Annual Report 2010

Tong Ren Tang Technologies Co. Ltd.

北京同仁堂科技發展股份有限公司

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

(Stock Code: 1666)

同修仁德
濟世養生

趙樸初書

Contents

Corporate Information

BOARD OF DIRECTORS

Executive Directors[1]

Mei Qun *(Chairman)*
Yin Shun Hai
Wang Yu Wei
Fang Jia Zhi
Xie Zhan Zhong

Non-executive Director[2]

Ding Yong Ling *(Vice-chairman)*

Independent Non-executive Directors

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

SUPERVISORS

Zhang Xi Jie *(Chairman)*
Wu Yi Gang
Wang Yan Rong

SENIOR MANAGEMENT

Bai Jian
Li Da Ming
Xie Su Hua
Liu Cun Ying
Guo Gui Qin
Zhang Jing Yan

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[3]

Mei Qun
Zhang Jing Yan

AUTHORIZED PERSON TO ACCEPT SERVICE OF PROCESS AND NOTICE

Zhang Jing Yan

LEGAL ADVISOR

DLA Piper UK LLP
17/F, Edinburgh Tower,
15 Queen's Road,
Central, Hong Kong

INDEPENDENT AUDITOR

PricewaterhouseCoopers
22/F, 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

Corporate Information

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

STOCK CODE

1666

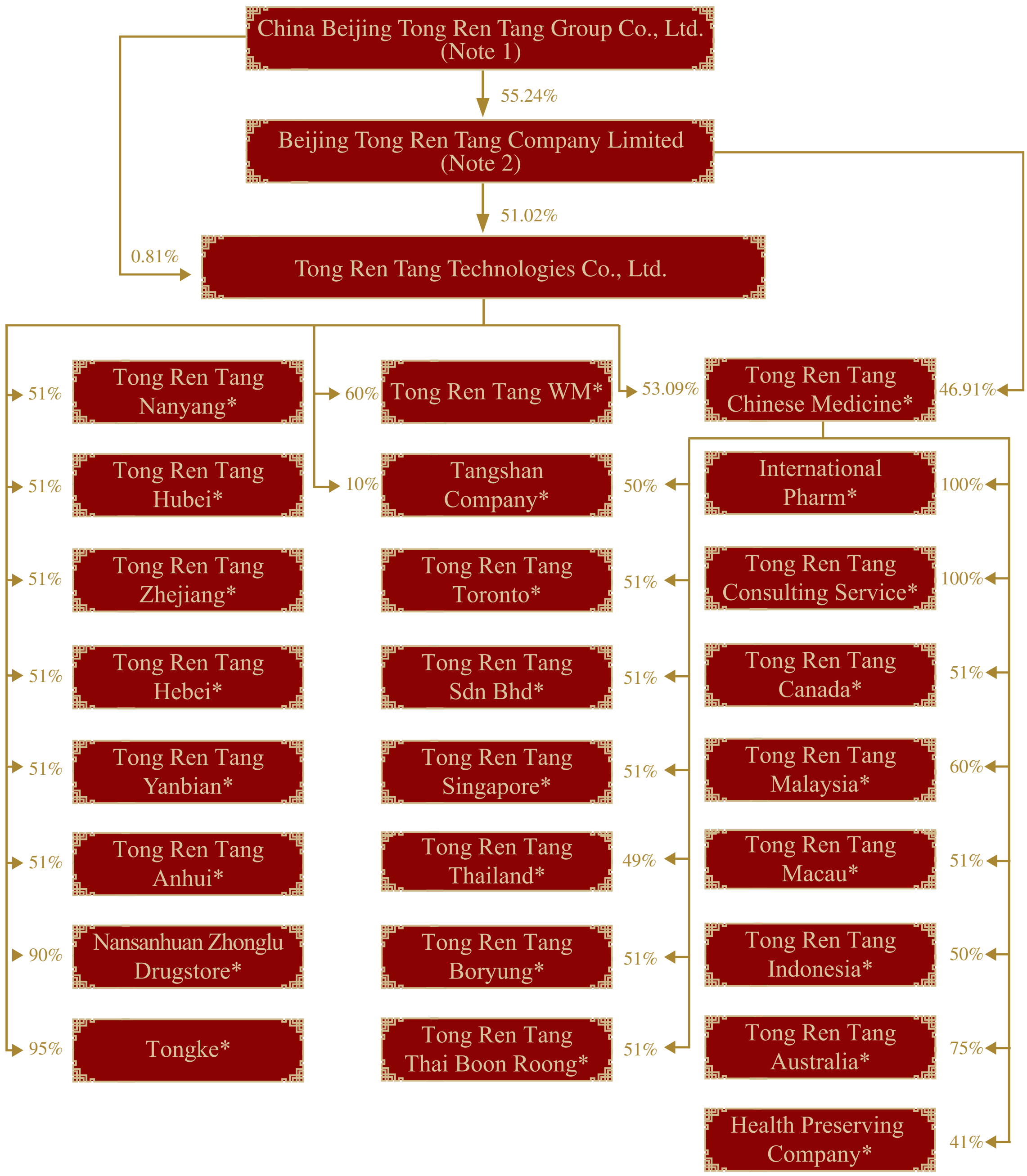
Notes:

1. *Mr. Zhang Huan Ping ceased to be an executive Director of the Company with effect from 26 April 2010, please refer to the announcement of the Company dated 26 April 2010 for details. Mr. Xie Zhan Zhong was appointed as an executive Director of the Company with effect from 18 June 2010, please refer to the announcement of the Company dated 18 June 2010 for details.*

2. *Ms. Ding Yong Ling re-designated as a non-executive Director of the Company from an executive Director of the Company with effect from 26 April 2010, please refer to the announcement of the Company dated 26 April 2010 for details. Ms. Ding Yong Ling resigned as a non-executive Director of the Company with effect from 17 March 2011 due to operational needs of the Company, please refer to the announcement of the Company dated 17 March 2011 for details.*

3. *Mr. Mei Qun resigned as an authorised representative of the Company with effect from 9 July 2010, and was re-appointed as an authorised representative of the Company with effect from 8 December 2010. Ms. Ding Yong Ling was appointed as an authorised representative of the Company with effect from 9 July 2010, and ceased to be an authorised representative of the Company with effect from 8 December 2010.*

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 and joint ventures (hereafter collectively referred to as the "Group") for each of the last five years ended 31 December 2010, as extracted from the audited financial statements of the Group, is set out below:

	Year ended 31 December				
	2010	2009	2008	2007	2006
	RMB'000	RMB'000 (Restated)	RMB'000 (Previously stated)	RMB'000 (Previously stated)	RMB'000 (Previously stated)
Revenue	**1,578,914**	1,352,202	1,211,455	1,157,030	1,034,768
Profit before income tax	**267,222**	227,252	197,248	179,528	171,236
Income tax expense	**(42,132)**	(37,133)	(30,509)	(25,474)	(27,780)
Profit for the year	**225,090**	190,119	166,739	154,054	143,456
Profit attributable to:					
Owners of the parent	**198,342**	176,369	160,528	153,915	148,327
Non-controlling interests	**26,748**	13,750	6,211	139	(4,871)
	RMB	RMB	RMB	RMB	RMB
Earnings per share	**1.01**	0.90	0.82	0.81	0.81
Cash dividends per share	**0.48**	0.45	0.40	0.40	0.40

