北京同仁堂

創建於一六六九年

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 2007

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同修仁德
濟世養生

趙樸初書

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Corporate Information

BOARD OF DIRECTORS

EXECUTIVE DIRECTORS

Yin Shun Hai *(Chairman)*
Mei Qun *(Vice-chairman)*
Zhang Sheng Yu *(Vice-chairman)*
Wang Quan
Ding Yong Ling
Kuang Gui Shen

INDEPENDENT NON-EXECUTIVE DIRECTORS

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

SUPERVISORS

Zhang Xi Jie *(Chief Supervisor)*
Wu Yi Gang
Liu Gui Rong

SENIOR MANAGEMENT

Wang Yu Wei
Bai Jian
Liu Zi Lu
Li Da Ming
Xie Su Hua
Deng Wen Lin
Chi Yu Ming
Zhang Jing Yan

QUALIFIED ACCOUNTANT

Chan Ngai Chi (resigned on 1 January 2008)

COMPANY SECRETARY

Zhang Jing Yan (appointed on 1 January 2008)
Chan Ngai Chi (resigned on 1 January 2008)

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
Zhang Jing Yan (appointed on 1 January 2008)
Chan Ngai Chi (resigned on 1 January 2008)

AUTHORIZED PERSON TO ACCEPT SERVICE OF PROCESS AND NOTICE

Zhang Jing Yan

AUDITOR

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

PRINCIPAL BANKERS

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

H-SHARE REGISTRAR AND TRANSFER OFFICE

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

REGISTERED ADDRESS

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

OFFICE AND MAILING ADDRESS

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

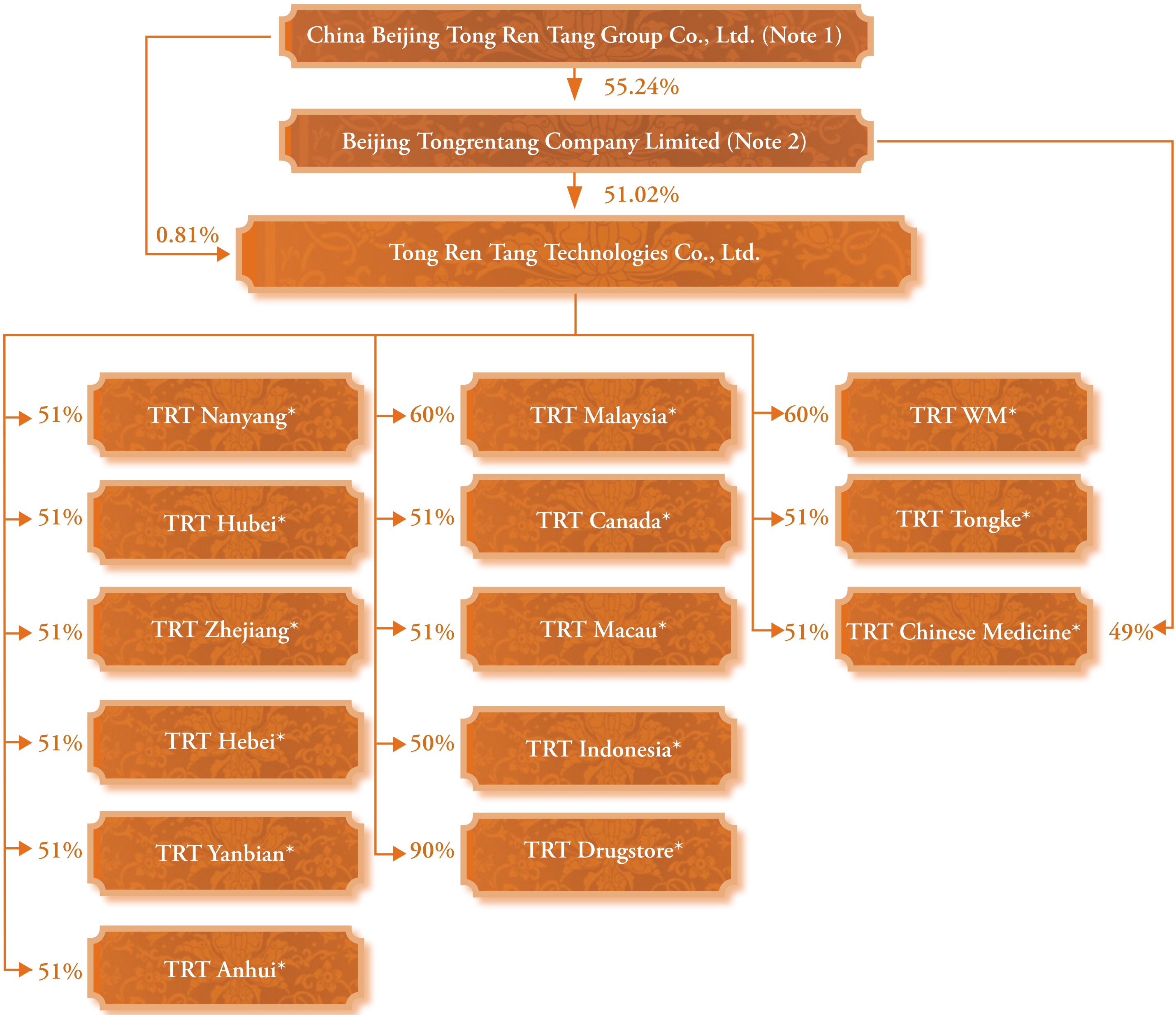
OFFICE IN HONG KONG

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. ("Tong Ren Tang Holdings") is the ultimate holding company of Tong Ren Tang Technologies Co., Ltd. ("Tong Ren Tang Technologies").

Note 2: Beijing Tongrentang Company Limited ("Tong Ren Tang 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 and joint ventures, please refer to note 1 to the consolidated financial statements for details.

Financial Highlights

RESULTS

A summary of the consolidated results of Tong Ren Tang Technologies Co., Ltd. (the "Company") and its subsidiaries (hereafter collectively referred to as the "Group") and joint ventures for each of the past five years, as extracted from the audited financial statements of the Group, is set out below:

	Year ended 31 December				
	2007	2006	2005	2004	2003
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	1,157,030	1,034,768	1,135,678	983,249	864,976
Profit before taxation	179,323	171,236	251,964	225,422	193,414
Income tax expense	(25,664)	(27,780)	(19,469)	(18,162)	(16,493)
Profit for the year	153,659	143,456	232,495	207,260	176,921
Attributable to:					
Minority interests	139	(4,871)	1,309	1,653	2,578
Equity shareholders of the Company	153,520	148,327	231,186	205,607	174,343
	RMB	RMB	RMB	RMB	RMB
Earnings per share	0.81	0.81	1.26	1.12	0.95
Dividends per share	0.40	0.40	0.46	0.46	0.43

Financial Highlights

ASSETS AND LIABILITIES

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

	As at 31 December				
	2007 RMB'000	2006 RMB'000	2005 RMB'000	2004 RMB'000 (restated)	2003 RMB'000
Non-current assets	557,107	595,424	577,676	445,554	316,341
Current assets	1,190,589	904,717	872,422	893,472	582,172
TOTAL ASSETS	1,747,696	1,500,141	1,450,098	1,339,026	898,513
Non-current liabilities	14,751	12,808	14,583	10,974	9,511
Current liabilities	313,003	436,111	440,179	511,151	220,030
Minority interests	122,874	52,968	59,645	38,195	17,059
TOTAL LIABILITIES AND MINORITY INTERESTS	450,628	501,887	514,407	560,320	246,600
NET ASSETS	1,297,068	998,254	935,691	778,706	651,913
	RMB	RMB	RMB	RMB	RMB
Net assets per share	6.62	5.46	5.12	4.26	3.57

Chairman's Statement

I am pleased to present the annual report of Tong Ren Tang Technologies Co., Ltd. (the "Company") and its subsidiaries (hereafter collectively referred to as the "Group") and joint ventures for the year ended 31 December 2007 for shareholders' review.

RESULTS OF THE YEAR

For the year ended 31 December 2007, the Company's revenue amounted to RMB1,157,030,000, representing an increase of 11.82% over the corresponding period last year; profit attributable to the equity shareholders of the Company amounted to RMB153,520,000, representing an increase of 3.50% over the corresponding period last year.

REVIEW OF THE YEAR

The medicinal sector underwent enormous changes in 2007, in which the Chinese medicinal economy began to pick up after a valley bottom last year. While the medicinal sector had been restored to a rational manner, it was under a stringent regulatory environment as special controls were implemented over pharmaceuticals, prices of pharmaceuticals fell and other new policies and measures were introduced from time to time. The Company built up its expertise and made achievements beyond its expectations in 2007, focusing on development, mechanism and cultural innovations, and guiding various tasks on the basis of the theory of scientific development as well as the spirit of reform and innovation. Through development innovation, potentials were unleashed and costs were reduced to enhance benefits, and business was expanded externally to increase the size of development; through mechanism innovation, a reform program on the recruitment mechanism for sales staff, marketing methods and distribution system was carried out; through cultural innovation, the Tong Ren Tang culture was further refined from the traditional culture of "Pursuit of promoting humanity, providing relief and improving the health and well being of the people" to the contemporary new cultures – the four standards of Tong Ren Tang staff as well as the three standards of Tong Ren Tang leading cadres, four advocacies and four objections – which effectively enhanced the cultural identification of all our staff. Under the favourable development conditions created last year, the Company focused on consolidating its business results and enhancing the quality of economic operation, and continuously deepening reform and innovation programs by carrying out aggressive reform and development innovation particularly aimed at marketing and recruitment mechanisms to remove the inconsistencies between the existing mechanisms and the market, and development constraints on an ongoing basis yet keeping the essences so that we are able to cope with the ever-changing development in the medicinal sector.

During the reporting period, the Company's success to place and quote new 13,200,000 H shares on the Growth Enterprise Market of Hong Kong enable the funding of the development of an end-user sales network as well as production and business operations accordingly, making a good progress in expanding the means of financing and capital operations.

Chairman's Statement

In reviewing the year, by the concerted efforts of our entire staff, the Company made progress within the regulatory regime and increased market share on an ongoing basis. A satisfactory growth in revenue was maintained and the Company as a whole demonstrated an aggressive and strong development momentum.

OUTLOOK AND PROSPECTS

The formulation and enforcement of national medicinal policies have exposed the entire medicinal sector to a dynamic change that presents both opportunities and challenges co-exist. Policies and legislation for the Chinese medicinal sector were frequently introduced in 2007, creating a turning impact on some enterprises engaged in medicine in the short run. However, in the long run, these new policies and legislation will help the Chinese medicinal sector move further towards a regulated and orderly regime, increase the concentration of the sector, foster large-sized enterprises and even ensure the safety of pharmaceuticals.

The capacity of the medicinal sector will further expand in 2008 as the reform program of China's public health system continues to deepen is intensified gradually and new rural cooperative medical service, basic medical insurance service for urban workers and basic medical insurance service for urban unemployed residents continue to develop. In particular, the rapid rise in residents medicinal consumption will have a favourable impact on the swift development of the medicinal sector.

I, together with the Board, have full confidence in the future development of the Company. We believe, as the medical reform program is proceeding at full speed in 2008, policies for the medicinal sector will tend to remain stable, and as a result there will be far less uncertainties over the development of the sector, and the sector's concentration will increase further. We will capitalize on this precious opportunity by entering into a new round of growth cycle to increase our competitiveness and business scale. I, together with all the staff of the Company, enthusiastically look forward to the bright future of the Company.

I hereby would like to express my sincere gratitude to the Board and all the staff of the Company for their tireless efforts and excellent performance, with my sincere respect to all the shareholders for their constant shepherding as well as their support and understanding. Just as in the past, we will continue to aim for good performance and creating value for our shareholders.

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

Beijing, the PRC
18 March 2008

Management Discussion and Analysis

BUSINESS REVIEW

In 2007, the Company, in line with the "Development, Mechanism and Cultural Innovation" business development approach designed by the Board, achieved stable growth and focused on "solid foundation" and "aggressive innovation" as its long-term development objective in continuing to further enhance the quality of its economic operation, profitability and management standard. By carrying out specific tasks and making concerted efforts in 2007, the Company managed to make substantial improvements to its business quality to support the smooth development of its operations. For the year ended 31 December 2007, revenue amounted to RMB1,157,030,000, representing an increase of 11.82% over the corresponding period last year; profit attributable to the shareholders of the Company amounted to RMB153,520,000, representing an increase of 3.50% over the corresponding period last year.

SALES

In 2007, the Company eyed on the long-term development of its sales campaign program in continuously streamlining its market operations, establishing a new approach for vertical control end-user logistics and cash flow, and gradually launching product sales targeted at the community medical service sector and retail end-users. The resources of the three sales branches were reallocated. More sales staff were hired through open recruitment programs. A sales management system was established gradually to enable the integration of publicity campaign and rapid response to market changes.

板藍根顆粒
Banlangen Granule

感冒清熱顆粒
Ganmao Qingre Granule

Management Discussion and Analysis

In the face of intense market competition, the Company believed it was able to better cope with the ever-changing market only by means of mechanism innovation. Therefore, a sales branch with a new marketing scheme was established. The new branch operates totally based on a new model in various areas ranging from staff recruitment to operation. The sales manager was recruited openly, while the sales staff were recruited locally and managed on the basis of market principles. An appraisal and incentive policy linked directly to sales performance was developed. The new branch carried out an independent marketing scheme and promotional sales for a selected product portfolio. The new branch was given full autonomy in management. The Company aims to, with the new branch as a vehicle, gradually establish and improve a set of systematic, new marketing management schemes for laying a strong foundation for the expansion of its sales network in future.

The Company continued to regard the building of its end-user base as its principal marketing activity by consolidating the existing market and exploring potential market for the establishment of a terminal network at full speed. Up to date, more than one hundred Tong Ren Tang counters have been set up in drugstores throughout the country to step up the promotion and publicity of the Company's products through the focused display of these products on the counters and the recruitment of business representatives, OTC representatives and salesmen. End-user sales promotion campaigns featuring a product portfolio as the main line were staged. Backed by retail drugstores, sales promotion campaigns

牛黄解毒片
Niuhuang Jiedu Tablet

京制牛黄解毒片
Jingzhi Niuhuang Jiedu Tablet

Management Discussion and Analysis

were launched in various forms and by type, season and region. The coverage and market share of the Company had been effectively increased by means of product promotion campaigns and provision of free medical consultation services and seminars.

