, is a licensed pharmacist with a bachelor's degree. She formerly served as a member of the securities department and securities representative of Tongrentang Ltd.. She is currently the secretary to the Company's Board of Directors.

Mr. Chan Ngai Chi, aged 34, is the financial controller and company secretary of the Company with postgraduate qualification. He is a fellow member of Hong Kong Institute of Certified Public Accountants and Association of Chartered Certified Accountants of the United Kingdom with over ten years of experience in accounting and auditing.

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TO THE SHAREHOLDERS OF TONG REN TANG TECHNOLOGIES CO. LTD.:

(Incorporated in the People's Republic of China with limited liability)

We have audited the accompanying balance sheet of Tong Ren Tang Technologies Co. Ltd. (the "Company") and consolidated balance sheet of the Company and its subsidiaries (hereafter collectively referred to as the "Group") as of 31 December 2005; and the related consolidated statements of income, cash flows and changes in shareholders' equity for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit. This report is made solely to you, as a body and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company and the Group as of 31 December 2005 and the Group's results of operations and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 10 March 2006

Balance Sheets

As of 31 December 2005

	Note	The Group 2005 RMB'000	The Group 2004 RMB'000 (Restated)	The Company 2005 RMB'000	The Company 2004 RMB'000 (Restated)
ASSETS					
Non–current assets					
Property, plant and equipment	*4(a)*	**513,381**	403,307	**385,606**	368,569
Leasehold land and land use rights	*4(b)*	**55,330**	32,916	**25,512**	25,904
Investments in subsidiaries	*5*	**–**	–	**54,649**	32,992
Investments in joint ventures	*6*	**–**	–	**22,683**	23,240
Investment in an associated company	*7*	**4,849**	4,952	**4,849**	4,952
Deferred income tax assets	*10*	**338**	299	**338**	299
Other long-term assets		**3,778**	4,080	**448**	354
		577,676	445,554	**494,085**	456,310
Current assets					
Inventories	*9*	**479,972**	459,818	**464,648**	446,816
Trade and bills receivable, net	*8*	**132,975**	144,152	**113,253**	141,428
Due from related parties	*28(e)*	**11,318**	4,763	**11,318**	4,763
Due from subsidiaries		**–**	–	**40,792**	11,160
Prepayments and other current assets		**14,125**	7,331	**5,724**	2,907
Short-term bank deposits	*27(b)*	**27,829**	91,478	**27,048**	91,478
Cash and cash equivalents	*27(b)*	**206,203**	185,930	**170,912**	138,457
		872,422	893,472	**833,695**	837,009
Total assets		**1,450,098**	1,339,026	**1,327,780**	1,293,319

The accompanying notes on pages 38 to 79 are an integral part of these financial statements.

As of 31 December 2005

	Note	The Group 2005 RMB'000	The Group 2004 RMB'000 (Restated)	The Company 2005 RMB'000	The Company 2004 RMB'000 (Restated)
EQUITY					
Capital and reserves attributable to equity holders of the Company					
Share capital	*11*	**182,800**	182,800	**182,800**	182,800
Reserves	*12*	**752,891**	595,906	**748,308**	590,865
		935,691	778,706	**931,108**	773,665
Minority interests		**59,645**	38,195	**–**	–
Total equity		**995,336**	816,901	**931,108**	773,665
LIABILITIES					
Non-current liabilities					
Deferred income tax liabilities	*10*	**2,035**	–	**2,035**	–
Deferred income – government grants	*13*	**12,548**	10,974	**12,548**	10,974
		14,583	10,974	**14,583**	10,974
Current liabilities					
Trade payables	*15*	**148,630**	194,360	**143,349**	188,466
Salary and welfare payables	*16*	**51,198**	60,013	**50,863**	59,754
Advances from customers		**35,706**	61,764	**34,912**	61,421
Due to related parties	*28(e)*	**41,091**	21,317	**1,884**	13,845
Due to subsidiaries		**–**	–	**5,589**	15,973
Current income tax liabilities		**6,122**	4,533	**5,417**	3,996
Accrued expenses and other current liabilities		**25,384**	11,461	**8,027**	7,522
Bank advances for discounted bills	*8*	**47,048**	82,703	**47,048**	82,703
Short-term borrowings	*14*	**85,000**	75,000	**85,000**	75,000
		440,179	511,151	**382,089**	508,680
Total liabilities		**454,762**	522,125	**396,672**	519,654
Total equity and liabilities		**1,450,098**	1,339,026	**1,327,780**	1,293,319

Approved by and signed on behalf of the Board of Directors on 10 March 2006.

Yin Shun Hai
Director

Mei Qun
Director

The accompanying notes on pages 38 to 79 are an integral part of these financial statements.

Consolidated Income Statement

For the year ended 31 December 2005

	Note	**2005** **RMB'000**	2004 RMB'000 (Restated)
Sales	*17*	**1,135,678**	983,249
Cost of sales		**(560,887)**	(450,893)
Gross profit		**574,791**	532,356
Other gains – net	*18*	**1,827**	1,463
Distribution costs		**(220,783)**	(200,039)
Administrative expenses		**(97,390)**	(103,397)
Operating profit		**258,445**	230,383
Finance costs	*19*	**(6,378)**	(4,617)
Share of result from an associated company		**(103)**	(344)
Profit before income tax	*20*	**251,964**	225,422
Income tax expense	*21(a)*	**(19,469)**	(18,162)
Profit for the year		**232,495**	207,260
Attributable to:			
Equity holders of the Company		**231,186**	205,607
Minority interests		**1,309**	1,653
		232,495	207,260
Dividends	*22*	**(84,088)**	(84,088)
Earnings per share for profit attributable to equity shareholders of the Company during the year	*23*		
– Basic		**RMB1.26**	RMB1.12

The accompanying notes on pages 38 to 79 are an integral part of these financial statements.

For the year ended 31 December 2005

	Attributable to equity holders of the Company								Minority interests	Total
	Share capital	Share premium	Statutory surplus reserve fund	Statutory public welfare fund	Tax reserve	Property, plant and equipment revaluation	Retained earnings	Foreign currency translation difference		
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Balance as of 1 January 2004	182,800	157,925	47,959	23,980	64,742	–	174,553	(46)	17,059	668,972
Profit for the year	–	–	–	–	–	–	205,607	–	1,653	207,260
Capital injection from the minority shareholders of subsidiaries	–	–	–	–	–	–	–	–	19,483	19,483
Dividends paid	–	–	–	–	–	–	(78,604)	–	–	(78,604)
Foreign currency translation differences	–	–	–	–	–	–	–	(210)	–	(210)
Appropriation from retained profits	–	–	21,964	10,982	17,745	–	(50,691)	–	–	–
Balance as of 31 December 2004	182,800	157,925	69,923	34,962	82,487	–	250,865	(256)	38,195	816,901
Profit for the year	–	–	–	–	–	–	231,186	–	1,309	232,495
Revaluation – gross	–	–	–	–	–	13,571	–	–	–	13,571
Revaluation – tax	–	–	–	–	–	(2,035)	–	–	–	(2,035)
Capital injection from the minority shareholders of subsidiaries	–	–	–	–	–	–	–	–	20,141	20,141
Dividends paid	–	–	–	–	–	–	(84,088)	–	–	(84,088)
Foreign currency translation differences	–	–	–	–	–	–	–	(1,649)	–	(1,649)
Appropriation from retained profits	–	–	23,320	11,660	19,556	–	(54,536)	–	–	–
Balance as of 31 December 2005	182,800	157,925	93,243	46,622	102,043	11,536	343,427	(1,905)	59,645	995,336

The accompanying notes on pages 38 to 79 are an integral part of these financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 December 2005

	Note	2005 RMB'000	2004 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated from operations	27(a)	**187,609**	188,856
Interest paid		**(5,036)**	(4,436)
Income tax paid		**(17,919)**	(17,207)
Net cash generated from operating activities		**164,654**	167,213
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of property, plant and equipment		**(135,163)**	(152,516)
Acquisition of leasehold land and land use rights		**(23,993)**	(3,252)
Proceeds from disposal of property, plant and equipment		**608**	–
Purchases of other long-term assets		**(662)**	(1,102)
Decrease in short-term bank deposits		**63,649**	41,735
Interest received		**1,827**	1,463
Net cash used in investing activities		**(93,734)**	(113,672)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from short-term borrowings		**85,000**	75,000
Capital contributions from the minority shareholders of subsidiaries		**20,141**	19,483
Proceeds from government grants		**3,300**	3,380
Repayments of short-term borrowings		**(75,000)**	(15,000)
Dividends paid		**(84,088)**	(78,604)
Net cash (used in)/generated from financing activities		**(50,647)**	4,259
Net increase in cash and cash equivalents		**20,273**	57,800
Cash and cash equivalents at beginning of the year		**185,930**	128,130
Cash and cash equivalents at end of the year	27(b)	**206,203**	185,930

The accompanying notes on pages 38 to 79 are an integral part of these financial statements.

1. GENERAL INFORMATION

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

Pursuant to a restructuring (the "Restructuring") of Beijing Tongrentang Company Limited (the "Parent Company") in preparation for the listing of the shares of the Company on the Growth Enterprise Market (the "GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Parent Company transferred part of its Chinese medicine production and distribution business together with the related assets and liabilities (the "Relevant Business") to the Company in exchange for 100,000,000 ordinary shares of the Company. China Beijing Tong Ren Tang Group Co. Ltd. (the "ultimate holding company", formerly known as China Beijing Tong Ren Tang Holdings Corp.) and six natural persons injected cash in exchange for 10,000,000 ordinary shares in the Company at par value. On 22 March 2000, the Company was incorporated as a joint stock limited company with registered share capital of RMB110,000,000, representing 110,000,000 shares (the "Domestic shares") with a par value of RMB1 per share.