ASSETS AND LIABILITIES

A summary of the consolidated balance sheet of the Group as at each of the last five years ended 31 December 2010, as extracted from the audited financial statements of the Group, is set out below:

	As of 31 December				
	2010	2009	2008	2007	2006
	RMB'000	RMB'000 (Restated)	RMB'000 (Previously stated)	RMB'000 (Previously stated)	RMB'000 (Previously stated)
Non-current assets	**476,040**	467,049	500,160	542,517	595,424
Current assets	**1,699,132**	1,463,918	1,295,022	1,190,541	904,717
TOTAL ASSETS	**2,175,172**	1,930,967	1,795,182	1,733,058	1,500,141
Non-current liabilities	**30,288**	16,104	13,250	12,250	12,808
Current liabilities	**408,367**	293,666	297,027	313,003	436,111
TOTAL LIABILITIES	**438,655**	309,770	310,277	325,253	448,919
Equity attributable to owners of the parent	**1,559,017**	1,476,795	1,360,392	1,284,931	998,254
Non-controlling interests	**177,500**	144,402	124,513	122,874	52,968
TOTAL EQUITY	**1,736,517**	1,621,197	1,484,905	1,407,805	1,051,222
	RMB	RMB	RMB	RMB	RMB
Net assets per share	**7.95**	7.53	6.94	6.56	5.46

Chairman's Statement

I am pleased to present the annual report of Tong Ren Tang Technologies Co., Ltd. (the "Company") and its subsidiaries and joint ventures (hereafter collectively referred to as the "Group") for the year ended 31 December 2010 for shareholders' review.

RESULTS OF THE YEAR

For the year ended 31 December 2010, the Group's revenue amounted to RMB1,578,914,000, representing an increase of 16.77% as compared with last year with RMB1,352,202,000 (restated); profit attributable to the equity shareholders of the Company amounted to RMB198,342,000, representing an increase of 12.46% as compared with last year with RMB176,369,000 (restated).

REVIEW OF THE YEAR

Through the industry shuffling in the recent decade, China's pharmaceutical industry underwent radical and stunning changes. The pharmaceutical industry, one of the fastest growing sectors in China's economy, has been outperforming gross domestic product (the "GDP") in terms of growth. In 2010, the promulgation of favourable pharmaceutical industry policies created a favourable environment and greatly fuelled pharmaceutical market demand. In addition, along with the progresses in new medical reform and the gradual implementation of national investment plan, domestic pharmaceutical market maintained balanced supply and demand, and the pharmaceutical industry especially Chinese medicine industry witnessed improving profitability. However, a series of natural disasters including drought, flood and debris flow in Southwest China in the year resulted in a significant price hike for Chinese medicinal raw materials, imposing a cost pressure to the Chinese medicine industry as a whole.

The Company inherited its heritage to enlighten the road ahead in 2010, which was the 10th anniversary of its establishment and listing. During the year, the Company accomplished the transfer of its listing from the Growth Enterprise Market (the "GEM") of the Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange") to the Main Board (the "MB") of the Hong Kong Stock Exchange and consolidated its overseas distribution business through Beijing Tong Ren Tang Chinese Medicine Company Limited ("Tong Ren Tang Chinese Medicine"). Looking back to the twists and turns in the decade, the Company overcame numerous difficulties including medicine price decreases, intensified market competitions and the breakout of financial crisis, and achieved remarkable all-around progresses. The Company has built itself from a previously single-business pharmaceutical manufacturer into a conglomeration that is principally engaged in production and sales of medicines, cosmetics and healthcare products, with scale operations in multiple sectors including production of Chinese medicinal raw materials and distribution of pharmaceuticals.

With the fading aftermath of the financial crisis, China and the world came back to the track of steady growth in the year. Inspired by historical lessons, the Company attached more importance to operation quality and future potential in addition to business growth. Despite the challenge to product cost from hiking domestic prices and labour cost especially in Chinese medicinal raw materials, the Company realigned its operating philosophy to explore new growth source while integrating its overseas resources to strengthen the control over overseas market, thus achieving a growth in the year and laying a cornerstone for future development.

OUTLOOK AND PROSPECTS

As the percentage of China's medical and healthcare investment is still lower than the guideline set by the World Health Organization, it is expected that the government will further increase the investment percentage along with the improvements in economy and treasury. Also with the increasing awareness in health care, medical care will be valued in a more active manner, and the aging of population will give rise to constant demands in medical and healthcare industries. As for Chinese medicine industry, as prevention instead of the treatment of diseases is advocated by the new medical reform, Chinese medicine is expected to become a must in the home medical kit. Meanwhile, the globally popular concept of returning to green nature provides a valuable opportunity for Chinese medicine, which will further fuel China's pharmaceutical industry especially the Chinese medicine industry. Nevertheless, structural adjustment will be the theme for China's pharmaceutical industry as required by the government for deepening the medical system reform. The medical market landscape will be reshaped with continuous business consolidations and a necessary outcome of differentiation.

Looking into 2011, the Company will base its growth upon innovations. I, together with all the staff of the Company, will bring the brand strength into full play, continue to develop end market, and tap into products with high value added and market potential to speed up overall development of the Group. We will gradually build up highly specialized and well organized subsidiaries, aiming at the balanced development of the Group as a whole.

I hereby would like to express my sincere gratitude to the board of directors (the "Board of Directors") 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 to our shareholders.

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

Beijing, the PRC
17 March 2011

Management Discussion and Analysis

BUSINESS REVIEW

In 2010, the Company adhered to the strategies for sustainable development proposed by the Board of Directors to respond to the changing domestic and international economic environments and industry policies. According to the deployments for the "Year of Planning" put forward by the Board of Directors, the Company earnestly analyzed its strengths and weaknesses to plot out its blueprint in the context of the law of industry development and the trend of governmental policies. On the basis of steady development, the Company gradually improved its business structure, and maintained a balanced and healthy growth as a whole. For the year ended 31 December 2010, revenue of the Group amounted to RMB1,578,914,000, representing an increase of 16.77% as compared with last year with RMB1,352,202,000 (restated); profit attributable to the shareholders of the Company amounted to RMB198,342,000, representing an increase of 12.46% as compared with last year with RMB176,369,000 (restated).

SALES

In 2010, the Company focused on the build-up of product portfolios to explore the stronghold of end market, and leveraged on flexible terminal promotions based on strengthened management to adapt to the evolving market.