The Company continued to reinforce the build-up of product portfolios, carry out changes and innovations on an ongoing basis to the form, packaging and specifications of products specifically to cope with the demand from different consumers, and develop and promote products with promising market potential. In 2007, the Company produced and sold more than one hundred kinds of products, of which two products achieved total sales of more than RMB100,000,000; two products achieved total sales of between RMB50,000,000 and RMB100,000,000; thirteen products achieved total sales of between RMB10,000,000 and RMB50,000,000; and six products achieved total sales of between RMB5,000,000 and RMB10,000,000. Of its major products, Liuwei Dihuang Pills (六味地黃丸) series had a slight decrease in sale in the past year, while the sale of Niuhuang Jiedu Tablets (牛黃解毒片) and Ganmao Qingre Granule (感冒清熱顆粒) series increased by more than 20% over the corresponding period last year. There was a remarkable increase in some other product series including Zhibai Dihuang Pills (知柏地黃丸) series, Shengmai Liquor (生脈飲) series, Niuhuang Jiangya Pills (牛黃降壓丸) series, Xihuang Pills (西黃丸) series, Banlangen Granule (板藍根顆粒) series, Qiju Dihuang Pills (杞菊地黃丸) series and Anshen Jiannao Liquor (安神健腦液) series.


OTC
六味地黄丸
Liuwei Dihuang Wan
水蜜丸
每瓶装360粒
每盒装12瓶
六味地黄丸
大蜜丸
每丸重9克
每盒装10丸
北京同仁堂
科技发展股份有限公司制药厂

六味地黄丸

Liuwei Dihuang Wan

功能：	**Functions :**
滋陰補腎	Nourishing Yin and Strengthening the Kidney
主治：	**Indications :**
腎陰虧損	Shen Yin Inadequate
頭暈耳鳴	Dizziness and Tinnitus
腰膝酸軟	Sore Waist and Legs
盜汗遺精	Night Sweating and Spermatorrhea

Management Discussion and Analysis

PRODUCTION

In 2007, the Company delivered medical products to the market in more than ten forms such as pill, tablet, granule, capsule and syrup. With respect to production, the Company capitalized on its potential on an ongoing basis by carrying out well-planned arrangements and scientific planning to ensure orders for products are fully accommodated. The Company improved the management method specifically for the production bases which functioned as a production command and dispatching system for carrying out scientific production dispatch, well-devised planning, prompt communication and swift response to help ensure the smooth completion of production.

Each production base fully leveraged its advantages in technology and equipment, and by combining its own conditions, made a reasonable amount of improvements to the technics and assembly processes. Production efficiency and productivity were increased while the quality of pharmaceuticals production was ensured. Meanwhile, a special task force was assigned to revise the existing operation guidelines to further optimize the technics process to cope with the improvement and upgrade of assembly equipment, as witnessed in the improvement of Shenshao Tablets (參芍片) extraction process and Huoxiang Zhengqi Liquor (藿香正氣水) extraction process. Besides, pursuant to relevant Chinese legislative requirements, the Company had completed the re-registration of production approval numbers for the current products of over two hundred and seventy varieties, laying a strong foundation for the Company's sustainable development in future.

Beijing Tong Ren Tang Tongke Pharmaceutical Company Limited (北京同仁堂通科藥業有限責任公司) is located at Tongzhou District, Beijing, with its factory already commencing production in 2007. As the principal workshop for preprocessing traditional Chinese medicinal materials, Tongke produces semi-finished goods for different forms of medicine of the Company, helping to enhance the overall productivity of the Company.

The Hong Kong-based Beijing Tong Ren Tang Chinese Medicine Company Limited (北京同仁堂國藥有限公司) was jointly invested and established by the Company and Tongrentang Ltd. It has a cumulative total investment of HK$178,000,000, of which HK$90,780,000 was contributed by the Company, representing 51%; and HK$87,220,000 was contributed by Tongrentang Ltd., representing 49%. Following its inception, a production base for traditional Chinese medicinal products and health products was scheduled for establishment in Tai Po Industrial Estate, Hong Kong, and construction works have all been completed. In 2007, a limited number of selected traditional Chinese medicinal products was produced as a pilot scheme at the production base. Product output will increase further as the equipment and technologies have become more stabilized, and further deepening of product research and development. The production base is to commence production officially in 2008. Meanwhile, Beijing Tong Ren Tang Chinese Medicine Company Limited has also obtained the manufacturer certificate of "Hong Kong Good Manufacturing Practice Guidelines for Proprietary Chinese Medicines" issued by the Chinese Medicine Traders Committee of Chinese Medicine Council of Hong Kong.

MANAGEMENT AND RESEARCH AND DEVELOPMENT

To further increase profitability, the Company continued reducing various costs in different aspects of operation including procurement of raw materials, production, sales, transportation and storage. In particular, public tenders were invited for the procurement of raw materials, packed materials and supplementary materials as well as commencement of construction project, so that costs were reduced effectively while management was carried out under a regulated regime. During the reporting period, the sector for Chinese traditional medicinal materials remained volatile so that the prices of some medicinal materials were rising due to the short supply. Having accessed market updates, through comparing the prices and quality of medicinal materials, the Company capitalized on an opportunity to make procurements for keeping a reasonable amount of stocks. In particular, some scarce or precious materials were purchased and stored in bulk to ensure that day-to-day production demand is met and that the overall production costs can be kept stable.

• Beijing Tong Ren Tang Chinese Medicine Company Limited in Tai Po, Hong Kong

Management Discussion and Analysis

The Company strived to seek for a new personnel management method in line with the requirements of the Board for an innovative personnel management mechanism. A new market-based approach was introduced to the newly established marketing branch where the sales manager was recruited openly and sales staff locally to ensure that the marketing scheme was flexible, simple and efficient. The staff appraisal policy was revised. Since the "Administrative Regulations for the Monthy Performance Evaluation of Managerial Personnel" was introduced in May, the work of the managerial personnel has been quantified by assessing their work achievements on a monthly basis. The assessment results were linked to an incentive and penalty scheme to enhance the job performance of managerial personnel and departments for formulating an improved staff appraisal policy.

The research institute fully capitalized on the advantages over technology resources to enhance its own innovation capability and aggressively conduct various scientific researches in strict compliance with the guiding concept of "switching from the development of scientific research achievements to the development of products and commodities". The process of research and development of new products was expedited, the secondary development of existing products was reinforced, and development and promotion of products carrying a new form of medicine, packaging and specifications which accommodated market demand and consumers were carried out. In 2007, nearly ten products with new specifications were launched to the market, which were well-received by consumers.

SALES NETWORK

As a prudent-minded enterprise seeking stable growth, the Company is expanding its sales network step by step.

Currently, the Company has made overseas investments through the establishment of four joint ventures, namely 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, in the hope of commencing its distribution operations and opening drugstores in these places to increase sales.

All these four joint ventures, located in Malaysia, Canada, Macau Special Administrative Region and Indonesia respectively, have set up local drugstores with good operating performance. The company in Malaysia has actively staged product promotion activities to enhance the reputation of its products through various ways including health lectures, and in the meantime, further developed its drugstores,

Management Discussion and Analysis

following the opening of a flagship store in Kuala Lumpur and a branch in Penang, the company in Malaysia has established its third drugstore as a trial operation in the Chinese commercial district Petaling in September 2007, which was well-received by local consumers; the company in Canada has enriched the types and specifications of sales products on an ongoing basis to meet the demand from consumers and, in the meantime, reported an increase in sales revenue as a result of the launch of activities such as referral of doctors, sales promotion campaigns for ginseng antlers and patent Chinese medicines, and free medical consultation services; the company in Macau has aggressively launched community charity campaigns to promote traditional Chinese medicines and Tong Ren Tang's products; the company in Indonesia achieved successful results after further improving its management, stepping up the promotion of its products and raising the service commitment awareness of its staff by increasing the number of service projects, extending service hours and maintaining its dedication to becoming a reputable company providing elite doctors and precious medicines for its customers. In 2007, the above four joint ventures achieved a revenue of RMB11,103,800, RMB6,073,000, RMB10,054,100 and RMB4,399,800 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), a retail drugstore located at Nansanhuan Zhonglu, Fengtai District, Beijing, attained good operating performance. In 2007, it focused on enhancing the quality of business staff and training in business know-how for further improving its service quality. Based on the Tong Ren Tang's culture, the drugstore's staff served clients whole-heartedly with honesty and professional expertise, enabling the

• the drug store in Canada

• the drug store in Macau

• the drug store in Malaysia

Management Discussion and Analysis

Company to achieve a substantial growth in its revenue. A revenue of RMB19,113,000 for the reporting period, representing a 37% increase over the corresponding period last year.

CHINESE MEDICINAL RAW MATERIALS PRODUCTION BASES

Currently, the Company's six subsidiaries in Hebei, Henan, Hubei, Zhejiang, Anhui, Jilin respectively are capable of providing the Company with major traditional Chinese medicinal raw materials such as cornel (山茱萸), tuckahoe (茯苓), catnip (荊芥) and isatis root (板藍根). In 2007, each of the production bases enthusiastically carried out the producing, collecting and processing in traditional Chinese medicinal materials; some production bases worked together with research institutes and made an encouraging breakthrough in the research of plantation techniques; the project of "technical research on the cultivation of tuckahoe with culture medium in greenhouse" was successfully carried out at the Hubei production base. With its profound knowledge in distribution of different species, Hebei production base collected various plantation resources from different places in the country, and had been conducting plantation trials and selected the best species in order to further enhance the production quality and quantity of the species. In 2007, all of the Company's production bases for traditional Chinese medicinal raw materials achieved a sales revenue of RMB24,182,000. These production bases play a key role in securing the supply and quality of Chinese medicinal raw materials required for the Company's products.

FINANCIAL REVIEW

Liquidity and Financial Resources

The Group has maintained a sound financial position in this year. As at 31 December 2007, the Group had cash, cash equivalents and short term bank deposits amounting to RMB246,096,000 (2006: RMB213,744,000) and short-term borrowings of RMB15,000,000 (2006: RMB85,000,000). The borrowings carried an interest rate of 5.913% (2006: 5.27% to 5.51%) per annum. As at 31 December 2007, the Group had total assets amounting to RMB1,747,696,000 (2006: RMB1,500,141,000). The funds comprised of non-current liabilities of RMB14,751,000 (2006: RMB12,808,000), current liabilities of RMB313,003,000 (2006: RMB436,111,000), shareholders' equity of RMB1,297,068,000 (2006: RMB998,254,000) and minority interests of RMB122,874,000 (2006: RMB52,968,000).

Capital Structure

As compared with 31 December 2006, details of changes in the capital structure of the Group in 31 December 2007 are set out in notes 12 and 32(c) to the consolidated financial statements.

Gearing and liquidity ratios

The Group's gearing ratio, the ratio between total borrowings and shareholders' equity (excluding minority interests), was 0.01 (2006: 0.09). The Group's liquidity ratio, the ratio between current assets over current liabilities, was 3.80 (2006: 2.07), reflecting that the Group had abundant financial resources.

Charges over Group's assets

As at 31 December 2007, none of the Group's assets was pledged as security for liabilities (2006: Nil).

Contingent liabilities

Other than those disclosed in note 21 to the consolidated financial statements, the Group had no contingent liabilities as at 31 December 2007 (2006: Nil).

Foreign currency risk

The Group is subject to foreign currency risk as its certain payables for the purchase of equipment and certain accounts receivables arising from export sales are denominated in foreign currencies, principally Hong Kong Dollars ("HKD"), and dividends payable to the shareholders of H shares will be denominated in RMB but paid in HKD. Please refer to note 32(a)(1) to the consolidated financial statements for details.

Capital commitments

At as 31 December 2007, the Group had the following capital commitments which had been authorised and contracted for but not been reflected in the consolidated financial statements of the Group:

Capital commitments relating to the construction of production facilities amounting to approximately RMB748,000 (2006: RMB1,862,000).

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

Management Discussion and Analysis

PROSPECTS

In 2008, the Company will put the theory of scientific development into practice in all aspects, make a new start and achieve the long-term development objective of becoming a "leading, strong and major" industry player by continuing to consolidate business results, enhance the quality of economic operation and assets, carry out aggressive reform programs and innovative development as well as conscientiously increase competitive edges and profitability for making sufficient and necessary preparations for great-leap forward development. In 2008, the Company has the following important tasks:

1. Ongoing implementation of Reform in Marketing System

The Company will change the promotion strategy of products from one-by-one approach to collective approach, which combines Liuwei Dihuang Pills（六味地黃丸）with other six or seven products which have similar prescription or for similar disease together. We think this approach promoting collectively will improve the presence of the products, the brand name and the overall sales volume. The assessment method for dealers will be revised by expanding the scope of assessment, detailing assessment indicators, tightening the incentive and penalty measures for irregularities, increasing the Company's control over market and minimizing operating risks. The internal appraisal policy for sales staff will be revised, appraisal indicators for profit will be reinforced and linked directly with incentives for staff. The profitability of Company's products will be enhanced while the staff's initiative is being mobilized.

2. Reinforcement of Fundamental Management and Stringent Enforcement of Supervision

The Company will continue to reinforce its management, step up management consolidation and carry out budget control in all aspects. Financial budget will be strictly examined and approved and the results of the execution of expense budget by departments will be used as one of the major bases for performance appraisal by the department in-charge; internal control and audit will be strictly carried out by reinforcing the audit supervision of construction projects, procurement projects and economic operation of subsidiaries; a pre-warning mechanism for economic operation will be gradually established; personnel and post allocation system will be further improved by gradually recruiting staff through competition for some posts and further revising the recruitment policy; the appraisal of staff will be strictly carried out by establishing and improving an appraisal policy based on different characteristics of management staff, production staff and sales staff, and with reference to monthly assessment, labour output per capita and sales profit, etc. for promoting self-discipline and self-development of staff at all levels effectively.

3. Promotion of Resource Integration for Enhancing Quality of Economic Operation

The Company will take an aggressive approach towards integrating its internal and social dominant resources, and optimize the industry chain combining research, production and sale of traditional Chinese medicines for creating a material basis to achieving comprehensive enhancement and growth of the Company.

The raw materials procurement system will be optimized, achieving the comprehensive enhancement and growth of the Company for the purpose of achieving a dynamic rational stock of goods by continuously improving the assessment policy for raw materials suppliers, selecting quality suppliers, promptly assessing dynamic information from traditional Chinese medicinal materials production places and market, and having an emergency pre-warning scheme and an emergency storage in place.

The production and manufacture system will be optimized upon completion of improvements to the traditional Chinese medicines preprocessing. As the current preprocessing production process does not match the assembly standard of each medicinal production base, the preprocessing production bases will be upgraded for further improving and optimizing production control process, and increasing the utilization of man-hour and production efficiency.

With the mind on addressing actual production needs, the Company are making eminent efforts to streamline its R&D management system, increase input in secondary R&D, speed up the process to launch and increase production of new products, focus on new products to accommodate market needs and build a product base that offers widely applicable, end-targeted, safe and effective Chinese medicinal products so as to further promote the brand-awareness and market share of the Company.

Report of the Directors

The directors of Tong Ren Tang Technologies Co., Ltd. (the "Directors") are pleased to present the annual report together with the audited financial statements of the Group for the year ended 31 December 2007.