Pursuant to a resolution passed in the Extraordinary General Meeting of the Company held on 11 October 2000, placing of the shares in the Company was approved and the directors of the Company (the "Directors") were authorised to allot and issue the shares pursuant thereto. On 31 October 2000, 72,800,000 new ordinary shares (the "H shares") were issued to foreign investors at a price of approximately RMB3.48 (HK$3.28) per share. Upon the listing of the Company's shares on the GEM of the Stock Exchange, the registered share capital of the Company were RMB182,800,000, representing 110,000,000 Domestic shares and 72,800,000 H shares with a par value of RMB1 per share.

The Directors consider China Beijing Tong Ren Tang Group Co. Ltd., incorporated in Beijing, the PRC, as the ultimate holding company.

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

The consolidated financial statements have been approved for issue by the Board of Directors on 10 March 2006.

1. GENERAL INFORMATION (CONT'D)

As at 31 December 2005, the Company had equity interests in the following subsidiaries:

Name	Place/date of incorporation/ legal status	Percentage of equity interest held directly	Issued and paid-up capital	Principal activities
Subsidiaries:				
Beijing Tong Ren Tang Nanyang Shanzhuyu Co., Limited ("TRT Nanyang")	Henan, PRC 24 October 2001 Limited liability company	51%	RMB4,000,000	Planting, purchasing, processing and selling Chinese medicinal raw materials
Beijing Tong Ren Tang Hubei Chinese Medicinal Raw Materials Co., Limited ("TRT Hubei")	Hubei, PRC 26 October 2001 Limited liability company	51%	RMB3,000,000	Planting Chinese medicinal raw materials; purchasing and selling agricultural by-products
Beijing Tong Ren Tang Zhejiang Chinese Medicinal Raw Materials Co., Limited ("TRT Zhejiang")	Zhejiang, PRC 31 October 2001 Limited liability company	51%	RMB10,000,000	Planting, purchasing Chinese medicinal raw materials; selling agricultural by-products
Beijing Tong Ren Tang Hebei Chinese Medicinal Raw Materials Technologies Co., Limited ("TRT Hebei")	Hebei, PRC 19 November 2001 Limited liability company	51%	RMB8,000,000	Planting, purchasing, processing and selling Chinese medicinal raw materials
Beijing Tong Ren Tang Tongke Pharmaceutical Company Limited ("TRT Tongke")	Beijing, PRC 4 November 2003 Limited liability company	51%	RMB10,000,000	Medicine production

1. GENERAL INFORMATION (CONT'D)

Name	Place/date of incorporation/ legal status	Percentage of equity interest held directly	Issued and paid-up capital	Principal activities
Subsidiaries: (cont'd)				
Beijing Tong Ren Tang Chinese Medicine Company Limited ("TRT Chinese Medicine")	Hong Kong, PRC 18 March 2004 Limited liability company	51%	HK$60,000,000	Production and sales of Chinese traditional medicine
Beijing Tong Ren Tang Nansanhuan Zhonglu Drugstore Co., Limited ("TRT Drugstore")	Beijing, PRC 28 April 2004 Limited liability company	90%	RMB500,000	Sales of medicine products
Beijing Tong Ren Tang Yanbian Chinese Medicinal Raw Materials Co., Limited ("TRT Yanbian")	Jilin, PRC 24 September 2004 Limited liability company	51%	RMB4,000,000	Planting Chinese medicinal raw materials; purchasing and selling agricultural by-products
Beijing Tong Ren Tang Anhui Chinese Medicinal Raw Materials Co., Limited ("TRT Anhui")	Anhui, PRC 18 October 2004 Limited liability company	51%	RMB4,000,000	Planting Chinese medicinal raw materials; purchasing and selling agricultural by-products

The Company has the power to control the strategic operating, investing and financing policies of its subsidiaries since these policies are decided by the board of directors of these nine companies by simple majority votes and the Company can appoint more than half of the board members in each of these entities. Accordingly, they are considered as subsidiaries for International Financial Reporting Standards ("IFRS") reporting purposes. At present, most of the subsidiaries' sales were made to the Company.

1. GENERAL INFORMATION (CONT'D)

As at 31 December 2005, the Company had equity interests in the following joint ventures:

Name	Place/date of incorporation/ legal status	Percentage of equity interest held directly	Issued and paid-up capital	Principal activities
Joint ventures:				
Beijing Tong Ren Tang WM Dianorm Biotech Co., Limited ("TRT WM")	Beijing, PRC 20 February 2001 Sino-foreign equity joint venture	60%	US$3,000,000	Technological development and sales of biological products, Chinese and western medicines and cosmetics and health food
Peking Tongrentang (M) SDN. BHD. ("TRT Malaysia")	Kuala Lumpur, Malaysia 19 January 2001 Limited liability company	60%	US$500,000	Sales of medicine products
Beijing Tong Ren Tang Canada Co. Ltd. ("TRT Canada")	Vancouver, Canada 11 January 2002 Limited liability company	51%	US$1,000,000	Sales of medicine products
Beijing Tong Ren Tang (Macau) Company Limited ("TRT Macau")	Macau, PRC 14 May 2003 Limited liability company	51%	US$500,000	Sales of medicine products
Beijing Tong Ren Tang (Indonesia) Company Limited ("TRT Indonesia")	Jakarta, Indonesia 22 September 2003 Limited liability company	50%	US$1,000,000	Sales of medicine products

1. GENERAL INFORMATION (CONT'D)

TRT WM, TRT Malaysia, TRT Canada, TRT Macau and TRT Indonesia are considered as joint ventures for IFRS reporting purposes because their strategic operating, investing and financing activities are jointly controlled by the Company and the joint venture partners. The Company's profit and loss sharing from the joint ventures correspond to their equity interest percentages held by the Company.

The aggregate amounts of assets, liabilities, revenues and costs and expenses related to the Company's interest in these joint ventures are summarised as follows:

	As of 31 December	
	2005	2004
	RMB'000	*RMB'000*
Assets		
Non-current assets	**6,838**	6,593
Current assets	**21,604**	19,064
	28,442	25,657
Liabilities		
Current liabilities	**2,626**	2,103
Net assets	**25,816**	23,554

	For the year ended 31 December	
	2005	2004
	RMB'000	*RMB'000*
Revenues	**21,955**	15,890
Costs and expenses	**19,276**	16,111
Profit/(loss) after income tax	**2,679**	(221)

1. GENERAL INFORMATION (CONT'D)

As of 31 December 2005, the Company also had the following interest in an associated company:

Name	Place/date of incorporation/ legal status	Percentage of equity interest held directly	Issued and paid-up capital	Principal activities
Associated company:				
Tong Ren Tang Hutchison (HK) Pharmaceutical Development Co., Limited ("TRT Huthchison")	Hong Kong, PRC 10 February 1999 Limited liability company	40%	HK$15,000,000	Researching, developing, producing, processing and selling herbal medicine, Chinese medicine and health products

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

(a) General

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The consolidated financial statements have been prepared under the historical cost convention as modified by the revaluation of property, plant and equipment, and financial assets and financial liabilities at fair value through profit or loss.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 3.

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (CONT'D)

(a) General (Cont'd)

The principal accounting policies and methods of computation used in the preparation of the consolidated financial statements as at and for the year ended 31 December 2005 are consistent with those adopted for the preparation of the financial statements as at and for the year ended 31 December 2004 except that the Group has changed certain of its accounting policies following its adoption of new/revised IFRS which are effective for accounting periods commencing on or after 1 January 2005.

In 2005, the Group adopted the new/revised standards and interpretations of IFRS below, which are relevant to its operations. The 2004 comparatives have been amended as required, in accordance with the relevant requirements.

IAS 1	Presentation of Financial Statements
IAS 2	Inventories
IAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
IAS 10	Events after the Balance Sheet Date
IAS 16	Property, Plant and Equipment
IAS 17	Leases
IAS 21	The Effects of Changes in Foreign Exchange Rates
IAS 24	Related Party Disclosures
IAS 27	Consolidated and Separate Financial Statements
IAS 28	Investments in Associates
IAS 31	Interests in Joint Ventures
IAS 32	Financial Instruments: Disclosure and Presentation
IAS 33	Earnings per Share
IAS 36	Impairment of Assets
IAS 38	Intangible Assets
IAS 39	Financial Instruments: Recognition and Measurement
IFRS 5	Non-Current Assets Held for Sale and Discontinued Operations

IAS 1 has affected the presentation of minority interests and other disclosures.

IASs 2, 8, 10, 16, 17, 21, 33, 36, 38 and IFRS 5 had no material effect on the Group's policies.

IAS 24 has affected the identification of related parties and some other related party disclosures. Related parties include the ultimate holding company and its related parties, other major state-owned enterprises and their subsidiaries directly or indirectly controlled by the PRC government, other entities and corporations in which the Company is able to control or exercise significant influence and key management personnel of the Company, the ultimate holding company as well as their close family members.

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (CONT'D)

(a) General (Cont'd)

The adoption of IAS 27, 28 and 31 has resulted in changes in accounting policies for investments in subsidiaries, associates and joint ventures at company level. Until 31 December 2004, interests in subsidiaries, associates and joint ventures at company level were accounted for using the equity method. Effective on 1 January 2005, the Company's interests in subsidiaries, associates and joint ventures at company level were restated at cost less any accumulated impairment losses.

All changes in the accounting policies have been made in accordance with the transition provisions in the respective standards. All standards adopted by the Group require retrospective application.