The Company further improved its sales network layout in 2010, with a focus on establishing strong presence in new regions while consolidating the existing market share. On one hand, purchase channels of dealers were regulated and retail prices of medicines were strictly executed, with efforts in increasing our product coverage while diversifying the product portfolios to minimise market risks from monotonous product lines. On the other hand, the Company further enhanced terminal construction, taking initiatives including gradual localisation of salesman, overall merchandising on end market, identifying difference marketing of emerging products, and various terminal promotions under a wide range of themed activities.

During the year, the Company laid stress on the balance between business growth and quality. Orders were undertaken based on comprehensive consideration of inventory structure, production capacity and market demand, so as to ensure the consistency of orders and market needs, reasonable inventory and the implementation of production schedule. In addition, the Company strengthened management on dealers. Focusing on rational structure of receivables and eligibility of dealers, the Company increased the assessment ratio of products operated by the dealers. Meanwhile, the assessment and incentive mechanism for employees was improved on the basis of survival of the fittest.

On overseas market, the environment for exports was still challenging for domestic enterprises due to the fallout of the financial crisis and volatile exchange rates. The Company continued to develop potential market while consolidating the existing market presence. In 2010, six products of the Company passed the HALAL certification of China Muslim Association. Thus, the Company had a total of 24 products with such certificates, laying a solid foundation for development of Muslim markets. In 2010, the export sales of the Company's products amounted to US$4,904,000, representing an increase of 10.18% over last year.

In 2010, the Company developed product-specific marketing strategies based on definite product positioning, and rolled out typical products for different seasons to continue to reinforce the build-up of product portfolios. During the year, the Company produced and sold more than one hundred kinds of products, of which 20 products achieved total sales of more than RMB10 million; and 19 products achieved total sales of between RMB5 million and RMB10 million. The product concentration was further increased. Among the major products of the Company, the sales of Niuhuang Jiedu Tablets (牛黃解毒片) series grew by 10.81% as compared with last year. Ganmao Qingre Grannule (感冒清熱顆粒) series grew by 1.61% as compared with last year, while Liuwei Dihuang Pills (六味地黃丸) series dropped by 2.30% as compared with last year. There was a remarkable increase in some other product series including Jinkui Shenqi Pills (金匱腎氣丸) series, Xihuang Pills (西黃丸) series, Jiawei Xiaoyao Pills (加味逍遙丸) series, Huoxiang Zhengqi Liquor (藿香正氣水) series, which grew by more than 30% over the corresponding period last year.

PRODUCTION

The Company delivered medical products to the market in more than ten physical forms such as pill, tablet, granule, capsule and liquid in 2010. The Company redeployed its production bases according to the existing staffing, equipment, production layout and capacity, including renovation of certain workshops at Yizhuang Production Base and Liujiayao Production Base, which effectively reduced transfer of intermediate materials and improved continuity of production to exploit potential capacity. Meanwhile, modern assembly was advanced by equipment updating and upgrading, thereby cutting down labour costs while ensure product quality.

With the in-depth implementation of functions during the year, the Company's production bases were gradually transformed from single-type production bases to comprehensive bases integrating production and operation. On one hand, the production bases strictly observed consumption and loss indicators for raw materials, auxiliary materials and packaging materials which increased first pass yield of finished products, shortened production cycle and cut down production costs by various means. On the other hand, technological innovations including one-step moulding test for pills were promoted, laying a solid ground for future growth.

As the principal workshop for extracting 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)(the "Tongke"), which is located at Tongzhou District, Beijing, produces semi-finished goods for different forms of medicine of the Company from 2007. As at 31 December 2010, Tongke has a total investment of RMB75 million, of which RMB71.25 million was cumulatively contributed by the Company, representing 95% of the total investment; and RMB3.75 million was cumulatively contributed by Beijing NiuBaoTun Medicine Processing Factory (the "NiuBaoTun Medicine Processing Factory"), representing 5% of the total investment. In 2010, the semi-finished goods produced by Tongke effectively satisfied the production needs of the Company.

MANAGEMENT AND RESEARCH AND DEVELOPMENT

The Company further reinforced its fundamental management in all aspects in 2010. In respect of purchasing raw materials, we insisted upon choosing qualified suppliers with good reputations. Based on prudent analysis of market price trend, we built up inventory in advance at competitive purchase prices, which effectively controlled purchase cost.

To strengthen system construction, the Company formulated and improved "Marketing Management Measures", "Brand Management Measures" and "Quality Reward and Penalty Measures" in 2010. By defining procedures and authorities under such measures, the Company improved corporate management in a systematic and normalised way with strengthened control on subsidiaries. In the meantime, the Company continued to improve product quality standards. According to the requirements of pharmacopoeia, the Company revamped packages, instruction, tags and bottle labels for over 200 specifications of over 100 products, and standardised information for hundreds of raw materials and auxiliary materials to ensure product quality and safety.

On research and development, the Company streamlined and improved its research knowledge based on market survey, rooting in existing products and R&D strengths to accommodate the future development plan. Stresses were placed on medicines for anti-tumour, anti-virus, gynaecological and paediatric purpose to lay the ground for future development. Meanwhile, efforts were put in the second phase of scientific research, improvement in production technology and optimisation of production parameters, to pursue quality improvement technology for smooth production.

SALES NETWORK IN PRC MAINLAND

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) (the "Nansanhuan Zhonglu Drugstore") is a retail drugstore located at Nansanhuan Zhonglu, Fentai District, Beijing. In 2010, Nansanhuan Zhonglu Drugstore capitalised on the brand strength of "Tong Ren Tang" to give full play to its operational features. Sales revenue was boosted based on standard management in the principle combining top drugstore and quality medicines. A revenue of RMB48,845,500 was recorded for the reporting period, representing an increase of 52.26% as compared with 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 2010, while participating in collecting and processing of Chinese medicinal raw materials, the Company's production bases further strengthened technological development and normalised quality standards to improve the quality of Chinese medicinal raw materials. Anhui Base was applying for two invention patents in relation to root bark of tree peony. Hebei Base has started the research programme regarding standardised plantation and seed breeding of isatis root (板藍根) and catnip (荊芥). Henan Base continued to strictly follow GAP requirements to superintend its production activities, which ensured raw material quality of cornel (山茱萸). In 2010, all of these Company's production bases for traditional Chinese medicinal raw materials achieved a sale revenue of RMB83,562,900. Theses production bases played a key role in securing the supply and quality of Chinese medicinal raw materials required for the Company's products.

BEIJING TONG REN TANG WM DIANORM BIOTECH CO., LIMITED ("TONG REN TANG WM")

Tong Ren Tang WM was jointly established by the Company and WM Dianorm Biotech Co, Limited with a total investment of US$3,000,000 and is owned as to 60% by the Company. Since its establishment, Tong Ren Tang WM is committed to introducing liposome technology into modern Chinese medicine and its application in pharmaceuticals and cosmetics. Currently, the company's major products are skincare products. By reinforcing product development in 2010, Tong Ren Tang WM completed the upgrading of over 30 products, and launched four new varieties of gingko face and eye mask series as well as a number of cream products which diversified its product portfolios. In 2010, Tong Ren Tang WM generated revenue of RMB36,380,700.

