北京同仁堂

創建於一六六九年

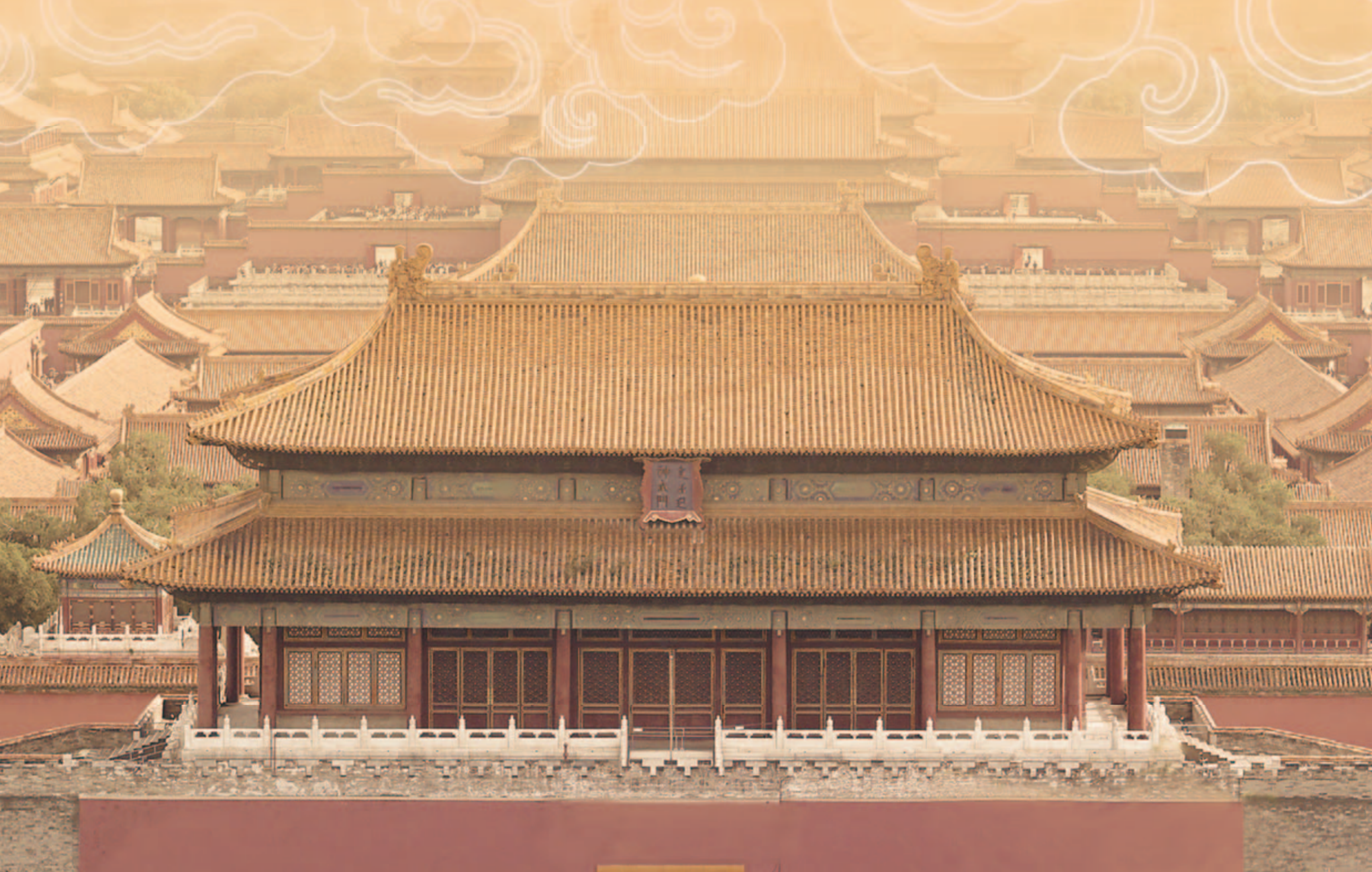
Tong Ren Tang Technologies Co. Ltd.

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)

2008 ANNUAL REPORT



CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET ("GEM") OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "EXCHANGE")

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

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

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

同修仁徳
濟世養生

趙樸初書

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Corporate Information

Board of Directors

EXECUTIVE DIRECTORS

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

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
Li Da Ming
Xie Su Hua
Liu Cun Ying
Fang Jia Zhi
Guo Gui Qin
Zhang Jing Yan

Qualified Accountant

Mak Kam Chiu (appointed on 18 March, 2008)

Company Secretary

Zhang Jing Yan

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

Authorized Person to Accept Service of Process and Notice

Zhang Jing Yan

Independent Auditor

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

Principal Bankers

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

H-share Registrar and Transfer Office

Hong Kong Registrars Limited
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

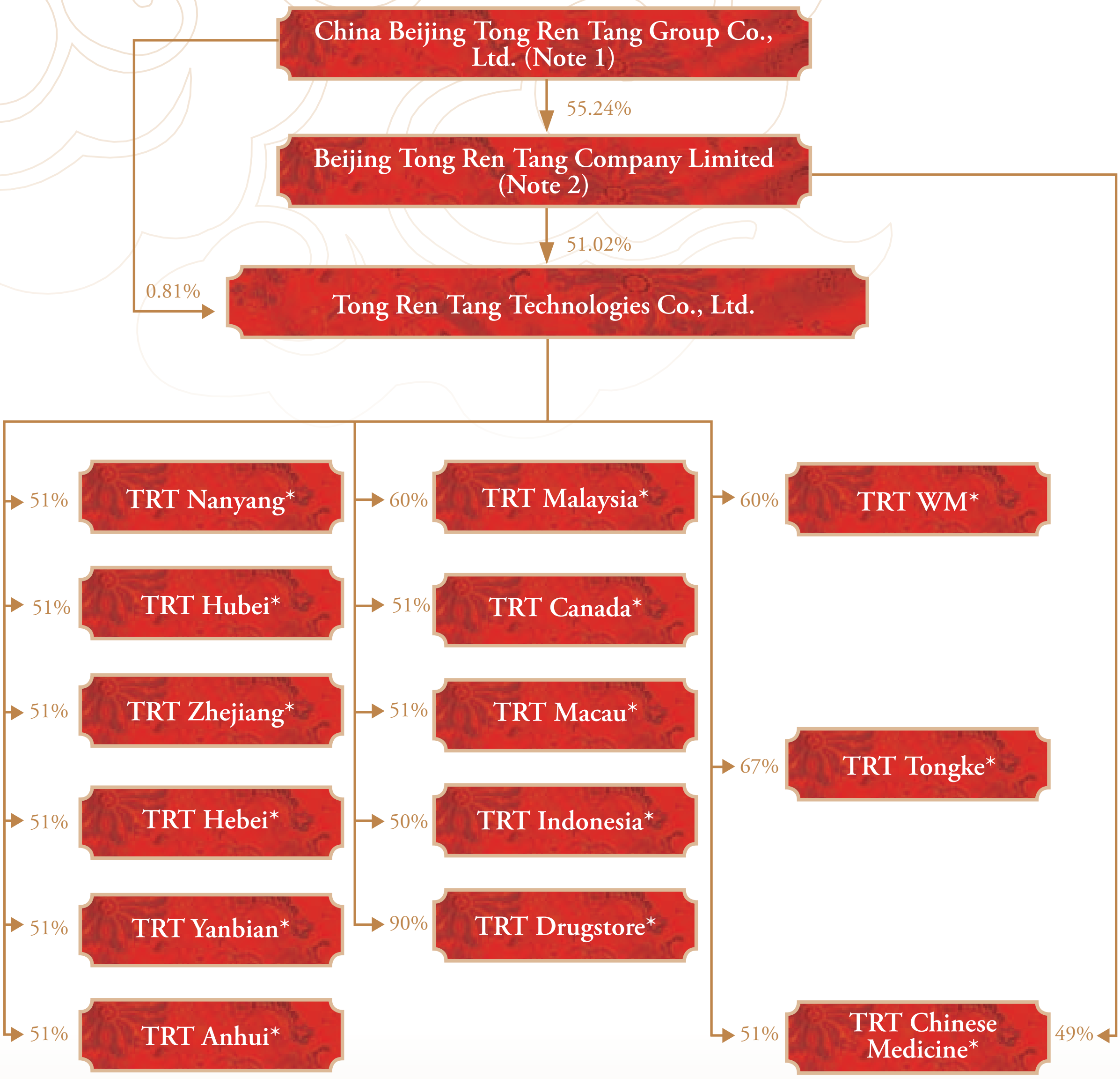
Office in Hong Kong

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 Tong Ren Tang Company Limited ("Tong Ren Tang Ltd.") was incorporated in 1997 and listed on the Shanghai Stock Exchange in June of the same year. Tong Ren Tang Ltd. is the holding company of Tong Ren Tang 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 last five years, as extracted from the audited financial statements of the Group, is set out below:

	For the year ended 31 December				
	2008	2007	2006	2005	2004
		(Restated)	(Previously stated)	(Previously stated)	(Previously stated)
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	**1,211,455**	1,157,030	1,034,768	1,135,678	983,249
Profit before income tax	**197,248**	179,528	171,236	251,964	225,422
Income tax expense	**(30,509)**	(25,474)	(27,780)	(19,469)	(18,162)
Profit for the year	**166,739**	154,054	143,456	232,495	207,260
Attributable to:					
Minority interests	**6,211**	139	(4,871)	1,309	1,653
Equity shareholders of the Company	**160,528**	153,915	148,327	231,186	205,607
	RMB	RMB	RMB	RMB	RMB
Earnings per share	**0.82**	0.81	0.81	1.26	1.12
Dividends per share	**0.40**	0.40	0.40	0.46	0.46

Financial Highlights

Assets and Liabilities

A summary of the consolidated balance sheet of the Group as at each of the last five years ended 31 December 2008, as extracted from the audited financial statements of the Group, is set out below:

	As of 31 December				
	2008	2007	2006	2005	2004
			(Previously	(Previously	(Previously
		(Restated)	stated)	stated)	stated)
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Non-current assets	**500,160**	542,517	595,424	577,676	445,554
Current assets	**1,295,022**	1,190,541	904,717	872,422	893,472
TOTAL ASSETS	**1,795,182**	1,733,058	1,500,141	1,450,098	1,339,026
Non-current liabilities	**13,250**	12,250	12,808	14,583	10,974
Current liabilities	**297,027**	313,003	436,111	440,179	511,151
Minority interests	**124,513**	122,874	52,968	59,645	38,195
TOTAL LIABILITIES AND MINORITY INTERESTS	**434,790**	448,127	501,887	514,407	560,320
NET ASSETS	**1,360,392**	1,284,931	998,254	935,691	778,706
	RMB	RMB	RMB	RMB	RMB
Net assets per share	**6.94**	6.56	5.46	5.12	4.26

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 2008 for shareholders' review.

Results of the Year

For the year ended 31 December 2008, the Group's revenue amounted to RMB1,211,455,000, representing an increase of 4.70% over last year; profit attributable to the equity shareholders of the Company amounted to RMB160,528,000, representing an increase of 4.30% over last year.

Review of the Year

2008 was a rollercoaster year in which China had experienced soaring inflation for the first half of the year and fast shrinking economy for the second half of the year, where overflowing market liquidity faced depletion. Nearly all industry players in the PRC had suffered from slumping after sales due to elevated costs. Even the capital chain was on the verge of breakdown. The global financial crisis that started in September greatly dampened the world's economies. In the meantime, the medical sector experienced crashing sales owing to the rise in raw material price and logistics costs. Under such circumstances, the Company responded swiftly: it closely monitored the macro-economic directions and changing market trends; and made appropriate adjustments to the operating policies. The Company adopted solid and sound marketing strategies to highlight the assessment indicators which included the requirements on distributors, sales amount of distributors, smooth cooperation between distributors and the Company, and receivable turnover ratio; as well as implemented effective control on accounts receivable and delivery amounts. These measures increased cash recoveries effectively. The sales branches successfully expanded the sales through sales promotion campaigns, product knowledge training for frontline staff and various product exhibitions and free medical consultation services. The Company further reduced costs and expenses through a comprehensive savings plan and consolidated the foundation through strengthening fundamental management in an effort to increase market competitiveness. The implementation of various measures effectively increased the integrated competence of the Company such as the risk-taking ability and product diversity. During the year under review, in spite of the challenges caused by the financial crisis, the market share and coverage of the Company's products maintained steady growth and the overall quality of business operations of the company was also enhanced.

Outlook and Prospects

The medical policies reform in the PRC will continue its vertical and in-depth development in 2009. Intensifying reform and improving market economic mechanism will pose new opportunities as well as challenges to the development of the pharmaceutical sector. The promulgation of new proposal on medical reform, the advancement of the national healthcare insurance system, the implementation of the national basic medicine system and the enforcement of a regulated public healthcare management system, will further extend the growth of the pharmaceutical market demand and multi-layered changes in the market consumption structure, generating new growth opportunities in the pharmaceutical market. However, the pharmaceutical market is under keen competition. Together with the revealing consequences of the global financial crisis and several uncertainties that exist in the new medical reform, the growth prospect of the pharmaceutical sector in the PRC is uncertain. Looking ahead, the pharmaceutical players will face fiercer competition whilst the enterprises size and market concentration will remain high.

Chairman's Statement

In 2009, I, together with all the staff of the Company, will seize every opportunity through comprehensive analysis on the impact of the macro-environment and various medical reform policies on the Company so as to capture future trends. In the meantime, we will actively overcome the challenges in order to sustain the growth of the business with a new perspective.

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.
Mei Qun
Chairman

Beijing, the PRC
20 March 2009

Management Discussion and Analysis

Business Review

Over the past two years, the Company has been focusing on the sustainable growth strategies proposed by the Board, resulting in significant improvement in the Company's marketing and financial performance for 2008. Currently, the Company has included such strategies and their key performance indicators into the daily management system of the Company. In 2008, in adherence to the concept of "Brand, Talents and Development" designated by the Board, together with a highly organized structure and regulated management, the quality of our business operations was significantly improved. For the year ended 31 December 2008, revenue of the Group amounted to RMB 1,211,455,000, representing an increase of 4.70% over last year; profit attributable to the shareholders of the Company amounted to RMB 160,528,000, representing an increase of 4.30% over last year. As of 31 December 2008, the Company successfully obtained the Certificate of High and New Technology Enterprise. Pursuant to the requirements of the New Income Tax Law, the Company should enjoy the corporate income tax rate of 15% for 2008.