The adoption of IAS 27 and IAS 31 resulted in:

	The Company	
	2005	2004
	RMB'000	*RMB'000*
Decrease in investments in subsidiaries	**7,648**	6,789
Decrease in investments in joint ventures	**3,076**	571
Decrease in retained earnings	**7,360**	5,656
Decrease in income statement	**3,364**	1,704

The above adoption of IAS 27, IAS 28 and IAS 31 has no impact on the basic/diluted earnings per share.

The adoption of IAS 32 and IAS 39 has resulted in a change in accounting policy for recognition, measurement, derecognition and disclosure of financial instruments. The Group's discounted bills with recourse have been accounted for as collateralised bank advances.

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (CONT'D)

(b) Principles of consolidation

The consolidated financial statements of the Group include those of the Company and its subsidiaries and also incorporate the Company's interests in joint ventures on the basis as set out in Note 2(e) below.

All intra-group accounts and transactions among the Company, its subsidiaries and joint ventures have been eliminated on consolidation. The equity and results attributable to minority shareholders' interests are shown separately in the consolidated balance sheet and consolidated income statement. Consolidated financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances.

(c) Property, plant and equipment and depreciation

Property, plant and equipment are stated at revalued amounts less accumulated depreciation and accumulated impairment loss. The initial cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditures incurred after the property, plant and equipment have been put into operation, such as repairs and maintenance and overhaul costs, are recognised as expense in the period in which they are incurred. In situations where it is probable that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of the asset beyond its originally assessed standard of performance, the expenditures are capitalised as an additional cost of the asset.

Valuation by independent valuer is performed periodically. Increases in the carrying amount arising on revaluation are credited to other reserves in shareholders' equity. Decreases that offset previous increases of the same asset are charged against other reserves; all other decreases are charged to the income statement. Each year the difference between depreciation based on the revalued carrying amount of the asset charged to the income statement and depreciation based on the asset's original cost is transferred from other reserves to retained earnings.

Depreciation is calculated using the straight-line method to write off the carrying amount, after taking into account the estimated residual value of each asset over its expected useful life. The expected useful lives are as follows:

Buildings	8 – 30 years
Equipment and machinery	8 – 15 years
Motor vehicles	6 years
Office equipment	4 – 5 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (CONT'D)

(c) Property, plant and equipment and depreciation (Cont'd)

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 proceeds with carrying amount. These are included in the income statement. When revalued assets are sold, the amounts included in other reserves are transferred to retained earnings.

Construction in progress ("CIP") represents building, plant and machinery under construction or pending installation and is stated at cost less accumulated impairment losses. Cost includes the costs of construction of building, costs of plant and machinery, and interest charges arising from borrowings used to finance these assets during the period of construction or installation and testing. No provision for depreciation is made on construction in progress until such time as the relevant assets are completed and ready for intended use. When the assets concerned are brought into use, the costs are transferred to property, plant and equipment and depreciated in accordance with the policy as stated above.

(d) Leasehold land and land use rights

The up-front prepayments made for the leasehold land and land use rights are expensed in the income statement on a straight-line basis over the period of the lease or when there is impairment, the impairment is expensed in the income statement.

(e) Investments in subsidiaries, joint ventures and an associated company

Subsidiaries are all entities over which the Group has the power to govern the financial and operational 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. 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.

Joint ventures are ventures undertaken by two or more parties whose rights and obligations with respect to the venture are specified in the joint venture agreement. No single venture is in a position to control unilaterally the activity of the venture.

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (CONT'D)

(e) Investments in subsidiaries, joint ventures and an associated company (Cont'd)

The Group's interests in joint ventures are accounted for by proportionate consolidation whereby the Group's share of each of the assets, liabilities, income and expenses of a joint venture are consolidated on a line-by-line basis with similar items in the consolidated balance sheet and income statement. An assessment of the underlying assets of interests in joint ventures is made when there are indications that the assets have been impaired or impairment losses recognised in prior years no longer exist.

An associated company is an entity over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investment in an associated company is accounted for using the equity method of accounting and is initially recognised at cost.

In the Company's balance sheet, the investments in subsidiaries, joint ventures and associated company are stated at cost less provision for impairment losses. The results of subsidiaries, joint ventures and associated company are accounted for by the Company on the basis of dividends received and receivable.

(f) Research and development

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

Development assets are tested for impairment annually, in accordance with IAS 36.

(g) Cash and cash equivalents

Cash represents cash in hand and deposits with banks or other financial institutions, which are repayable on demand.

Cash equivalents represent short-term, highly liquid investments which are readily convertible into known amounts of cash with original maturities of three months or less and that are subject to an insignificant risk of change in value.

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (CONT'D)

(h) Trade receivables

Trade receivables 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 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. The amount of the provision is the difference between the asset's carrying amount and the present value of the estimated future cash flows, discounted at the effective interest rate.

(i) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost, calculated on the weighted average basis, comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(j) Provisions

A provision is recognised when an enterprise has a present obligation (legal or constructive) as a result of a past event and it is probable (i.e. more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (CONT'D)

(k) Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods in the ordinary course of the Group's activities. Revenue is shown, net of value-added tax and discounts and after eliminated sales within the Group. Revenue is recognised as follows:

(i) Sales of goods

Sales of goods are recognised when a group entity has delivered products to the customer, the customer has accepted the products and collectibility of the related receivables is reasonably assured.

(ii) Interest income

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

(l) Foreign currency translation

Items included in the financial statements of each entity in the Group are measured using the currency that best reflects the economic substance of the underlying events and circumstances relevant to that entity ("the functional currency"). The consolidated financial statements are presented in RMB, which is the functional and presentation currency of the Company.

Transactions denominated in currencies other than RMB are translated into RMB at the applicable rates of exchange quoted by the People's Bank of China ("PBOC Rates") prevailing at the dates of the transactions. Monetary assets and liabilities denominated in other currencies are translated into RMB at the applicable PBOC Rates prevailing at the balance sheet dates. Non-monetary assets and liabilities in other currencies are translated at historical rates. Exchange differences arising from exchanges on the settlement of monetary items at rates different from those at which they were initially recorded during the periods other than those capitalised as a component of borrowing costs, are recognised in the income statement in the period in which they arise.

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (CONT'D)

(l) Foreign currency translation (Cont'd)

Income statements and cash flows of foreign entities are translated into the Group's presentation currency at average exchange rates for the year and their balance sheets are translated at the exchange rates ruling on 31 December. Exchange differences arising from the translation of the net investment in foreign entities are taken to shareholders' equity. When a foreign entity is sold, such exchange differences are recognised in the income statement as part of the gain or loss on sale.

(m) Borrowings

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

(n) Deferred income tax

Deferred income tax is provided in full, 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, 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 to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

(o) Operating leases

Lease in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES (CONT'D)

(p) Retirement scheme

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

The Group has no legal or constructive obligations to make further payments once the required contributions have been paid, even if the plans do not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

(q) Government grants

Government grants are recognised at their fair value where there is a reasonable assurance that the grants 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 they are intended to compensate.

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

(r) Dividend distribution

Dividend distribution to the Company's shareholders recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders.

(s) Comparatives

The Group previously disclosed interest income within "Finance costs". Management believes that its inclusion in "Other gain-net" is a fairer representation of the Group's activities.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(i) Sales of goods

Sales of goods are recognised when a Group entity has delivered products to the customer, the customer has accepted the products and collectibility of the related receivables is reasonably assured.

(ii) Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expenses. These estimates are based on the current market condition and the historical experience of manufacturing and selling products of similar nature. It could change significantly as a result of changes in customers taste and competitor actions in response to severe industry cycles. Management reassesses the estimations by each balance sheet date.

(iii) Trade and other receivables

The Group's management determines the provision for impairment of trade and other receivables. This estimate is based on the credit history of its customers and the current market condition. Management reassesses the provision by each balance sheet date.

(iv) Income taxes

The Group is subject to income taxes in certain jurisdictions. There are certain transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

4. PROPERTY, PLANT AND EQUIPMENT AND LEASEHOLD LAND AND LAND USE RIGHTS

(a) Property, plant and equipment

Movements in property, plant and equipment of the Group were:

	Buildings	Equipment and machinery	Motor vehicles	Office equipment	CIP	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2004						
Cost or valuation	131,006	174,809	13,217	9,661	71,603	400,296
Accumulated depreciation	(42,279)	(72,411)	(6,540)	(2,840)	–	(124,070)
Net book amount	88,727	102,398	6,677	6,821	71,603	276,226
Year ended 31 December 2004						
Opening net book amount	88,727	102,398	6,677	6,821	71,603	276,226
Additions	255	159	–	1,700	150,402	152,516
Transfers from CIP	46,932	31,150	–	1,024	(79,106)	–
Disposals	–	(309)	–	(16)	–	(325)
Depreciation	(4,468)	(16,589)	(1,628)	(2,425)	–	(25,110)
Closing net book amount	131,446	116,809	5,049	7,104	142,899	403,307
At 31 December 2004						
Cost or valuation	178,193	202,022	13,217	12,309	142,899	548,640
Accumulated depreciation	(46,747)	(85,213)	(8,168)	(5,205)	–	(145,333)
Net book amount	131,446	116,809	5,049	7,104	142,899	403,307
Year ended 31 December 2005						
Opening net book amount	**131,446**	**116,809**	**5,049**	**7,104**	**142,899**	**403,307**
Revaluation surplus	**7,933**	**4,579**	**273**	**786**	**–**	**13,571**
Additions	**5,444**	**3,601**	**2,484**	**423**	**123,211**	**135,163**
Transfers from CIP	**70,011**	**79,848**	**305**	**1,312**	**(151,476)**	**–**
Disposals	**(3,582)**	**(250)**	**(34)**	**(582)**	**–**	**(4,448)**
Depreciation	**(4,392)**	**(24,089)**	**(3,707)**	**(2,024)**	**–**	**(34,212)**
Closing net book amount	**206,860**	**180,498**	**4,370**	**7,019**	**114,634**	**513,381**
At 31 December 2005						
Cost or valuation	**206,860**	**180,498**	**4,370**	**7,019**	**114,634**	**513,381**
Accumulated depreciation	**–**	**–**	**–**	**–**	**–**	**–**
Net book amount	**206,860**	**180,498**	**4,370**	**7,019**	**114,634**	**513,381**