BEIJING TONG REN TANG CHINESE MEDICINE COMPANY LIMITED ("TONG REN TANG CHINESE MEDICINE")

Tong Ren Tang Chinese Medicine, which is located in Hong Kong, was jointly invested and established by the Company and Tong Ren Tang Ltd. As at 31 December 2010, its total investment amounted to HK$201,430,000, of which HK$106,936,000 was contributed by the Company, representing 53.09%; and HK$94,494,000 was contributed by Tong Ren Tang Ltd., representing 46.91%. Tong Ren Tang Chinese Medicine is principally engaged in (1) development, production and sales of its own healthcare products; (2) distribution and retail of healthcare products and Chinese medicine through its overseas distribution network. Tong Ren Tang Chinese Medicine also provides overseas sales agency services for the Company and Tong Ren Tang Ltd.

Currently, Tong Ren Tang Chinese Medicine owns the production facilities for traditional Chinese medical products in Tai Po Industrial Estate in Hong Kong covering a GFA of over 10,000 square metres. It produces products in various forms including pill, tablet and granule under the manufacturer certificate of "Hong Kong Good Manufacturing Practice Guidelines for Proprietary Chinese Medicine" issued by the Chinese Medicine Trader Committee of Chinese Medicine Council of Hong Kong. Sporoderm-broken Ganoderma Lucidum Spores Powder Capsules (破壁靈芝孢子粉膠囊), the major product of Tong Ren Tang Chinese Medicine, was successfully launched in domestic and overseas markets and recorded desirable sales. Marine Collagen Peptide (海洋膠原蛋白肽), a new healthcare product self developed by the company, was also launched in market in 2010. With the commitment to research and development, Tong Ren Tang Chinese Medicine continued to introduce new products while seeking to increase sales of existing products. It has self developed eight new healthcare products, and thus a proprietary product portfolio of healthcare products was taking shape.In 2010, Tong Ren Tang Chinese Medicine generated a total revenue of RMB165,801,000, representing an increase of 44.50% over the corresponding period last year with RMB114,740,000 (restated), and the net profit of RMB54,267,000 representing an increase of 82.05% over the corresponding period last year with RMB29,809,000 (restated).

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

SALES NETWORK OUTSIDE PRC MAINLAND

THE DRUG STORE IN CENTRAL, HONG KONG

In October 2010, the Company consolidated its overseas joint ventures through Tong Ren Tang Chinese Medicine to develop its overseas sales network. As the shareholders of Tong Ren Tang Chinese Medicine, the Company and Tong Ren Tang Ltd. made additional capital contributions to Tong Ren Tang Chinese Medicine with their interests in four joint ventures, namely Peking Tongrentang (M) SDN. BHD. ("Tong Ren Tang Malaysia"), Beijing Tong Ren Tang (Macau) Compay Limited ("Tong Ren Tang Macau"), Beijing Tong Ren Tang Canada Co., Ltd. ("Tong Ren Tang Canada") and PT. Beijing Tong Ren Tang Indo. ("Tong Ren Tang Indonesia"), and interests in two joint ventures, namely Beijing Tang Ren Tang (Boryung) Co., Ltd. ("Tong Ren Tang Boryung") and Beijing Tong Ren Tang (Thailand) Company Limited ("Tong Ren Tang Thailand"), at a consideration of HKD18,854,163 and HKD8,489,200 respectively. After the additional contributions, the interests held by the Company in Tong Ren Tang Chinese Medicine increased from 51% to 53.09%. Meanwhile, Beijing Tong Ren Tang International Co., Limited ("Tong Ren Tang International"), a subsidiary of Tong Ren Tang Holdings, transferred its interests in three joint ventures, namely Beijing Tong Ren Tang (Australia) Pty Ltd ("Tong Ren Tang Australia"), Beijing Tong Ren Tang Science Arts (Singapore) Co Pte. Ltd ("Tong Ren Tang Singapore") and Beijing Tong Ren Tang (B) Sdn Bhd ("Tong Ren Tang Sdn Bhd"), to Tong Ren Tang Chinese Medicine at a cash consideration of HKD17,382,623.

THE DRUG STORE IN THAILAND

THE DRUG STORE IN INDONESIA

As of the end of the year, Tong Ren Tang Chinese Medicine had eleven joint ventures in ten countries and regions outside the PRC and the Hong Kong Special Administrative Region (the Macau Special Administrative Region, Malaysia, Canada, Indonesia, Korea, Thailand, Australia, Singapore, Brunei and Cambodia). Upholding the tradition of Beijing Tong Ren Tang and the combination of "illustrious brand", "quality medicine" and "top doctors", each joint venture conducted their medicine distribution operations and built up retail networks in their respect locations with positive performance. In 2010, Tong Ren Tang Chinese Medicine further explored the Hong Kong market by opening a flagship store in Central. Combining the diagnosis of an in-store doctor with medicine retail, the flagship store promoted both its products and its culture. To expand its market in North America, Tong Ren Tang Chinese Medicine opened a new shop in Toronto, Ontario, Canada, setting its foot in both the eastern and western North America. In 2010, the said eleven joint ventures achieved an aggregate sales revenue of RMB73,607,900, with a growth of 17.25% compared with that for the corresponding period of the previous year with RMB62,779,300 (restated).

FINANCIAL REVIEW

Liquidity and Financial Resources

The Group has maintained a sound financial position. During the period, the Group's primary source of funds was cash provided by operating activities and bank loans.

As at 31 December 2010, the Group had cash and cash equivalents amounted to RMB441,108,000 (31 December 2009 (Restated): RMB379,926,000) and short-term borrowings of RMB15,000,000 (31 December 2009 (Restated): RMB15,000,000). The borrowings carried an interest rate of 4.779% (31 December 2009 (Restated): 4.779%) per annum.

As at 31 December 2010, the Group had total assets amounting to RMB2,175,172,000 (31 December 2009 (Restated): RMB1,930,967,000). The funds comprised of non-current liabilities of RMB30,288,000 (31 December 2009 (Restated): RMB16,104,000), current liabilities of RMB408,367,000 (31 December 2009 (Restated): RMB293,666,000), shareholders' equity of RMB1,559,017,000 (31 December 2009 (Restated): RMB1,476,795,000) and non-controlling interests of RMB177,500,000 (31 December 2009 (Restated): RMB144,402,000).

Capital Structure

There has been no material change in the capital structure of the Group as at 31 December 2010 as compared with that as at 31 December 2009.

Gearing and liquidity ratios

As at 31 December 2010, the Group's gearing ratio, the ratio between total borrowings and shareholders' equity (excluding minority interests), was 0.01 (31 December 2009 (Restated): 0.01). The Group's liquidity ratio, the ratio between current assets over current liabilities, was 4.16 (31 December 2009 (Restated): 4.98), reflecting that the Group had abundant financial resources.