Sales

In 2008, the Company continued to change its marketing strategies and place more emphasis on the profitability of products, cash flows and net profits so as to respond swiftly to the changing market.

Leverage on the established marketing network, the Company strengthened the end-user development through capitalizing on various flexible sales promotion campaigns. In addition to maintaining existing sales channels, the Company actively expanded and developed new channels; explored new customers and new regions. Moreover, the Company sought national policies related opportunities arising from changing national medical reforms and tendering policies; and improved and strengthened healthcare tendering.

For sales market management, the Company focused on the market price performance of its own products. It had stringent control over the acts of distributors and increased penalty for irregularities such as cross sales and low price dumping so as to fully monitor market prices and ensure an orderly market. For the product portfolios under national pricing, the Company closely monitored the national policies and information released by various provinces; coordinated with related Price Administration Bureau; and actively provide relevant product information, thus effectively ensuring the stability of products price of the Company.

感冒清熱顆粒
GANMAO QINGRE GRANULE

板藍根顆粒
BANLANGEN GRANULE

牛黄解毒片
Niuhuang Jiedu Pian

牛黄解毒丸
Niuhuang Jiedu Wan

牛黄解毒片
Niuhuang Jiedu Pian

京制牛黄解毒片
Jingzhi Niuhuang Jiedu Pian

For overseas market, as the financial crisis extended, various export enterprises in the PRC were adversely affected. By closely monitoring the global market changes, the Company launched new products and services through detailed analysis on the Company's product portfolios. In 2008, over ten products of the Company including Liuwei Dihuang Pills (六味地黃丸) and Ganmao Qingre Granule (感冒清熱顆粒) obtained the HALAL certification from the China Islamic Association, positioning the Company to enter the Islamic markets such as Malaysia and the Middle East. In 2008, the export sales of the Company's products amounted to US$4,034,400, representing an increase of 5.66% over last year.

六味地黃丸
LIUWEI DIHUANG PILL

In 2008, through the main line "New Liuwei, New Start" ("新六味，新起點") and the strengths of brand and quality, the Company continued to strengthen the development of its product portfolios. During the year, the Company produced and sold more than one hundred kinds of products, of which 18 products achieved total sales of more than RMB10 million; and 12 products achieved total sales of between RMB5 million and RMB10 million. The product concentration was further increased. Of its major products, Liuwei Dihuang Pills (六味地黃丸) series maintained similar sales as in the past year, while the sales of Niuhuang Jiedu tablets (牛黃解毒片) series grew by 3.97% over last year. Apart from Ganmao Qingre Grannule (感冒清熱顆粒) series, which fell by 11.73% over last year, there was a remarkable increase in some other product series including Xihuang Pills (西黃丸) series, Qiju Dihuang Pills (杞菊地黃丸) series, Jiawei Xiaoyao Pills (加味逍遙丸) series and E Jiao (阿膠) series, which grew by more than 20% over last year.

Production

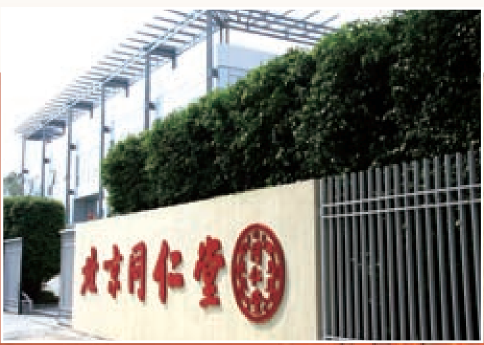
In 2008, the Company delivered medical products to the market in more than ten forms such as pill, tablet, granule, capsule and syrup. With respect to production, the Company actively developed the core production dispatch functions of the product manufacturing department; overcame the adverse impacts of labor shortage and limited production due to the Olympics; conducted detailed analysis on purchase plans; coordinated the sales department to sort out urgent and important orders; coordinated the quality department to accelerate the examine cycle; coordinated the production bases to fully mobilize their production capacity, and coordinated the distribution department to make timely and fast deliveries. Through planning and arranging workers and adjusting the product portfolios of various production bases, the product manufacturing department re-allocated the resources in a reasonable and efficient manner. Apart from accomplishing all of the annual production assignments, the product manufacturing department successfully completed the temporary assignment on attaching the label of "Athletes used with caution" on the products containing stimulant substances listed in the directory.

Embarking on enhancing quality and maintain brand image, the production bases under the Company further optimized the production procedures through improving the production processes. The Company subsequently completed the improvement in the packaging process for decocted paste and the packaging

specification for soft capsules, and the technology upgrade for oral liquid dispensing equipment, thus further enhancing the production capacity and production efficiency.

As the principal workshop for preprocessing traditional Chinese medicine materials, Beijing Tong Ren Tang Tongke Pharmaceutical Company Limited (北京同仁堂通科藥業有限責任公司)("Tongke"), which is located at Tongzhou District, Beijing, produces semi-finished goods for different forms of medicine of the Company. Tongke has a total investment of RMB 75 million, of which RMB 50.25 million was subsequently contributed by the Company, representing 67% of the total investment; and RMB24.75 million was contributed by Beijing NiuBaoTun Medicine Processing Factory, representing 33% of the total investment. Its production facilities commenced production in 2007. In 2008, Tongke produced semi-finished goods of over 1.3 million kilogram, which effectively satisfied the production needs of the Company.

Beijing Tong Ren Tang Chinese Medicine Company Limited (北京同仁堂國藥有限公司) ("TRT Chinese Medicine"), which is located at Hong Kong, was jointly invested and established by the Company and Tong Ren Tang 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 Tong Ren Tang 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 was completed in 2007. Currently, TRT Chinese Medicine owns the production facilities for traditional Chinese medicinal products in Tai Po Industrial Estate, which occupies a GFA of over 10,000sqm and produces products in various forms including pill, tablet and granule. In January 2008, upon the grant of the manufacturer certificate of "Hong Kong Good Manufacturing Practice Guidelines for Proprietary Chinese Medicine" by the Chinese Medicine Trader Committee of Chinese Medicine Council of Hong Kong, TRT Chinese Medicine actively arrange for product manufacturing. During the year, its highlight product, Beijing Tong Ren Tang Sporoderm-broken Ganoderma Lucidum Spores Powder Capsules (北京同仁堂破壁靈芝孢子粉膠囊) was successfully launched in both the domestic and overseas markets. The revenue of such product amounted to RMB 11.95 million. As the equipment and technologies become more stabilized, and product research and development further grow, TRT Chinese Medicine will continue to launch new products in addition to increasing the sales of existing products so as to cater for market needs.



BEIJING TONG REN TANG CHINESE MEDICINE COMPANY LIMITED
IN TAI PO, HONG KONG

Management And Research And Development

In 2008, the Company further reinforced various aspects of fundamental management. For raw materials procurement, the Company strictly implemented the procurement review system, making annual and quarterly estimates in line with the production plans and sales plans; and made timely adjustments according to the market updates, which effectively ensured the relative stability of the procurement costs of raw material.

In addition, the Company further improved the assessment system of production management. The proposal on adjusting bonus allocation in production base was issued by the Company used the production base in Yi Zhuang for pilot runs. In accordance with the proposal, as the proportion of bonuses to the salaries of production workers was increased, work efficiency and quality of each production segment were directly linked with the bonuses, thus increasing action of the production base on the bonus allocation. The Company will extend such proposal to other production bases after smooth operation of such proposal so as to maximize the incentives of production workers.

For research and development, the Company placed much emphasis on adopting a practical production approach to solve various problems relating to quality and technology in the course of production. During the year, the Company improved the secondary development of Liuwei Dihuang Pills (六味地黃丸) and Banlangen Granule (板藍根顆粒), and established the assessment method of Banlangen (板藍根) and its medicinal quality standards; commenced the specific research on Anshen Jiannao Liquor (安神健腦液) and Die Da Pills (跌打丸) and made transitional achievements; and further improved the research on the online quality control system and machine project management in the course of extraction and purification of the traditional Chinese Medicines. Moreover, the research institute accelerated its efforts towards the development of its pipeline products. Many new products were under pre-clinical study or clinical analysis. The new product research will provide the Company with sufficient product reserves for sustainable development.

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, which located in Malaysia, Canada, Macau Special Administrative Region and Indonesia respectively, namely Peking Tong Ren Tang (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,. Each company commenced its distribution operations. At present, all joint ventures have opened local retail drugstores with good operating conditions.

THE DRUG STORE
IN MACAU

THE DRUG STORE
IN CANADA

THE DRUG STORE
IN MALAYSIA

In 2008, under the unfavorable impacts of the financial crisis and exchange volatility, all staff of the joint ventures made efforts to increase sales in their own capacity. Peking Tong Ren Tang (M) Sdn. Bhd. continued to promote the traditional Chinese medicinal products through organizing health seminars meanwhile actively diversified the individual packages of the traditional Chinese medicinal raw materials and expanded the best-selling products. Beijing Tong Ren Tang (Indonesia) Company Limited marketed the traditional Chinese medicinal products through billboards and advertisements on newspapers and magazines to increase sales. Beijing Tong Ren Tang Canada Co., Ltd. enhanced quality of service through expanding its scope of services including fling for customers to cater for patients' needs and increase customer satisfaction. In 2008, Beijing Tong Ren Tang (Macau) Company Limited relocated its drugstore to the core area in one of the world's cultural heritages, the Historic Centre of Macau, and redesigned the drugstore settings and signboard, highlighting the cultural features of Tong Ren Tang. In September 2008, Beijing Tong Ren Tang (Macau) Company Limited was accredited the "Certified Shop"(誠信店) for the year by the Macau Special Administrative Region Government Consumer Council for its quality services. In 2008, the four joint ventures, namely Peking Tong Ren Tang (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 achieved a revenue of RMB11,134,400, RMB6,535,600, RMB11,097,200 and RMB4,309,400 respectively. The total revenue amounted to RMB 33,076,600, representing an increase of 4.57% over last year.

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) is a retail drugstore located at Nansanhuan Zhonglu, Fengtai District, Beijing. In 2008, it fully leveraged on its own strengths and effectively catered for the market needs through expanding the scope of services and enhancing the standard of services. In particular, it designated pharmacists to station in-store to provide professional guideline on drug use for patients, to provide patients with drug purchase checklist and to provide out of stock registration services. In addition, it launched its mail order business in an effort to serve patients across the regions in the PRC. These measures effectively drove the growth of sales revenue. A revenue of RMB 24,463,800 was recorded for the reporting period, representing a 28.00% increase over last year.

Chinese Medicinal Raw Materials Production Bases

Currently, the Company's six subsidiaries in Hebei province, Henan province, Hubei province, Zhejiang province, Anhui province, Jilin province respectively are capable of providing the Company with major traditional Chinese medicinal raw materials such as Cornel (山茱萸), Tuckahoe (茯苓) and Catnip (荊芥).

In 2008, each of the production bases enthusiastically carried out the producing, collecting and processing in traditional Chinese medicinal materials. In 2008, the Anhui production base focused on regulated management and made comprehensive improvements in related regulation systems and

生脉飲
SHENGMAI LIQUOR

西黄丸
XIHUANG PILL

永盛合阿胶 • 阿胶
YONGSHENGHE EJIAO • EJIAO

administrative measures, which defined the details of the terms of reference for different positions and drove the incentives of workers through a sound operating system. In 2008, the production base was accredited as the leading municipal enterprise for agricultural industrialization in Tongling city, Anhui province. In adherence to its efforts in quality control and cost management, the Hebei production base made adjustments to and practiced crop rotation on the sample fields as its plantation structure; and improved the packaging materials or packaging methods of the medicinal raw materials, further lowering the costs of production. Having made new progress in technology and research, the Hubei production base subsequently revised the technology standards including the Regulation on Production Technology of Tuckahoe Cultivation, completed the compilation of related technology information on Tuckahoe cultivation and Tuckahoe patent. Its project on "Regulated Cultivation Research on Local Chinese Medicinal Raw Materials and Sample Production Base Development" was granted the first prize in technology innovation in Hubei province in 2007. The Henan production base strictly monitored and directed the production activities in accordance with the GAP standards requirements to ensure the quality of its raw material Cornel (山茱萸). The Yanbian production base in Jilin province reaped good harvest of Platycodon (桔梗) again in line with the technology standard required by the Company.

In 2008, all of these Company's production bases for traditional Chinese medicinal raw materials achieved a sales revenue of RMB 29,912,700. Theses production bases played 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 finanical position in this year. As at 31 December 2008, the Group had cash and cash equivalents amounting to RMB258,094,000 (2007:RMB161,800,000) and short-term borrowings of RMB15,000,000 (2007: RMB15,000,000). The borrowings carried an interest rate of 6.723% (2007: 5.913%) per annum.

As at 31 December 2008, the Group had total assets amounting to RMB1,795,182,000 (2007 Restated: RMB1,733,058,000). The funds comprised of non-current liabilities of RMB13,250,000 (2007 Restated: RMB12,250,000), current liabilities of RMB297,027,000 (2007:RMB 313,003,000), shareholders' equity of RMB1,360,392,000 (2007 Restated: RMB1,284,931,000) and minority interests of RMB124,513,000 (2007: RMB122,874,000).

CAPITAL STRUCTURE

There has been no material change in the capital structure of the Group as at 31 December 2008 as compared with that as at 31 December 2007.

GEARING AND LIQUIDITY RATIOS

The Group's gearing ratio, the ratio between total borrowings and shareholders' equity (excluding minority interests), was 0.01 (2007: 0.01). The Group's liquidity ratio, the ratio between current assets over current liabilities, was 4.36 (2007: 3.80), reflecting that the Group had abundant financial resources.

CHARGES OVER GROUP'S ASSETS

As at 31 December 2008, none of the Group's assets was pledged as security for liabilities (2007: Nil).