PRINCIPAL ACTIVITIES

The Group is principally engaged in the manufacturing and sale of Chinese Patent Medicines.

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

	2007 RMB'000	2006 RMB'000
Sale of medicines:		
Domestic	1,098,196	985,792
Overseas	49,099	48,976
Agency fee for distribution services	9,735	–
	1,157,030	1,034,768

MAJOR CUSTOMERS AND SUPPLIERS

During the reporting period, the percentages of sales attributable to Group's major customers are as follows:

	2007	2006
The largest customer	9%	9%
The largest five customers combined	34%	34%

During the reporting period, the total purchases from the top five suppliers of the Group accounted for less than 30% (2006: less than 30%) of the Group's purchases.

Other than disclosed above, no Directors, their associates, or to the knowledge of the Board, any shareholders owning more than 5% of the Company's equity capital, had any substantial interest in the largest five customers or largest five suppliers of the Group.

RESULTS

The results and the financial position of the Group for the year ended 31 December 2007 are set out on pages 44 to 108 of the annual report.

DIVIDENDS

The Board of Directors recommends the payment of a final dividend of RMB0.40 (including tax) per share in respect of the year ended 31 December 2007. The recommended dividend to be paid is not included in the accounts, and is subject to the approval at the annual general meeting. Dividend payable to the shareholders of H shares will be paid in Hong Kong Dollars. The exchange rate between RMB and HKD shall be ascertained on the basis of the average of the middle exchange rates for RMB to HKD as published by the People's Bank of China for the five trading days prior to the date of the coming annual general meeting.

The qualified period of being entitled to the proposed final dividend for the year ended 31 December 2007, the period for closure of register of members of H shares and the date of the coming annual general meeting are to be determined. Once they are confirmed, the Company will further announce the notice of annual general meeting.

SHARE CAPITAL

Movement in the share capital of the Company during the year is as follows.

	31 December 2007		31 December 2006	
	No. of shares	Nominal value RMB'000	No. of shares	Nominal value RMB'000
Registered share capital	196,000,000	196,000	182,800,000	182,800
Issued and fully paid share capital				
Domestic shares with a par value of RMB1 per share	108,680,000	108,680	110,000,000	110,000
H shares with a par value of RMB1 per share	87,320,000	87,320	72,800,000	72,800
	196,000,000	196,000	182,800,000	182,800

Report of the Directors

On 23 May 2007, the Company placed the following shares at a price of HK$18.38 per share: (1) 13,200,000 new H shares with a par value of RMB1 per share and (2) 1,320,000 domestic shares with a par value of RMB1 per share held by Tongrentang Holdings which were transferred to the same number of H shares with the same par value.

The placing was completed and confirmed according to the Placing Agreement as at 9:30 am on 8 June 2007. The net proceeds from the placing of the 13,200,000 new H shares amounted to RMB226,419,000 approximately. The Company intends to use the net proceeds for expanding its sales and distribution network, and as general working capital.

RESERVES

Details of movement in the reserves of the Group during the year are set out in the Consolidated Statement of Changes in Equity. As at 31 December 2007, the retained earnings of the Group was RMB463,874,000 (2006: RMB397,809,000 as restated).

PROPERTY, PLANT AND EQUIPMENT

Details of movement in the property, plant and equipment of the Group for the year are set out in note 4(a) to the consolidated financial statements.

STAFF RETIREMENT SCHEME

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

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2007, the Company had 1,785 employees (2006: 1,890 employees). Remunerations are determined by reference to market terms and the performance, qualifications and experience of individual employees. Discretionary bonuses based on individual performance will be paid to employees as recognition of and reward for their contributions. Other benefits include Company's contributions to the pension scheme, medical insurance scheme, unemployment insurance scheme, industrial accident insurance scheme, maternity insurance scheme and housing fund.

STAFF QUARTERS

During the reporting period,

1. the Group did not provide any staff quarters to its staff (2006: Nil);

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

3. the Group also provided housing allowances to its staff at an average of RMB80 per person per month (2006: RMB90).

DIRECTORS AND SUPERVISORS

The Directors and supervisors of the Company who held office during the year were:

Executive Directors

Yin Shun Hai *(Chairman)*
Mei Qun *(Vice-chairman)*
Zhang Sheng Yu *(Vice-chairman)*
Wang Quan
Ding Yong Ling
Kuang Gui Shen

Independent Non-Executive Directors

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

Supervisors

Zhang Xi Jie *(Chief Supervisor)*
Wu Yi Gang
Liu Gui Rong

DIRECTORS' AND SUPERVISORS' SERVICE CONTRACTS

Each of Mr. Yin Shun Hai and Mr. Mei Qun 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 and 2006, the term of the original service contracts remains valid until the conclusion of the annual general meeting in 2009. Each of other directors 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 2009.

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

DIRECTORS' INTERESTS IN CONTRACTS

At the end of the year or at any time during the year, the Company did not enter into any material contracts with its Directors have material interest were involved, whether directly or indirectly.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Profiles of Directors, Supervisors and Senior Management are set out on pages 38 to 41.

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 consolidated financial statements.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES

As at 31 December 2007, 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, were as follows:

Long positions in shares

The Company

Name	Type of interest	Capacity	Number of shares (Note)	Percentage of domestic shares	Percentage of total registered share capital
Mr. Yin Shun Hai	Personal	Beneficial owner	500,000	0.460%	0.255%
Mr. Mei Qun	Personal	Beneficial owner	500,000	0.460%	0.255%

Note: All represented domestic shares.

Tongrentang Ltd.

Name	Type of interest	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%
Mr. Kuang Gui Shen	Personal	Beneficial owner	22,700	0.005%

Note: All represented A shares.

Beijing Tong Ren Tang International Co., Limited

Name	Type of interest	Capacity	Number of Shares	Percentage of total registered share capital
Mr. Yin Shun Hai	Personal	Beneficial owner	39,000	0.125%
Mr. Mei Qun	Personal	Beneficial owner	78,000	0.250%
Ms. Ding Yong Ling	Personal	Beneficial owner	39,000	0.125%

Beijing Tong Ren Tang Nature-Pharm Co. Ltd.

Name	Type of interest	Capacity	Number of Shares	Percentage of total registered share capital
Mr. Wang Quan	Personal	Beneficial owner	200,000	0.400%

Report of the Directors

Save as disclosed above, as at 31 December 2007, none of the Directors and chief executives of the Company had 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 2007, the following persons (other than the Directors and chief executives of the Company) had interests, short positions or shares in a lending pool in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO:

Name of shareholders	Capacity	Number of shares	Percentage of domestic shares	Percentage of H shares	Percentage of total registered shares
Tongrentang Ltd.	Beneficial owner	100,000,000	92.013%	–	51.020%
Tongrentang Holdings (Note 2)	Interest in a controlled mcorporation	100,000,000	92.013%	–	51.020%
	Beneficial owner	1,580,000	1.454%	–	0.806%
Hamon Asset Management Limited (Note 3)	Investment manager	1,197,000 (L)	–	1.371%	0.611%
Hamon U.S. Investment Advisors Limited (Note 3)	Investment manager	2,852,000 (L)	–	3.266%	1.455%
Hamon Investment Management Limited (Note 3)	Investment manager	1,000,000 (L)	–	1.145%	0.510%
The Hamon Investment Group Pte Limited (Note 3)	Interest in a controlled corporation	5,049,000 (L)	–	5.782%	2.576%
Atlantis Investment Management Ltd	Investment Manager	6,300,000 (L)	–	7.215%	3.214%
Templeton Asset Management Ltd	Investment Manager	4,424,000 (L)	–	5.066%	2.257%
JPMorgan Chase & Co.	Investment Manager	4,436,000 (L)	–	5.080%	2.263%
		4,436,000 (P)	–	5.080%	2.263%

Notes:

(1) (L) – Long position, (S) – Short position, (P) – Lending pool

(2) Such shares were held through Tong Ren Tang Ltd.. As at 31 December 2007, Tong Ren Tang Holdings owned a 55.24% interest in Tong Ren Tang Ltd.. According to Part XV of the SFO, Tong Ren Tang Holdings is deemed to be interested in the 100,000,000 shares held by Tongrentang Ltd..

(3) The Hamon Investment Group Pte Limited owns a 100% interest in Hamon Asset Management Limited, Hamon U.S. Investment Advisors Limited and Hamon Investment Management Limited.

Accordingly, The Hamon Investment Group Pte Limited is deemed under Part XV of the SFO to be interested in 1,197,000 shares held by Hamon Asset Management Limited, 2,852,000 shares held by Hamon U.S. Investment Advisors Limited and 1,000,000 shares held by Hamon Investment Management Limited.

Save as disclosed above, as at 31 December 2007, the Directors were not aware of any other person (other than the Directors and chief executives of the Company) who had any interests, short positions or shares in a lending pool in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO.

Report of the Directors

COMPETING INTERESTS

Direct competition with Tong Ren Tang Ltd. and Tong Ren Tang Holdings

Traditional Chinese medicines produce a broad range of curative effects as they can be used to treat the external symptoms of a disease and regulate other functions of the body that directly or indirectly give rise to such disease. To find the specific ways to treat a disease, it is necessary to consider a number of variables such as the state of illness, gender, age and constitution of a patient, the weather and the curative effects on the implicit problems of the patient. As such, a single type of traditional Chinese medicines usually has several curative effects, some of which may be similar to those of other products with different names or types. Given this nature of traditional Chinese medicines, there may be a direct competition between the products of the Company and those of Tong Ren Tang Holdings and Tong Ren Tang Ltd.

The Company, Tong Ren Tang Ltd. and Tong Ren Tang Holdings are all engaged in the manufacturing of Chinese Patent Medicines. Their businesses are classified by the forms of medicine they produce. Tongrentang Ltd. mainly produces Chinese Patent Medicines in traditional forms such as pill, powder, ointment 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 Baifeng Pills (同仁烏雞白鳳丸), Tongren Dahuoluo Pills (同仁大活絡丸) and Guogong Wine (國公酒).

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

The Directors consider that other than Angong Niuhuang Pills (安宮牛黃丸) produced by the Company and Tong Ren Tang Ltd., there is no any other direct competing business among the Company, Tong Ren Tang Ltd. and Tong Ren Tang 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 by the Company, the Company will continue to manufacture and sell Angong Niuhuang Pills (安宮牛黃丸). Save as mentioned herein, the Directors confirm that none of the products of the Company is in competition with Tong Ren Tang Ltd. or Tong Ren Tang Holdings.

RIGHT OF FIRST REFUSAL

Although the Company, Tong Ren Tang Ltd. and Tong Ren Tang Holdings are all engaged in the production, manufacturing and sale of traditional Chinese medicines, the principal products of each of these companies are different. The Company focuses on new forms of products which are more competitive against western pharmaceutical products, while Tong Ren Tang Ltd. and Tong Ren Tang Holdings continue to focus on the development of existing forms of traditional Chinese medicines.

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

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

CONNECTED TRANSACTIONS

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

The Independent non-executive directors of the Company have reviewed these transactions and confirmed that:

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

Report of the Directors

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

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

(iv) the aggregate amount of each of these transactions has not exceeded the annual total cap amount as approved by the Stock Exchange; and

(v) the Company shall carry out these transactions on an ongoing basis.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

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

AUDITORS

The accompanying financial statements were audited by PricewaterhouseCoopers. A resolution on the reappointment of PricewaterhouseCoopers as auditors of the Company for the year 2008 is to be proposed at the forthcoming annual general meeting.

By the Order of the Board
Yin Shun Hai
Chairman

Beijing, the PRC
18 March 2008

Report of the Supervisory Committee

To the Shareholders:

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

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

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

The Supervisory Committee is satisfied with the various tasks carried out by the Company in 2007 and the economic benefits generated therefrom. It has full confidence in the future development outlook of the Company.

By Order of the Supervisory Committee
Zhang Xi Jie
Chief Supervisor

Beijing, the PRC
18 March 2008

Corporate Governance Report

For the year ended 31 December 2007, 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 provides no less exacting terms than the required standard of dealings and the 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 in the GEM Listing Rules and the Code on Dealing in Securities of the Company.

BOARD OF DIRECTORS

The third session of the Board of Directors of the Company has nine directors and their term of office will end upon the conclusion of the annual general meeting in 2009. The Board of Directors comprises three influential independent non-executive directors. Independent non-executive directors are independent of the management and in possession of extensive experience in business and finance. They have made significant contributions to the development of the Company. Profiles of all the directors are set out on pages 38 to 39 of this annual report.

As at 31 December 2007 and at any time, the Board of Directors fulfilled the minimum requirement of appointing at least three independent non-executive directors as required under the GEM Listing Rules, and the number of independent non-executive directors accounted for at least one-third of the members of the Board of Directors, and it also met the requirement of having one independent non-executive director with adequate professional qualifications or had accounting and 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 convenes its plenary meeting at least once every quarter or when significant decision-making has to be carried out. The Board convened six meetings in 2007 to discuss and decide development strategies, major operational matters, financial matters and other major matters as stipulated under the Company's Memorandum and Articles of Association. The following table sets out the attendance of Directors at Board meetings in 2007:

Directors	Attendance/Number of meetings
Executive directors	
Yin Shun Hai	6/6
Mei Qun	6/6
Zhang Sheng Yu	6/6
Wang Quan	6/6
Ding Yong Ling	6/6
Kuang Gui Shen	6/6
Independent non-executive directors	
Tam Wai Chu, Maria	6/6
Ting Leung Huel, Stephen	6/6
Jin Shi Yuan	6/6

The Board of Directors reviews the internal control regime of the Group on a yearly basis, and confirms that the internal control regime is working effectively and on an ongoing basis.

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 day-to-day 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

Mr. Yin Shun Hai, Mr. Mei Qun, Mr. Zhang Sheng Yu, Mr. Wang Quan and Ms. Ding Yong Ling (executive directors), in their capacity as Directors, did not receive Directors' remuneration, of which Mr. Zhang Sheng Yu received bonus in 2007. Mr. Kuang Gui Shen (executive director), in his capacity as the general manager of the Company, received remuneration comprising basic salary (including allowances), bonus and contributions to retirement scheme. Mr. Ting Leung Huel, Stephen, Ms. Tam Wai Chu, Maria and Mr. Jin Shi Yuan (independent non-executive directors), in their capacity as Directors, received Directors' fee. Details of directors' remuneration are set out in note 24 to the consolidated financial statements.

APPOINTMENT OF DIRECTORS

Directors of the Company were elected at general meetings for a term of three years for each session. Directors can be re-elected upon expiration of the term. All nine Directors currently in office were elected or re-elected at annual general meetings held in 2006.

AUDIT COMMITTEE

The Company has set up an audit committee pursuant to Rule 5.28 of the GEM Listing Rules and "A Guide For The Formation of An Audit Committee" compiled by the Hong Kong Institute of Certified Public Accountants, and the written terms of reference of the audit committee were set out pursuant to Rule of 5.29 of the GEM Listing Rules. 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 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.