4. PROPERTY, PLANT AND EQUIPMENT AND LEASEHOLD LAND AND LAND USE RIGHTS (CONT'D)

(a) Property, plant and equipment (Cont'd)

Movements in property, plant and equipment of the Company were:

	Buildings	Equipment and machinery	Motor vehicles	Office equipment	CIP	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2004						
Cost or valuation	126,966	174,425	11,900	6,262	71,377	390,930
Accumulated depreciation	(42,082)	(72,362)	(6,245)	(2,321)	–	(123,010)
Net book amount	84,884	102,063	5,655	3,941	71,377	267,920
Year ended 31 December 2004						
Opening net book amount	84,884	102,063	5,655	3,941	71,377	267,920
Additions	–	–	–	17	124,490	124,507
Transfers from CIP	46,932	31,150	–	1,024	(79,106)	–
Disposals	–	(309)	–	(16)	–	(325)
Depreciation	(4,280)	(16,511)	(1,412)	(1,330)	–	(23,533)
Closing net book amount	127,536	116,393	4,243	3,636	116,761	368,569
At 31 December 2004						
Cost or valuation	173,898	201,479	11,900	7,232	116,761	511,270
Accumulated depreciation	(46,362)	(85,086)	(7,657)	(3,596)	–	(142,701)
Net book amount	127,536	116,393	4,243	3,636	116,761	368,569
Year ended 31 December 2005						
Opening net book amount	**127,536**	**116,393**	**4,243**	**3,636**	**116,761**	**368,569**
Revaluation surplus	**7,933**	**4,579**	**273**	**786**	**–**	**13,571**
Additions	**–**	**3,593**	**2,239**	**81**	**34,715**	**40,628**
Transfers from CIP	**70,011**	**79,848**	**305**	**1,312**	**(151,476)**	**–**
Disposals	**(3,582)**	**(250)**	**(34)**	**(32)**	**–**	**(3,898)**
Depreciation	**(4,217)**	**(24,046)**	**(3,496)**	**(1,505)**	**–**	**(33,264)**
Closing net book amount	**197,681**	**180,117**	**3,530**	**4,278**	**–**	**385,606**
At 31 December 2005						
Cost or valuation	**197,681**	**180,117**	**3,530**	**4,278**	**–**	**385,606**
Accumulated depreciation	**–**	**–**	**–**	**–**	**–**	**–**
Net book amount	**197,681**	**180,117**	**3,530**	**4,278**	**–**	**385,606**

4. PROPERTY, PLANT AND EQUIPMENT AND LEASEHOLD LAND AND LAND USE RIGHTS (CONT'D)

(a) Property, plant and equipment (Cont'd)

As of 31 December 2005, the amounts of property, plant and equipment that would have been included in the consolidated financial statements of the Group had the assets been stated on the historical cost basis, the amounts would be as follows:

	2005						2004
	Buildings	Equipment and machinery	Motor vehicles	Office equipment	CIP	Total	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Cost	225,115	261,581	13,946	12,563	114,634	627,839	511,132
Accumulated depreciation	36,091	81,113	9,606	7,395	–	134,205	112,876
Net book value	189,024	180,468	4,340	5,168	114,634	493,634	398,256

As required by the relevant PRC regulations with respect to the Restructuring, the property, plant and equipment of the Company as of 31 December 1999 were valued for each asset class by Beijing Development Evaluation Co., independent valuer registered in the PRC, on a depreciated replacement cost basis.

The surplus on revaluation of approximately RMB18,630,000 has been incorporated in the financial statements of the Company as of 31 December 2000. An amount of approximately RMB18,276,000 of the surplus has been transferred to the Company's share capital arising from the injection by the Parent Company, while the remaining amount of approximately RMB354,000 has been credited to share premium.

The Company's property, plant and equipment were also valued by LCH (Asia-Pacific) Surveyors Limited ("LCH") as of 31 July 2000, an independent qualified valuer in Hong Kong, on a depreciated replacement cost basis. The value arrived at by the valuer was not materially different from the carrying value of these assets on the date of valuation.

The Group's property, plant and equipment were revalued by LCH as of 31 December 2005, on a depreciated replacement cost basis. The surplus on revaluation of approximately RMB13,571,000 has been incorporated in the financial statements of the Group as of 31 December 2005 and credited to reserves.

4. PROPERTY, PLANT AND EQUIPMENT AND LEASEHOLD LAND AND LAND USE RIGHTS (CONT'D)

(b) Leasehold land and land use rights, net

	The Group		The Company	
	2005	2004	**2005**	2004
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
In PRC held on:				
Land use rights between 10 to 50 years	**31,901**	32,916	**25,512**	25,904
Outside PRC held on:				
Leases of between 10 to 50 years	**23,429**	–	**–**	–
	55,330	32,916	**25,512**	25,904

	The Group		The Company	
	2005	2004	**2005**	2004
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Opening	**32,916**	30,570	**25,904**	26,749
Additions	**23,993**	3,252	**–**	–
Amortisation of leasehold land and land use rights	**(1,579)**	(906)	**(392)**	(845)
	55,330	32,916	**25,512**	25,904

5. INVESTMENTS IN SUBSIDIARIES

	The Company	
	2005	2004
	RMB'000	*RMB'000*
		(Restated)
Unlisted shares, at cost	**54,649**	32,992

Details of subsidiaries are set out in note 1.

6. INVESTMENTS IN JOINT VENTURES

	The Company	
	2005	2004
	RMB'000	*RMB'000*
		(Restated)
Unlisted shares, at cost	**27,881**	27,881
Less: provision for impairment losses	**(5,198)**	(4,641)
	22,683	23,240

There are no contingent liabilities relating to the Company's interest in the joint ventures.

Details of join ventures are set out in note 1.

7. INVESTMENT IN AN ASSOCIATED COMPANY

	The Group	
	2005	2004
	RMB'000	*RMB'000*
Beginning of the year	**4,952**	5,296
Share of results	**(103)**	(344)
End of the year	**4,849**	4,952

	The Company	
	2005	2004
	RMB'000	*RMB'000*
Unlisted shares, at cost	**6,367**	6,367
Less: provision for impairment losses	**(1,518)**	(1,415)
	4,849	4,952

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

	2005	2004
	RMB'000	*RMB'000*
Total assets	**11,483**	11,805
Total liabilities	**88**	167

8. TRADE AND BILLS RECEIVABLE, NET

	The Group		The Company	
	2005	2004	**2005**	2004
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
		(Restated)		(Restated)
Trade and bills receivables	**144,406**	154,805	**124,684**	152,081
Less: provision for impairment of receivables	**(11,431)**	(10,653)	**(11,431)**	(10,653)
Trade and bills receivables, net	**132,975**	144,152	**113,253**	141,428

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

The ageing analysis of trade and bills receivables was as follows:

	The Group		The Company	
	2005	2004	**2005**	2004
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
		(Restated)		(Restated)
Within 4 months	**127,426**	136,009	**107,910**	133,610
Over 4 months but within 1 year	**11,649**	13,991	**11,443**	13,666
Over 1 year but within 2 years	**1,383**	4,179	**1,383**	4,179
Over 2 years but within 3 years	**3,822**	–	**3,822**	–
Over 3 years	**126**	626	**126**	626
	144,406	154,805	**124,684**	152,081

The Group normally grants a credit period ranging from 30 days to 120 days to its trade customers.

The Group transferred certain bills of exchange amounting to RMB47,048,000 (2004: RMB82,703,000) to banks with recourse in exchange for cash during the year. The transactions have been accounted for as collateralised bank advances.

9. INVENTORIES

	The Group		The Company	
	2005	2004	**2005**	2004
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Raw materials	**195,690**	204,129	**188,724**	195,996
Work in progress	**104,029**	57,280	**104,029**	57,280
Finished goods	**180,253**	198,409	**171,895**	193,540
	479,972	459,818	**464,648**	446,816

10. DEFERRED INCOME TAX

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

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

(a) Deferred income tax assets

	The Group		The Company	
	2005	2004	**2005**	2004
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Beginning of the year	**299**	426	**299**	426
Credited/(charged) to income statement	**39**	(127)	**39**	(127)
End of the year	**338**	299	**338**	299
Provided for in respect of:				
Provision for termination benefits	**105**	142	**105**	142
Provision for amortisation of leasehold land and land use rights	**233**	157	**233**	157
	338	299	**338**	299

(b) Deferred income tax liabilities

	The Group		The Company	
	2005	2004	**2005**	2004
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Beginning of the year	**–**	–	**–**	–
Charged to equity	**2,035**	–	**2,035**	–
End of the year	**2,035**	–	**2,035**	–
Provided for in respect of:				
Revaluation for property, plant and equipment revaluation	**2,035**	–	**2,035**	–

11. SHARE CAPITAL

	2005		2004	
	Number of shares	**Nominal value**	Number of shares	Nominal value
		RMB'000		*RMB'000*
Registered	**182,800,000**	**182,800**	182,800,000	182,800
Issued and fully paid				
– Domestic shares with a par value of RMB1 per share	**110,000,000**	**110,000**	110,000,000	110,000
– H shares with a par value of RMB1 per share	**72,800,000**	**72,800**	72,800,000	72,800
	182,800,000	**182,800**	182,800,000	182,800

The holders of domestic and H shares are entitled to the same economic and voting rights with minor exceptions.