CONTINGENT LIABILITIES

Other than those disclosed in the Note 20 to the consolidated financial statements, the Group had no contingent liabilities as at 31 December 2008 (2007: Nil).

FOREIGN CURRENCY RISK

The Group is subject to foreign currency risk as its 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. Fluctuation of the exchange rates of RMB against foreign currencies could affect the Group's results of operations. However, the impact is not material to the Group. Please refer to Note 30(a)(i) to the consolidated financial statements for details.

CAPITAL COMMITMENTS

At as 31 December 2008, the Group had the capital commitments related to constructions of production facilities which had been contracted for but not been reflected in the consolidated financial statements of the Group approximately RMB 480,000 (2007: RMB 748,000).

Prospects

The year of 2009 marks the 340th anniversary of Tong Ren Tang since its establishment. In adherence to the ancient teaching "Not dare to reduce the pharmaceutical processes no matter how complicated, not dare to save raw materials no matter how expensive they would be", the Company will continue the pharmaceutical manufacturing traditions of Tong Ren Tang so as to realize the objectives, of "closely monitoring the market, nurturing growth; leveraging on comparative advantages, sharing resource; strengthening management and control, overcoming risks; gathering talents, and changing perspectives ", which was designed by the Board as key tasks. The Company will also strengthen brand management, specialize in fundamental management, increase competitiveness and adaptability, and maintain healthy, steady and sustainable development of the Company. In 2009, the Company has the following important tasks:

1. CONDUCT DEMAND ANALYSIS TO EXPLORE MARKET

The Company will continue to explore market and expand the sales coverage of its major product portfolios to ensure balanced development. For overseas markets, the Company will swiftly launch health products and functional food products tailored to the overseas market in accordance with the respective standards and requirements; and attempt to explore new markets. In addition, the Company will continue to monitor closely the updates on national medical reforms and the national basic medicine system to selectively market in key regions, provinces, hospitals and healthcare communities. The Company will also explore potential product portfolios and use prescription drugs as its major products to tap into the hospital market. Capitalizing on the opportunities arising from the launch of national healthcare insurance system, the Company will strengthen the coverage and market share, which is low, in the northwestern region.

2. *CONSOLIDATE FOUNDATION TO STRENGTHEN MANAGEMENT*

The Company will take into account the management success in the past in long-term mechanism and continue to strengthen and improve the brand protection system; strictly implement the financial budget approval system and internal control audit system; tighten the system on quality assessment and accountability; and further increase the rate between inputs and outputs of its major product portfolios and strengthen inventory management to lower the costs of production and operation of the Company. The Company will strengthen the management of its subsidiaries through enhance management means; strengthen its control on daily operation through improving the corporate governance structure of its subsidiaries to ensure legal compliance; strengthen internal control, establish and improve the overall control system covering key operations of the Company to reduce operational risks; and recommend and establish a secondary accounting system in all production bases to improve the cost accounting system of the Company.

3. *GATHER TALENTS FOR SUSTAINABLE DEVELOPMENT*

The Company considers that the most effective means to retain talents is to establish a sound corporate culture and a solid human resource system, particularly the provision of extensive career prospects to the staff. The Company will continue to develop its team of professional talents. It will formulate and improve the Reserve Managers System through various means including open recruitment and internal promotion in order to improve and enrich the reserve manager team in a timely manner; and increase regular and orientation training to improve the assessment system. This will help establish the solid foundation for nurturing and selecting a team of young and outstanding talents for reserve managers. At the production bases, the Company will focus to nurture skilled talents and appoint the skilled high-tech worker for key technical positions as the leader. Through the approach "One master teach one apprentice", the professional skills and operation levels of staff will be significantly enhanced.

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 2008.

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:

	2008 RMB'000	2007 RMB'000
Sale of medicines:		
–Domestic	**1,147,282**	1,098,196
–Overseas	**56,022**	49,099
	1,203,304	1,147,295
Agency Fee for Distribution Services	**8,151**	9,735
	1,211,455	1,157,030

Major customers and suppliers

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

	2008	2007
The largest customer	**6%**	9%
The five largest customers combined	**28%**	34%

During the reporting period, the Group's purchases from the five largest suppliers accounted for less than 30% (2007: 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 five largest customers or the five largest suppliers of the Group.

Results

The results and the financial position of the Group for the year ended 31 December 2008 are set out on pages 43 to 112 of the annual report.

Dividends

The Board of Directors proposed a final dividend of RMB0.40 (including tax) per share in respect of the year ended 31 December 2008 (2007: RMB0.40 (including tax) per share), totalling approximately RMB78,400,000 (2007: RMB78,400,000). The proposed dividend distribution is subject to the approval at the annual general meeting in 2009 then it would be listed in the financial statements of the group ended 31 December 2009. 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 2008, 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

The Company's share capital had no movement during this year.

	31 December 2008		31 December 2007	
	Number of shares	Nominal value RMB'000	Number of shares	Nominal value RMB'000
Registered	**196,000,000**	**196,000**	196,000,000	196,000
Issued and fully paid				
– Domestic shares with a par value of RMB1 per share	**108,680,000**	**108,680**	108,680,000	108,680
– H shares with a par value of RMB1 per share	**87,320,000**	**87,320**	87,320,000	87,320
	196,000,000	**196,000**	196,000,000	196,000

Based on the public information that will be known by the finally feasible date the annual report is released, meanwhile the Directors also know, the public share holdings of the Company has fulfilled the requirements of the GEM Listing Rules.

Reserves

Details of movement in reserves of the Group during the year are set out in the Consolidated Statement of Changes in Equity. As at 31 December 2008, the retained earnings of the group was RMB541,657,000 (2007 Restated: RMB475,078,000).

Property, Plant and Equipment

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

Staff Retirement Scheme

Details of staff retirement scheme of the Group are set out in Notes 2(p),19,and 24 to the consolidated financial statements.

Employees and Remuneration Policies

As at 31 December 2008, the Company had 1,740 employees (2007: 1,785 employees). Remunerations are determined by reference to market terms and the performance, qualifications and experience of individual employee. Discretionary bonuses based on individual performance will be paid to employees as recognition of and reward for their 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 (2007: Nil);

2. the details of housing fund benefits provided by the Group to its staff are set out in Note 25 to the consolidated financial statements;

3. the Group also provided housing subsidies to its staff at an average of RMB 80 per person per month (2007: RMB 80).

Directors and Supervisors

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

EXECUTIVE DIRECTORS

Mei Qun *(Chairman)*
Ding Yong Ling *(Vice-chairman)*
Kuang Gui Shen *(Vice-chairman)*
Yin Shun Hai
Wang Quan
Zhang Sheng Yu (Passed away on 22 July 2008)

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 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 37 to 40.

Emoluments of Directors, Supervisors and the Five Highest Paid Individuals' Emoluments

All Directors and Supervisors of the Company are elected at the general meetings. Upon the appointment of Directors and Supervisors at the general meetings, the Board is authorized by shareholders to fix the remuneration of every Director or Supervisor. The remuneration of the Company's Directors or Supervisors includes fees, basic salaries and allowance, employer's contribution to pension scheme and bonuses. If any management duties of the Company are undertaken, the Executive Directors or Supervisors shall be paid remuneration by the Company in accordance with such management position assumed and no remuneration shall be paid by the Company if otherwise. For Non-executive Directors, the Listing Rules state that the Independent Non-executive Directors shall not be financially dependent on any listed companies. Accordingly, the Independent Non-executive Directors are paid fees in line with market practice at the place where they lived. In addition, the external Supervisors are also paid fees in line with market practice at the place where they lived.

In 2008, Mr. Mei Qun, Ms. Ding Yong Ling, Mr. Yin Shun Hai, Mr. Wang Quan and Mr. Zhang Sheng Yu (executive directors), in their capacity as directors, did not receive Directors' remuneration from the company. Mr. Zhang Xi Jie (supervisor) in his capacity as Supervisor did not receive Supervisor's remuneration from the company. Mr. Kuang Gui Shen (executive director) and Ms. Liu Gui Rong (staff representative), in their capacity as Director and Supervisor respectively, received remuneration from the company. In 2008, Mr. Kuang received basic salary and allowance of RMB604,000 and employer's contribution to pension scheme of RMB24,000 respectively; whereas Ms. Liu received basic salary and allowance of RMB196,000 and employer's contribution to pension scheme of RMB24,000 respectively.

In 2008, Mr. Ting Leung Huel, Stephen, Miss Tam Wai Chu, Maria and Mr. Jin Shi Yuan (independent non-executive directors), in their capacity as Directors, received Directors' fee of RMB 159,000, RMB 159,000 and RMB 48,000 respectively. In addition, Mr. Wu Yi Gang (supervisor), in his capacity as Supervisor, received Supervisor's fee of RMB 48,000.

Details of the Directors' and Supervisors' emoluments for the year of 2008 are set out as below:

	Fees RMB	Basic salaries and allowance RMB	Employer's contribution to pension scheme RMB	Bonuses RMB	Total RMB
Directors					
Mr. Mei Qun	–	–	–	–	–
Ms. Ding Yong Ling	–	–	–	–	–
Mr. Kuang Gui Shen	–	604,000	24,000	–	628,000
Mr. Yin Shun Hai	–	–	–	–	–
Mr. Wang Quan	–	–	–	–	–
Mr. Zhang Sheng Yu	–	–	–	–	–
Miss Tam Wai Chu, Maria	159,000	–	–	–	159,000
Mr. Ting Leung Huel, Stephen	159,000	–	–	–	159,000
Mr. Jin Shi Yuan	48,000	–	–	–	48,000
Supervisors					
Mr. Zhang Xi Jie	–	–	–	–	–
Mr. Wu Yi Gang	48,000	–	–	–	48,000
Ms. Liu Gui Rong	–	196,000	24,000	–	220,000

In 2008, the five individuals whose emoluments were the highest in the Company include one (2007: one) director; two (2007: one) senior management; and two (2007: three) management staff. The total emoluments payable to such five highest paid individuals are as follows:

	2008 RMB	2007 RMB
Basic salaries and allowance, bonuses	**2,441,000**	1,915,000
Employer's contribution to pension scheme	**104,000**	94,000
	2,545,000	2,009,000

Number of the five highest paid individuals' emoluments fell within the following band:

	2008	2007
Nil to RMB882,000 (equivalent to Hong Kong Dollar 1,000,000)	**5**	5

Directors' and Chief Executives' Interests in Shares

As at 31 December 2008, 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.

Tong Ren Tang Ltd.

Name	Type of interest	Capacity	Number of shares (Note)	Percentage of total registered share capital
Mr. Yin Shun Hai	Personal	Beneficial owner	46,620	0.009%
Mr. Mei Qun	Personal	Beneficial owner	37,297	0.007%
Mr. Kuang Gui Shen	Personal	Beneficial owner	27,240	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%

Save as disclosed above, as at 31 December 2008, none of the Directors and chief executives of the Company has any interests and short positions in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the standards of dealing by directors as referred to in Rule 5.46 of the GEM Listing Rules.

Substantial Shareholders

As at 31 December 2008, 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 shareholder	Capacity	Number of shares	Percentage of domestic shares	Percentage of H shares	Percentage of total registered shares
Tong Ren Tang Ltd.	Beneficial owner	100,000,000	92.013%	–	51.020%
Tong Ren Tang Holdings (Note 2)	Interest in a controlled corporation	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	6,792,000(L)	–	7.778%	3.465%
Templeton Asset Management Ltd	Investment Manager	5,224,000(L)	–	5.983%	2.665%
JPMorgan Chase & Co.	Investment Manager	6,200,000(L)	–	7.100%	3.163%
		6,200,000(P)	–	7.100%	3.163%

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 2008, 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 Tong Ren Tang 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 2008, 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.

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. Tong Ren Tang 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. Tong Ren Tang 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 Tong Ren Tang 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 nonexecutive 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 27(a),(b),(c) 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;

(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 Securities

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

Independent Auditor

The accompanying financial statements were audited by PricewaterhouseCoopers. A resolution for the reappointment of PricewaterhouseCoopers as the independent auditor of the Company for the year 2009 is to be proposed at the forthcoming annual general meeting.

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

Beijing, the PRC
20 March 2009

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 2008 and the economic benefits generated therefrom. It has full confidence in the future development outlook of the Company.

By Order of the Supervisory Committee
Tong Ren Tang Technologies Co., Ltd.
Zhang Xi Jie
Chairman

Beijing, the PRC
20 March 2009

Corporate Governance Report

The board of directors believed that the good and steady frame of corporate governance was extremely important for development of the Company. For the year ended 31 December 2008, the Company complied with all the code provisions set out in Appendix 15 of the Code on Corporate Governance Practices of the GEM Listing Rules.

Directors' Dealing in Securities

The Company has formulated and implemented its Code on Dealing in Securities pursuant to the required standard of dealings set out in Rule 5.48 to Rule 5.67 of the GEM Listing Rules to regulate the directors' dealing in securities. The Code on Dealing in Securities of the Company are no less exacting terms than the required standard of dealings and these requirements are also applicable to specific persons such as the senior management. After enquiry by the Company to all the Directors, all the Directors have confirmed that they have been complying with the required standard of dealings set out the GEM Listing Rules and the Code on Dealing in Securities of the Company.

Board of Directors

The Company's business and operation are leaded and authorized to handle by the board of directors. Several powers should be entrusted by the Board to the management team, in order to draw and implement the Company's scheme and running planning, as well as the Company's daily operation. The Board monitored the performance of management team, while daily operating responsibilities are consigned to the management.

The Board has formed three specific committees, which are the Audit Committee, the Remuneration Committee and the Nomination Committee respectively, to supervise the specific affairs of the Company. According to the requirements of the GEM Listing Rules and other related regulations, the Board and the Committees should work under the written terms of reference.