During 2007, two meetings were conducted by the audit committee. The first meeting was held on 2 March 2007 to review and discuss the operating results, financial position, major accounting policies and internal audit issues with respect to the audited financial statements of the Group for the year ended 31 December 2006, and listened to the advice from the auditors on the Company. The audit committee approved the particulars in the report for the year.

The second meeting was held on 6 August 2007 to review and discuss the operating results, financial position, major accounting policies and internal audit issues with respect to the unaudited financial statements of the Group for the six months ended 30 June 2007. The audit committee approved the particulars in the interim report.

The following table sets out the attendance of the committee members at the meetings during 2007:

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

A meeting was held by the audit committee on 27 February 2008 to review and discuss the operating results, financial position, major accounting policies and internal audit issues of the Company for the year ended 31 December 2007 and to listen to the advice from the auditors on the Company.

REMUNERATION COMMITTEE

The Company has established the remuneration committee pursuant to the relevant provisions of the GEM Listing Rules with written terms of reference. Its primary duty 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 procedures for formulating the remuneration policy.

The remuneration committee currently comprises one executive Director, Mr. Mei Qun who serves as chairman, 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 a remuneration committee.

During 2007, one meeting was convened by the remuneration committee. On 12 March 2007, the committee reviewed and discussed the Directors' and senior executives' emoluments for the year ended 31 December 2006. All members of the remuneration committee attended the meeting.

On 6 March 2008, the remuneration committee reviewed and discussed the Directors' and senior executives' emoluments for the year ended 31 December 2007.

NOMINATION COMMITTEE

The Company has established the nomination committee pursuant to the relevant provisions of the GEM Listing Rules with written terms of reference. Its primary duties include, among others, the review and supervision of the structure, number of members and composition of the Board and the making of proposals to the Board in respect of any changes therein, and the identification and nomination of qualified persons for the appointment of Directors.

The nomination committee comprises one executive Director, Mr. Mei Qun who serves as chairman, 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 a nomination committee.

During 2007, one meeting was convened by the nomination committee. On 12 March 2007, the nomination committee reviewed and discussed the structure, number of members and composition of the Board. All members of the nomination committee attended the meeting.

On 6 March 2008, the nomination committee reviewed and discussed the structure, number of members and composition of the Board.

AUDITOR'S REMUNERATION

PricewaterhouseCoopers ("PwC") was the auditor of the Company for the year ended 31 December 2007. Other than annual auditing services, PwC does not provide non-auditing services to the Company or any of the Group's companies.

Auditor's remuneration for the year ended 31 December 2007 is set out under "Auditor's Remuneration" section in note 20 to the consolidated financial statements. Besides, the Company paid for the auditor's accommodation, meal and travel expenses during the period the auditing services were provided.

Directors, Supervisors and Senior Management

EXECUTIVE DIRECTORS

Mr. Yin Shun Hai, aged 54, chairman of the Company, is a senior economist with a postgraduate qualification. He was formerly the factory manager of Factory 2 of TRT Pharma, the deputy general manager and general manager of Tongrentang Holdings. He is currently the chairman of Tongrentang Holdings, secretary to the Party Committee, vice-chairman of Tongrentang Ltd., the vice president of Chinese Medicine Research Society Councillor Committee of China, an executive member of the 9th All-China Federation of Industry and Commerce and a delegate to the 11th Beijing's CPPCC. He is responsible for the overall decision-making of the Company. He will spend approximately half of his time on the business of the Company. He is one of the sponsors of the Company.

Mr. Mei Qun, aged 51, vice-chairman and compliance officer of the Company, is a deputy chief pharmacist with a postgraduate qualification. He was formerly the deputy chief of the education section of Beijing TRT Pharma Factory, assistant to the manager of Beijing Medicinal Materials Company and assistant to the general manager and deputy general manager of Tongrentang Holdings. He is currently deputy secretary to the Party Committee, the vice-chairman and general manager of Tongrentang Holdings, chairman of Beijing Tong Ren Tang Health Pharmaceutical Co., Ltd., vice-chairman of Tongrentang Ltd., an executive committee member of Beijing Trade and Industry Association, and a delegate to the Beijing's 13th NPC. 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 on the business of the Company. He is one of the sponsors of the Company.

Mr. Zhang Sheng Yu, aged 38, vice-chairman of the Company, is an economist with a bachelor's degree. He served as deputy department head of corporate management and deputy department head of planning department of Tongrentang Holdings, deputy officer and officer of the securities department of Tongrentang Ltd., the secretary to the Company's Board of Directors, deputy officer and officer of the office of the Board of Tongrentang Holdings, and the secretary to the board of directors as well as the vice-chairman of Beijing Tongrentang Ltd.. He is currently the chairman of Tongrentang Ltd as well as the vice-chairman of Beijing Tong Ren Tang Health Pharmaceutical Co., Ltd.. Mr. Zhang was appointed as an executive director at the annual general meeting in 2006.

Mr. Wang Quan, aged 53, is a senior economist with a postgraduate qualification. He served as deputy head of the Beijing Medicinal Materials Company's Party Office, the supervisor of the coordination department, the manager of human resources department, the deputy secretary to the Party Committee and the secretary to the Disciplinary Committee of Tongrentang Holdings. He is currently a director, deputy general manager and deputy secretary to the Party Committee of Tongrentang Holdings. Mr. Wang was appointed as an executive director at the annual general meeting in 2006.

Ms. Ding Yong Ling, aged 44, is a deputy chief pharmacist with a bachelor's degree. She served as the deputy head of the foreign trade department, the deputy manager and 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 as well as an assistant to the general manager of Tongrentang Holdings. She currently serves as the deputy general manager of Tongrentang Holdings, the managing director of Beijing Tong Ren Tang International Co., Limited and Tong Ren Tang Chinese Medicine. Madam Ding was appointed as an executive director on 16 May 2005 and re-elected at the annual general meeting in 2006.

Mr. Kuang Gui Shen, aged 51, general manager of the Company, is a senior economist with a postgraduate qualification. He served as Deputy Factory Manager of Factory 2 of Beijing TRT Pharma, Factory Manager of Chinese Pharmaceuticals Factory 5, Manager of the Operation Company of Tongrentang Holdings, Factory Manager of Chinese Pharmaceuticals Factory 3, Factory Manager of Da Xing New Factory, the general manager of the Company and the general manager of Tongrentang Ltd. Mr. Kuang was appointed as an executive director at the annual general meeting in 2006.

Directors, Supervisors and Senior Management

INDEPENDENT NON-EXECUTIVE DIRECTORS

Ms. Tam Wai Chu, Maria, *GBS, JP,* Ms. Tam was educated at London University. She qualified as a barrister-at-law at Gray's Inn, London, and practised in Hong Kong. She was a member of the Preparatory Committee for the Hong Kong Special Administrative Region (PRC) and Hong Kong Affairs Advisor (PRC). She is currently an Independent Non-Executive Director of Guangnan (Holdings) Limited, Minmetals Land Limited, Nine Dragons Paper (Holdings) Limited, Sa Sa International Holdings Limited, Sinopec Kantons Holdings Limited, Titan Petrochemicals Group Limited and Wing On Company International Limited, all are listed on The Stock Exchange of Hong Kong Limited. She is a member of the Advisory Committee on Corruption of the Independent Commission Against Corruption and a member of the Task Group on Constitutional Development of the Commission on Strategic Development. She is a Deputy to the National People's Congress of The People's Republic of China and a member of the Hong Kong Basic Law Committee. She is also a member of various community services organisations. She was appointed as an Independent Non-Executive Director on 11 October 2000 and was re-elected at the annual general meeting in 2003 and 2006.

Mr. Ting Leung Huel, Stephen, *MH, FCCA, FCPA (Practising), ACA, FTIHK, FHKIoD,* aged 54, is an accountant in public practice as Managing Partner of Ting Ho Kwan & Chan, Certified Public Accounts (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 namely Tongda Group Holdings Limited, Minmetals Resources Limited, JLF Investment Company Limited, Computer And Technologies Holdings Limited, Texhong Textile Group Limited and Dongyue Group Limited respectively. He was appointed as an independent non-executive director on 11 October 2000 and was re-appointed at the annual general meeting in 2003 and 2006.

Mr. Jin Shi Yuan, aged 81, a chief pharmacist, is the Chinese medicine investigation expert in state secret technology for the State Science and Technology Commission, evaluation expert in Chinese medicine project for the National Natural Science Foundation of China, appraisal expert in science and technology achievements for the State Administration of Traditional Chinese Medicine, appraisal expert in basic medicines for the State Food and Drug Administration, appraisal expert in Chinese medicine prices for the State Development and Reform Commission, and successor to Chinese medicine preparations in State nonmaterial cultural heritages. Mr. Jin is also a lifelong councilor of the China Association of Traditional Chinese Medicine, Chairman of the Chinese Patent Medicine Affiliate, member of the Committee on Clinical Medicine Evaluation Experts, consultant to the Council of Beijing Institute of Chinese Medicine and guest professor of the School of Chinese Medicine, Capital University of Medical Sciences. He was appointed as an independent non-executive director on 16 October 2000 and re-elected at the annual general meeting in 2003 and 2006.

SUPERVISORS

Mr. Zhang Xi Jie, aged 53, chief supervisor of the Company, is a senior accountant with a postgraduate qualification. He served as deputy head of finance department of Beijing Medicine Company, head of finance, accounting and pricing department, deputy manager of capital operation department of Beijing Medicine Group Limited, executive deputy head, head and deputy chief accountant of the development office of Tongrentang Holdings. He is currently a director and the chief accountant of Tongrentang Holdings and the chairman of the supervisory committee of Tongrentang Ltd. Mr. Zhang was appointed as a supervisor at the annual general meeting in 2006.

Directors, Supervisors and Senior Management

Mr. Wu Yi Gang, aged 49, holding a bachelor of law, he was admitted as a solicitor in 1984 and started practice in the same year. Mr. Wu founded Wu Luan Zhao Yan Law Firm in Beijing in 1994 and has been the managing partner of the firm since then. He served as one of the arbitrators of the first session of the Beijing Arbitration Commission in 1995. He currently serves as the council member, director of Disciplinary Committee and deputy director of Foreign Affairs Committee of Beijing Municipal Lawyers Association, and member of the First Council of Beijing Club of Non-Party Senior Intellectuals. He was appointed as a supervisor of the Company on 22 October 2003 and re-elected at the annual general meeting in 2006.

Ms. Liu Gui Rong, aged 53, is a senior engineer in political work with a university qualification. Ms. Liu was the Chairman of the labour union of Tongrentang Holdings, the secretary to the Party Committee of the wholesale department of Northern city of Tongrentang Holdings, the deputy factory manager of Chinese Medicines Refinery of Beijing Tong Ren Tang, the deputy factory manager of the pharmaceuticals factory and the deputy secretary to the Party Committee of the Company. Ms. Liu was appointed as a supervisor of the Company on 22 October 2003.

SENIOR MANAGEMENT

Mr. Wang Yu Wei, aged 40, is a senior engineer with a postgraduate qualification. He formerly served as deputy officer of the new technology development centre and deputy factory manager of Factory 2 of Beijing TRT Pharma, and assistant to the general manager of the Company. He is currently the deputy general manager of the Company.

Mr. Bai Jian, aged 48, is a deputy chief pharmacist with a university qualification. He formerly served as the head of the foreign economic relations and trade section of Factory 2 of TRT Pharma, the assistant to the factory manager, the deputy factory manager, the deputy factory manager of pharmaceuticals factory of Tongrentang Ltd. and the factory manager of southern pharmaceuticals branch factory of Tongrentang Ltd.. He is currently the deputy general manager of the Company.

Ms. Liu Zi Lu, aged 52, is an accountant with a tertiary qualification. She formerly served as a deputy head and head of the finance section of Factory 2 of Beijing TRT Pharma and the deputy manager and deputy chief accountant of the finance department of the Company. She is currently the chief accountant of the Company.

Mr. Li Da Ming, aged 49, is a senior engineer with a postgraduate qualification. Mr. Li formerly served as the factory manager of the Northern Plant of Beijing TRT Pharma, the assistant to the general manager and head of technical assembly department, and deputy general manager of Tongrentang Ltd. Mr. Li is currently the deputy general manager of the Company.

Ms. Xie Su Hua, aged 43, is a senior engineer and a practising pharmacist with a postgraduate qualification. She formerly served as the deputy head of the Technology Section, assistant to the factory manager and the deputy factory manager of Factory 2 of Beijing TRT Pharma, the assistant to the general manager and the deputy general manager of the Company. She is currently the chief engineer of the Company.

Mr. Deng Wen Lin, aged 53, is a deputy chief pharmacist with a tertiary qualification. He formerly served as the deputy manager and manager of the supplies and logistics department of Beijing Medicinal Materials Company, the manager of the supplies and logistics department of Tongrentang Holdings, and the assistant to the general manager of the Company. He is currently the deputy general manager of the Company.

Directors, Supervisors and Senior Management

Mr. Chi Yu Ming, aged 44, is a deputy chief pharmacist with a Ph.D degree in Pharmaceutical Sciences from Kumamoto University in Japan. Mr. Chi formerly taught in Beijing University of Chinese Medicine. He went to Japan in 1993 and then served a researcher in the School of Pharmacy of Kumamoto University, and a chief researcher of Seiwa Pharmaceuticals Ltd. Mr. Chi is currently the deputy general manager of the Company.

Ms. Zhang Jing Yan, aged 34, is a practising pharmacist with a master degree in Economics. She formerly served as an officer of the securities department and a securities representative of Tongrentang Ltd.. She is currently the secretary to the Company's Board of Directors.

Independent Auditor's Report

羅兵咸永道會計師事務所

PricewaterhouseCoopers
22/F, Prince's Building
Central, Hong Kong

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

We have audited the consolidated financial statements of Tong Ren Tang Technologies Co. Ltd. (the "Company") and its subsidiaries (together, the "Group") set out on pages 44 to 108, which comprise the consolidated and company balance sheets as at 31 December 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independent Auditor's Report

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Company and the Group as at 31 December 2007 and of the Group's financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

OTHER MATTERS

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

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong,
18 March 2008

Balance Sheets

As of 31 December 2007

		The Group		The Company	
		2007	2006	2007	2006
	Note	RMB'000	RMB'000	RMB'000	RMB'000
ASSETS					
Non-current assets					
Property, plant and equipment	4(a)	502,334	532,384	321,643	349,308
Leasehold land and land use rights	4(b)	51,114	53,798	24,370	24,941
Investments in subsidiaries	5	–	–	131,692	54,940
Investments in joint ventures	6	–	–	22,683	22,683
Investment in an associated company	7	–	4,751	–	4,751
Deferred income tax assets	11(a)	1,392	360	560	360
Other long-term assets		2,267	4,131	400	745
		557,107	595,424	501,348	457,728
Current assets					
Inventories	10	636,521	512,213	614,387	492,606
Trade and bills receivable, net	9	277,723	150,789	268,100	137,466
Amounts due from related parties	28(e)	18,004	16,573	16,200	16,573
Amounts due from subsidiaries	29	–	–	–	82,619
Prepayments and other current assets		12,245	11,398	5,499	5,496
Short-term bank deposits	27(b)	84,296	10,207	80,530	9,521
Cash and cash equivalents	27(b)	161,800	203,537	108,066	129,374
		1,190,589	904,717	1,092,782	873,655
Total assets		1,747,696	1,500,141	1,594,130	1,331,383

The accompanying notes on 49 to 108 are an integral part of these financial statements.