Charges over Group's assets

As at 31 December 2010, none of the Group's assets was pledged as security for liabilities (31 December 2009 (Restated): Nil).

Contingent liabilities

Other than those disclosed in the Note 25 to the consolidated financial statements, the Group had no contingent liabilities as at 31 December 2010 (31 December 2009 (Restated): Nil).

Foreign currency risk

The Group is subject to foreign currency risk as its certain cash and cash equivalents are denominated in foreign currencies, principally Hong Kong Dollars ("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 3.1(a)(i) to the consolidated financial statements for details.

Capital commitments

At as 31 December 2010, 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 RMB6,602,000 (31 December 2009 (Restated): RMB237,000).

Acquisition

On 20 October 2010, Tong Ren Tang Chinese Medicine entered into three equity transfer agreements with the Company, Tong Ren Tang Ltd. and Tong Ren Tang International respectively. Pursuant to which, Tong Ren Tang Chinese Medicine purchased interests in several overseas companies that previously held by aforementioned three companies. For details please refer to the section headed "Report of the Directors – Connected Transactions – Acquisition of Overseas Joint Ventures of the Company, Tong Ren Tang Ltd. and Tong Ren Tang International by Tong Ren Tang Chinese Medicine".

Tong Ren Tang Ltd. and Tong Ren Tang International are under common controlled by the ultimate holding company of the Company. The purchase of interests from Tong Ren Tang Ltd. and Tong Ren Tang International (hereafter collectively referred to as the "Acquired Business") is regarded as business combinations under common control. Details of the relevant statements of adjustments for the common control combinations on the Group's financial position as at 31 December 2010 and 2009 and the Group's results for the years then ended are set out in Note 17 to the consolidated financial statements.

FUTURE PROSPECTS

In 2011, the Company will continue to adhere to the strategy of sustainable development, raise our efficiency relying on technology, explore new business horizons, innovate in our operating model and adjust our growth pattern to strive for a well-balanced development between economic scale and operating quality with pragmatic and scientific planning so as to build a leading, strong and large-scale group. The major objectives for the Company in 2011 are as follows:

1. *Fostering a Comprehensive Product Portfolio and Promoting the "Tong Ren Tang" Brand*

The Company will continue to develop its end markets and speed up its expansion into potential markets by leveraging on its branding edge. Supported by its diversified products, the Company will accelerate the building up of a comprehensive product portfolio to satisfy the needs of different regions. The Company will also continue to enrich its overseas sales product portfolio. Efforts will be made to analyze relevant policies and laws and regulations in different countries and facilitate product registration in these overseas markets so as to spread the "Tong Ren Tang" brand, promote Chinese herbal medicine culture and expand the influence of the Company, its brand and Chinese herbal medicine.

2. *Promoting the Modernization of Chinese Medicine and Securing Future Development*

The Company carries out its research and development on Chinese medicine based on the theory and practice of Chinese herbal medicine adopting modern science and technologies. With an aim to penetrate into and cooperate with different subjects and fields as well as explore an innovative development mode, the Company will proactively strengthen its research on Chinese medicine, redevelop existing products, focus on the research of effective components of Chinese medicine and improve research and production of new varieties of Chinese medicine, applying modern testing and analysis methodologies.

3. *Pursuing the core business, expanding the field and Developing Group Operation*

Adhering to the concept of healthy, harmonious and leap-forward development, the Company will continue to expand and optimize its business segments, such as the manufacturing and sale of Chinese Patent Medicines and healthcare products, overseas distribution, Chinese medicine cosmetics and Chinese pharmaceutical raw materials production. Subsidiaries are encouraged to continuously develop and improve their strengths in their respective fields so as to become a new growth driver to support the sustainable development of the Group in the future.

Report of the Board of Directors

The Board of Directors is pleased to present the 2010 annual report together with the audited financial statements of the Group for the year ended 31 December 2010.

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:

	2010 RMB'000	2009 RMB'000 (Restated)
Sales of medicine		
– PRC Mainland	**1,449,593**	1,238,312
– Outside PRC Mainland	**117,656**	102,450
	1,567,249	1,340,762
Agency Fee income for Distribution Services		
– Outside PRC Mainland	**11,665**	11,440
	1,578,914	1,352,202

MAJOR CUSTOMERS AND SUPPLIERS

During the reporting period, the Group's sales attributable to the five largest customers accounted for less than 30% of the Group's sales.

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

Save as disclosed above, none of the Directors, their associates, or to the knowledge of the Board of Directors, shareholders who are interested in more than 5% of the Company's share capital, have beneficial 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 2010 are set out on pages 48 to 114 of the annual report.

DIVIDENDS AND BONUS ISSUE

The Board proposed a cash dividend of RMB0.48 (including tax) per share (2009: RMB0.45 (including tax) per share) and a stock dividend on the basis of one bonus share for each share (2009: Nil) to all shareholders out of the audited retained earnings as at 31 December 2007. The Board also proposed to issue one bonus share for each share held by way of capitalization of the capital reserve (2009: Nil). The proposed distribution scheme is subject to the approval at the annual general meeting (the "AGM") to be held on Friday, 13 May 2011. Cash dividend payable to the shareholders of H shares will be paid in Hong Kong Dollars ("HKD"). 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 AGM.

SHARE CAPITAL

There was no movement of the share capital of the Company during this year.

	31 December 2010		31 December 2009	
	Number of shares	**Nominal value RMB'000**	Number of shares	Nominal value RMB'000
Registered capital	**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

PUBLIC FLOAT

As at the date of this report, based on the public information available to the Company and as far as the Directors are aware, the Company has fulfilled the public float requirements under Rule 8.08 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "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 2010, the retained earnings of the Group was approximately RMB712,521,000 (31 December 2009 (Restated): approximately RMB621,123,000).

PROPERTY, PLANT AND EQUIPMENT

Details of movement in property, plant and equipment of the Group for the year are set out in Note 7 to the consolidated financial statements.

STAFF RETIREMENT SCHEME

Details of staff retirement scheme of the Group are set out in Notes 2.17, 24 and 29 to the consolidated financial statements.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2010, the Company had 1,778 employees (31 December 2009: 1,751 employees). Remunerations are determined by reference to market practice 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 Company did not provide any staff quarters to its staff (2009: Nil);

2. the details of housing fund benefits provided by the Company to its staff are set out in Note 30 to the consolidated financial statements;

3. the Company also provided housing subsidies to its staff at an average of RMB80 per person per month (2009: RMB80).