The Board convenes its plenary meeting at least once a quarter or when significant decision-making has to be carried out. The Board convened five meetings in 2008 to discuss and decide development strategies, major operational matters, financial matters and other matters as stipulated under the Articles of Association of the Company. The following table sets out the attendance of Directors at Board meetings in 2008:

Directors	Attendance/Number of meetings			
	Board of Directors	Audit Committee	Remuneration Committee	Nomination Committee
Executive directors				
Mei Qun	5/5		1/1	1/1
Ding Yong Ling	5/5			
Kuang Gui Shen	5/5			
Yin Shun Hai	5/5			
Wang Quan	5/5			
Zhang Sheng Yu	3/5			
Independent non-executive directors				
Tam Wai Chu, Maria	5/5	2/2		1/1
Ting Leung Huel, Stephen	5/5	2/2	1/1	
Jin Shi Yuan	5/5	2/2	1/1	1/1

Composition of the Board of Directors

The Directors of the Company are elected at the general meetings for a term of office of three years, and can be re-elected when the term expires. The third session of the board of directors of the Company was comprised of nine directors who were all elected at the general meetings in 2006. Mr. Zhang Sheng Yu, which was an executive director, passed away on 22 July 2008. The Board is currently comprised of eight directors; their term of office will end upon the conclusion of the general meeting in 2009. The board of directors comprises five executive directors, Mr. Mei Qun, Ms. Ding Yong Ling, Mr. Kuang Gui Shen, Mr. Yin Shun Hai and Mr. Wang Quan, and three independent non-executive directors, Miss. Tam Wai Chu, Maria, Mr. Ting Leung Huel, Stephen and Mr. Jin Shi Yuan. Independent non-executive directors are independent of the management and in possession of solid experience in business and finance. They provide significant contribution to the development of the Company, and provide balancing mechanism to protect the wealth of shareholders and the Company.

As at 31 December 2008, at any time the board of directors fulfilled the minimum requirement of appointing at least three independent non-executive directors as required by the GEM Listing Rules and the number of independent non-executive directors being 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 qualified as a professional or having the professional 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.

Chairman of the Board and General Manager

Mr. Mei Qun is the chairman of the board of directors and Mr. Wang Yu Wei is the general manager of the Company. They 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 operational management. The Articles of Association of the Company sets out the respective functions of the chairman and the general manager in detail.

Financial Reporting

The Directors acknowledged their responsibility for preparation of financial statements which give a true and fair view of the Company's state of affairs, the results and cash flows for the year. In preparing the financial statements for the year, the Directors have:

(i) approved the adoption of the International Financial Reporting Standards;

(ii) selected and applied appropriate accounting policies;

(iii) made judgments and estimates that is reasonable; and

(iv) prepared the financial statements on a going concern basis.

The Board recognizes the importance of good corporate governance and transparency and its accountability to shareholders, it shall present a balanced, clear and understandable assessment in annual and interim reports, other price-sensitive announcements and other financial disclosures of the Company as required under the Listing Rules, and reports to regulators as well as to information required to be disclosed pursuant to statutory requirements.

Internal Control

The Board is committed to managing risk and maintaining a proper and effective system of internal control to safeguard the shareholders' investment and the Company's assets. Procedures have been designed for safeguarding assets against unauthorized use or disposition; for maintaining proper accounting records; for the reliability of financial information used within the business or for publication; and for ensuring compliance with the relevant legislation and regulators.

The internal control system is designed for the Company to avoid material misstatement or omission for the purpose of minimizing the risks in the absence of operational systems.

The Board, through its designated internal audit department and the Audit Committee, reviews the effectiveness of the Company's internal control system covering financial, operational and risk management processes. The Board is satisfied that the Company's internal control system is working effectively and on an ongoing basis.

Audit Committee

Pursuant to the Rules 5.28 of the GEM Listing Rules, the Company has set up an audit committee according to "A Guide For The Formation of An Audit Committee" compiled by the Hong Kong Institute of Certified Public Accountants. In compliance with the Rules of 5.29 of the GEM Listing Rules, the authority and responsibility of the audit committee has been properly written out. The primary duties of the audit committee are to review and monitor the Company's financial reporting process and internal control system, and review the Company's annual and interim results and relevant filings.

The committee comprises Miss Tam Wai Chu, Maria, Mr. Ting Leung Huel, Stephen and Mr. Jin Shi Yuan, in which Mr. Ting Leung Huel, Stephen, the Chairman of the Committee, possesses appropriate professional qualification and financial experience.

During the year of 2008, the audit committee has conducted two meetings in the year. The first meeting was held on 27 February 2008 to review and discuss the operating results, financial position, major accounting policies with respect to the audited financial statements of the Company for the year ended 31 December 2007 and internal audit matters and to listen to the advice provided by auditors. The Committee concluded the meeting with agreement to the contents of the annual report. The second meeting was held on 31 July 2008 to review and discuss the operating results, financial position and major accounting policies with respect to the unaudited interim report of the Company for the six months ended 30 June 2008 and internal audit matters. The Committee concluded the meeting with agreement to the contents of the interim report.

The audit committee held a meeting on 27 February 2009 to review and discuss the operating results, financial position, major accounting policies and internal audit matters of the Company for the year ended 31 December 2008 and to listen to the advice provided by auditors. The Committee concurred in the contents of the annual report.

Remuneration Committee

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

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

During the year of 2008, one meeting has been conducted by the Remuneration Committee. On 6 March 2008, the Committee reviewed and discussed the Directors', Supervisors' and senior management' emoluments for the year ended 31 December 2007.

Nomination Committee

The Company has established the Nomination Committee according to the relevant provisions of the GEM Listing Rules with written terms of reference. Its primary responsibilities include

(1) reviewing the framework, size and composition of the Board including skill, knowledge and professional knowledge and making proposals to the Board in respect of any changes regular; and

(2) identifying suitable persons for appointment of Director and making proposals to the Board in respect of any selecting of Director.

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

During 2008, one meeting has been conducted by the Nomination Committee. On 6 March 2008, the Committee reviewed and discussed the framework, number of members and composition of the Board.

Independent Auditor's Remuneration

PricewaterhouseCoopers ("PwC") was the independent auditor of the Company for the year ended 31 December 2008. Other than annual auditing services, PwC did not provide non-auditing services to the Company or any of the Group's companies during the year.

The Independent Auditor's remuneration for year ended 31 December 2008 is set out in section "auditor's remuneration" of Note 19 to the consolidated financial statements. Besides, the Company paid for auditor's expenses of lodging, meals and traveling during the period the auditing services were provided.

Shareholders and General Meetings

The Board and Senior Management recognize that they represent the interests of all shareholders and do their best to maximize shareholder value. In the Article of Association, the major rights enjoyed by shareholders are highlighted in the section under "Shareholders' Rights and Obligation".

During the reporting period, four general meetings were held on 18 June 2008. The percentage of the votes for approving the related resolutions proposed at the AGM held at No. 52 Dong Xing Long Street, Chong Wen District, Beijing, the PRC on 18 June 2008 are as follows:

1. To receive and consider the audited consolidated financial statements, the Report of the Directors and the Auditors' Report of the Company for the year ended 31 December 2007 (100% voted for the resolution);

2. To receive and consider the Report of the Supervisory Committee of the Company for the year ended 31 December 2007 (100% voted for the resolution);

3. To approve the recommend payment of final dividend of the Company for the year ended 31 December 2007 (100% voted for the resolution);

4. To re-appoint PricewaterhouseCoopers as the auditors of the Company for the year ended 31 December 2008 and to authorize the Board of the Company to fix their remuneration (100% voted for the resolution);

5. To approve the continuing connected transactions and the relevant annual caps for the years ending 31 December 2010 (see the circular of the Company dated 5 May 2008 for details) (100% voted for the resolution).

The SGM, class meeting of holders of H shares and class meeting of holders of Domestic shares held subsequently at No. 52 Dong Xing Long Street, Chong Wen District, Beijing, the PRC on 18 June 2008, the percentage of the votes for approving the related resolutions proposed at these meetings are as follows:

1. To approve the migration to listing on the Main Board; authorize the Directors of the Company to make any application and submission; do all such acts and things, execute any documents and take all such steps for and on behalf of the Company to effect the migration to listing on the Main Board (all 100% voted for the resolution at the SGM, class meeting of holders of H shares and class meeting of holders of Domestic shares)

2. To adopt the amended articles of association of the Company upon the listing of the Company on the Main Board; and authorize the Directors of the Company to make further amendments to the amended articles of association (if necessary) (all 100% voted for the resolutions at the SGM, class meeting of holders of H shares and class meeting of holders of Domestic shares)

All resolutions proposed at the AGM, SGM, class meeting of holders of H shares and class meeting of holders of domestic shares were passed and their poll results were published on the website of the Company and the website of the Hong Kong Stock Exchange.

Communications With Shareholders

The Company uses a number of formal channels to account to shareholders for the performance and operations of the Company, particularly our annual, interim and quarterly reports. In addition to delivering circulars, announcements and financial reports to our shareholders, the Company also publishes its corporate information by electronic means on its website (http://www.tongrentangkj.com). The AGM provides an opportunity for communication between the Board and the Company's shareholders. The Company regards the AGM as an important event in the corporate year and all Directors, Senior Management and the Chairmen of the Audit Committee, Remuneration Committee and Nomination Committee should make an effort to attend and answer questions raised by the shareholders. The Company encourages the shareholders to involve in the Company's affair and to communicate with them face-to-face at the AGM or SGM about our activities and prospects.

Enquiries may be put to the Board by contacting either the Company Secretary through telephone, e-mail or directly by questions at an AGM or a SGM.

Directors, Supervisors and Senior Management

Executive Directors

Mr. Mei Qun, aged 52, chairman 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, assistant to the general manager and deputy general manager of Tong Ren Tang Holdings, general manager of Tong Ren Tang Ltd., and vice-chairman of the Company. He is currently deputy secretary to the Party Committee, the vice-chairman and general manager of Tong Ren Tang Holdings, the chairman of Beijing Tong Ren Tang Health Pharmaceutical Co., Ltd., the chairman of Beijing Tong Ren Tang Medicinal Materials Co., Ltd., the chairman of Beijing Tong Ren Tang Pharmaceutical Co., Ltd., the chairman of Beijing Tong Ren Tang Biological Product Development Co., Ltd., the chairman of Beijing Tong Ren Tang Minan Pharmaceutical Co., Ltd., the vice-chairman of Tong Ren Tang Ltd., the vice-chairman of Beijing Tong Ren Tang Chinese Medicine Company Limited and a director of Beijing Tong Ren Tang International Co., Ltd.. He is the vice president of Chinese Society of Traditional Chinese Medicine, a standing committee member of Beijing Pharmaceutical Association, an executive committee member of Beijing Trade and Industry Association, the vice president of Beijing Enterprise Confederation, the vice president of Chongwen General Chamber of Commerce, a member of China Council for the Promotion of International Trade and a standing committee member of China Association of Trade in Services. He was also a delegate to the Beijing's 13th NPC, a delegate to the Chongwen's 13th and 14th NPC. He is responsible for the overall decision-making of the Company. He is the compliance officer of the Company and responsible for overseeing all matters relating to the listing of the Company. He is one of the sponsors of the Company.

Ms. Ding Yong Ling, aged 45, vice-chairman of the Company, 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 Tong Ren Tang Holdings, the manager of the import and export branch of Tong Ren Tang 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 Tong Ren Tang Holdings. She currently serves as the deputy general manager of Tong Ren Tang Holdings, the managing director of Beijing Tong Ren Tang International Co., Limited and Tong Ren Tang Chinese Medicine, and director of Beijing Tong Ren Tang Health Pharmaceutical Co., Ltd. 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 52, vice-chairman 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 Tong Ren Tang Holdings, Factory Manager of Chinese Pharmaceuticals Factory 3, Factory Manager of Da Xing New Factory, the general manager of the Company, the general manager of Tong Ren Tang Ltd and the general manager of the Company. Mr. Kuang was appointed as an executive director at the annual general meeting in 2006.

Mr. Yin Shun Hai, aged 55, 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 Tong Ren Tang Holdings, and the chairman of the Company. He is currently the chairman and the secretary to the Party Committee of Tong Ren Tang Holdings, vice-chairman of Tong Ren Tang Ltd., vice president of Patent Protection Association of China, an executive member of the 9th All-China Federation of Industry & Commerce and a delegate to the 11th Beijing's CPPCC. He is one of the sponsors of the Company.

Mr. Wang Quan, aged 54, 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 Tong Ren Tang Holdings. He is currently a director, deputy general manager and deputy secretary to the Party Committee of Tong Ren Tang Holdings, and director of Beijing Tong Ren Tang Commercial Investment Management Co., Ltd. Mr. Wang was appointed as an executive director at the annual general meeting in 2006.

Independent Non-executive Directors

Miss Tam Wai Chu, Maria, GBS, JP, LL.D (Honoris Causa), LL.B (Honours), barrister. 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 was a member of the Preparatory Committee for the Hong Kong Special Administrative Region (PRC) and Hong Kong Affairs Advisor (PRC). She is currently 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 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 55, 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 82, 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, and Capital Renowned Expert of Chinese Medicine. 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 54, chief supervisor of the Company, is a senior accountant and chinese certified public 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 Tong Ren Tang Holdings. He is currently a director and the chief accountant of Tong Ren Tang Holdings and the chairman of the supervisory committee of Tong Ren Tang Ltd. the chairman of Beijing Tong Ren Tang Commercial Investment Management Co., Ltd, director of Beijing Tong Ren Tang Health Pharmaceutical Co., Ltd. and Beijing Tong Ren Tang Medicinal Materials Co., Ltd. and Beijing Tong Ren Tang Pharmaceutical Co., Ltd. and Beijing Tong Ren Tang Biological Product Development Co., Ltd. Mr. Zhang was appointed as a supervisor at the annual general meeting in 2006.

Mr. Wu Yi Gang, aged 50, 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 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 54, is a senior engineer in political work with a university qualification. Ms. Liu was the Chairman of the labour union of Tong Ren Tang Holdings, the secretary to the Party Committee of the wholesale department of Northern city of Tong Ren Tang 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 41, 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, assistant to the general manager and the deputy general manager of the Company. He is currently the general manager of the Company. He is also a delegate to the Fengtai District's 14th NPC.

Mr. Bai Jian, aged 49, is a deputy chief pharmacist with MBA. 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 Tong Ren Tang Ltd. and the factory manager of southern pharmaceuticals branch factory of Tong Ren Tang Ltd.. He is currently the deputy general manager of the Company.