Balance Sheets (cont'd)

As of 31 December 2007

		The Group		The Company	
		2007	2006	2007	2006
	Note	RMB'000	RMB'000	RMB'000	RMB'000
EQUITY					
Capital and reserves attributable to equity holders of the Company					
Share capital	12	196,000	182,800	196,000	182,800
Reserves	13	1,101,068	815,454	1,102,285	816,119
		1,297,068	998,254	1,298,285	998,919
Minority interest in equity		122,874	52,968	–	–
Total equity		1,419,942	1,051,222	1,298,285	998,919
LIABILITIES					
Non-current liabilities					
Deferred income tax liabilities	11(b)	2,501	1,572	2,501	1,572
Deferred income – government grants	14	12,250	11,236	12,130	11,236
		14,751	12,808	14,631	12,808
Current liabilities					
Trade payables	16	205,892	152,408	193,366	146,899
Salary and welfare payables	17	8,782	24,531	8,061	24,065
Advances from customers		19,392	33,835	18,111	32,556
Amounts due to related parties	28(e)	14,127	116,010	9,133	14,857
Amounts due to subsidiaries		–	–	3,840	93
Current income tax liabilities		640	1,965	378	1,708
Accrued expenses and other current liabilities		49,170	22,362	33,325	14,478
Short-term borrowings	15	15,000	85,000	15,000	85,000
		313,003	436,111	281,214	319,656
Total liabilities		327,754	448,919	295,845	332,464
Total equity and liabilities		1,747,696	1,500,141	1,594,130	1,331,383

Yin Shun Hai *Director*

Mei Qun *Director*

The accompanying notes on pages 49 to 108 are an integral part of these financial statements.

Consolidated Income Statement

For The Year ended 31 December 2007

	Note	2007 RMB'000	2006 RMB'000
Revenue	18	1,157,030	1,034,768
Cost of sales		(661,228)	(577,247)
Gross profit		495,802	457,521
Distribution costs		(185,288)	(179,881)
Administrative expenses		(125,851)	(104,295)
Operating profit		184,663	173,345
Finance costs – net	19	(4,915)	(2,011)
Share of result of an associated company		(425)	(98)
Profit before income tax	20	179,323	171,236
Income tax expense	21	(25,664)	(27,780)
Profit for the year		153,659	143,456
Attributable to:			
Equity holders of the Company		153,520	148,327
Minority interest		139	(4,871)
		153,659	143,456
Dividends	22	78,400	73,120
Earnings per share for profit attributable to equity holders of the Company during the year	23		
– Basic		RMB 0.81	RMB 0.81
– Diluted		RMB 0.81	RMB 0.81

The accompanying notes on pages 49 to 108 are an integral part of these financial statements.

Consolidated Statement of Changes in Equity

For The Year ended 31 December 2007

	Attributable to equity holders of the Company								Minority interest	Total
	Share capital RMB'000	Share premium RMB'000	Statutory surplus reserve fund RMB'000	Statutory public welfare fund RMB'000	Tax reserve RMB'000	Property, plant and equipment revaluation RMB'000	Foreign currency translation difference RMB'000	Retained earnings RMB'000	RMB'000	RMB'000
Balance as of 1 January 2006, as previously stated	182,800	157,925	93,243	46,622	102,043	11,536	(1,905)	343,427	59,645	995,336
Adjustment for changes in accounting policy (Note 2)	–	–	(1,435)	(718)	–	–	–	2,153	–	–
Balance as of 1 January 2006, as restated	182,800	157,925	91,808	45,904	102,043	11,536	(1,905)	345,580	59,645	995,336
Profit/(loss) for the year	–	–	–	–	–	–	–	148,327	(4,871)	143,456
Depreciation transfer – gross	–	–	–	–	–	(3,359)	–	3,359	–	–
Depreciation transfer – tax	–	–	–	–	–	463	–	(463)	–	–
Dividends paid	–	–	–	–	–	–	–	(84,088)	(1,806)	(85,894)
Foreign currency translation differences	–	–	–	–	–	–	(1,676)	–	–	(1,676)
Appropriation from retained earnings	–	–	15,267	–	–	–	–	(15,267)	–	–
Adjustment for changes in accounting policy (Note2)	–	–	(361)	–	–	–	–	361	–	–
Balance as of 31 December 2006	182,800	157,925	106,714	45,904	102,043	8,640	(3,581)	397,809	52,968	1,051,222
Balance as of 1 January 2007, as previously stated	182,800	157,925	108,510	46,622	102,043	8,640	(3,581)	395,295	52,968	1,051,222
Adjustment for changes in accounting policy (Note 2)	–	–	(1,796)	(718)	–	–	–	2,514	–	–
Balance as of 1 January 2007, as restated	182,800	157,925	106,714	45,904	102,043	8,640	(3,581)	397,809	52,968	1,051,222
Profit for the year	–	–	–	–	–	–	–	153,520	139	153,659
Issue of share capital (Note 12)	13,200	213,219	–	–	–	–	–	–	–	226,419
Depreciation transfer – gross	–	–	–	–	–	(205)	–	205	–	–
Depreciation transfer – tax	–	–	–	–	–	72	–	(72)	–	–
Revaluation – change of tax rate	–	–	–	–	–	(1,001)	–	(356)	–	(1,357)
Dividends paid	–	–	–	–	–	–	–	(73,120)	(589)	(73,709)
Foreign currency translation differences	–	–	–	–	–	–	(6,648)	–	(3,385)	(10,033)
Equity investment from minority shareholders (Note 28(e))	–	–	–	–	–	–	–	–	73,741	73,741
Appropriation from retained earnings	–	–	14,813	–	–	–	–	(14,813)	–	–
Adjustment for applying new PRC accounting standards (Note 13)	–	–	(252)	(449)	–	–	–	701	–	–
Balance as of 31 December 2007	196,000	371,144	121,275	45,455	102,043	7,506	(10,229)	463,874	122,874	1,419,942

The accompanying notes on pages 49 to 108 are an integral part of these financial statements.

Consolidated Cash Flow Statement

For The Year ended 31 December 2007

	Note	2007 RMB'000	2006 RMB'000
Cash flows from operating activities:			
Cash (used in)/generated from operations	27(a)	(10,186)	164,558
Interest paid		(3,629)	(4,745)
Income tax paid		(28,449)	(32,422)
Net cash (used in)/generated from operating activities		(42,264)	127,391
Cash flows from investing activities:			
Purchase of property, plant and equipment		(14,318)	(68,799)
Proceeds from liquidation of an associated company	7	4,326	–
Proceeds from disposal of property, plant and equipment		352	1,462
Purchases of other long-term assets		–	(1,305)
(Increase)/decrease in short-term bank deposits		(74,089)	17,622
Interest received		5,472	3,257
Net cash used in investing activities		(78,257)	(47,763)
Cash flows from financing activities:			
Proceeds from issuance of new shares		226,419	–
Proceeds from short-term borrowings		85,000	85,000
Repayments of short-term borrowings		(155,000)	(85,000)
Proceeds from government grants		4,638	3,600
Dividends paid		(73,709)	(85,894)
Net cash generated from/(used in) financing activities		87,348	(82,294)
Net decrease in cash and cash equivalents		(33,173)	(2,666)
Cash and cash equivalents at beginning of the year		203,537	206,203
Exchange losses on cash and cash equivalents		(8,564)	–
Cash and cash equivalents at end of the year	27(b)	161,800	203,537

The accompanying notes on pages 49 to 108 are an integral part of these financial statements.

Notes to the Consolidated Financial Statements

31 December 2007

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, Beijing Economic and Technological Development Zone, Yi Zhuang, Beijing, the PRC.

Pursuant to a restructuring of Beijing Tongrentang Company Limited (the "Parent Company") in the 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 to the Company in exchange for 100,000,000 ordinary shares of the Company. China Beijing Tong Ren Tang Group Co. Ltd. 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 Company's shares 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 was 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., a limited liability company incorporated in Beijing, the PRC, as the ultimate holding company.

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

These consolidated financial statements have been approved for issue by the Board of Directors on 18 March 2008.

Notes to the Consolidated Financial Statements

31 December 2007

1. GENERAL INFORMATION (CONT'D)

As at 31 December 2007, the Company had equity interests in these subsidiaries:

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

Notes to the Consolidated Financial Statements

31 December 2007

1. GENERAL INFORMATION (CONT'D)

Name	Place/date of incorporation/kind of legal entity	Percentage of directly held equity interest	Issued and paid-up capital	Principal activities/ place of operation
***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 Hong Kong, PRC
Beijing Tong Ren Tang Nansanhuan Zhonglu Drugstore Co., Limited ("TRT Drugstore")	Beijing, PRC 28 April 2004 Limited liability company	90%	RMB500,000	Sales of medicinal products Beijing, PRC
Beijing Tong Ren Tang Yanbian Chinese Medicinal Raw Materials Co., Limited ("TRT Yanbian")	Jilin, PRC 24 September 2004 Limited liability company	51%	RMB4,000,000	Purchasing and selling of agricultural by-products Jilin, PRC
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	Purchasing and selling of agricultural by-products Anhui, PRC

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 companies. Accordingly, they are considered as the Company's subsidiaries under International Financial Reporting Standards ("IFRS").

Notes to the Consolidated Financial Statements

31 December 2007

1. GENERAL INFORMATION (CONT'D)

As at 31 December 2007, the Company had equity interests in these joint ventures:

Name	Place/date of incorporation/kind of legal entity	Percentage of directly held equity interest	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, 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 medicinal 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 medicinal products
Beijing Tong Ren Tang (Macau) Company Limited ("TRT Macau")	Macau, PRC 14 May 2003 Limited liability company	51%	US$500,000	Sales of medicinal 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 medicinal products

TRT WM, TRT Malaysia, TRT Canada, TRT Macau and TRT Indonesia are considered as the Company's joint ventures under IFRS because their strategic operating, investing and financing activities are jointly controlled by the Company and the joint venture partners.

Notes to the Consolidated Financial Statements

31 December 2007

1. GENERAL INFORMATION (CONT'D)

The following amounts represent the Group's share of the assets and liabilities, and sales and results of the joint ventures. They are included in the consolidated balance sheet and income statement:

	As of 31 December	
	2007	2006
	RMB'000	RMB'000
Assets		
Non-current assets	4,962	5,802
Current assets	25,285	23,857
	30,247	29,659
Liabilities		
Current liabilities	3,705	2,957
Net assets	26,542	26,702

	For the year ended 31 December	
	2007	2006
	RMB'000	RMB'000
Revenues	23,028	21,841
Expenses	21,409	20,712
Profit after income tax	1,619	1,129

Notes to the Consolidated Financial Statements

31 December 2007

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

Except for the change in accounting policy for the reserves as described below, the principal accounting policies applied in the preparation of these consolidated financial statements are set out from Note 2(a) to Note 2(t).

In previous years, the Group reported its share of reserve appropriation made by the entities consolidated in the Group's consolidated financial statements based on the respective equity interest held by the Group in these entities.

Effective from 1 January 2007, the Group began to prepare the statutory financial statements in accordance with China Accounting Standards for Business Enterprises ("CAS"). According to CAS, the Group does not make such statutory reserves appropriations upon preparing consolidation financial statements of the Group, and the corresponding changes to the statutory reserves have been retrospectively restated. As a result, the statutory reserves stated on the consolidated financial statements are equal to the Company's statutory reserves.

The directors of the Company consider that consistent application would enhance the comparability of financial information presented in the statutory financial statements prepared under CAS as well as financial statements prepared under IFRS. This accounting treatment is also adopted when preparing the statutory financial statements under IFRS.

The change in accounting policy has been applied retrospectively and resulted in:

	As of 31 December	
	2007	2006
	RMB'000	RMB'000
Decrease of statutory reserves – statutory surplus reserve fund	193	361
Decrease of statutory reserves – statutory public welfare fund	–	–
Increase of retained earnings	193	361

Notes to the Consolidated Financial Statements

31 December 2007

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

There was no impact on net profit and earnings per share as a result of the change in accounting policy. The opening retained earnings at 1 January 2006 have been increased by RMB2,153,000. The opening statutory surplus reserve fund and statutory public welfare fund at 1 January 2006 have been decreased by RMB1,435,000 and RMB718,000 respectively.

(a) General

These 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.

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

i) *Standards, amendment and interpretations to existing standards effective in 2007*

- IAS 1 (Amendment), 'Capital Disclosures'
- IFRS 7, 'Financial Instruments: Disclosures'
- IFRIC 7, 'Applying the Restatement Approach under IAS 29, Financial Reporting in Hyper-inflationary Economies'
- IFRIC 8, 'Scope of IFRS 2'
- IFRIC 9, 'Re-assessment of Embedded Derivatives'
- IFRIC 10, 'Interim Financial Reporting and Impairment'

The adoption of the above standards, amendment and interpretations to existing standards did not have any significant financial impact to the Group. The adoption of IFRS 7 and IAS 1 (Amendment) has resulted in additional disclosures on sensitivity analysis to financial risks and capital disclosures.

Notes to the Consolidated Financial Statements

31 December 2007

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

(a) General (CONT'D)

ii) Standards, amendment and interpretations to existing standards that are not yet effective and have not been early adopted by the Group

- Amendments to IAS 32 Financial Instruments, Presentation and IAS 1 Presentation of Financial Statements, 'Puttable Financial Instruments and Obligations Arising on Liquidation' (effective for the annual periods beginning on or after 1 January 2009)
- IAS 23 (Amendment), 'Borrowing Costs' (effective for the annual periods beginning on or after 1 January 2009)
- IAS 27 (Revised), 'Consolidated and separate financial statements' (effective for the annual periods beginning on or after 1 July 2009)
- IFRS 3 (Revised), 'Business Combinations' (effective for the annual periods beginning on or after 1 July 2009)
- IFRS 8, 'Operating Segments' (effective for the annual periods beginning on or after 1 January 2009)
- IFRIC 11, 'IFRS 2 – Group and Treasury Share Transactions' (effective for the annual periods beginning on or after 1 March 2007)
- IFRIC 12, 'Service Concession Arrangements' (effective for the annual periods beginning on or after 1 January 2008)
- IFRIC 13, 'Customer Loyalty Programmes' (effective for the annual periods beginning on or after 1 July 2008)
- IFRIC 14, 'IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction' (effective for the annual periods beginning on or after 1 January 2008)
- Amendment to IFRS 2, 'Shared-based Payment – Vesting Conditions and Cancellations' (effective for the annual periods beginning on or after 1 January 2009)

Notes to the Consolidated Financial Statements

31 December 2007

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

(b) Principles of consolidation

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

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated but considered an impairment indicator of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

(c) Property, plant and equipment

Property, plant and equipment are shown at fair value, based on periodic valuations by external independent valuers, less subsequent depreciation. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the assets and the net amount is restated to the revalued amount of the asset. 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, are charged to the income statement during the financial period in which they are incurred. In situations when 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 included in the asset's carrying amount or recognised as a separate asset, as appropriate.