DIRECTORS AND SUPERVISORS

The directors (the "**Directors**") and supervisors (the "**Supervisors**") of the Company who held office during the year and up to the date of this report were:

Executive Directors

Mei Qun *(Chairman)*
Yin Shun Hai
Wang Yu Wei
Fang Jia Zhi
Zhang Huan Ping (resigned on 26 April 2010)
Xie Zhan Zhong (appointed on 18 June 2010)

Non-Executive Director

Ding Yong Ling (*Vice-chairman*, redesignated as a non-executive director from an executive director on 26 April 2010 and resigned on 17 March 2011)

Independent Non-Executive Directors

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

Supervisors

Zhang Xi Jie *(Chairman)*
Wu Yi Gang
Wang Yan Rong

DIRECTORS' AND SUPERVISORS' SERVICE CONTRACTS

Each of the Directors or Supervisors 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 to be held in 2012.

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

DIRECTORS' AND SUPERVISOR S' INTERESTS IN CONTRACTS

None of the Directors or Supervisors of the Company had a material interest, either directly or indirectly, in any contract of significance relating to the business of the Group, to which the Company or any of its subsidiaries was a party, and was subsisting on the balance sheet date of the year or at any time during the year.

MANAGEMENT CONTRACT

During the reporting period, the Company has not entered into nor there was any contract which was related to the overall business of the Company or the material part of the business management.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Profiles of Directors, Supervisors and senior management are set out on pages 42 to 45.

EMOLUMENTS OF DIRECTORS AND SUPERVISORS

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 Group are undertaken, other than the Independent Non-executive Directors and the external Supervisors, the Directors or Supervisors shall be paid remuneration by the Group in accordance with such management position assumed and no remuneration shall be paid by the Group if otherwise. In accordance with the Listing Rules state that the Independent Non-executive Directors shall not be financially dependent on any listed Company. Accordingly, the Independent Non-executive Directors are paid fees in line with local market practice. In addition, the external Supervisors are also paid fees in line with local market practice.

In 2010, Mr. Mei Qun, Mr. Yin Shun Hai, Mr. Wang Yu Wei, Ms. Fang Jia Zhi, Mr. Xie Zhan Zhong, Mr. Zhang Huan Ping (executive Directors) and Ms. Ding Yong Ling (non-executive Director), in their capacity as Directors, did not receive Directors' remuneration from the Company. Mr. Zhang Xi Jie and Ms. Wang Yan Rong (Supervisors) in their capacity as Supervisors did not receive Supervisors' remuneration from the Company. Mr. Wang Yu Wei, Ms. Fang Jia Zhi, Mr. Zhang Huan Ping (executive Directors), Ms. Ding Yong Ling (non-executive Director) and Ms. Wang Yan Rong (employee representative Supervisor), in accordance with their management positions in the Group, received remuneration from the Group respectively. In 2010, the above-mentioned people received remuneration from the Group in accordance with their management positions in the Group as follows: Mr. Wang received basic salary and allowance of RMB825,000 and employer's contribution to pension scheme of RMB29,000 respectively; Ms. Fang received basic salary and allowance of RMB305,000 and employer's contribution to pension scheme of RMB29,000 respectively; Mr. Zhang received basic salary and allowance of RMB434,000, Ms. Ding received basic salary and allowance of RMB522,000; whereas Ms. Wang received basic salary and allowance of RMB516,000 and employer's contribution to pension scheme of RMB29,000 respectively.

In 2010, 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 RMB153,000, RMB153,000 and RMB48,000 respectively. In addition, Mr. Wu Yi Gang (Supervisor), in his capacity as Supervisor, received Supervisor's fee of RMB48,000.

Details of the Directors' and Supervisors' emoluments or remuneration from the Group in accordance with their management positions in the Group for the year of 2010 are set out as below:

	Fees	**Basic salaries and allowance**	**Employer's contribution to pension scheme**	**Bonus**	**Total**
	RMB	RMB	RMB	RMB	RMB
Directors					
Mr. Mei Qun	–	–	–	–	–
Ms. Ding Yong Ling	–	522,000	–	–	522,000
Mr. Yin Shun Hai	–	–	–	–	–
Mr. Wang Yu Wei	–	825,000	29,000	–	854,000
Ms. Fang Jia Zhi	–	305,000	29,000	–	334,000
Mr. Zhang Huan Ping	–	434,000	–	–	434,000
Mr. Xie Zhan Zhong	–	–	–	–	–
Miss Tam Wai Chu	153,000	–	–	–	153,000
Mr. Ting Leung Huel	153,000	–	–	–	153,000
Mr. Jin Shi Yuan	48,000	–	–	–	48,000
Supervisors					
Mr. Zhang Xi Jie	–	–	–	–	–
Mr. Wu Yi Gang	48,000	–	–	–	48,000
Ms. Wang Yan Rong	–	516,000	29,000	–	545,000

DIRECTORS', SUPERVISORS' AND CHIEF EXECUTIVE'S INTERESTS IN SHARES

As at 31 December 2010, the interests and short positions of the Directors, Supervisors and chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the minimum standards of dealing by Directors as referred to in Appendix 10 of the Listing Rules 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%

Note: All represented A shares.

Tong Ren Tang International

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%

Save as disclosed above, as at 31 December 2010, none of the Directors, Supervisors and chief executive of the Company has any interests or short positions in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the standards of dealing by Directors as referred to in Appendix 10 of the Listing Rules.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2010, the following persons (other than the Directors, Supervisors and chief executive 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%
Yuan Sai Nan	Beneficial owner	5,655,000 (L)	–	6.47%	2.885%

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 2010, 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..

Save as disclosed above, as at 31 December 2010, the Directors were not aware of any other person (other than the Directors, Supervisors and chief executive 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

Competition with Tong Ren Tang Ltd. and Tong Ren Tang Holdings

Both of the Company and Tong Ren Tang Ltd. engage in the production of Chinese patent medicines, but the principal products of each of these companies are different. Tong Ren Tang Ltd. mainly produces Chinese patent medicines in traditional Chinese medicine forms such as honeyed pills, powder, ointment and medicinal wines. Tong Ren Tang Ltd.'s main products include Kunbao Pills (坤寶丸), Tongren Wuji Baifeng Pills (同仁烏雞白鳳丸), Tongren Dahuoluo Pills (同仁大活絡丸), Guogong Wine (國公酒) and Angong Niuhuang Pills (安宮牛黃丸). It also has some minor production lines for the production of granules and pills. These products do not compete with the Group in terms of their curative effects. The Company focuses on manufacturing products in new medicine forms which are more competitive as compared with western medicine. The Company's main products include Liuwei Dihuang Pills (六味地黃丸), Niuhuang Jiedu Tablet (牛黃解毒片), Ganmao Qingre Granule (感冒清熱顆粒), Jinkui Shenqi Pills (金匱腎氣丸) and Shengmai Liquor (生脈飲)etc. Tong Ren Tang Holding is an investment holding company and is not involved in the production of Chinese patent medicines.

To ensure that the business classification between the Company 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.

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

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

To procure that Company conducts an independent review of the research and development of new products and the development capability, the Company confirms that among the independent non-executive Directors, a reputable person in the traditional Chinese medicinal sector will determine whether to exercise the right of first refusal granted by Tong Ren Tang Holdings or Tong Ren Tang Ltd. 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%.