Mr. Li Da Ming, aged 50, 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 Tong Ren Tang Ltd. Mr. Li is currently the deputy general manager of the Company.

Ms. Xie Su Hua, aged 44, is a senior engineer and a licensed 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.

Ms. Liu Cun Ying, aged 44, is a senior accountant with a university qualification. She formerly served as the chief of the finance section of supply station of Tong Ren Tang Holdings, the deputy manager of the sale branch of the Company, and the assistant to the general manager of the Company. She is currently the deputy general manager of the Company.

Ms. Fang Jia Zhi, aged 42, is a senior auditor with a university qualification. She formerly served as deputy head and head of audit department of Tong Ren Tang Holdings, the deputy chief accountant of the Company. She is currently the chief accountant of the Company.

Ms. Guo Gui Qin, aged 44, is a senior engineer with a postgraduate qualification. She formerly served as the deputy manager of the import and export branch of the Company, and the assistant to the general manager of the Company. She is currently the deputy general manager of the Company.

Ms. Zhang Jing Yan, aged 35, is a licensed pharmacist with a master degree in Economics. She formerly served as a securities representative of Tong Ren Tang Ltd.. She is currently the secretary to the Company's Board of Directors.

Independent Auditor's Report

PRICEWATERHOUSECOOPERS

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 43 to 112, which comprise the consolidated and company balance sheets as of 31 December 2008, 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 consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance 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 judgment, 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 of the Group as of 31 December 2008, 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,
20 March 2009

Balance Sheets

As of 31 December 2008

	Note	The Group 2008 RMB'000	The Group 2007 (Restated) (Note 2) RMB'000	The Company 2008 RMB'000	The Company 2007 (Restated) (Note 2) RMB'000
ASSETS					
Non-current assets					
Property, plant and equipment	4(a)	**447,217**	486,200	**274,828**	305,510
Leasehold land and land use rights	4(b)	**48,755**	51,114	**23,799**	24,370
Investments in subsidiaries	5	**–**	–	**156,442**	131,692
Investments in joint ventures	6	**–**	–	**22,683**	22,683
Deferred income tax assets	10(a)	**2,640**	2,936	**2,064**	2,104
Other long-term assets		**1,548**	2,267	**175**	400
		500,160	542,517	**479,991**	486,759
Current assets					
Inventories	9	**798,226**	636,473	**771,024**	614,338
Trade and bills receivables, net	8	**181,555**	277,723	**167,804**	268,100
Amounts due from related parties	27(e)	**31,885**	18,004	**30,887**	16,200
Prepayments and other current assets		**7,695**	12,245	**4,832**	5,499
Current income tax assets		**12,371**	–	**12,371**	–
Short-term bank deposits	26(b)	**5,196**	84,296	**–**	80,530
Cash and cash equivalents	26(b)	**258,094**	161,800	**187,784**	108,066
		1,295,022	1,190,541	**1,174,702**	1,092,733
Total assets		**1,795,182**	1,733,058	**1,654,693**	1,579,492

The accompanying notes on pages 48 to 112 are an integral part of these financial statements.

Balance Sheets (Cont'd)

As of 31 December 2008

	Note	The Group 2008 RMB'000	The Group 2007 (Restated) (Note 2) RMB'000	The Company 2008 RMB'000	The Company 2007 (Restated) (Note 2) RMB'000
EQUITY					
Capital and reserves attributable to equity holders of the Company					
Share capital	11	**196,000**	196,000	**196,000**	196,000
Reserves	12	**1,164,392**	1,088,931	**1,166,214**	1,090,148
		1,360,392	1,284,931	**1,362,214**	1,286,148
Minority interest in equity		**124,513**	122,874	**–**	–
Total equity		**1,484,905**	1,407,805	**1,362,214**	1,286,148
LIABILITIES					
Non-current liabilities					
Deferred income tax liabilities	10(b)	**1,984**	–	**–**	–
Deferred income – government grants	13	**11,266**	12,250	**10,765**	12,130
		13,250	12,250	**10,765**	12,130
Current liabilities					
Trade payables	15	**222,766**	205,892	**216,850**	193,366
Salary and welfare payables	16	**10,689**	8,782	**10,270**	8,061
Advances from customers		**8,506**	19,392	**6,174**	18,111
Amounts due to related parties	27(e)	**5,652**	14,127	**1,552**	9,133
Amounts due to subsidiaries		**–**	–	**3,230**	3,840
Current income tax liabilities		**315**	640	**–**	378
Accrued expenses and other current liabilities		**34,099**	49,170	**28,638**	33,325
Short-term borrowings	14	**15,000**	15,000	**15,000**	15,000
		297,027	313,003	**281,714**	281,214
Total liabilities		**310,277**	325,253	**292,479**	293,344
Total equity and liabilities		**1,795,182**	1,733,058	**1,654,693**	1,579,492

Yin Shun Hai
Director

Mei Qun
Director

The accompanying notes on pages 48 to 112 are an integral part of these financial statements.

Consolidated Income Statement

For the year ended 31 December 2008

	Note	2008 RMB'000	2007 (Restated) (Note 2) RMB'000
Revenue	17	**1,211,455**	1,157,030
Cost of sales		**(670,225)**	(660,975)
Gross profit		**541,230**	496,055
Distribution costs		**(225,672)**	(185,288)
Administrative expenses		**(116,668)**	(125,899)
Operating profit		**198,890**	184,868
Finance costs – net	18	**(1,642)**	(4,915)
Share of result of an associated company		**–**	(425)
Profit before income tax	19	**197,248**	179,528
Income tax expense	20	**(30,509)**	(25,474)
Profit for the year		**166,739**	154,054
Attributable to:			
Equity holders of the Company		**160,528**	153,915
Minority interest		**6,211**	139
		166,739	154,054
Dividends	21	**78,400**	78,400
Earnings per share for profit attributable to equity holders of the Company during the year	22		
– Basic		**RMB 0.82**	RMB 0.81
– Diluted		**RMB 0.82**	RMB 0.81

The accompanying notes on pages 48 to 112 are an integral part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2008

	Attributable to equity holders of the Company										Minority interest	Total equity
	Share capital	Capital reserve	Statutory surplus reserve fund	Statutory public welfare fund	Tax reserve	Property, plant and equipment revaluation	Foreign currency translation difference	Other reserve	Retained earnings	Total		
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance as of 1 January 2007, as previously stated	182,800	157,925	106,714	45,904	102,043	8,640	(3,581)	–	397,809	998,254	52,968	1,051,222
Adjustment for change in accounting policy (Note 2)	–	(15,835)	–	–	–	(8,640)	–	–	10,586	(13,889)	–	(13,889)
Balance as of 1 January 2007, as restated	182,800	142,090	106,714	45,904	102,043	–	(3,581)	–	408,395	984,365	52,968	1,037,333
Profit for the year	–	–	–	–	–	–	–	–	153,915	153,915	139	154,054
Issue of share capital	13,200	213,219	–	–	–	–	–	–	–	226,419	–	226,419
Dividends paid	–	–	–	–	–	–	–	–	(73,120)	(73,120)	(589)	(73,709)
Foreign currency translation differences	–	–	–	–	–	–	(6,648)	–	–	(6,648)	(3,385)	(10,033)
Equity investment from minority shareholders	–	–	–	–	–	–	–	–	–	–	73,741	73,741
Appropriation from retained earnings	–	–	14,813	–	–	–	–	–	(14,813)	–	–	–
Adjustment for applying new PRC accounting standards (Note 12)	–	–	(252)	(449)	–	–	–	–	701	–	–	–
Balance as of 31 December 2007	196,000	355,309	121,275	45,455	102,043	–	(10,229)	–	475,078	1,284,931	122,874	1,407,805
Balance as of 1 January 2008, as previously stated	196,000	371,144	121,275	45,455	102,043	7,506	(10,229)	–	463,874	1,297,068	122,874	1,419,942
Adjustment for change in accounting policy (Note 2)	–	(15,835)	–	–	–	(7,506)	–	–	11,204	(12,137)	–	(12,137)
Balance as of 1 January 2008, as restated	196,000	355,309	121,275	45,455	102,043	–	(10,229)	–	475,078	1,284,931	122,874	1,407,805
Profit for the year	–	–	–	–	–	–	–	–	160,528	160,528	6,211	166,739
Dividends paid	–	–	–	–	–	–	–	–	(78,400)	(78,400)	(912)	(79,312)
Foreign currency translation differences	–	–	–	–	–	–	(6,199)	–	–	(6,199)	(4,378)	(10,577)
Contribution from a minority shareholder	–	–	–	–	–	–	–	–	–	–	250	250
Purchase of additional interest in a non-wholly owned subsidiary from a minority shareholder	–	–	–	–	–	–	–	(468)	–	(468)	468	–
Appropriation from retained earnings	–	–	15,549	–	–	–	–	–	(15,549)	–	–	–
Balance as of 31 December 2008	196,000	355,309	136,824	45,455	102,043	–	(16,428)	(468)	541,657	1,360,392	124,513	1,484,905

The accompanying notes on pages 48 to 112 are an integral part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2008

	Note	2008 RMB'000	2007 RMB'000
Cash flows from operating activities:			
Cash generated from/(used in) operations	26(a)	**157,808**	(10,186)
Interest paid		**(1,032)**	(3,629)
Income tax paid		**(40,925)**	(28,449)
Net cash generated from/(used in) operating activities		**115,851**	(42,264)
Cash flows from investing activities:			
Purchase of property, plant and equipment		**(20,398)**	(14,318)
Proceeds from liquidation of an associated company		**–**	4,326
Proceeds from disposal of property, plant and equipment		**376**	352
Decrease/(increase) in short-term bank deposits		**79,100**	(74,089)
Interest received		**4,143**	5,472
Net cash generated from/(used in) investing activities		**63,221**	(78,257)
Cash flows from financing activities:			
Proceeds from issuance of new shares		**–**	226,419
Proceeds from short-term borrowings		**15,000**	85,000
Repayments of short-term borrowings		**(15,000)**	(155,000)
Contribution from a minority shareholder		**250**	–
Proceeds from government grants		**1,037**	4,638
Dividends paid		**(79,312)**	(73,709)
Net cash (used in)/generated from financing activities		**(78,025)**	87,348
Net increase/(decrease) in cash and cash equivalents		**101,047**	(33,173)
Cash and cash equivalents at beginning of the year		**161,800**	203,537
Exchange losses on cash and cash equivalents		**(4,753)**	(8,564)
Cash and cash equivalents at end of the year	26(b)	**258,094**	161,800

The accompanying notes on pages 48 to 112 are an integral part of these financial statements.

1. GENERAL INFORMATION

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

Pursuant to a restructuring of Beijing Tong Ren Tang 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 20 March 2009.

Notes to the Consolidated Financial Statements

31 December 2008

1. GENERAL INFORMATION (CONT'D)

As of 31 December 2008, 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

Notes to the Consolidated Financial Statements

31 December 2008

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 Tongke Pharmaceutical Company Limited ("TRT Tongke")	Beijing, PRC 4 November 2003 Limited liability company	67%	RMB75,000,000	Production of ointment, and medical research and development Beijing, PRC
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").

1. GENERAL INFORMATION (CONT'D)

As of 31 December 2008, 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.

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	
	2008	2007
	RMB'000	RMB'000
Assets		
Non-current assets	**3,956**	4,962
Current assets	**27,060**	25,285
	31,016	30,247
Liabilities		
Current liabilities	**5,109**	3,705
Net assets	**25,907**	26,542

	For the year ended 31 December	
	2008	2007
	RMB'000	RMB'000
Revenue	**26,773**	23,028
Expenses	**24,891**	21,409
Profit after income tax	**1,882**	1,619

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) *Basis of preparation*

Except for the change in accounting policy for the property, plant and equipment 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 (r).

In the previous years, the Group's property, plant and equipment were 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 assets.

In the current year, the Company's directors decided to change the accounting policy for the Group's property, plant and equipment to cost model, and accordingly all property, plant and equipment are restated at historical cost less accumulated deprecation and impairment losses, if any. The Company's directors are of the view that the new accounting policy on property, plant and equipment can provide more comparable and relevant information to the users of the financial information because this accounting policy is commonly used in the pharmaceutical industry to reflect the actual usage of property, plant and equipment. The change in accounting policy has been accounted for retrospectively and the financial information for the year ended 31 December 2007 in the consolidated financial information has been restated in order to comply with IAS 8 "Accounting policies, changes in accounting estimates and errors".

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

(a) Basis of preparation (Cont'd)

The effect of the change in accounting policy is as follows:

	2008 RMB'000	2007 RMB'000
At 31 December:		
Decrease in property, plant and equipment	**(15,188)**	(16,134)
Decrease in inventory	**(52)**	(48)
Increase in deferred income tax assets	**828**	1,544
Decrease/(increase) in reserves		
– Capital reserve (Note 12(a))	**15,835**	15,835
– Property, plant and equipment revaluation	**8,302**	7,506
– Retained earnings	**(11,190)**	(11,204)
Decrease in deferred income tax liabilities	**1,465**	2,501
For the year ended:		
(Decrease)/increase in profit for the year	**(14)**	395

As the effect of the change in accounting policy on the income statements for the years ended 31 December 2007 and 31 December 2008 is not significant, there is no material effect on the corresponding basic and diluted earnings per share.

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). They have been prepared under the historical cost convention.

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

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

(a) *Basis of preparation* *(Cont'd)*

i) Amendments and interpretations effective in 2008

- IAS 39, 'Financial instruments: Recognition and measurement', amendment on reclassification of financial assets and related amendment to IFRS 7, 'Financial instruments: Disclosures'
- IFRIC 11, 'IFRS 2 – Group and treasury share transactions'
- IFRIC 12, 'Service concession arrangements'
- IFRIC 14, 'IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction'

The adoption of the above amendments and interpretations does not have any significant financial impact to the Group.