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

Notes to the Consolidated Financial Statements

31 December 2007

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

(c) Property, plant and equipment (CONT'D)

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	8-40 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. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised 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 property, plant and machinery in the course of construction or pending installation and is stated at cost less any recognised impairment losses. Cost includes the costs of construction of property, 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. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property, plant and equipment, commences when the assets are ready for their intended use.

Notes to the Consolidated Financial Statements

31 December 2007

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

(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 associated companies

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. 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.

The Group's interests in joint ventures are accounted for by proportionate consolidation. The Group combines its share of the joint ventures' individual income and expenses, assets and liabilities and cash flows on a line-by-line basis with similar items in the Group's financial statements.

Associated companies are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associated companies are accounted for using the equity method of accounting and are 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 dividend received and receivable.

Notes to the Consolidated Financial Statements

31 December 2007

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

(f) Impairment of investments in subsidiaries, joint ventures, associated companies and non-financial assets

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

(g) Research and development costs

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 expensed as incurred. Development costs previously recognised as expenses are not recognised as assets in subsequent periods. Capitalised development costs are recorded as intangible assets and amortised from the point at which the asset is ready for use on a straight-line basis over its useful life, not exceeding five years; and tested for impairment according to Note 2(f).

(h) Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less.

Notes to the Consolidated Financial Statements

31 December 2007

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

(i) Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other 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. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

(j) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

(k) Provisions

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

Notes to the Consolidated Financial Statements

31 December 2007

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

(l) 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, returns and discounts and after eliminating sales within the Group.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

(i) Sales of goods

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.

(iii) Agency fee income

Agency fee income is recognised when service for distributions of the products are rendered.

Notes to the Consolidated Financial Statements

31 December 2007

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

(m) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entity are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in RMB, which is the Company's functional and presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

(iii) Group companies

The results and financial position of all the Group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

– assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

– income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

– all resulting exchange differences are recognised as a separate component of equity.

Notes to the Consolidated Financial Statements

31 December 2007

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

(m) Foreign currency translation (CONT'D)

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is sold, exchange differences that were recorded in equity are recognised in the consolidated income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

(n) Trade payables

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

(o) 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 costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

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

Notes to the Consolidated Financial Statements

31 December 2007

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

(p) Current and deferred income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company and its subsidiaries and associated companies operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

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.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, joint ventures and associated companies, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

(q) Leases (as the leasee for operating lease)

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.

Notes to the Consolidated Financial Statements

31 December 2007

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

(r) 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. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

(s) 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.

(t) Dividend distribution

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

Notes to the Consolidated Financial Statements

31 December 2007

3. CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

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) Net realisable value of inventories

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

(ii) Estimated provision for impairment of receivables

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

(iii) Income taxes

The Group is subject to income taxes in a number of jurisdictions. There are some 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.

Notes to the Consolidated Financial Statements

31 December 2007

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

(a) Property, plant and equipment

The Group:

	Buildings RMB'000	Equipment and machinery RMB'000	Motor vehicles RMB'000	Office equipment RMB'000	CIP RMB'000	Total RMB'000
At 1 January 2006						
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
Year ended 31 December 2006						
Opening net book amount	206,860	180,498	4,370	7,019	114,634	513,381
Additions	307	667	173	743	68,817	70,707
Transferred from CIP	98,564	58,001	–	622	(157,187)	–
Disposals	(148)	(17)	(35)	(1,110)	–	(1,310)
Depreciation	(14,187)	(32,533)	(1,413)	(2,261)	–	(50,394)
Closing net book amount	291,396	206,616	3,095	5,013	26,264	532,384
At 31 December 2006						
Cost or valuation	305,583	239,149	4,508	7,274	26,264	582,778
Accumulated depreciation	(14,187)	(32,533)	(1,413)	(2,261)	–	(50,394)
Net book amount	291,396	206,616	3,095	5,013	26,264	532,384
Year ended 31 December 2007						
Opening net book amount	291,396	206,616	3,095	5,013	26,264	532,384
Exchange differences	(4,475)	(2,258)	(15)	6	(1,485)	(8,227)
Additions	3,371	733	124	262	20,195	24,685
Transferred from CIP	6,797	29,806	134	2,442	(39,179)	–
Reclassification	12,474	(12,474)	–	–	–	–
Disposals	–	(763)	–	(332)	–	(1,095)
Depreciation	(9,470)	(32,985)	(1,124)	(1,834)	–	(45,413)
Closing net book amount	300,093	188,675	2,214	5,557	5,795	502,334
At 31 December 2007						
Cost or valuation	323,750	254,193	4,751	9,652	5,795	598,141
Accumulated depreciation	(23,657)	(65,518)	(2,537)	(4,095)	–	(95,807)
Net book amount	300,093	188,675	2,214	5,557	5,795	502,334

Notes to the Consolidated Financial Statements

31 December 2007

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

(a) Property, plant and equipment (CONT'D)

The Company:

	Buildings RMB'000	Equipment and machinery RMB'000	Motor vehicles RMB'000	Office equipment RMB'000	CIP RMB'000	Total RMB'000
At 1 January 2006						
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
Year ended 31 December 2006						
Opening net book amount	197,681	180,117	3,530	4,278	–	385,606
Additions	–	–	–	62	9,173	9,235
Transferred from CIP	2,273	6,351	–	549	(9,173)	–
Disposals	(148)	(17)	(35)	(3)	–	(203)
Depreciation	(13,421)	(29,045)	(1,099)	(1,765)	–	(45,330)
Closing net book amount	186,385	157,406	2,396	3,121	–	349,308
At 31 December 2006						
Cost or valuation	199,806	186,451	3,495	4,886	–	394,638
Accumulated depreciation	(13,421)	(29,045)	(1,099)	(1,765)	–	(45,330)
Net book amount	186,385	157,406	2,396	3,121	–	349,308
Year ended 31 December 2007						
Opening net book amount	186,385	157,406	2,396	3,121	–	349,308
Additions	685	–	124	39	9,306	10,154
Transferred from CIP	1,421	4,756	134	671	(6,982)	–
Disposals	–	(763)	–	(28)	–	(791)
Depreciation	(7,046)	(27,992)	(891)	(1,099)	–	(37,028)
Closing net book amount	181,445	133,407	1,763	2,704	2,324	321,643
At 31 December 2007						
Cost or valuation	201,912	190,444	3,753	5,568	2,324	404,001
Accumulated depreciation	(20,467)	(57,037)	(1,990)	(2,864)	–	(82,358)
Net book amount	181,445	133,407	1,763	2,704	2,324	321,643

Notes to the Consolidated Financial Statements

31 December 2007

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

(a) Property, plant and equipment (CONT'D)

If the Group's property, plant and equipment were stated on the historical cost basis, the amounts would be as follows:

	2007						2006
	Buildings RMB'000	Equipment and machinery RMB'000	Motor vehicles RMB'000	Office equipment RMB'000	CIP RMB'000	Total RMB'000	Total RMB'000
Cost	343,621	327,799	13,307	14,738	5,795	705,260	695,407
Accumulated depreciation	(53,278)	(145,255)	(11,165)	(9,362)	–	(219,060)	(179,410)
Net book amount	290,343	182,544	2,142	5,376	5,795	486,200	515,997

If the Company's property, plant and equipment were stated on the historical cost basis, the amounts would be as follows:

	2007						2006
	Buildings RMB'000	Equipment and machinery RMB'000	Motor vehicles RMB'000	Office equipment RMB'000	CIP RMB'000	Total RMB'000	Total RMB'000
Cost	219,510	265,037	11,591	9,216	2,325	507,679	504,420
Accumulated depreciation	(47,232)	(138,370)	(9,917)	(6,649)	–	(202,168)	(171,499)
Net book amount	172,278	126,667	1,674	2,567	2,325	305,511	332,921

The Group's property, plant and equipment were last revalued on 31 December 2005 by LCH (Asia-Pacific) Surveyors Limited, an independent firm of chartered surveyors, on a depreciated replacement cost basis. The revaluation surplus of approximately RMB13,571,000 has been incorporated in the financial statements of the Group as of 31 December 2005 and credited to reserves in shareholders' equity.

Notes to the Consolidated Financial Statements

31 December 2007

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

(b) Leasehold land and land use rights

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

	The Group		The Company	
	2007	2006	2007	2006
	RMB'000	RMB'000	RMB'000	RMB'000
In the PRC mainland, held on:				
Leases of between 10 to 50 years	31,041	31,717	24,370	24,941
In Hong Kong, held on:				
Leases of between 10 to 50 years	20,073	22,081	–	–
	51,114	53,798	24,370	24,941

	The Group		The Company	
	2007	2006	2007	2006
	RMB'000	RMB'000	RMB'000	RMB'000
Opening	53,798	55,330	24,941	25,512
Additions	–	533	–	–
Amortisation of prepaid operating lease payments	(2,684)	(2,065)	(571)	(571)
	51,114	53,798	24,370	24,941

Notes to the Consolidated Financial Statements

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5. INVESTMENTS IN SUBSIDIARIES

	The Company	
	2007	2006
	RMB'000	RMB'000
Investments at cost (i)	54,940	54,940
Other investments (ii)	76,752	–
	131,692	54,940

(i) Details of the subsidiaries are set out in Note 1.

(ii) As at 31 December 2007, the Company would not seek repayment of the amounts due from the subsidiaries of RMB76,752,000. The Company's directors regarded these amounts as investment in nature and should be treated as part of the investments in subsidiaries.

6. INVESTMENTS IN JOINT VENTURES

	The Company	
	2007	2006
	RMB'000	RMB'000
Unlisted shares, at cost	27,881	27,881
Less: provision for impairment losses	(5,198)	(5,198)
	22,683	22,683

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

Details of the joint ventures are set out in Note 1.

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7. INVESTMENT IN AN ASSOCIATED COMPANY

	The Company	
	2007	2006
	RMB'000	RMB'000
Beginning of the year	4,751	4,849
Share of results	–	(98)
Proceeds from voluntary liquidation	(4,326)	–
Losses from liquidation	(425)	–
End of the year	–	4,751

The balance represents investment in an associated company, Tong Ren Tang Hutchison (HK) Pharmaceutical Development Co., Limited, which was liquidated in 2007.

8. FINANCIAL INSTRUMENTS BY CATEGORY

The accounting policies for financial instruments have been applied to the line items below:

The Group:

	Loans and receivables	
	2007	2006
	RMB'000	RMB'000
Assets as per balance sheet		
Trade and bills receivable	277,723	150,789
Amounts due from related parties	18,004	16,573
Short-term bank deposits	84,296	10,207
Cash and cash equivalents	161,800	203,537
Total	541,823	381,106

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8. FINANCIAL INSTRUMENTS BY CATEGORY (CONT'D)

The Group: (CONT'D)

	Other financial liabilities	
	2007	2006
	RMB'000	RMB'000
Liabilities as per balance sheet		
Trade payables	205,892	152,408
Amounts due to related parties	14,127	116,010
Accrued expenses and other current liabilities	49,170	22,362
Short-term borrowings	15,000	85,000
Total	284,189	375,780

The Company:

	Loans and receivables	
	2007	2006
	RMB'000	RMB'000
Assets as per balance sheet		
Trade and bills receivable	268,100	137,466
Amounts due from related parties	16,200	16,573
Short-term bank deposits	80,530	9,521
Cash and cash equivalents	108,066	129,374
Total	472,896	292,934

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8. FINANCIAL INSTRUMENTS BY CATEGORY (CONT'D)

The Company: (CONT'D)

	Other financial liabilities	
	2007	2006
	RMB'000	RMB'000
Liabilities as per balance sheet		
Trade payables	193,366	146,899
Amounts due to related parties	9,133	14,857
Accrued expenses and other current liabilities	33,325	14,478
Short-term borrowings	15,000	85,000
Total	250,824	261,234

9. TRADE AND BILLS RECEIVABLE, NET

	The Group		The Company	
	2007	2006	2007	2006
	RMB'000	RMB'000	RMB'000	RMB'000
Trade and bills receivable	300,038	165,510	290,415	152,187
Less: provision for impairment of receivable	(22,315)	(14,721)	(22,315)	(14,721)
Trade and bills receivable, net	277,723	150,789	268,100	137,466

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

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9. TRADE AND BILLS RECEIVABLE, NET (CONT'D)

The Group normally grants a credit period ranging from 30 days to 120 days to its trade customers. At 31 December 2007 and 2006, the ageing analysis of trade and bills receivable was as follows:

	The Group		The Company	
	2007	2006	2007	2006
	RMB'000	RMB'000	RMB'000	RMB'000
Within 4 months	261,478	139,977	252,499	129,084
Over 4 months but within 1 year	27,621	16,942	27,386	15,637
Over 1 year but within 2 years	7,857	6,792	7,517	5,667
Over 2 years but within 3 years	2,782	193	2,713	193
Over 3 years	300	1,606	300	1,606
	300,038	165,510	290,415	152,187

As of 31 December 2007, there was no trade and bills receivable past due but not considered impaired (2006: nil).

As of 31 December 2007, trade and bills receivable of RMB22,315,000 (2006: RMB14,721,000) were impaired and provided for. The amount of the provision was RMB22,315,000 as at 31 December 2007 (2006: RMB14,721,000). The ageing analysis of these receivables is as follows:

	The Group		The Company	
	2007	2006	2007	2006
	RMB'000	RMB'000	RMB'000	RMB'000
Within 4 months	9,288	5,552	9,288	5,552
Over 4 months	13,027	9,169	13,027	9,169
	22,315	14,721	22,315	14,721

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31 December 2007

9. TRADE AND BILLS RECEIVABLE, NET (CONT'D)

Movements on the provision for impairment of trade and bills receivable are as follows:

	The Group		The Company	
	2007	2006	2007	2006
	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January	14,721	11,431	14,721	11,431
Provision for receivable impairment	7,594	3,290	7,594	3,290
At 31 December	22,315	14,721	22,315	14,721

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

The Group's trade and bills receivables are mainly denominated in RMB.