The Company and the independent non-executive Directors of the Company have confirmed upon the review: during the year 2010, Tong Ren Tang Ltd. and Tong Ren Tang Holdings have provided all information necessary for the annual review by the independent non-executive Directors and their compliance with the October Undertaking. Tong Ren Tang Ltd. and Tong Ren Tang Holdings have fulfilled their undertakings on the provision of relevant right of first refusal on their existing or future competing businesses. Tong Ren Tang Ltd. and Tong Ren Tang Holdings have made annual declarations on compliance with the October Undertaking. Please refer to the following annual declarations for details.

Declaration

To: **TONG REN TANG TECHNOLOGIES CO., LTD.**
No 20. Nansanhuan Zhonglu
Fengtai District, Beijing, the PRC

Dear Sir or Madam,

In order to ensure the interests of Tong Ren Tang Technologies Co., Ltd. (the "Company") and its shareholders as a whole, We, China Beijing Tong Ren Tang Group Co., Ltd. and our subsidiaries (excluding the Company and its subsidiaries) make the following confirmations:

1 On 19 October 2000, the Company and Beijing Tong Ren Tang Company Limited entered into an agreement with us to regulate the non-competition undertaking ("Non-competition Undertaking"), which include but are not limited to the options, pre-emptive rights or first rights of refusals provided by us on our existing or future competing businesses.

2 We has supplied to the independent non-executive directors of the Company with all the necessary information in order for them to conduct review on the compliance and enforcement of the Non-competition Undertaking.

3 We confirm that we have fully complied with the Non-competition Undertaking for the year ended 31 December 2010.

4 We also agree that this confirmation be published in the Company's annual report for the year ended 31 December 2010.

We further undertake that if we become aware of any data or information in the future which constitute doubt on the truthfulness, accuracy or completeness of the data or information so provided by this confirmation, we will notify the Company in written on such data or information as soon as possible.

China Beijing Tong Ren Tang Group Co., Ltd.
17 March 2011

Declaration

To: **TONG REN TANG TECHNOLOGIES CO., LTD.**
No 20. Nansanhuan Zhonglu
Fengtai District, Beijing, the PRC

Dear Sir or Madam,

In order to ensure the interests of Tong Ren Tang Technologies Co., Ltd. (the "Company") and its shareholders as a whole, We, China Beijing Tong Ren Tang Company Limited and our subsidiaries (excluding the Company and its subsidiaries) make the following confirmations:

1 On 19 October 2000, the Company and China Beijing Tong Ren Tang Group Co., Ltd. entered into an agreement with us to regulation the non-competition undertaking ("Non-competition Undertaking"), which include but are not limited to the options, pre-emptive rights or first rights of refusals provided by us on our existing or future competing businesses.

2 We has supplied to the independent non-executive directors of the Company with all the necessary information in order for them to conduct review on the compliance and enforcement of the Non-competition Undertaking.

3 We confirm that we have fully complied with the Non-competition Undertaking for the year ended 31 December 2010.

4 We also agree that this confirmation be published in the Company's annual report for the year ended 31 December 2010.

We further undertake that if we become aware of any data or information in the future which constitute doubt on the truthfulness, accuracy or completeness of the data or information so provided by this confirmation, we will notify the Company in written on such data or information as soon as possible.

Beijing Tong Ren Tang Company Limited
17 March 2011

CONTINUING CONNECTED TRANSACTIONS

Continuing Connected Transactions with Tong Ren Tang Holdings

On 6 October 2000 and 1 January 2006, the Company entered into the land use right leasing agreement and the supplemental agreement on termination of leasing certain land with Tong Ren Tang Holdings. Pursuant to the agreements, the Company is entitled to rent a parcel of land located in No. 20 Nan San Huan Zhong Road, Feng Tai District, Beijing, the PRC (area: 43,815.15 sq.m.) from Tong Ren Tang Holdings for operating purposes. The annual cap for the rental fee for 2010 was RMB3,000,000. In 2010, the rental fee paid by the Company to Tong Ren Tang Holdings amounted to RMB2,364,000.

On 15 April 2008, the Company entered into 1) the contract for storage and custody with Tong Ren Tang Holdings, whereby Tong Ren Tang Holdings agreed to provide storage and custody services to the Company. For the year ended 31 December 2010, the annual cap for the storage fee was RMB7,000,000. The storage fee paid by the Company to Tong Ren Tang Holdings amounted to RMB2,916,000 during the year; 2) the master distribution agreement with Tong Ren Tang Holdings, whereby the Company may sell its products to Tong Ren Tang Holdings or any of its subsidiaries, joint ventures and associated companies which it directly or indirectly hold interest in (the "Tong Ren Tang Group"). For the year ended 31 December 2010, the annual cap for products sold was RMB200,000,000. In 2010, the Group sold products of RMB188,854,000 via the Tong Ren Tang Group.

On 24 April 2009, the Company entered into the raw material supply agreement (2009) with Tong Ren Tang Holdings, whereby the Group may purchase a portion of the raw materials it needs for manufacturing from the Tong Ren Tang Group. For the year ended 31 December 2010, the annual cap for the purchase was RMB21,000,000. In 2010, the Group purchased raw materials of RMB13,728,000 from the Tong Ren Tang Group.

Tong Ren Tang Holdings is the ultimate holding company of the Company, and thus a connected person of the Company in accordance with the Listing Rules. As such, the transactions under the aforementioned agreements constitute continued connected transactions. For details about the aforementioned transactions, please refer to the relevant announcements of the Company dated 15 April 2008 and dated 24 April 2009.

Continuing Connected Transactions with Tong Ren Tang Chinese Medicine

On 2 March 2010, the Company entered into the overseas distribution agreement with Tong Ren Tang Chinese Medicine. Pursuant to the agreement, the Company appoints Tong Ren Tang Chinese Medicine as its non-exclusive agent for the distribution of its products outside mainland China. The agency fee is calculated at 8.5% of the total actual sales income (after deducting all tax expenses). The annual cap for the agency fee for 2010 was RMB4,500,000. On the same date, Tong Ren Tang Ltd. entered into the Overseas Distribution Agreement with Tong Ren Tang Chinese Medicine. Pursuant to the agreement, Tong Ren Tang Ltd. appoints Tong Ren Tang Chinese Medicine as its non-exclusive agent for the distribution of its products outside mainland China. Tong Ren Tang Ltd. shall pay Tong Ren Tang Chinese Medicine an agency fee calculated at 7.5% of the total actual sales income (after deducting all tax expense). The annual caps for the agency fee for 2010 was RMB17,000,000. In 2010, the Company and Tong Ren Tang Ltd. paid Tong Ren Tang Chinese Medicine an agency fee of RMB2,645,000 and RMB11,665,000 respectively.