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

- IAS 1 (Revised), 'Presentation of financial statements' (effective for annual periods beginning on or after 1 January 2009)
- IAS 16 (Amendment), 'Property, plant and equipment' (and consequential amendment to IAS 7, 'Statement of cash flows') (effective for annual periods beginning on or after 1 January 2009)
- IAS 19 (Amendment), 'Employee benefits' (effective for annual periods beginning on or after 1 January 2009)

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

(a) *Basis of preparation* *(Cont'd)*

ii) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group (CONT'D)

- IAS 20 (Amendment), 'Accounting for government grants and disclosure of government assistance' (effective for annual periods beginning on or after 1 January 2009)
- IAS 23 (Revised), 'Borrowing costs' (effective for annual periods beginning on or after 1 January 2009)
- IAS 27 (Revised), 'Consolidated and separate financial statements' (effective for annual periods beginning on or after 1 July 2009)
- IAS 28 (Amendment), 'Investments in associates' (and consequential amendments to IAS 32, 'Financial Instruments: Presentation' and IFRS 7, 'Financial instruments: Disclosures') (effective for annual periods beginning on or after 1 January 2009)
- IAS 29 (Amendment), 'Financial reporting in hyperinflationary economies' (effective for annual periods beginning on or after 1 January 2009)
- IAS 31 (Amendment), 'Interests in joint ventures (and consequential amendments to IAS 32 and IFRS 7) (effective for annual periods beginning on or after 1 January 2009)
- IAS 32 (Amendment), 'Financial instruments: Presentation', and IAS 1 (Amendment), 'Presentation of financial statements' – 'Puttable financial instruments and obligations arising on liquidation' (effective for annual periods beginning on or after 1 January 2009)

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

(a) *Basis of preparation* (*Cont'd*)

ii) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group (Cont'd)

- IAS 36 (Amendment), 'Impairment of assets' (effective for annual periods beginning on or after 1 January 2009)
- IAS 38 (Amendment), 'Intangible assets' (effective for annual periods beginning on or after 1 January 2009)
- IAS 39 (Amendment), 'Financial instruments: Recognition and measurement' (effective for annual periods beginning on or after 1 January 2009)
- IAS 39 (Amendment), 'Financial instruments: Recognition and measurement' – 'Eligible hedged items' (effective for annual periods beginning on or after 1 July 2009)
- IAS 40 (Amendment), 'Investment property' (and consequential amendments to IAS 16) (effective for annual periods beginning on or after 1 January 2009)
- IAS 41 (Amendment), 'Agriculture' (effective for annual periods beginning on or after 1 January 2009)
- IFRS 1 (Amendment) 'First time adoption of IFRS' and IAS 27 'Consolidated and separate financial statements' (effective for annual periods beginning on or after 1 July 2009)
- IFRS 2 (Amendment), 'Share-based payment' (effective for annual periods beginning on or after 1 January 2009)
- IFRS 3 (Revised), 'Business combinations' (effective for annual periods beginning on or after 1 July 2009)

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

(a) Basis of preparation (Cont'd)

ii) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group (Cont'd)

– IFRS 5 (Amendment), 'Non-current assets held for sale and discontinued operations' (and consequential amendment to IFRS 1, 'First-time adoption') (effective for annual periods beginning on or after 1 July 2009)

– IFRS 8, 'Operating segments' (effective for annual periods beginning on or after 1 January 2009)

– IFRIC 13, 'Customer loyalty programmes' (effective for annual periods beginning on or after 1 July 2008)

– IFRIC 15, 'Agreements for construction of real estates' (effective for annual periods beginning on or after 1 January 2009)

– IFRIC 16, 'Hedges of a net investment in a foreign operation' (effective for annual periods beginning on or after 1 October 2008)

– IFRIC 17, 'Distribution of non-cash assets to owners' (effective for annual periods beginning on or after 1 July 2009)

– IFRIC 18, 'Transfers of assets from customers' (effective for annual periods beginning on or after 1 July 2009)

There are a number of minor amendments to IFRS 7, 'Financial instruments: Disclosures', IAS 8, 'Accounting policies, changes in accounting estimates and errors', IAS 10, 'Events after the reporting period', IAS 18, 'Revenue' and IAS 34, 'Interim financial reporting', which are part of the IASB's annual improvements project published in May 2008 not addressed above. These amendments are unlikely to have an impact on the Group's financial statements.

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

(b) *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(d) below.

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated. Accounting policies of subsidiaries have been changed where necessary in the consolidated financial statements to ensure consistency with the policies adopted by the Group.

The Group applies a policy of treating transactions with minority interests as transactions with equity owners of the Group. For purchases from minority interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to minority interests are also recorded in equity.

(c) *Property, plant and equipment*

Property, plant and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

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

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

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

Depreciation on property, plant and equipment is calculated using the straight-line method to allocate their costs to their residual values over their estimated useful lives, 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 consolidated income statement.

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.

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

(d) 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 companies are stated at cost less provision for impairment losses. The results of subsidiaries, joint ventures and associated companies are accounted for by the Company on the basis of dividend received and receivable.

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

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

Assets that have an indefinite useful life, for example goodwill, 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 impairment are reviewed for possible reversal of the impairment at each reporting date.

(f) Research and development costs

Research expenditure is recognised as an expense as incurred. Costs incurred in development projects (relating to the design and testing of new or improved products) are recognised as intangible assets when it is probable that the project will be successful considering its commercial and technical feasibility and its costs can be measured reliably. Other development expenditures that do not meet these criteria are expensed as incurred. Development costs previously recognised as expenses are not recognised as assets in subsequent periods. Capitalised development costs are recorded as intangible assets and amortised from the point at which the asset is ready for use on a straight-line basis over its useful life, not exceeding five years; and tested for impairment according to Note 2(e).

(g) 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.

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

(h) 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 the 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 receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the assets is reduced through the use of an allowance account, and the amount of the loss is recognised in the consolidated income statement within 'administrative expense'. When a receivable is uncollectible, it is written off against the allowance account for receivables. Subsequent recoveries of amounts previously written off are credited against 'administrative expense' in the consolidated income statement.

(i) 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.

(j) Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of value-added tax, returns, rebates and discounts and after eliminating sales within the Group.

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

(j) *Revenue recognition (Cont'd)*

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 collectability 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 the 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 the services for distribution of products are rendered.

(k) *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 the Group's presentation currency.

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

(k) *Foreign currency translation* *(Cont'd)*

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. 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 consolidated 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 consolidated 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.

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 partially disposed of or sold, exchange differences that were recorded in equity are recognised in the consolidated income statement as part of the gain or loss on sale.

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

(k) *Foreign currency translation (Cont'd)*

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.

(l) *Trade payables*

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

(m) *Borrowings*

Borrowings are recognised initially at 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 consolidated 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.

(n) *Current and deferred income tax*

The tax expense for the period comprises current and deferred tax. Tax is recognised in the consolidated income statement, except to the extent that it relates to items recognised directly in equity. In this case, the tax is also recognised in equity.

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. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

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

(n) *Current and deferred income tax (Cont'd)*

Deferred income tax is recognised, using the liability method, on temporary differences, arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries 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.

(o) *Leases*

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

(p) *Retirement scheme*

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

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

(p) *Retirement scheme (Cont'd)*

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.

(q) *Government grants*

Government grants are recognised at their fair value where there is a reasonable assurance that the grants will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the income statement over the period necessary to match them with the costs they are intended to compensate.

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

(r) *Dividend distribution*

Dividend distribution to the Company's shareholders 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.

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.

3. CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS (CONT'D)

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 addressed below.

(i) Net realisable value of inventories

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

(ii) Estimated provision for impairment of receivables

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

(iii) Income taxes

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

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 2007 as previously stated						
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
Adjustment for change in accounting policy (Note 2)						
Valuation	18,158	80,818	8,560	5,093	–	112,629
Accumulated depreciation	(28,079)	(87,018)	(8,634)	(5,285)	–	(129,016)
At 1 January 2007 as restated						
Cost	323,741	319,967	13,068	12,367	26,264	695,407
Accumulated depreciation	(42,266)	(119,551)	(10,047)	(7,546)	–	(179,410)
Net book amount	281,475	200,416	3,021	4,821	26,264	515,997
Year ended 31 December 2007						
Opening net book amount	281,475	200,416	3,021	4,821	26,264	515,997
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	(9,299)	(32,916)	(1,122)	(1,823)	–	(45,160)
Closing net book amount	290,343	182,544	2,142	5,376	5,795	486,200

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

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

The Group: (Cont'd)

	Buildings RMB'000	Equipment and machinery RMB'000	Motor vehicles RMB'000	Office equipment RMB'000	CIP RMB'000	Total RMB'000
At 31 December 2007 as previously stated						
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
Adjustment for change in accounting policy (Note 2)						
Valuation	19,871	73,606	8,556	5,086	–	107,119
Accumulated depreciation	(29,621)	(79,737)	(8,628)	(5,267)	–	(123,253)
At 31 December 2007 as restated						
Cost	343,621	327,799	13,307	14,738	5,795	705,260
Accumulated depreciation	(53,278)	(145,255)	(11,165)	(9,362)	–	(219,060)
Net book amount	290,343	182,544	2,142	5,376	5,795	486,200
Year ended 31 December 2008						
Opening net book amount	290,343	182,544	2,142	5,376	5,795	486,200
Exchange differences	(4,460)	(1,947)	(19)	(251)	–	(6,677)
Additions	46	68	370	388	11,943	12,815
Transferred from CIP	2,840	10,876	1,199	2,222	(17,137)	–
Disposals	–	(264)	(191)	(8)	–	(463)
Depreciation	(13,071)	(29,301)	(893)	(1,393)	–	(44,658)
Closing net book amount	275,698	161,976	2,608	6,334	601	447,217
At 31 December 2008						
Cost	341,650	332,792	11,729	16,843	601	703,615
Accumulated depreciation	(65,952)	(170,816)	(9,121)	(10,509)	–	(256,398)
Net book amount	275,698	161,976	2,608	6,334	601	447,217

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 2007 as previously stated						
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
Adjustment for change in accounting policy (Note 2)						
Valuation	17,598	80,648	7,838	3,698	–	109,782
Accumulated depreciation	(26,936)	(87,457)	(7,929)	(3,847)	–	(126,169)
At 1 January 2007 as restated						
Cost	217,404	267,099	11,333	8,584	–	504,420
Accumulated depreciation	(40,357)	(116,502)	(9,028)	(5,612)	–	(171,499)
Net book amount	177,047	150,597	2,305	2,972	–	332,921
Year ended 31 December 2007						
Opening net book amount	177,047	150,597	2,305	2,972	–	332,921
Additions	685	–	124	39	9,306	10,154
Transferred from CIP	1,421	4,756	134	671	(6,982)	–
Disposals	–	(763)	–	(28)	–	(791)
Depreciation	(6,875)	(27,923)	(889)	(1,087)	–	(36,774)
Closing net book amount	172,278	126,667	1,674	2,567	2,324	305,510

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

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

The Company: (Cont'd)

	Buildings RMB'000	Equipment and machinery RMB'000	Motor vehicles RMB'000	Office equipment RMB'000	CIP RMB'000	Total RMB'000
At 31 December 2007 as previously stated						
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
Adjustment for change in accounting policy (Note 2)						
Valuation	17,598	74,593	7,838	3,648	–	103,677
Accumulated depreciation	(26,765)	(81,333)	(7,927)	(3,785)	–	(119,810)
At 31 December 2007 as restated						
Cost	219,510	265,037	11,591	9,216	2,324	507,678
Accumulated depreciation	(47,232)	(138,370)	(9,917)	(6,649)	–	(202,168)
Net book amount	172,278	126,667	1,674	2,567	2,324	305,510
Year ended 31 December 2008						
Opening net book amount	172,278	126,667	1,674	2,567	2,324	305,510
Additions	–	–	–	4	4,960	4,964
Transferred from CIP	–	5,766	1,048	470	(7,284)	–
Disposals	–	(265)	(188)	(6)	–	(459)
Depreciation	(9,839)	(23,513)	(635)	(1,200)	–	(35,187)
Closing net book amount	162,439	108,655	1,899	1,835	–	274,828
At 31 December 2008						
Cost	219,510	267,180	9,888	9,543	–	506,121
Accumulated depreciation	(57,071)	(158,525)	(7,989)	(7,708)	–	(231,293)
Net book amount	162,439	108,655	1,899	1,835	–	274,828

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	
	2008	2007	2008	2007
	RMB'000	RMB'000	RMB'000	RMB'000
In the PRC mainland, held on:				
Leases of between 10 to 50 years	**30,329**	31,041	**23,799**	24,370
In Hong Kong, held on:				
Leases of between 10 to 50 years	**18,426**	20,073	**–**	–
	48,755	51,114	**23,799**	24,370

	The Group		The Company	
	2008	2007	2008	2007
	RMB'000	RMB'000	RMB'000	RMB'000
Opening	**51,114**	53,798	**24,370**	24,941
Amortisation of prepaid operating lease payments	**(2,359)**	(2,684)	**(571)**	(571)
	48,755	51,114	**23,799**	24,370

5. INVESTMENTS IN SUBSIDIARIES

	The Company	
	2008	2007
	RMB'000	RMB'000
Investments at cost (i)	**100,090**	54,940
Other investments (ii)	**56,352**	76,752
	156,442	131,692

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

(ii) As of 31 December 2008, the amounts due from subsidiaries of RMB56,352,000 (2007: RMB 76,752,000) were regarded as part of the investments in subsidiaries since the Company would not seek repayment from these subsidiaries. In 2008, an amount due from a subsidiary of RMB20,400,000 was contributed to a subsidiary as capital injection.

6. INVESTMENTS IN JOINT VENTURES

	The Company	
	2008	2007
	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.