10. INVENTORIES

	The Group		The Company	
	2007	2006	2007	2006
	RMB'000	RMB'000	RMB'000	RMB'000
Raw materials	341,350	237,443	329,439	228,464
Work in progress	94,725	113,663	91,527	113,663
Finished goods	200,446	161,107	193,421	150,479
	636,521	512,213	614,387	492,606

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11. DEFERRED INCOME TAX

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

Effective from 1 January 2008, the Company shall determine and pay income tax in accordance with the Corporate Income Tax Law of the People's Republic of China (hereinafter "the new CIT Law") as approved by the National People's Congress on 16 March 2007. Under the new CIT Law clause 4, the income tax rate would be 25%.

Pursuant to the new CIT Law, enterprises with a High/New Technology status ("HNTE") are able to enjoy a preferential tax rate of 15%. However, as of 31 December 2007, the detailed implementation rules regarding the criteria used for assessing the HNTE status have not been published. Consequently, when recognising deferred taxes as at 31 December 2007, the Company applied a tax rate of 25% on the temporary differences.

The movement in deferred income tax assets and liabilities during the year is as follows:

(a) Deferred income tax assets

	The Group		The Company	
	2007	2006	2007	2006
	RMB'000	RMB'000	RMB'000	RMB'000
Beginning of the year	360	338	360	338
Credited to income statement as a result of increase in expected applicable tax rate	224	–	224	–
Credited/(Charged) to income statement	808	22	(24)	22
End of the year	1,392	360	560	360
Provided for in respect of:				
Provision for termination benefits	93	72	93	72
Amortisation of leasehold land and land use rights	467	288	467	288
Unrealised profit resulting from intragroup transactions	832	–	–	–
	1,392	360	560	360

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11. DEFERRED INCOME TAX (CONT'D)

(b) Deferred income tax liabilities

	The Group		The Company	
	2007	2006	2007	2006
	RMB'000	RMB'000	RMB'000	RMB'000
Beginning of the year	1,572	2,035	1,572	2,035
Charged to equity as a result of increase in expected applicable tax rate	1,357	–	1,357	–
Credited to income statement	(428)	(463)	(428)	(463)
End of the year	2,501	1,572	2,501	1,572
Provided for in respect of:				
Revaluation of property, plant and equipment	2,501	1,572	2,501	1,572

Deferred income tax of RMB428,000 (2006: RMB463,000) was transferred from reserve to retained earnings. This represents deferred tax on the difference between the actual depreciation on property, plant and equipment and the equivalent depreciation based on the historical cost of property, plant and equipment.

Notes to the Consolidated Financial Statements

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12. SHARE CAPITAL

	2007 Number of shares	2007 Nominal value RMB'000	2006 Number of shares	2006 Nominal value RMB'000
Registered	196,000,000	196,000	182,800,000	182,800
Issued and fully paid				
– Domestic shares with a par value of RMB1 per share	108,680,000	108,680	110,000,000	110,000
– H shares with a par value of RMB1 per share	87,320,000	87,320	72,800,000	72,800
	196,000,000	196,000	182,800,000	182,800

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

	2007 Domestic shares RMB'000	2007 H shares RMB'000	2007 Total RMB'000	2006 Domestic shares RMB'000	2006 H shares RMB'000	2006 Total RMB'000
At 1 January	110,000	72,800	182,800	110,000	72,800	182,800
Issue of new shares	–	13,200	13,200	–	–	–
Transfer of Domestic shares to H shares	(1,320)	1,320	–	–	–	–
At 31 December	108,680	87,320	196,000	110,000	72,800	182,800

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12. SHARE CAPITAL (CONT'D)

In May 2007, the Company placed H shares to foreign investors at a price of approximately RMB18.00 (HK$18.38) per share. H shares comprised: (1) 13,200,000 new H shares were allotted and issued by the Company; and (2) 1,320,000 H shares were converted from the same number of existing Domestic shares held by China Beijing Tong Ren Tang Group Co. Ltd., in accordance with the relevant approvals obtained from government authorities and applicable PRC laws and regulations. The placing was completed on 8 June 2007.

13. RESERVES

	The Company						
	Share premium RMB'000	Statutory surplus reserve fund RMB'000	Statutory public welfare fund RMB'000	Tax reserve RMB'000	Property, plant and equipment revaluation RMB'000	Retained earnings RMB'000	Total RMB'000
Balance as of 1 January 2006	157,925	91,808	45,904	102,043	11,536	339,092	748,308
Profit for the year	–	–	–	–	–	151,899	151,899
Depreciation transfer – gross	–	–	–	–	(3,359)	3,359	–
Depreciation transfer – tax	–	–	–	–	463	(463)	–
Dividends paid	–	–	–	–	–	(84,088)	(84,088)
Appropriation from retained earnings	–	14,906	–	–	–	(14,906)	–
Balance as of 31 December 2006	157,925	106,714	45,904	102,043	8,640	394,893	816,119
Balance as of 1 January 2007	157,925	106,714	45,904	102,043	8,640	394,893	816,119
Profit for the year	–	–	–	–	–	147,424	147,424
Issue of share capital	213,219	–	–	–	–	–	213,219
Depreciation transfer – gross	–	–	–	–	(205)	205	–
Depreciation transfer – tax	–	–	–	–	72	(72)	–
Revaluation – change of tax rate	–	–	–	–	(1,001)	(356)	(1,357)
Dividends paid	–	–	–	–	–	(73,120)	(73,120)
Appropriation from retained earnings	–	14,813	–	–	–	(14,813)	–
Adjustment for applying new PRC accounting standards (i)	–	(252)	(449)	–	–	701	–
Balance as of 31 December 2007	371,144	121,275	45,455	102,043	7,506	454,862	1,102,285

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13. RESERVES (CONT'D)

(i) When preparing the statutory financial statements under the new CAS, effective from 1 January 2007, the Company adjusted the profits retrospectively. As described on Note 13 (a), statutory reserves are set aside 10% of the Company's net profit after tax as stated in the financial statements prepared under PRC accounting standards, the retrospective adjustments on the Company's PRC net profit resulted in the corresponding changes in statutory reserves in the financial statements prepared under IFRS. The accumulated impact on reserves was adjusted in 2007 in IFRS financial statements.

(a) Statutory reserves

The Company sets aside 10% of its net profit after tax, before the distribution of dividend to shareholders, as stated in the financial statements prepared under PRC accounting standards to the statutory surplus reserve fund.

Approximately RMB14,813,000 (2006: RMB14,906,000), being 10% of the net profit after tax as stated in the financial statements prepared under PRC accounting standards, was transferred to the statutory surplus reserve fund for the year ended 31 December 2007.

According to the Articles of Association of the Company, the reserves available for distribution is the lower of the amount prepared under PRC accounting standards and the amount prepared under IFRS. As at 31 December 2007, the reserve available for distribution was approximately RMB454,862,000 (2006: RMB394,893,000).

(b) Tax reserve

According to the preferential enterprise income tax policy for new technology enterprises, the Company was fully exempted from Enterprise Income Tax ("EIT") for the first three years from its commencement of operations and enjoyed 50% reduction for the three years thereafter. The Company commenced its operations in 2000 and enjoyed full exemption from EIT from 2000 to 2002 and 50% reduction from 2003 to 2005. However, the use of the exempted tax is restricted to specified purposes and is not distributable to shareholders.

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14. DEFERRED INCOME – GOVERNMENT GRANTS

	The Group		The Company	
	2007	2006	2007	2006
	RMB'000	RMB'000	RMB'000	RMB'000
Beginning of the year	11,236	12,548	11,236	12,548
Government grants received	4,638	3,600	4,518	3,600
Amount recognised in the income statement	(3,624)	(4,412)	(3,624)	(4,412)
Government grants paid-back	–	(500)	–	(500)
End of the year	12,250	11,236	12,130	11,236

15. SHORT-TERM BORROWINGS

As of 31 December 2007, the Company and the Group had unsecured short-term bank borrowings of RMB15,000,000 (2006: RMB85,000,000). These borrowings bear fixed interest rate of 5.913% (2006: from 5.27% to 5.51%) per annum.

These borrowings are denominated in RMB and the carrying amounts of these short-term borrowings approximate their fair values as the impact of discounting is not significant.

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16. TRADE PAYABLES

As of 31 December, the ageing analysis of trade payables was as follows:

	The Group		The Company	
	2007	2006	2007	2006
	RMB'000	RMB'000	RMB'000	RMB'000
Within 4 months	155,052	102,611	142,612	97,305
Over 4 months but within 1 year	48,893	46,576	48,872	46,562
Over 1 year but within 2 years	1,947	3,221	1,882	3,032
	205,892	152,408	193,366	146,899

17. SALARY AND WELFARE PAYABLES

	The Group		The Company	
	2007	2006	2007	2006
	RMB'000	RMB'000	RMB'000	RMB'000
Salary payable	5,489	20,498	5,404	20,404
Welfare payable	3,293	4,033	2,657	3,661
	8,782	24,531	8,061	24,065

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18. REVENUE

	2007 RMB'000	2006 RMB'000
Sales of medicine		
– Domestic	1,098,196	985,792
– Overseas	49,099	48,976
	1,147,295	1,034,768
Agency fee for distribution services	9,735	–
	1,157,030	1,034,768

19. FINANCE INCOME AND COSTS

	2007 RMB'000	2006 RMB'000
Interest income on cash at bank and short-term bank deposits	5,472	3,257
Interest expenses on bank borrowings wholly repayable within five years	(3,629)	(4,745)
Exchange losses	(6,758)	(523)
Finance costs – net	(4,915)	(2,011)

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20. PROFIT BEFORE INCOME TAX

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

	2007 RMB'000	2006 RMB'000
Raw materials and consumables used	434,868	340,079
Change in inventories of finished goods and work in progress	(20,401)	9,512
Employee benefit expense		
– Salary and wages	88,349	81,521
– Staff welfare	9,963	9,464
– Housing fund	6,985	6,867
– Contributions to retirement schemes	24,997	21,345
Depreciation of property, plant and equipment (Note 4(a))	45,413	50,394
Amortisation of prepaid operating lease payments (Note 4(b))	2,684	2,065
Amortisation of other long-term assets	1,864	952
Inventory provision	2,462	2,311
Provision for impairment of receivables (Note 9)	7,594	3,290
Operating lease rental	20,240	17,023
Auditor's remuneration	1,510	1,368
Research and development costs	4,070	2,012
Advertising expenses	36,855	27,907
Loss/(gain) on disposal of property, plant and equipment	743	(152)
Recognition of government grants (Note 14)	(3,624)	(4,412)

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21. TAXATION

Pursuant to the relevant regulations of the PRC, a new technology enterprise ("NTE") located in a designated area of Beijing Economic and Technological Development Zone ("BETDZ") was subject to EIT at a preferential income tax rate of 15%. Moreover, upon approval by the relevant local tax bureau, a certified NTE was entitled to full exemption from EIT for the first three years from its commencement of operations and 50% reduction in EIT for the following three years. The NTE certification is subject to annual review by the relevant government bodies. In addition, an amount equivalent to the exempted EIT has to be appropriated to a non-distributable tax reserve.

The Company is registered in the BETDZ and obtained an approval from the BETDZ Local Tax Bureau ("BETDZ LTB") (Document Jingdishuikaijianmianfa [2000] No.23) to enjoy full exemption from EIT for years 2000 to 2002 and 50% reduction for years 2003 to 2005. In July 2006, the Company renewed its NTE certificate with Beijing Science-Technology Committee for the years 2006 and 2007. Moreover, BETDZ LTB has verbally confirmed that the above EIT preferential income tax rate of 15% could apply to the Company in 2007 as the Company was registered in BETDZ and kept its NTE status in 2007.

However, such preferential tax treatments could be subject to review by higher ranking tax authorities as Beijing Municipal State Tax Authority issued a circular in October 2002, namely Jingguoshuihan [2002] No.632, stating that only the NTEs whose registration and operation are both located in the designated area can enjoy the preferential income tax treatments for NTEs. If the above EIT preferential income tax treatments for the Company are withdrawn, additional EIT liability for this year would be approximately RMB4,388,000 (2006: RMB5,643,000; 2005: RMB63,827,000; 2004: RMB60,334,000; 2003: RMB48,622,000). The directors are of opinion that such additional EIT liabilities are unlikely to arise.

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21. TAXATION (CONT'D)

Details of income tax during the year are as follows:

	2007 RMB'000	2006 RMB'000
PRC enterprise income tax	26,722	27,821
Overseas income tax	402	445
Deferred income tax credit	(1,460)	(486)
	25,664	27,780

The tax on the Group's profit before income tax differs from the theoretical amount that would arise using the PRC statutory enterprise income tax rate as follows:

	2007 RMB'000	2006 RMB'000
Profit before income tax	179,323	171,236
Tax calculated at the PRC statutory enterprise income tax rate of 33% (2006: 33%)	59,177	56,508
Expenses not deductible for tax purposes	(440)	4,514
Effect of different applicable EIT rates upon expected reversal of temporary differences	(939)	583
Effect of preferential income tax treatments	(31,395)	(33,486)
Effect of different tax rates and tax refund for consolidated subsidiaries and joint ventures	(739)	(339)
Income tax expense	25,664	27,780

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

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22. DIVIDENDS

	2007 RMB'000	2006 RMB'000
Dividends declared/proposed after year end	78,400	73,120

On 18 March 2008, the Board of Directors proposed a final dividend of RMB0.40 per share (2006: RMB0.40 per share) for the year ended 31 December 2007, totalling approximately RMB78,400,000 (2006: RMB73,120,000). The proposed dividend distribution is subject to the shareholders' approval at the Annual General Meeting in 2008. The dividend will be recorded in the Group's financial statements for the year ending 31 December 2008.

23. EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company of approximately RMB153,520,000 (2006: RMB148,327,000) by the weighted average number of 190,286,000 shares (2006: 182,800,000 shares) in issue during the year.

The Company had no dilutive potential shares for the years ended 31 December 2007 and 2006.