12. RESERVES

(a) Statutory reserves

According to the Articles of Association of the Company (the "Articles of Association"), when distributing the net profit of each year, the Company shall set aside 10% of its net profit after tax (based on the Company's PRC statutory accounts) for the statutory surplus reserve fund (except where the reserve balance has reached 50% of the Company's paid-up share capital), and for the statutory public welfare fund at a percentage from 5% to 10%, determined by the Directors. These reserves cannot be used for purposes other than those for which they are created and are not distributable as cash dividends.

The Directors have resolved that the statutory public welfare fund is to be utilised to build or acquire capital items, such as dormitories and other facilities for the Company's employees, and cannot be used to pay for staff welfare expenses. Title to these capital items will remain with the Company.

According to the Articles of Association of the Company, approximately RMB23,167,000 (2004: RMB20,681,000), being 10% of net profit after tax determined under the PRC accounting standards, was transferred to the statutory surplus reserve for the year ended 31 December 2005. Further, the Directors proposed an appropriation of approximately RMB11,583,000 (2004: RMB10,340,000), being 5% of net profit after tax determined under the PRC accounting standards, to the statutory public welfare fund.

12. RESERVES (CONT'D)

(a) Statutory reserves (Cont'd)

According to the Articles of Association of the Company, the reserve available for distribution is the lower of the amount determined under the PRC accounting standards and the amount determined under IFRS. As of 31 December 2005, the distributable reserve was approximately RMB339,092,000 (2004: RMB254,851,000) and RMB351,108,000 (2004: RMB257,832,000), under IFRS and the PRC accounting standards, respectively, before taking into account the current year's proposed final dividends. The difference was primarily due to the amortisation of leasehold land and land use rights, provision of termination benefit, and the Company's interests in subsidiaries, joint ventures and an associated company at company level are accounted at cost less any accumulated impairment losses under IFRS.

(b) Tax reserve

According to the enterprise income tax preferential policy for high-technology enterprises, the Company is entitled to an exemption from Enterprise Income Tax ("EIT") for the first three years from its commencement of operations and a 50% reduction for the three years thereafter. The Company commenced its operation in 2000 and was entitled to 50% reduction for the period from 2003 till 2005. However, such policy also requires the exempted tax be used for specified purposes and is not distributable to shareholders of the Company. Pursuant to this requirement, the Company appropriated approximately RMB19,556,000 (2004: RMB17,745,000) to a tax reserve, representing the EIT exempted for the year at applicable tax rate of 7.5%.

13. DEFERRED INCOME – GOVERNMENT GRANTS

	The Group		The Company	
	2005	2004	**2005**	2004
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Beginning of the year	**10,974**	9,511	**10,974**	9,511
– Government grants obtained during the year	**3,300**	3,380	**3,300**	3,380
– Amount recognised in the income statement	**(1,726)**	(1,917)	**(1,726)**	(1,917)
End of the year	**12,548**	10,974	**12,548**	10,974

14. SHORT-TERM BORROWINGS

As of 31 December 2005, the Company and the Group had unsecured short-term bank borrowings of RMB85,000,000 (2004: RMB75,000,000). These borrowings bear fixed interest rate of 5.02% (2004: 4.78%) per annum.

The carrying amounts of short-term borrowings are denominated in RMB and approximate their fair value.

15. TRADE PAYABLES

The ageing analysis of trade payables was as follows:

	The Group		The Company	
	2005	2004	**2005**	2004
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Within 4 months	**102,887**	178,669	**98,018**	172,849
Over 4 months but within 1 year	**34,511**	15,541	**34,133**	15,503
Over 1 year but within 2 years	**11,232**	150	**11,198**	114
	148,630	194,360	**143,349**	188,466

16. SALARY AND WELFARE PAYABLES

	The Group		The Company	
	2005	2004	**2005**	2004
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Salary payable	**40,563**	44,591	**40,418**	44,511
Welfare payable	**10,635**	15,422	**10,445**	15,243
	51,198	60,013	**50,863**	59,754

17. REVENUE

	2005 RMB'000	2004 RMB'000
Sales of medicine		
– Domestic	**1,090,910**	929,737
– Overseas	**44,768**	53,512
	1,135,678	983,249

18. OTHER GAINS – NET

	2005 RMB'000	2004 RMB'000
Interest income	**1,827**	1,463

19. FINANCE COSTS

	2005 RMB'000	2004 RMB'000
Interest expenses	**5,036**	4,436
Exchange loss	**1,342**	181
	6,378	4,617

20. PROFIT BEFORE INCOME TAX

Profit before income tax was arrived at after charging the following:

	2005	2004
	RMB'000	*RMB'000*
Provision for impairment of receivables	**778**	4,859
Cost of inventories sold	**347,400**	370,831
Staff costs		
– Salary and wages	**87,697**	94,121
– Staff welfare	**12,552**	13,039
– Contribution to retirement benefits	**18,575**	13,354
Depreciation of property, plant and equipment	**34,212**	25,110
Amortisation of leasehold land and land use rights	**1,579**	906
Amortisation of other long-term assets	**964**	845
Operating lease rentals	**15,205**	11,016
Auditors' remuneration	**1,100**	1,100
Research and development costs	**3,704**	3,830
Advertising expenses	**26,229**	34,463
Loss on disposal of property, plant and equipment	**3,840**	325

21. TAXATION

(a) Income tax expense

Pursuant to the relevant regulations of the PRC, a high-technology enterprise ("HTE") located in a designated area of Beijing Economic and Technological Development Zone ("BETDZ") is subject to Enterprise Income Tax ("EIT") at a rate of 15%. Moreover, upon approval by the relevant local tax bureau, such a HTE is entitled to an exemption from EIT for the first three years from its commencement of operations and a 50% reduction for the three years thereafter. The certification as a HTE is subject to an annual review by the relevant government bodies. In addition, an amount equals to the EIT exemption or reduction from the 15% tax rate has to be appropriated to a non-distributable tax reserve.

In June 2004, the Company renewed its HTE certification granted by Beijing Science-Technology Committee for the years of 2004 and 2005. The Company was registered in the BETDZ and has obtained an approval from the BETDZ Local Tax Bureau ("BETDZ LTB") (Document Jingdishuikaijianmianfa [2000] No.23) to enjoy an EIT exemption for three years commencing from 2000 and a 50% reduction in EIT for the three years thereafter. Moreover, BETDZ LTB has also verbally confirmed to the Company that the above EIT preferences should be available to the Company as long as the Company's registered address is in BETDZ and it remains as a HTE.

21. TAXATION (CONT'D)

(a) Income tax expense (Cont'd)

However, the preferential tax treatment the entities comprising the Group obtained, including the EIT exemption as mentioned in the preceding paragraph, may be subject to review by higher authorities as Beijing Administration of Taxation issued a circular in October 2002, namely Jingguoshuihan [2002] No.632, stating that a HTE can enjoy the preferential tax treatment only if both the registration and operation are in the designated area. Should the EIT exemption not be available to the Company, an additional EIT liability for this year is approximately RMB63,827,000 (2004: RMB60,334,000; 2003: RMB48,622,000; 2002: RMB 62,459,000). Management believes that the possibility of such liabilities arising are unlikely.

For the year ended 31 December 2005, an amount equals to the EIT exempted for the year of approximately RMB19,556,000 (2004: RMB17,745,000) was transferred to tax reserve.

Details of income tax during the year are as follows:

	2005	2004
	RMB'000	*RMB'000*
Current income tax expense	**19,508**	18,035
Deferred income tax	**(39)**	127
	19,469	18,162

The reconciliation of the statutory tax rate to the effective tax rate is as follows:

	2005	2004
	RMB'000	*RMB'000*
Profit before income tax	**251,964**	225,422
Tax at the statutory tax rate of the Company of 33%	**83,148**	74,389
Expenses not deductible for tax purposes	**121**	3,976
Effect of different applicable EIT rates upon expected reversal of temporary difference	**743**	784
Effect of tax benefits of being a HTE	**(63,827)**	(60,334)
Effect of different tax rates and tax refund for consolidated subsidiaries and joint ventures	**(716)**	(653)
Income tax expense	**19,469**	18,162

21. TAXATION (CONT'D)

(a) Income tax expense (Cont'd)

Except for the Company and TRT Hebei, the provision for PRC current income tax is based on the statutory rate of 33% of the assessable income of each of the companies and enterprises now comprising the Group as determined in accordance with the relevant PRC income tax rules and regulations for the years ended 31 December 2005 and 2004.

Taxation on overseas profits has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the countries in which the Group operates.

(b) Value-add tax ("VAT")

Output VAT is levied at a general rate of 13% or 17% on the selling price of goods. Input VAT paid on purchases of goods can be used to offset the output VAT to determine the net VAT amount.

22. DIVIDENDS

	2005	2004
	RMB'000	*RMB'000*
Dividends declared/proposed after year end	**84,088**	84,088

On 10 March 2006, the Board of Directors proposed a final dividend of RMB0.46 per share (2004: RMB0.46 per share) for the year ended 31 December 2005, totalling approximately RMB84,088,000 (2005: RMB84,088,000). The proposed dividend distribution is subject to the shareholders' approval at the Annual General Meeting on 18 May 2006. The dividend will be recorded in the Group's financial statements for the year ending 31 December 2006.

23. EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company of approximately RMB231,186,000 (2004: RMB205,607,000) by the weighted average number of shares in issue during the year of 182,800,000 shares (2004: 182,800,000 shares).

The Company had no potential dilutive shares for the years ended 31 December 2005 and 2004.

24. DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS

(a) Details of directors' emoluments

The remuneration of every Director for the year ended 31 December 2005 is set out below:

Name of Director	Fees	Other emoluments for directors			Total
		Basic salaries and allowance	Bonuses	Employer's contribution to pension scheme	
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Mr. Yin Shun Hai	–	–	–	–	–
Mr. Mei Qun	–	–	–	–	–
Ms. Ding Yong Ling	–	–	–	–	–
Mr. Bi Jie Ping	–	320.0	623.6	17.0	960.6
Mr. Zhao Bing Xian	–	–	–	–	–
Ms. Tam Wai Chu	125.0	–	–	–	125.0
Mr. Ting Leung Huel	125.0	–	–	–	125.0
Mr. Jin Shi Yuan	36.0	–	–	–	36.0

The remuneration of every Director for the year ended 31 December 2004 is set out below:

Name of Director	Fees	Other emoluments for directors			Total
		Basic salaries and allowance	Bonuses	Employer's contribution to pension scheme	
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Mr. Yin Shun Hai	–	–	–	–	–
Mr. Mei Qun	–	–	–	–	–
Mr. Bi Jie Ping	–	317.0	100.0	14.0	431.0
Ms. Li Lian Ying	–	196.0	100.0	14.0	310.0
Mr. Zhao Bing Xian	–	–	–	–	–
Ms. Tam Wai Chu	127.5	–	–	–	127.5
Mr. Ting Leung Huel	127.5	–	–	–	127.5
Mr. Jin Shi Yuan	36.0	–	–	–	36.0

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 compensation for loss of office.

24. DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS (CONT'D)

(b) Details of emoluments paid to the five highest individuals

The five individual whose emoluments were the highest in the Group for the year include one (2004: two) of directors of the Company whose emoluments are reflected in the analysis presented in note (a) above. The emoluments payable to the remaining four (2004: three) individuals during the year are as follows:

	2005	2004
	RMB'000	*RMB'000*
Basic salaries and allowance	**1,488**	1,190
Contribution to pension scheme	**64**	41
	1,552	1,231

The emoluments fell within the following bands:

	2005	2004
Nil to RMB1,040,000 (Equivalent to Hong Kong Dollar 1,000,000)	**4**	3

No five highest paid individuals of the Group waived any emoluments and no emoluments were paid by the Group to any of such individuals as an inducement to join or upon the Group or as compensation for loss of office.

(c) Equity compensation benefits

Pursuant to the Restructuring described in Note 1, on 22 March 2000, 7,100,000 ordinary shares in the Company were issued to directors or supervisors of the Company at par value of RMB1 each. No compensation expense was recognised for granting these shares. The Company does not provide for any other equity compensation benefits.

(d) Executive bonus plan

Certain officers of the Company are participants in the Executive Bonus Plan (the "Plan"). The plan, approved by the board of directors, provides that up to 1% of the Company's net profit be set aside for distributions among participants based upon performance evaluation determined by the board of directors. For the year ended 31 December 2005, the Company accrued for RMB100,000 (2004: RMB100,000) in accordance with the plan.

25. RETIREMENT AND TERMINATION BENEFITS

Pursuant to the PRC laws and regulations, contributions to the basic retirement benefit scheme for the Group's staff within the PRC are to be made monthly to a government agency based on a percentage ranging from 28% to 32% (2004: from 28% to 32%) of the standard salary set by the local government, of which percentage from 20% to 24% (2004: from 20% to 24%) is borne by the Group and the remaining portion is borne by the staff. The government agency is responsible for the pension liabilities relating to such staff on their retirements. The Group accounts for these contributions on an accrual basis.

In addition, the Company provides termination benefits to certain employees in the future periods up to their normal retirement age. Termination benefits are payable whenever an employee's employment is terminated before the normal retirement date or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to either terminate the employment of current employees according to a detailed formal plan without possibility of withdrawal or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after balance sheet date are discounted to present value. Carrying value of the relevant provision as of 31 December 2005 and 2004, approximated RMB700,000 and RMB1,186,000, respectively, with the utilisation in current year approximately of RMB486,000.

26. HOUSING FUND

The Group's full-time employees within the PRC are entitled to participate in a state-sponsored housing fund. The fund can be used by the Group for the construction of employee quarters, by the employees for housing purchases, or may be withdrawn upon their retirement. The Group is required to make annual contributions to a state-sponsored housing fund equivalent to a certain percentage of each employee's salary. The Group's liability in respect of the fund is limited to the contributions payable in each period. For the year ended 31 December 2005, the Group contributed approximately RMB5,900,000 (2004: RMB5,700,000) to the fund.

27. CASH GENERATED FROM OPERATIONS

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

	2005	2004
	RMB'000	*RMB'000*
Profit before income tax	**251,964**	225,422
Adjustments for:		
Provision for impairment of receivables	**778**	4,859
Depreciation	**34,212**	25,110
Amortisation of leasehold land and land use rights	**1,579**	906
Amortisation of other long-term assets	**964**	845
Loss on disposals of property, plant and equipment	**3,840**	325
Share of result from an associated company	**103**	344
Deferred government grants recognized in the income statement	**(1,726)**	(1,917)
Interest income	**(1,827)**	(1,463)
Interest expenses	**5,036**	4,436
Operating profit before working capital changes	**294,923**	258,867
(Increase)/decrease in current assets:		
Trade and bills receivable	**10,399**	(123,720)
Inventories	**(20,154)**	(188,546)
Prepayments and other current assets	**(6,794)**	9,138
Due from related parties	**(6,555)**	3,034
Increase/(decrease) in current liabilities:		
Trade payables	**(45,730)**	111,056
Other current liabilities	**(58,254)**	118,966
Due to related parties	**19,774**	61
Cash generated from operations	**187,609**	188,856

27. CASH GENERATED FROM OPERATIONS (CONT'D)

(b) Analysis of the balances of cash and cash equivalents

As of 31 December, cash and cash equivalents were dominated in currencies as follows:

	The Group		The Company	
	2005	2004	**2005**	2004
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Cash				
RMB	**334**	122	**8**	6
Canada Dollar	**23**	8	**–**	–
Malaysia Ringgit	**7**	6	**–**	–
Hong Kong Dollar	**25**	15	**19**	7
Indonesia Rupiah	**107**	–	**–**	–
Macao Pataca	**20**	30	**–**	–
	516	181	**27**	13
Demand deposits				
RMB	**159,224**	142,277	**150,708**	119,890
US Dollar	**13,014**	12,099	**9,377**	10,094
Canada Dollar	**272**	206	**–**	–
Malaysia Ringgit	**521**	1,207	**–**	–
Hong Kong Dollar	**30,274**	26,330	**10,800**	8,460
Indonesia Rupiah	**1,132**	2,383	**–**	–
Macao Pataca	**1,250**	1,247	**–**	–
	205,687	185,749	**170,885**	138,444
	206,203	185,930	**170,912**	138,457

As of 31 December 2005, bank deposits of approximately RMB27,048,000 (2004: RMB91,478,000) with original maturities over three months and bearing fixed interest rate of 3.03% (2004: ranging from 0.14% to 0.40%) per annum were presented as short-term bank deposits.

28. RELATED PARTY TRANSACTIONS

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

The ultimate holding company itself is a state-owned enterprise and is controlled by the PRC government, which also owns a significant portion of the productive assets in the PRC. In accordance with IAS 24 (revised 2003), "Related Party Disclosure", state-owned enterprises and their subsidiaries, other than the ultimate holding company and its subsidiaries, directly or indirectly controlled by the PRC government are also defined as related parties of the Group.

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

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

28. RELATED PARTY TRANSACTIONS (CONT'D)

(a) Transactions with the ultimate holding company

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

	2005	2004
	RMB'000	*RMB'000*
Purchases of raw materials *(Note (i))*	**52**	10,385
Trademark royalty fee *(Note (ii))*	**850**	793
Land use fee *(Note (iii))*	**2,685**	2,685
Operating lease rental *(Note (iv))*	**–**	3,000
Storage expenses *(Note (v))*	**6,804**	6,804

Notes:

(i) A raw material supply agreement dated 21 February 2005 was entered into between the Company and the ultimate holding company, pursuant to which the ultimate holding company has agreed to supply the Company with part of the Chinese medicinal raw materials that are required for its production up to 31 December 2007. The price of such raw materials is to be determined by negotiation between both parties and shall fall within the range of market price. The ultimate holding company shall not supply the raw materials to the Company at a price higher than the prices to independent third parties or the average market price, whichever is lower.

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

The term of the licence shall commence from the date of completion of filing the agreement by the ultimate holding company with the relevant authorities up to 28 February 2013. Upon the expiration of the licence, if the ultimate holding company successfully renews the right to use the Trademarks and if the Company fully complies with the terms and conditions of the agreement and requests to continue to use the Trademarks, the ultimate holding company shall renew the agreement with the Company. The renewed term of the licence shall not be shorter than 5 years.

The annual licence fee of year for the year ended 2005 is RMB850,000. The parties are entitled to adjust the annual licence fee thereafter. Such annual increase or decrease shall not exceed 10% of that of the previous year.

28. RELATED PARTY TRANSACTIONS (CONT'D)

(a) Transactions with the ultimate holding company (Cont'd)

Notes: (Cont'd)

(iii) A land use right leasing agreement dated 6 October 2000 was entered into between the Company and the ultimate holding company, pursuant to which the ultimate holding company has agreed to lease two pieces of land in Beijing, the PRC, to the Company, with a total area of approximately 49,776.35 sq.m. for a term of 20 years commencing from the date thereof.