7. FINANCIAL INSTRUMENTS BY CATEGORY

The Group:

	Loans and receivables	
	2008	2007
	RMB'000	RMB'000
Assets as per consolidated balance sheet		
Trade and bills receivables	**181,555**	277,723
Amounts due from related parties	**31,885**	18,004
Short-term bank deposits	**5,196**	84,296
Cash and cash equivalents	**258,094**	161,800
Total	**476,730**	541,823

	Other financial liabilities	
	2008	2007
	RMB'000	RMB'000
Liabilities as per consolidated balance sheet		
Trade payables	**222,766**	205,892
Amounts due to related parties	**5,652**	14,127
Accrued expenses and other current liabilities	**34,099**	49,170
Short-term borrowings	**15,000**	15,000
Total	**277,517**	284,189

7. FINANCIAL INSTRUMENTS BY CATEGORY (CONT'D)

The Company:

	Loans and receivables	
	2008	2007
	RMB'000	RMB'000
Assets as per balance sheet		
Trade and bills receivables	**167,804**	268,100
Amounts due from related parties	**30,887**	16,200
Short-term bank deposits	**–**	80,530
Cash and cash equivalents	**187,784**	108,066
Total	**386,475**	472,896

	Other financial liabilities	
	2008	2007
	RMB'000	RMB'000
Liabilities as per balance sheet		
Trade payables	**216,850**	193,366
Amounts due to related parties	**1,552**	9,133
Accrued expenses and other current liabilities	**28,638**	33,325
Short-term borrowings	**15,000**	15,000
Total	**262,040**	250,824

8. TRADE AND BILLS RECEIVABLES, NET

	The Group		The Company	
	2008	2007	2008	2007
	RMB'000	RMB'000	RMB'000	RMB'000
Trade and bills receivables	**202,970**	300,038	**189,219**	290,415
Less: provision for impairment of receivables	**(21,415)**	(22,315)	**(21,415)**	(22,315)
Trade and bills receivables, net	**181,555**	277,723	**167,804**	268,100

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

The Group normally grants a credit period ranging from 30 days to 120 days to its trade customers. As of 31 December 2008 and 2007, the ageing analysis of trade and bills receivables was as follows:

	The Group		The Company	
	2008	2007	2008	2007
	RMB'000	RMB'000	RMB'000	RMB'000
Within 4 months	**166,769**	261,478	**153,960**	252,499
Over 4 months but within 1 year	**31,819**	27,621	**31,437**	27,386
Over 1 year but within 2 years	**2,365**	7,857	**1,805**	7,517
Over 2 years but within 3 years	**1,318**	2,782	**1,318**	2,713
Over 3 years	**699**	300	**699**	300
	202,970	300,038	**189,219**	290,415

As of 31 December 2008, there were no trade and bills receivables past due but not considered impaired (2007: nil).

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

As of 31 December 2008, trade and bills receivables of RMB21,415,000 (2007: RMB22,315,000) were impaired and provided for. The amount of the provision was RMB21,415,000 as of 31 December 2008 (2007: RMB22,315,000). The ageing analysis of these receivables is as follows:

	The Group		The Company	
	2008	2007	2008	2007
	RMB'000	RMB'000	RMB'000	RMB'000
Within 4 months	**1,232**	9,288	**1,232**	9,288
Over 4 months	**20,183**	13,027	**20,183**	13,027
	21,415	22,315	**21,415**	22,315

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

	The Group		The Company	
	2008	2007	2008	2007
	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January	**22,315**	14,721	**22,315**	14,721
(Reversal of provision)/provision for impairment of receivables	**(900)**	7,594	**(900)**	7,594
At 31 December	**21,415**	22,315	**21,415**	22,315

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

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

9. INVENTORIES

	The Group		The Company	
	2008	2007	2008	2007
		(Restated)		(Restated)
		(Note 2)		(Note 2)
	RMB'000	RMB'000	RMB'000	RMB'000
Raw materials	**457,381**	341,350	**448,816**	329,439
Work-in-progress	**122,745**	94,725	**119,498**	91,527
Finished goods	**218,100**	200,398	**202,710**	193,372
	798,226	636,473	**771,024**	614,338

10. 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.

Pursuant to the new CIT Law, enterprises with a High/New Technology Enterprise ("HNTE") status are able to enjoy a preferential tax rate of 15%. As of 31 December 2008, the Company has obtained the HNTE certificate. Consequently, when recognising deferred income tax as of 31 December 2008, the Company applied a tax rate of 15% (2007: 25%) on the temporary differences.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxed levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

10. DEFERRED INCOME TAX (CONT'D)

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

(a) *Deferred income tax assets*

	The Group		The Company	
	2008	2007	2008	2007
		(Restated)		(Restated)
		(Note 2)		(Note 2)
	RMB'000	RMB'000	RMB'000	RMB'000
Beginning of the year	**2,936**	1,286	**2,104**	1,286
(Charged)/credited to income statement as a result of decrease/increase in expected applicable tax rate	**(1,162)**	842	**(779)**	842
Credited/(charged) to income statement	**866**	808	**739**	(24)
End of the year	**2,640**	2,936	**2,064**	2,104
Provided for in respect of:				
Provision for termination benefits	**547**	93	**547**	93
Amortisation of leasehold land and land use rights	**296**	467	**296**	467
Unrealised profit resulting from intragroup transactions	**576**	832	**–**	–
Decelerated tax depreciation allowance	**828**	1,544	**828**	1,544
Provision for inventories	**393**	–	**393**	–
	2,640	2,936	**2,064**	2,104

10. DEFERRED INCOME TAX (CONT'D)

(b) Deferred income tax liabilities

	The Group		The Company	
	2008	2007 (Restated) (Note 2)	**2008**	2007 (Restated) (Note 2)
	RMB'000	RMB'000	**RMB'000**	RMB'000
Beginning of the year	**–**	–	**–**	–
Charged to income statement	**1,984**	–	**–**	–
End of the year	**1,984**	–	**–**	–
Provided for in respect of:				
Accelerated tax depreciation allowance	**1,984**	–	**–**	–

10. DEFERRED INCOME TAX (CONT'D)

The balance in deferred tax assets and liabilities as of 31 December, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

(a) *Deferred income tax assets*

	The Group		The Company	
	2008	2007 (Restated) (Note 2)	2008	2007 (Restated) (Note 2)
	RMB'000	RMB'000	RMB'000	RMB'000
Provided for in respect of:				
Tax losses	**3,718**	–	**–**	–
Provision for termination benefits	**547**	93	**547**	93
Amortisation of leasehold land and land use rights	**296**	467	**296**	467
Unrealised profit resulting from intragroup transactions	**576**	832	**–**	–
Decelerated tax depreciation allowance	**828**	1,544	**828**	1,544
Provision for inventories	**393**	–	**393**	–
	6,358	2,936	**2,064**	2,104

(b) *Deferred income tax liabilities*

	The Group		The Company	
	2008	2007 (Restated) (Note 2)	2008	2007 (Restated) (Note 2)
	RMB'000	RMB'000	RMB'000	RMB'000
Provided for in respect of:				
Accelerated tax depreciation allowance	**(5,702)**	–	**–**	–

11. SHARE CAPITAL

	2008 Number of shares	2008 Nominal value RMB'000	2007 Number of shares	2007 Nominal value RMB'000
Registered	**196,000,000**	**196,000**	196,000,000	196,000
Issued and fully paid				
– Domestic shares with a par value of RMB1 per share	**108,680,000**	**108,680**	108,680,000	108,680
– H shares with a par value of RMB1 per share	**87,320,000**	**87,320**	87,320,000	87,320
	196,000,000	**196,000**	196,000,000	196,000

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

	2008 Domestic shares RMB'000	2008 H shares RMB'000	2008 Total RMB'000	2007 Domestic shares RMB'000	2007 H shares RMB'000	2007 Total RMB'000
At 1 January	**108,680**	**87,320**	**196,000**	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**	108,680	87,320	196,000

12. RESERVES

	The Company						
	Capital reserve 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 2007, as previously stated	157,925	106,714	45,904	102,043	8,640	394,893	816,119
Adjustment for change in accounting policy (Note 2)	(15,835)	–	–	–	(8,640)	10,586	(13,889)
Balance as of 1 January 2007, as restated	142,090	106,714	45,904	102,043	–	405,479	802,230
Profit for the year	–	–	–	–	–	147,819	147,819
Issue of share capital	213,219	–	–	–	–	–	213,219
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	355,309	121,275	45,455	102,043	–	466,066	1,090,148
Balance as of 1 January 2008, as previously stated	371,144	121,275	45,455	102,043	7,506	454,862	1,102,285
Adjustment for change in accounting policy (Note 2)	(15,835)	–	–	–	(7,506)	11,204	(12,137)
Balance as of 1 January 2008, as restated	355,309	121,275	45,455	102,043	–	466,066	1,090,148
Profit for the year	–	–	–	–	–	154,466	154,466
Dividends paid	–	–	–	–	–	(78,400)	(78,400)
Appropriation from retained earnings	–	15,549	–	–	–	(15,549)	–
Balance as of 31 December 2008	355,309	136,824	45,455	102,043	–	526,583	1,166,214

12. 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 12 (b), statutory reserves are set aside 10% of the Company's net profit after income 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) Capital reserve

Capital reserve of the Company represents the difference between the amount of share capital issued by the Company and the historical net value of the assets, liabilities and interests transferred to the Company upon its establishment, set off by net premium on issue of shares upon listing of the Company and issuance of additional shares.

As described in Note 2, in current year, the Company's directors decided to change the accounting policy for the Group's property, plant and equipment to cost model. Upon establishment of the Company, the revalued net value of the assets, liabilities and interests transferred to the Company were converted to the Company's registered capital. Accordingly, the difference between the Company's issued shared capital and the historical net value of the assets, liabilities and interests transferred to the Company of RMB15,835,000 was recorded in the capital reserve of the Company.

(b) Statutory reserve

The Company sets aside 10% of its net profit after income tax, before distribution of dividend to shareholders, as stated in the financial statements prepared under PRC accounting standards to the statutory surplus reserve fund. Approximately RMB15,549,000 (2007: RMB14,813,000), being 10% of the net profit after income tax as stated in the financial statements prepared under PRC accounting standards, was transferred to the statutory surplus reserve fund for the year ended 31 December 2008.

12. RESERVES (CONT'D)

(c) *Tax reserve*

According to the preferential enterprise income tax policy for new technology enterprises under the old Enterprise Income Tax ("EIT") regulation (effective before 1 January 2008), the Company was fully exempted from 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 not distributable to shareholders.

(d) *Retained earnings*

Pursuant to the Company's Articles of Association, the reserves available for distribution is the lower of the amount prepared under PRC accounting standards and the amount prepared under IFRS. As of 31 December 2008, the reserve available for distribution was approximately RMB521,096,000 (2007: RMB459,558,000) being the amount determined in accordance with PRC accounting standards.

13. DEFERRED INCOME – GOVERNMENT GRANTS

	The Group		The Company	
	2008	2007	2008	2007
	RMB'000	RMB'000	RMB'000	RMB'000
Beginning of the year	**12,250**	11,236	**12,130**	11,236
Government grants received	**1,037**	4,638	**492**	4,518
Amount recognised in the income statement	**(2,021)**	(3,624)	**(1,857)**	(3,624)
End of the year	**11,266**	12,250	**10,765**	12,130

14. SHORT-TERM BORROWINGS

As of 31 December 2008, the Company and the Group had unsecured short-term bank borrowings of RMB15,000,000 (2007: RMB15,000,000). These borrowings bear fixed interest rate of 6.723% (2007: 5.913%) 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.

15. TRADE PAYABLES

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

	The Group		The Company	
	2008	2007	2008	2007
	RMB'000	RMB'000	RMB'000	RMB'000
Within 4 months	**170,494**	155,052	**164,687**	142,612
Over 4 months but within 1 year	**47,977**	48,893	**47,878**	48,872
Over 1 year but within 2 years	**4,295**	1,947	**4,285**	1,882
	222,766	205,892	**216,850**	193,366

16. SALARY AND WELFARE PAYABLES

	The Group		The Company	
	2008	2007	2008	2007
	RMB'000	RMB'000	RMB'000	RMB'000
Salary payable	**7,240**	5,489	**7,004**	5,404
Welfare payable	**3,449**	3,293	**3,266**	2,657
	10,689	8,782	**10,270**	8,061

17. REVENUE

	2008 RMB'000	2007 RMB'000
Sales of medicine		
– Domestic	**1,147,282**	1,098,196
– Overseas	**56,022**	49,099
	1,203,304	1,147,295
Agency fee for distribution services	**8,151**	9,735
	1,211,455	1,157,030

18. FINANCE COSTS – NET

	2008 RMB'000	2007 RMB'000
Interest income on cash at bank and short-term bank deposits	**4,143**	5,472
Interest expenses on bank borrowings wholly repayable within five years	**(1,032)**	(3,629)
Exchange losses	**(4,753)**	(6,758)
Finance costs – net	**(1,642)**	(4,915)

19. PROFIT BEFORE INCOME TAX

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

	2008	2007 (Restated) (Note 2)
	RMB'000	RMB'000
Raw materials and consumables used	**469,461**	434,868
Change in inventories of finished goods and work in progress	**(45,722)**	(20,353)
Employee benefit expense		
– Salary and wages	**107,827**	88,349
– Staff welfare	**11,469**	9,963
– Housing fund	**8,559**	6,985
– Contributions to retirement schemes	**30,796**	24,997
Depreciation of property, plant and equipment (Note 4(a))	**44,658**	45,160
Amortisation of prepaid operating lease payments (Note 4(b))	**2,359**	2,684
Amortisation of other long-term assets	**719**	1,864
Inventory provision	**2,620**	2,462
(Reversal of provision)/provision for impairment of receivables (Note 8)	**(900)**	7,594
Operating lease rental	**17,719**	20,240
Auditor's remuneration	**1,510**	1,510
Research and development costs	**6,838**	4,070
Advertising expenses	**46,629**	36,855
Loss on disposal of property, plant and equipment	**87**	742
Recognition of government grants (Note 13)	**(2,021)**	(3,624)

20. INCOME TAX EXPENSE

From 1 January 2008, the Company determines and pays income tax in accordance with the new CIT Law as approved by the National People's Congress on 16 March 2007. Pursuant to the new CIT Law, enterprises with an HNTE status are able to enjoy a preferential tax rate of 15%. For the entities without the HNTE status, the PRC income tax rate is 25% (2007: 33%). As of 31 December 2008, the Company has obtained the HNTE certificate. Consequently, the applicable income tax rate of the Company in 2008 is 15% (2007: 15%).