	2007 RMB'000	2006 RMB'000
Profit attributable to equity holders of the Company	153,520	148,327
Weighted average number of ordinary shares in issue (thousands)	190,286	182,800
Earnings per share	0.81	0.81

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

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

The remuneration of every director and supervisor for the year ended 31 December 2007 is set out below:

	Fees	Basic salaries and allowance	Employer's contribution to pension scheme	Bonuses	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Directors:					
Mr. Yin Shun Hai	–	–	–	–	–
Mr. Mei Qun	–	–	–	–	–
Mr. Wang Quan	–	–	–	–	–
Ms. Ding Yong Ling	–	–	–	–	–
Mr. Kuang Gui Shen	–	560	22	–	582
Mr. Zhang Sheng Yu	–	–	–	350	350
Ms. Tam Wai Chu	169	–	–	–	169
Mr. Ting Leung Huel	169	–	–	–	169
Mr. Jin Shi Yuan	36	–	–	–	36
Supervisors:					
Mr. Zhang Xi Jie	–	–	–	–	–
Mr. Wu Yi Gang	36	–	–	–	36
Ms. Liu Gui Rong	–	165	22	–	187

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

(a) Details of the directors' and supervisors' emoluments (CONT'D)

The remuneration of every director and supervisor for the year ended 31 December 2006 is set out below:

	Fees	Basic salaries and allowance	Employer's contribution to pension scheme	Bonuses	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Directors:					
Mr. Yin Shun Hai	–	–	–	1,250	1,250
Mr. Mei Qun	–	–	–	500	500
Mr. Wang Quan	–	–	–	–	–
Ms. Ding Yong Ling	–	–	–	–	–
Mr. Kuang Gui Shen	–	450	20	–	470
Mr. Zhang Sheng Yu	–	–	–	–	–
Ms. Tam Wai Chu	121	–	–	–	121
Mr. Ting Leung Huel	121	–	–	–	121
Mr. Jin Shi Yuan	36	–	–	–	36
Supervisors:					
Mr. Zhang Xi Jie	–	–	–	–	–
Mr. Wu Yi Gang	36	–	–	–	36
Ms. Liu Gui Rong	–	196	20	–	216
Mr. Tian Da Fang	–	–	–	100	100

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

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

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

The five individuals whose emoluments were the highest in the Group for the year include one (2006: one) director whose emoluments are reflected in the analysis presented in note (a) above. The emoluments payable to the remaining four (2006: four) individuals during the year are as follows:

	2007 RMB'000	2006 RMB'000
Basic salaries, allowance and bonuses	1,355	1,495
Contribution to pension scheme	72	71
	1,427	1,566

The emoluments fell within the following band:

	Number of individuals 2007	2006
Nil to RMB936,400 (Equivalent to Hong Kong Dollar 1,000,000)	4	4

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

(c) Equity compensation benefits

Pursuant to the restructuring described in Note 1, on 22 March 2000, 7,100,000 ordinary shares of the Company were issued to the directors or supervisors of the Company with a par value of RMB1 each. The Company does not have any other equity compensation benefits.

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25. RETIREMENT AND TERMINATION BENEFITS

Pursuant to the PRC laws and regulations, the Group is required to make monthly contributions to various retirement benefit schemes organised by the relevant provincial and municipal governments for the Group's employees in the PRC at rates ranging from 28% to 32% (2006: 28% to 32%) of the employees' standard salaries, of which 20% to 24% (2006: 20% to 24%) is borne by the Group and the remaining portion is borne by the employees. These defined contribution schemes are responsible for the pension liabilities of the employees. The Group's contributions to these defined contribution schemes are expensed as incurred.

In addition, the Company provides termination benefits to certain employees up to their normal retirement age. Termination benefits are payable when employment is terminated before the normal retirement age or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Company recognises termination benefits when it is demonstrably committed to either terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after balance sheet date are discounted to present value. Carrying amounts of the relevant provision as of 31 December 2007 and 2006, were approximately RMB373,000 and RMB482,000, respectively.

26. HOUSING FUND

The Group's full-time employees in the PRC participate in a state-sponsored housing fund. The fund can be used by the Group's employees for purchasing houses, or withdrawn upon their retirement. The Group is required to make annual contributions to the fund based on certain percentages of the salaries. The Group's liability in respect of the fund is limited to the contributions payable in each period. For the year ended 31 December 2007, the Group contributed approximately RMB6,985,000 (2006: RMB6,867,000) to the fund.

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27. CASH (USED IN)/GENERATED FROM OPERATIONS

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

	2007 RMB'000	2006 RMB'000
Profit before income tax	179,323	171,236
Adjustments for:		
Provision for impairment of receivables	7,594	3,290
Depreciation of property, plant and equipment	45,413	50,394
Inventory provision	2,462	2,311
Amortisation of prepaid operating lease payments	2,684	2,065
Amortisation of other long-term assets	1,864	952
Loss/(gain) on disposal of property, plant and equipment	742	(152)
Share of result of an associated company	425	98
Deferred government grants recognised in the income statement	(3,624)	(4,412)
Interest income	(5,472)	(3,257)
Interest expenses	3,629	4,745
Exchange losses	6,758	–
Operating profit before working capital changes	241,798	227,270
(Increase)/decrease in current assets:		
Trade and bills receivable	(134,528)	(21,104)
Inventories	(126,770)	(34,552)
Prepayments and other current assets	(847)	2,727
Amounts due from related parties	(1,431)	(5,255)
Increase/(decrease) in current liabilities:		
Trade payables	53,484	3,778
Other current liabilities	(13,750)	(83,225)
Amounts due to related parties	(28,142)	74,919
Cash (used in)/generated from operations	(10,186)	164,558

Notes to the Consolidated Financial Statements

31 December 2007

27. CASH (USED IN)/GENERATED FROM OPERATIONS (CONT'D)

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

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

	The Group		The Company	
	2007	2006	2007	2006
	RMB'000	RMB'000	RMB'000	RMB'000
Cash at bank and in hand				
RMB	114,843	132,529	96,721	117,342
Hong Kong Dollar	38,136	41,326	10,192	3,124
US Dollar	4,113	24,794	1,153	8,908
Macanese Pataca	2,147	1,839	–	–
Malaysian Ringgit	907	1,511	–	–
Indonesian Rupiah	1,028	1,087	–	–
Canadian Dollar	626	451	–	–
	161,800	203,537	108,066	129,374

Notes to the Consolidated Financial Statements

31 December 2007

27. CASH (USED IN)/GENERATED FROM OPERATIONS (CONT'D)

(b) Analysis of the balances of cash and cash equivalents and short-term bank deposits (CONT'D)

Bank deposits with original maturities of over three months were denominated in the following currencies:

	The Group		The Company	
	2007	2006	2007	2006
	RMB'000	RMB'000	RMB'000	RMB'000
RMB	2,000	5,000	–	5,000
Hong Kong Dollar	80,530	4,521	80,530	4,521
US Dollar	953	–	–	–
Malaysian Ringgit	813	413	–	–
Canadian Dollar	–	273	–	–
	84,296	10,207	80,530	9,521

The weighted average effective interest rate on short-term bank deposits was 3.21% (2006: 3.02%) per annum.

As of 31 December 2007, the cash in hand balance of the Group was RMB371,000 (2006: RMB695,000). Cash at bank and short-term bank deposits balance of the Group was RMB245,725,000 (2006: RMB213,049,000). Management did not expect any losses from non-performance by those banks.

Notes to the Consolidated Financial Statements

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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, "Related Party Disclosures", state-owned enterprises and their subsidiaries, other than the ultimate holding company and its subsidiaries, directly or indirectly controlled by the PRC government are also defined as related parties of the Group.

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

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28. RELATED PARTY TRANSACTIONS (CONT'D)

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.

(a) Transactions with ultimate holding company

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

	2007 RMB'000	2006 RMB'000
Purchases of raw materials (Note (i))	–	50
Trademark licence fee (Note (ii))	850	850
Rental expense (Note (iii))	2,364	2,364
Storage fee (Note (iv))	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 (including subsidiaries and joint ventures of 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.

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31 December 2007

28. RELATED PARTY TRANSACTIONS (CONT'D)

(a) Transactions with ultimate holding company (CONT'D)

Notes: (CONT'D)

(ii) (CONT'D)

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 for the year ended 2007 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.

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

(iv) 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.

Notes to the Consolidated Financial Statements

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28. RELATED PARTY TRANSACTIONS (CONT'D)

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

	2007 RMB'000	2006 RMB'000
Sales of Chinese traditional medicines (Note (i))	109,051	98,603
Purchase of raw materials (Note a(i))	902	1,843
Agency fee for distribution services (Note (ii))	9,735	–

Notes:

(i) The Company 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 and joint ventures of the ultimate holding company. The agreement has been approved at the Annual General Meeting and is effective from 21 February 2005 to 31 December 2007. The selling price to the ultimate holding company's subsidiaries and joint ventures shall not be lower than the prices to independent third parties.

(ii) TRT Chinese Medicine signed an agency agreement with the Parent Company on 25 October 2007. In accordance with this agreement, the Company was appointed as an agent in distributing the products of the Parent Company, being effective from 2007 to 2009.

Notes to the Consolidated Financial Statements

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28. RELATED PARTY TRANSACTIONS (CONT'D)

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

	2007 RMB'000	2006 RMB'000
Sales of Chinese traditional medicine	10,398	6,800
Processing services fee (Note (i))	11,283	–

(i) The Company entered into a processing services agreement on 25 October 2007 with Beijing NiuBaoTun Medicine Processing Factory, a minority shareholder of the Company's subsidiary, pursuant to which Beijing NiuBaoTun Medicine Processing Factory agreed to provide processing services to the Company for the period from 25 October 2007 to 31 December 2009.

(d) Transactions with other state-owned enterprises

	2007 RMB'000	2006 RMB'000
Revenue:		
Interest income from bank deposits	4,745	2,371
Expenses:		
Interest expenses on bank borrowings	3,603	4,745
Other transactions:		
Purchase of property, plant and equipment	852	–
Sales of Chinese traditional medicine	116,231	117,796
Purchase of raw materials	266	20,205
Drawdown of bank loans	85,000	85,000
Repayments of bank loans	155,000	85,000

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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	
	2007	2006	2007	2006
	RMB'000	RMB'000	RMB'000	RMB'000
Bank deposits:				
State-owned banks and other financial institutions (Note 32 (a))	235,965	189,037	185,765	128,484
Amounts due from related parties:				
Subsidiaries and associates of the ultimate holding company	11,457	6,493	9,653	6,493
Minority shareholders of subsidiaries and joint venture partners	–	1,020	–	1,020
Other state-owned enterprises	6,547	9,060	6,547	9,060
	18,004	16,573	16,200	16,573
Bank borrowings:				
State-owned banks and other financial institutions	15,000	85,000	15,000	85,000
Amounts due to related parties:				
Subsidiaries and associates of the ultimate holding company	4,435	7,721	4,435	7,721
Minority shareholders of subsidiaries and joint venture partners (i)	4,994	101,510	–	357
Other state-owned enterprises	4,698	6,779	4,698	6,779
	14,127	116,010	9,133	14,857

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31 December 2007

28. RELATED PARTY TRANSACTIONS (CONT'D)

(e) Balances with related parties (CONT'D)

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

(i) As of 31 December 2007, since two minority shareholders of the Company's subsidiaries indicated that they would not seek repayment of the amount due to them of RMB73,741,000, the Company's directors regarded these amounts as equity in nature and should be treated as part of the minority interest.

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

	The Group		The Company	
	2007	2006	2007	2006
	RMB'000	RMB'000	RMB'000	RMB'000
Within 4 months	16,333	15,115	14,529	15,115
Over 4 months but within 1 year	1,598	411	1,598	411
Over 1 year	73	1,047	73	1,047
	18,004	16,573	16,200	16,573

Notes to the Consolidated Financial Statements

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28. RELATED PARTY TRANSACTIONS (CONT'D)

(e) Balances with related parties (CONT'D)

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

	The Group		The Company	
	2007	2006	2007	2006
	RMB'000	RMB'000	RMB'000	RMB'000
Within 4 months	12,609	14,586	7,615	14,586
Over 4 months but within 1 year	741	101,293	741	140
Over 1 year	777	131	777	131
	14,127	116,010	9,133	14,857

29. AMOUNTS DUE FROM SUBSIDIARIES

	The Group		The Company	
	2007	2006	2007	2006
	RMB'000	RMB'000	RMB'000	RMB'000
Amounts due from subsidiaries (Note 5(ii))	–	–	–	82,619

30. SEGMENT INFORMATION

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

31. BANKING FACILITIES

As of 31 December 2007, the Group had aggregated banking facilities of RMB100,000,000 (2006: RMB100,000,000) for loan and other trade financing. As of 31 December 2007, the unutilised banking facilities amounted to RMB85,000,000 (2006: RMB15,000,000).

Notes to the Consolidated Financial Statements

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32. 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 exchange risk as certain of its payables to equipment suppliers and certain trade receivables arising from export sales are denominated in foreign currencies, principally HK dollar. Dividends to the shareholders of H Shares are declared in RMB and paid in Hong Kong dollar. 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 foreign currency borrowings to hedge its exposure to foreign exchange risk.

As of 31 December 2007, if the currency had weakened/strengthened by 5% against the HK dollar with all other variables held constant, post-tax profit for the year would have been RMB5,933,306 (2006: RMB2,292,318) lower/higher, mainly as a result of foreign exchange losses/gains on translation of HK dollar-denominated short-term bank deposits and cash and cash equivalents. Profit is more sensitive to movement in HK dollar exchange rate in 2007 than 2006 because of the increased amount of HK-dollar denominated cash and cash equivalents. The foreign exchange risks arising from other foreign currencies do not have significant impacts on the results of the Group's operations.

(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. Individual credit risk limit is set up based on internal assessment, taking into account the customer's financial position, past experience and other factors.

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32. FINANCIAL RISK MANAGEMENT (CONT'D)

(a) Financial risk factors (CONT'D)

(2) Credit risk (CONT'D)

Cash transactions are limited to high-credit-quality financial institutions. The Group has policies that limit the amount of credit exposure to any financial institution. As at 31 December 2007, main part of bank deposits is due with state-owned banks, which are at lower credit risk.

	The Group		The Company	
	2007	2006	2007	2006
	RMB'000	RMB'000	RMB'000	RMB'000
State-owned banks and other financial institutions (Note 28 (e))	235,965	189,037	185,765	128,484
Other banks	9,760	24,012	2,805	10,384
	245,725	213,049	188,570	138,868

(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 is disclosed in Note 31.

(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 2007 and 2006, all of its borrowings were at fixed rates. The interest rates and repayment terms of the Group's short-term bank loans are disclosed in Note 15. The Group has not used any interest rate swaps to hedge its exposure to interest rate risk.

Notes to the Consolidated Financial Statements

31 December 2007

32. FINANCIAL RISK MANAGEMENT (CONT'D)

(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.

(c) Capital risk management

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

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

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as total borrowings divided by total equity.

	2007 RMB'000	2006 RMB'000
Total borrowings	15,000	85,000
Total equity	1,419,942	1,051,222
Gearing ratio	1%	8%

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33. COMMITMENTS

(a) Capital commitments

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

	The Group		The Company	
	2007	2006	2007	2006
	RMB'000	RMB'000	RMB'000	RMB'000
Construction of production facilities	748	1,862	748	–

(b) Operating lease commitments

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

	The Group		The Company	
	2007	2006	2007	2006
	RMB'000	RMB'000	RMB'000	RMB'000
Not later than one year	12,349	19,477	10,654	17,779
Later than one year and not later than five years	47,640	47,341	42,616	43,902
Later than five years	34,352	47,900	32,298	45,793
	94,341	114,718	85,568	107,474