Pursuant to the agreement, the annual rental for the initial 2 years is calculated at a rate of RMB53.95 per sq.m., i.e. RMB2,685,434 in total, which shall remain unchange for the initial 2 years. Any adjustments to the annual rental shall be made after the initial 2-year period at the then market rent, provided that such adjustment shall not exceed 10% of that the previous year.

(iv) A supplemental leasing agreement dated 6 October 2000 was entered into among the Company and the ultimate holding company and the Parent Company for the medicine production building, office and ancillary buildings ("the Properties").

Pursuant to the agreement, the ultimate holding company agreed to lease the Properties originally leased to the Parent Company under the agreement to the Company, at an annual rental of RMB3,000,000 subject to an annual adjustment at market rate, provided that such adjustment shall not exceed 10% of that of the previous year. The term of the lease is 10 years from 1 January 1997 to 31 December 2006. As agreed between the Company and the ultimate holding company, the agreement was terminated at 1 January 2005.

(v) A contract for storage and custody dated 21 February 2005 was entered into between the Company and the ultimate holding company whereby the ultimate holding company agreed to provide storage and custody services to the Company up to 31 December 2007. From the effective date of the contract, the storage fee is calculated at RMB252 per sq.m. per year. Adjustment to the storage fee is permitted after one-year period provided that the annual increase or decrease shall not exceed 10% of that of the previous year.

(b) Transactions with the subsidiaries and associates of the ultimate holding company

During the year ended 31 December 2005, the Company sold products to distribution agents which are related companies of the ultimate holding company amounting to approximately RMB92,880,000 (2004: RMB80,188,000).

The Company has signed a sales agreement with the ultimate holding company on 21 February 2005. In accordance with this agreement, the Company can sell its products to the subsidiaries or joint ventures which are directly or indirectly controlled by the ultimate holding company. The agreement has been approved by the Annual General Meeting and is effective to 31 December 2007. The selling price to the ultimate holding company's subsidiaries and joint ventures is not lower than the independence third party.

28. RELATED PARTY TRANSACTIONS (CONT'D)

(c) Transactions with minority shareholders of subsidiaries and joint venture partners

	2005	2004
	RMB'000	*RMB'000*
Sales to minority shareholders of subsidiaries	**–**	4,421
Sales to joint venture partners	**5,235**	8,563

(d) Transactions with other state-owned enterprises

	2005	2004
	RMB'000	*RMB'000*
Revenue:		
Interest income from bank deposits	**1,827**	1,463
Expenses:		
Interest expenses on bank loans	**5,036**	4,436
Other transactions:		
Acquisition of property, plant and equipment	**8,458**	515
Sales of goods	**139,195**	126,176
Purchases of goods and materials	**24,100**	14,875
Drawdown of bank loans	**85,000**	75,000
Repayment of bank loans	**75,000**	15,000

28. RELATED PARTY TRANSACTIONS (CONT'D)

(e) Balances with related parties

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

	The Group		The Company	
	2005	2004	**2005**	2004
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Bank deposits				
State-owned banks and other financial institutions	**225,567**	265,625	**196,575**	230,915
Due from related parties:				
Subsidiaries and associates of the ultimate holding company	**3,539**	283	**3,539**	283
Minority shareholders of subsidiaries and joint venture partners	**190**	932	**190**	932
Other state-owned enterprises	**7,589**	3,548	**7,589**	3,548
	11,318	4,763	**11,318**	4,763
Bank loans				
State-owned banks and other financial institutions	**85,000**	75,000	**85,000**	75,000
Due to related parties:				
Subsidiaries and associates of the ultimate holding company	**1,083**	9,615	**1,083**	9,123
Minority shareholders of subsidiaries and joint venture partners	**39,207**	6,980	**–**	–
Other state-owned enterprises	**801**	4,722	**801**	4,722
	41,091	21,317	**1,884**	13,845

The amounts due to and from related parties as of 31 December 2005 and 2004 primarily arose from the above transactions. These amounts are interest-free, unsecured and repayable or recoverable within twelve months.

29. SEGMENT INFORMATION

No segment information is presented as the Group operates primarily in one business and geographical segment.

30. BANKING FACILITIES

As of 31 December 2005, the Group had aggregated banking facilities of RMB100,000,000 (2004: RMB100,000,000) for loan and other trade financing. As of 31 December 2005, the unutilised banking facilities amounted to RMB15,000,000 (2004: RMB25,000,000).

31. FINANCIAL RISK MANAGEMENT

(a) Financial risk factors

The Group's activities expose it to a variety of financial risks: foreign exchange risk, credit risk, liquidity risk and interest rate risk.

(1) Foreign exchange risk

The Group has foreign currency risk as certain of its payables to equipment suppliers and certain trade receivables rising from export sales are denominated in foreign currencies, principally U.S. dollars. Dividends to shareholders holding H Shares are declared in RMB and paid in Hong Kong dollars. Fluctuation of the exchange rates of RMB against foreign currencies could affect the Group's results of operations.

The Group has not used any forward contracts or currency borrowings to hedge its exposure to foreign currency risk.

(2) Credit risk

The Group has no significant concentrations of credit risk. It has policies to ensure that sales of products are made to customers with an appropriate credit history. Cash transactions are limited to high-credit-quality financial institutions.

(3) Liquidity risk

The Group's policy is to maintain sufficient cash and cash equivalents or have available funding through adequate amount of committed credit facilities to meet its working capital requirements. The amount of undrawn credit facilities at the balance sheet date are disclosed in Note 30.

31. FINANCIAL RISK MANAGEMENT (CONT'D)

(a) Financial risk factors (Cont'd)

(4) Interest rate risk

The Group's income and operating cash flows are substantially independent of changes in market interest rates. As of 31 December 2005 and 2004, substantially all of its borrowings were at fixed rates. The interest rates and terms of repayment of short-term bank loans of the Group are disclosed in Note 14. The Group has not used any interest rate swaps to hedge its exposure to interest rate risk.

(b) Fair value estimation

The face values less any estimated credit adjustments for financial assets and liabilities with a maturity of less than one year are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate available to the Group for similar financial instruments.

32. COMMITMENTS

(a) Capital commitments

As of 31 December 2005, the Group had the following capital commitments which were contracted but not provided for in the consolidated financial statements of the Group:

(i) Commitments to the construction of production facilities amounted to approximately RMB3,600,000 (2004: RMB3,300,000).

(ii) Commitments to investment contributions to investee entities amounted to approximately RMB28,508,000 (2004: RMB79,730,000).

(b) Operating lease commitments

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	2005	2004
	RMB'000	*RMB'000*
Land and buildings:		
– not later than one year	**16,929**	5,685
– later than one year and not later than five years	**47,306**	13,742
– later than five years	**54,703**	28,868
	118,938	48,295

NOTICE IS HEREBY GIVEN that the annual general meeting of Tong Ren Tang Technologies Co. Ltd. (the "Company") will be held at No. 52 Dong Xing Long Street, Chong Wen District, Beijing, the PRC on Thursday, 18 May 2006 at 9:30a.m. for the purpose of considering and, if thought fit, passing, with or without modification, the following resolutions:

1. To receive and consider the audited consolidated financial statements of the Company and the Report of the Directors and the Auditors for the year ended 31 December 2005;

2. To receive and consider the Report of the Supervisory Committee of the Company for the year ended 31 December 2005;

3. To declare and propose a final dividend of RMB0.46 (including tax) per share for the year ended 31 December 2005. The proposed dividend will be payable before 31 August 2006 to shareholders whose names appear on the register of shareholders of the Company on 18 May 2006;

4. To approve the appointment of Mr. Yin Shun Hai, Mr. Mei Qun, Mr. Wang Quan, Ms. Ding Yong Ling, Mr. Kuang Gui Shen and Mr. Zhang Sheng Yu as the executive directors, Ms. Tam Wai Chu, Maria, Mr. Ting Leung Huel, Stephen and Mr. Jin Shi Yuan as the independent non-executive directors, for the third session of the Board with a term of three years commencing from the conclusion of the coming annual general meeting to the date of the annual general meeting to be convened in 2009 and to authorize the board of directors of the Company to fix the remuneration and to enter into service or employment contracts with all elected executive directors on and subject to such terms and conditions as the board of directors of the Company shall think fit and to do all such acts and things to give effect to such matters (for biography of candidates for directorship, please refer to note (ix) to this notice);

5. To approve the appointment of Mr. Zhang Xi Jie and Mr. Wu Yi Gang as the supervisors in position of representative for shareholders, Ms. Liu Gui Rong will be the supervisor in position of representative for labour, for the third session of supervisors with a term of three years commencing from the conclusion of the coming annual general meeting to the date of the annual general meeting to be convened in 2009 and to authorize the board of directors of the Company to fix the remuneration and to enter into service or employment contracts with all elected supervisors on and subject to such terms and conditions as the board of directors of the Company shall think fit and to do all such acts and things to give effect to such matters (for biography of candidates for supervisors, please refer to note (xi) to this notice);

6. To re-appoint PricewaterhouseCoopers as the auditors of the Company for the year ending 31 December 2006 and to authorize the board of directors of the Company to fix their remuneration;

SPECIAL RESOLUTIONS

7. By way of special business, to consider, and if thought fit, to pass the following amendments of Articles of Association:

   (1) Clause 3 of the original Article:

   Company address: No. 10 Hong Da Bei Road, Beijing Economic and Technology Development Zone, Yi Zhuang, Beijing, China.

   to be amended as:

   Company address: No. 16 Tong Ji Bei Road, Beijing Economic and Technology Development Zone, Yi Zhuang, Beijing, China.