Details of income tax during the year are as follows:

	2008	2007 (Restated) (Note 2)
	RMB'000	RMB'000
PRC income tax expense	**27,847**	26,722
Overseas income tax expense	**382**	402
Deferred income tax expense/(credit)	**2,280**	(1,650)
	30,509	25,474

20. INCOME TAX EXPENSE (CONT'D)

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

	2008	2007 (Restated) (Note 2)
	RMB'000	RMB'000
Profit before income tax	**197,248**	179,528
Tax calculated at the PRC statutory income tax rate of 25% (2007: 33%)	**49,312**	59,244
Income not subject to tax	**(2,238)**	(440)
Expenses not deductible for tax purposes	**833**	–
Effect of decrease/(increase) in expected applicable tax rate	**1,162**	(1,196)
Effect of preferential income tax treatments	**(17,437)**	(31,395)
Effect of different tax rates and tax refund for consolidated subsidiaries and joint ventures	**(1,123)**	(739)
Income tax expense	**30,509**	25,474

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.

Pursuant to the relevant PRC regulations under the old EIT regulation, 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.

20. INCOME TAX EXPENSE (CONT'D)

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. The Company renewed its NTE certificate with Beijing Science-Technology Committee periodically. Moreover, the above EIT preferential income tax rate of 15% could be applied to the Company in 2007 and the years before as the Company was registered in BETDZ and kept its NTE status in 2007 and the years before.

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 2007 and the years before would be approximately 2007: RMB4,388,000; 2006: RMB 5,643,000; 2005: RMB 63,827,000; 2004: RMB 60,334,000. The directors are of opinion that such additional EIT liabilities are unlikely to arise.

21. DIVIDENDS

	2008 RMB'000	2007 RMB'000
Dividends proposed	**78,400**	78,400

On 20 March 2009, the Board of Directors proposed a final dividend of RMB0.40 per share (2007: RMB0.40 per share) for the year ended 31 December 2008, totalling approximately RMB78,400,000 (2007: RMB78,400,000). The proposed dividend distribution is subject to the shareholders' approval at the Annual General Meeting in 2009. The dividend will be recorded in the Group's financial statements for the year ending 31 December 2009.

22. EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company of approximately RMB160,528,000 (2007: RMB153,915,000) by the weighted average number of 196,000,000 shares (2007: 190,286,000 shares) in issue during the year.

The Company had no dilutive potential shares for the years ended 31 December 2008 and 2007.

	2008 RMB'000	2007 (Restated) (Note 2) RMB'000
Profit attributable to equity holders of the Company	**160,528**	153,915
Weighted average number of ordinary shares in issue (thousands)	**196,000**	190,286
Earnings per share	**RMB0.82**	RMB0.81

23. 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 2008 is set out below:

	Fees RMB'000	Basic salaries and allowance RMB'000	Employer's contribution to pension scheme RMB'000	Bonuses RMB'000	Total RMB'000
Directors:					
Mr. Yin Shun Hai	–	–	–	–	–
Mr. Mei Qun	–	–	–	–	–
Mr. Wang Quan	–	–	–	–	–
Ms. Ding Yong Ling	–	–	–	–	–
Mr. Kuang Gui Shen	–	604	24	–	628
Mr. Zhang Sheng Yu (Note i)	–	–	–	–	–
Miss Tam Wai Chu, Maria	159	–	–	–	159
Mr. Ting Leung Huel, Stephen	159	–	–	–	159
Mr. Jin Shi Yuan	48	–	–	–	48
Supervisors:					
Mr. Zhang Xi Jie	–	–	–	–	–
Mr. Wu Yi Gang	48	–	–	–	48
Ms. Liu Gui Rong	–	196	24	–	220

Note i: Resigned as Mr. Zhang Sheng Yu passed away on 22 July 2008.

23. 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 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
Miss Tam Wai Chu, Maria	169	–	–	–	169
Mr. Ting Leung Huel, Stephen	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

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.

23. 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 (2007: one) director whose emoluments are reflected in the analysis presented in Note 23 (a) above. The emoluments payable to the remaining four (2007: four) individuals during the year are as follows:

	2008 RMB'000	2007 RMB'000
Basic salaries and allowance, bonuses	**1,837**	1,355
Contribution to pension scheme	**80**	72
	1,917	1,427

The emoluments fell within the following band:

	Number of individuals 2008	 2007
Nil to RMB882,000 (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.

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

(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.

24. 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% (2007: 28% to 32%) of the employees' standard salaries, of which 20% to 24% (2007: 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 2008 and 2007, were approximately RMB3,644,000 and RMB373,000 respectively.

25. 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 employees' 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 2008, the Group contributed approximately RMB8,559,000 (2007: RMB6,985,000) to the fund.

26. CASH GENERATED FROM/(USED IN) OPERATIONS

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

	2008	2007 (Restated) (Note 2)
	RMB'000	RMB'000
Profit before income tax	**197,248**	179,528
Adjustments for:		
(Reversal of provision)/provision for impairment of receivables	**(900)**	7,594
Depreciation of property, plant and equipment	**44,658**	45,160
Amortisation of prepaid operating lease payments	**2,359**	2,684
Amortisation of other long-term assets	**719**	1,864
Inventory provision	**2,620**	2,462
Loss on disposal of property, plant and equipment	**87**	742
Share of result of an associated company	**–**	425
Deferred government grants recognised in the income statement	**(2,021)**	(3,624)
Interest income	**(4,143)**	(5,472)
Interest expenses	**1,032**	3,629
Exchange losses	**4,753**	6,758
Operating profit before working capital changes	**246,412**	241,750
Decrease/(increase) in current assets:		
Trade and bills receivables	**97,068**	(134,528)
Inventories	**(164,373)**	(126,722)
Prepayments and other current assets	**4,550**	(847)
Amounts due from related parties	**(13,881)**	(1,431)
Increase/(decrease) in current liabilities:		
Trade payables	**16,874**	53,484
Other current liabilities	**(20,367)**	(13,750)
Amounts due to related parties	**(8,475)**	(28,142)
Cash generated from/(used in) operations	**157,808**	(10,186)

26. CASH GENERATED FROM/(USED IN) 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	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
Cash at bank and in hand				
RMB	**202,215**	114,843	**171,637**	96,721
Hong Kong Dollar	**45,761**	38,136	**15,060**	10,192
US Dollar	**5,182**	4,113	**1,087**	1,153
Macanese Pataca	**1,918**	2,147	**–**	–
Malaysian Ringgit	**1,719**	907	**–**	–
Indonesian Rupiah	**985**	1,028	**–**	–
Canadian Dollar	**314**	626	**–**	–
	258,094	161,800	**187,784**	108,066

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

	The Group		The Company	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
RMB	**4,800**	2,000	**–**	–
Hong Kong Dollar	**–**	80,530	**–**	80,530
US Dollar	**–**	953	**–**	–
Malaysian Ringgit	**396**	813	**–**	–
	5,196	84,296	**–**	80,530

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

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

The weighted average effective interest rate on short-term bank deposits was 3.22% (2007: 3.21%) per annum.

As of 31 December 2008, the cash in hand balance of the Group was RMB306,000 (2007: RMB371,000). Cash at bank and short-term bank deposits balance of the Group was RMB262,984,000 (2007: RMB245,725,000). Management did not expect any losses from non-performance by those banks.

27. 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.

27. RELATED PARTY TRANSACTIONS (CONT'D)

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

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

27. RELATED PARTY TRANSACTIONS (CONT'D)

(a) *Transactions with ultimate holding company*

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

	2008 RMB'000	2007 RMB'000
Trademark licence fee (Note (i))	**850**	850
Rental expense (Note (ii))	**2,364**	2,364
Storage fee (Note (iii))	**6,804**	6,804

Notes:

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

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

The annual licence fee for the year ended 2008 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.

27. RELATED PARTY TRANSACTIONS (CONT'D)

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

Notes: (Cont'd)

(ii) A land use right leasing agreement (the "Old Agreement") dated 6 October 2000 was entered into between the Company and the ultimate holding company. Pursuant to the agreement, the total area leased to the Company is approximately 49,776.35 sq.m. The land is located in Beijing, the PRC, with 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.

(iii) A contract for storage and custody dated 15 April 2008 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, with effective period from 2008 to 2010. From the effective date of the contract, the storage fee is calculated at RMB252 per sq.m. per year. Adjustment to the storage fee is permitted after one-year period provided that the annual increase or decrease shall not exceed 10% of that of the previous year.

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

	2008 RMB'000	2007 RMB'000
Sales of Chinese traditional medicines (Note (i))	**116,426**	109,051
Agency fee for distribution services (Note (ii))	**8,151**	9,735
Purchase of raw materials	**542**	902

27. RELATED PARTY TRANSACTIONS (CONT'D)

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

Notes:

(i) The Company signed a sales agreement ("previous 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 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. As the previous agreement was expired, the Company signed a new sales agreement with the ultimate holding company in 2008, the clauses of which remained the same as the previous agreement. The new agreement has been approved at the Company's Annual General Meeting and is effective from 2008 to 2010.

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

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

	2008 RMB'000	2007 RMB'000
Sales of Chinese traditional medicine	**9,903**	10,398
Processing services fee (Note (i))	**13,170**	11,283

Note:

(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.

27. RELATED PARTY TRANSACTIONS (CONT'D)

(d) Transactions with other state-owned enterprises

	2008 RMB'000	2007 RMB'000
Revenue:		
Interest income from bank deposits	**4,003**	4,745
Expenses:		
Interest expenses on bank borrowings	**1,032**	3,603
Other transactions:		
Sales of Chinese traditional medicine	**146,688**	116,231
Purchase of raw materials	**12,074**	266
Purchase of property, plant and equipment	**1,738**	852
Drawdown of bank loans	**15,000**	85,000
Repayments of bank loans	**15,000**	155,000

27. RELATED PARTY TRANSACTIONS (CONT'D)

(e) *Balances with related parties*

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

	The Group		The Company	
	2008	2007	2008	2007
	RMB'000	RMB'000	RMB'000	RMB'000
Bank deposits				
State-owned banks and other financial institutions (Note 30 (a))	**255,245**	235,965	**187,750**	185,765
Amounts due from related parties:				
Subsidiaries and associates of the ultimate holding company	**11,267**	11,457	**10,269**	9,653
Other state-owned enterprises	**20,618**	6,547	**20,618**	6,547
	31,885	18,004	**30,887**	16,200
Bank borrowings				
State-owned banks	**15,000**	15,000	**15,000**	15,000
Amounts due to related parties:				
Subsidiaries and associates of the ultimate holding company	**1,840**	4,435	**1,003**	4,435
Minority shareholders of subsidiaries and joint venture partners	**3,435**	4,994	**172**	–
Other state-owned enterprises	**377**	4,698	**377**	4,698
	5,652	14,127	**1,552**	9,133

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

27. RELATED PARTY TRANSACTIONS (CONT'D)

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

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

	The Group		The Company	
	2008	2007	2008	2007
	RMB'000	RMB'000	RMB'000	RMB'000
Within 4 months	**30,242**	16,333	**29,279**	14,529
Over 4 months but within 1 year	**1,521**	1,598	**1,486**	1,598
Over 1 year	**122**	73	**122**	73
	31,885	18,004	**30,887**	16,200

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

	The Group		The Company	
	2008	2007	2008	2007
	RMB'000	RMB'000	RMB'000	RMB'000
Within 4 months	**4,891**	12,609	**791**	7,615
Over 4 months but within 1 year	**271**	741	**271**	741
Over 1 year	**490**	777	**490**	777
	5,652	14,127	**1,552**	9,133

28. SEGMENT INFORMATION

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

29. BANKING FACILITIES

As of 31 December 2008, the Group had aggregated banking facilities of RMB100,000,000 (2007: RMB100,000,000) for loan and other trade financing. As of 31 December 2008, the unutilised banking facilities amounted to RMB85,000,000 (2007: RMB85,000,000).

30. 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.

(i) Foreign exchange risk

The Group has foreign exchange risk as certain trade receivables arising from export sales are denominated in foreign currencies, primarily with respect to HK dollar. Moreover, dividends to the shareholders of H Shares are declared in RMB and paid in HK dollar. Fluctuations in 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 2008, if RMB had weakened/strengthened by 5% against the HK dollar with all other variables held constant, post-tax profit for the year would have been RMB2,288,000 (2007: RMB5,933,000) higher/lower, mainly as a result of foreign exchange gains/losses on translation of HK dollar denominated bank deposits. Profit is less sensitive to movement in RMB/HK dollar exchange rates in 2008 than 2007 because of the decreased amount of HK dollar denominated bank deposits.

30. FINANCIAL RISK MANAGEMENT (CONT'D)

(a) *Financial risk factors (Cont'd)*

(ii) 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.

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 of 31 December 2008, main part of the bank deposits is due with state-owned banks, which are at lower credit risk.

	The Group		The Company	
	2008	2007	2008	2007
	RMB'000	RMB'000	RMB'000	RMB'000
State-owned banks and other financial institutions (Note 27 (e))	**255,245**	235,965	**187,750**	185,765
Other banks	**7,739**	9,760	**–**	2,805
	262,984	245,725	**187,750**	188,570

(iii) 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 29.

30. FINANCIAL RISK MANAGEMENT (CONT'D)

(a) *Financial risk factors* *(Cont'd)*

(iv) Interest rate risk

The Group's income and operating cash flows are substantially independent of changes in market interest rates. As of 31 December 2008 and 2007, all of the Group's borrowings were at fixed rates. The interest rates and repayment terms of the Group's short-term bank loans are disclosed in Note 14. The Group has not used any interest rate swaps to hedge its exposure to interest rate risk.

(b) *Fair value estimation*

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

(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.

	2008 RMB'000	2007 (Restated) (Note 2) RMB'000
Total borrowings	**15,000**	15,000
Total equity	**1,484,905**	1,407,805
Gearing ratio	**1%**	1%

31. 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	
	2008	2007	2008	2007
	RMB'000	RMB'000	RMB'000	RMB'000
Construction of production facilities	**480**	748	**480**	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	
	2008	2007	2008	2007
	RMB'000	RMB'000	RMB'000	RMB'000
Not later than one year	**19,046**	12,349	**17,458**	10,654
Later than one year and not later than five years	**52,496**	47,640	**48,710**	42,616
Later than five years	**24,010**	34,352	**22,352**	32,298
	95,552	94,341	**88,520**	85,568