   (2) Clause 39 of the original Article:

   Amendments to the registers of members due to the transfers of shares shall not be made within 30 days immediately prior to a general meeting, or within five days immediately prior to the date determined by the Company for distribution of dividends.

   to be amended as:

   Amendments to the registers of members due to the transfers of shares shall not be made within 20 days immediately prior to a general meeting, or within five days immediately prior to the date determined by the Company for distribution of dividends.

   (3) Clause 54 of the original Article:

   Where the Company convenes a general meeting, a written notice of the general meeting shall be issued not later than 45 days prior to the convening of the general meeting to notify all members whose names appear in the registers of members the matters proposed to be discussed at the general meeting, and the date and venue of the general meeting. Members who intend to attend the general meeting shall tender their written replies to the Company to attend the general meeting not later than 20 days prior to the convening of the general meeting.

   to be amended as:

   Where the Company convenes a general meeting, a written notice of the general meeting shall be issued not later than 30 days prior to the convening of the general meeting to notify all members whose names appear in the registers of members the matters proposed to be discussed at the general meeting, and the date and venue of the general meeting. Members who intend to attend the general meeting shall tender their written replies to the Company to attend the general meeting not later than 20 days prior to the convening of the general meeting.

(4) Clause 84 of the original Article:

Where the Company convenes a general meeting, a written notice of the general meeting shall be issued not later than 45 days prior to the convening of the general meeting to notify all members whose names appear in the registers of members the matters proposed to be discussed at the general meeting, and the date and venue of the general meeting. Members who intend to attend the general meeting shall tender their written replies to the Company to attend the general meeting not later than 20 days prior to the convening of the general meeting.

to be amended as:

Where the Company convenes a general meeting, a written notice of the general meeting shall be issued not later than 30 days prior to the convening of the general meeting to notify all members whose names appear in the registers of members the matters proposed to be discussed at the general meeting, and the date and venue of the general meeting. Members who intend to attend the general meeting shall tender their written replies to the Company to attend the general meeting not later than 20 days prior to the convening of the general meeting.

8. By way of special business, to consider, and if thought fit, to pass the following resolution:

"**THAT**:

(1) there be granted to the board of directors of the Company (the "Board") an unconditional general mandate to allot, issue and deal with additional shares in the capital of the Company (the "Shares"), whether domestic shares or H shares, and to make or grant offers or agreements in respect thereof, subject to the following conditions:

(a) such mandate shall not extend beyond the Relevant Period (as defined below) save that the Board may during the Relevant Period make or grant offers or agreements which might require the exercise of such powers after the end of the Relevant Period;

(b) the aggregate nominal amount of Shares allotted or agreed conditionally or unconditionally to be allotted by the Board, otherwise than pursuant to any scrip dividends or similar arrangement providing for the allotment of such Shares in lieu of the whole or part of a dividend on such Shares in accordance with the articles of association of the Company ("Articles of Association"), shall not exceed:

(i) 20 per cent of the aggregate nominal amount of domestic shares of the Company in issue at the date of the passing of this Resolution; and

(ii) 20 per cent of the aggregate nominal amount of H shares of the Company in issue at the date of the passing of this Resolution, in each case as at the date of this Resolution; and

(c) the Board will only exercise its power under such mandate in accordance with the relevant provisions of the Company Law of the People's Republic of China (the "PRC") (as amended from time to time) and the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (as amended from time to time) and only if all necessary approvals from the China Securities Regulatory Commission and/or other relevant PRC government authorities are obtained.

For the purposes of this Resolution:

"**Relevant Period**" means the period from the passing of this Resolution until the earliest of:

(a) the conclusion of the next annual general meeting of the Company following the passing of this Resolution; or

(b) the expiration of the 12-month period following the passing of this Resolution; or

(c) the date on which the authority set out in this Resolution is revoked or varied by a special resolution of the shareholders of the Company in a general meeting; and

(2) contingent on the Board resolving to issue Shares pursuant to sub-paragraph (1) of this Resolution, authorize the Board to:

(a) approve, execute and do or procure to be executed and done, all such documents, deeds and things as it may consider necessary in connection with the issue of such new shares including, without limitation, the time, price, quantity and place of issue, making all necessary applications to the relevant authorities, entering into an underwriting agreement (or any other agreement);

(b) determine the use of proceeds and make all necessary filing to the relevant authorities in the PRC and/or Hong Kong (if required);

(c) to increase the registered capital of the Company in accordance with the actual increase of capital by issuing shares pursuant to sub-paragraph (1) of this Resolution, to register the increased capital with the relevant authorities in the PRC; and

(d) to make such amendments to the Articles of Association accordingly as it thinks fit so as to reflect the new capital and/or new capital structure of the Company."

By Order of the Board
Tong Ren Tang Technologies Co. Ltd.
Yin Shun Hai
Chairman

Beijing, the PRC, 23 March 2006

Notes:

(i) A member of the Company ("Member") entitled to attend and vote at the meeting is entitled to appoint a proxy or proxies to attend and vote in his stead. A proxy need not be a Member. A form of proxy for use at the meeting is enclosed herewith. In the case of a joint holding, the form of proxy may be signed by any joint holder, but if more than one joint holder is present at the meeting, whether in person or by proxy, that one of the joint holders whose name stands first on the register of Members in respect of the relevant joint holding shall alone be entitled to vote in respect thereof.

(ii) To be valid, the form of proxy together with any power of attorney or other authority (if any) under which it is signed or a notarially certified copy of that power of attorney or authority must be deposited with the H share registrar of the Company in Hong Kong, Hong Kong Registrars Limited at 46th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong and in case of holders of domestic shares, to the Company's mailing address at No.20 Nansanhuan Zhonglu, Fengtai District, Beijing, the PRC not later than 24 hours before the time appointed for holding the meeting or the time appointed for passing the resolutions. Delivery of the form of proxy shall not preclude a shareholder of the Company from attending and voting in person at the meeting and, in such event, the instrument appointing a proxy shall be deemed to be revoked.

(iii) Members and their proxies should produce identity proof (and form of proxy in case of proxies) when attending the meeting.

(iv) The register of Members in Hong Kong will be closed from Tuesday, 18 April 2006 to Thursday, 18 May 2006, both days inclusive, during which period no transfer of H shares of the Company will be effected. For the identification of Members who are qualified to attend and vote at the meeting and to be entitled to the proposed final dividend for the year ended 31 December 2005, all transfer document accompanied by the relevant share certificates must be lodged with the Company's H share registrar and transfer office in Hong Kong, Hong Kong Registrars Limited at 46th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:00 p.m. on Thursday, 13 April 2006.

(v) Holders of H shares of the Company who intend to attend the annual general meeting shall complete the enclosed reply slip for the meeting and return it, by hand or by post to the Company's H shares registrar and transfer office in Hong Kong, Hong Kong Registrars Limited at 46th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, or by fax to (852) 2865 0990/(852) 2529 6087, on or before Thursday, 27 April 2006.

(vi) Holders of domestic shares of the Company who intend to attend the Annual General Meeting shall complete the enclosed reply slip for the meeting and return it, by hand or by post or by fax, to the Company's mailing address on or before Thursday, 27 April 2006.

(vii) It is expect that the annual general meeting will last not more than half day. Shareholders and their proxies attending the annual general meeting shall bear their own travel and accommodation expenses.

(viii) In relation to the Ordinary Resolution 4 above, the term of directorship of the directors currently in office will expire on the date of the forthcoming annual general meeting, the service contracts between the Company and respective directors will, therefore, come to an end. A resolution will be put forward to re-elect or elect directors and authorize the Board to fix the remuneration thereof. The term of the directorship will last for three years to the date of the annual general meeting to be convened in 2009.

(ix) The biographical profile of the directors to be re-elected and Mr. Kuang Gui Shen are set out on page 29 to 31 of the annual report. The biographical profile of the candidates to be newly nominated are as follows:

Mr. Wang Quan, aged 52, is a senior economist with a postgraduate qualification. He served as deputy head of the Beijing Medicinal Raw Materials Company's party committee office, the supervisor of organizing department, the manager of human resource department, the deputy party secretary and the secretary to the disciplinary committee of Tongrentang Holdings. He is currently a director, deputy general manager and deputy party secretary of Tongrentang Holdings.

Mr. Zhang Sheng Yu, aged 37, is an economist with a bachelor's degree. He served as deputy department head of corporate management, deputy department head of planning department of Tongrentang Holding, deputy officer and officer of securities department of Tongrentang Ltd., the secretary to the Company's Board of Directors. He is currently the secretary of Tongrentang Ltd.'s Board of Directors.

(x) In relation to the Ordinary Resolution 5 above, the term of the supervisor currently in office will expire on the date of the forthcoming annual general meeting, the service contracts between the Company and respective supervisors will, therefore, come to an end. A resolution will be put forward to re-elect or elect supervisors and authorize the Board to fix the remuneration thereof. The term of the supervisors will last for three years to the date of the annual general meeting to be convened in 2009.

(xi) The biographical profile of the supervisors to be re-elected are set out on page 30 of the annual report. The biographical profile of the candidate to be newly nominated are as follows:

Mr. Zhang Xi Jie, aged 52, is a senior accountant with postgraduate qualification. He served as deputy head of finance department of Beijing Medicine Company, head of finance and pricing department, deputy manager of capital department of Beijing Medicine Group Limited, standing deputy head, head and deputy chief accountant of strategic development department of Tongrentang Holdings. He is currently the chief accountant of Tongrentang Holdings.