Tong Ren Tang Chinese Medicine is a non-wholly owned subsidiary of the Company. It is owned as to 51% by the Company and 49% by Tong Ren Tang Ltd. as at the date of entering into the transaction. Tong Ren Tang Ltd. is a holding company of the Company, and thus Tong Ren Tang Chinese Medicine is a connected person of the Company in accordance with the Listing Rules. As such, the transactions under the aforementioned agreements constitute continued connected transactions. For details about the aforementioned transactions, please refer to the relevant announcements of the Company dated 2 March 2010.

Other Continuing Connected Transactions

On 15 April 2008, the Company entered into a Master Distribution Agreement with Chuan Chiong Co., Ltd. ("Chuan Chiong") for a term up until 31 December 2010. Pursuant to this agreement, the Group agreed to sell the products to Chuan Chiong. For the year ended 31 December 2010, the annual cap for products sold was RMB17,000,000. In 2010, the actual sales amount of products from the Group to Chuan Choing was RMB16,695,000.

Chuan Chiong is a substantial shareholder of TRT Canada, and is therefore a connected person of the Company under the Listing Rules. The transactions contemplated under the Master Distribution Agreement constitute continuing connected transactions of the Company under the Listing Rules. For details of the aforementioned transactions, please refer to the relevant announcement of the Company.

The Company's auditor was engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued his unqualified letter containing his findings and conclusions in respect of the continuing connected transactions disclosed by the Group above in accordance with paragraph 14A.38 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The independent non-executive Directors has reviewed the aforementioned continuing connected 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 aggregate amount of annual caps as approved by the Stock Exchange; and

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

Save as disclosed above, the Group had also purchased finished products (proprietary Chinese medicine) from the Tong Ren Tang Group (the "Purchase Transactions"). As the applicable percentage ratios for the annual actual transaction amounts for the Purchase Transactions were more than 0.1% but less than 2.5% from 2004 to 2010 (the "Relevant Periods"), the Purchase Transactions should have been subject to the reporting, announcement and annual review requirements and were exempt from the independent shareholders' approval requirement under the then GEM Listing Rules or the then Listing Rules (whichever is applicable). On this basis, the Company should have issued an announcement in accordance with the Listing Rules prior to entering into the Purchase Transactions and complied with the annual review requirements under the Listing Rules during the Relevant Periods.

Upon becoming aware of the non-compliance, the Company immediately seeked the ratifications of the Purchase Transactions by entering into new Master Procurement Agreement with Tong Ren Tang Holdings to regulate the Purchase Transactions and published an announcement on 28 February 2011 to re-comply with the relevant requirements under Chapter 14A of the Listing Rules. Details of the historical transaction amounts for the Purchase Transactions are further set out below:

	Year ended 31 December						
	2004 (RMB)	2005 (RMB)	2006 (RMB)	2007 (RMB)	2008 (RMB)	2009 (RMB)	**2010 (RMB)**
Purchase Transactions	3,580,000	3,186,000	3,819,000	6,713,000	7,344,000	15,435,000	**18,403,000**

The Board has paid high attention to this non-compliance and will ensure appropriate disclosure, prompt notification and fully compliance with the Listing Rules as regards to its connected transactions in the future. In order to prevent the occurrence of similar incidents, the management of the Company shall continue to take steps to review the internal controls over the procurement, accounting and payment cycles of all transactions with connected persons so as to strength and improve the same to the extent possible. The Company will also conduct additional training sessions for the senior management team to reinforce their knowledge regarding the rules and regulations in respect of connected transactions.

The independent non-executive Directors have reviewed and confirmed that during the Relevant Period:

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

(ii) the Purchase 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) the Purchase Transactions were entered into on terms that were fair and reasonable and in the interests of the shareholders of the Company as a whole; and

(iv) the Company shall carry out the Purchase Transactions on an ongoing basis.

CONNECTED TRANSACTIONS

Acquisition of Equity Interest in Tongke

On 26 April 2010, the Company entered into the equity transfer agreement with NiuBaoTun Medicine Processing Factory and Tongke, whereby the Company agreed to acquire a 28% equity interest in Tongke from NiuBaoTun Medicine Processing Factory at a cash consideration of RMB21,000,000. Upon the completion of the Acquisition, Tongke will be owned as to 95% and 5% by the Company and NiuBaoTun Medicine Processing Factory, respectively. NiuBaoTun Medicine Processing Factory is the substantial shareholder of Tongke, a non-wholly-owned subsidiary of the Company, and therefore NiuBaoTun Medicine Processing Factory is a connected person of the Company and the Acquisition constitutes a connected transaction of the Company under the Listing Rules. For details about the above transaction, please refer to the relevant announcement of the Company dated 26 April 2010.

Establishment of Beijing Tong Ren Tang Health Preserving and Culture Company Limited (北京同仁堂養生文化有限公司) ("Health Preserving Company")

On 27 May 2010, Beijing Tong Ren Tang International Natural-Pharm Company Limited (北京同仁堂國際藥業有限公司)("International Pharm"), Mr. Li Kaiyu, Beijing Tong Ren Tang Commercial Investment and Development Company Limited (北京同仁堂商業投資發展有限責任公司) ("Tong Ren Tang Commercial Investment"), Beijing Taiyitang Technology Development Company Limited, Mr. Zhang Yan and Mr. Zhu Dan entered into the joint venture agreement, whereby the parties contributed the registered capital of RMB8,000,000 in total, as to 41%, 29%, 10%, 10%, 5% and 5%, being RMB3,280,000, RMB2,320,000, RMB800,000, RMB800,000, RMB400,000 and RMB400,000 in cash respectively, to establish a joint venture, Health Preserving Company. The joint venture will enhance the value of the "Tong Ren Tang" brand by tapping into health preserving sector, developing the health preserving services and promoting the health preserving culture of Chinese medicine.

Tong Ren Tang Commercial Investment is a 51%-owned subsidiary of Tong Ren Tang Holdings, and therefore is a connected person of the Company under the Listing Rules. International Pharm is the indirectly non-wholly owned subsidiary of the Company, therefore, the Joint Venture Agreement constitutes a connected transaction of the Company under the Listing Rules. For details about the above transaction, please refer to the relevant announcement of the Company dated 27 May 2010.

Establishment of Beijing Tong Ren Tang (Tangshan) Nutrition and Healthcare Co., Ltd. (北京同仁堂(唐山)營養保健品有限公司) ("Tangshan Company")

On 22 June 2010, the Company, Tangshan Jiayi Packaging Industries Co., Ltd (唐山佳億包裝工業有限公司), Bozhou Jingqiao Medicine Co., Ltd (亳州市京譙醫藥有限責任公司) and Tong Ren Tang Chinese Medicine entered into the joint venture agreement, pursuant to which the parties contributed the registered capital as to 10%, 30%, 10% and 50%, being RMB7,000,000, RMB21,000,000, RMB7,000,000 and RMB35,000,000 in cash, to establish a joint venture Company, Tangshan Company. Tangshan Company is located in Tangshan, Hebei province, the PRC, with a registered capital of RMB70,000,000. It will build a production base in Tangshan for the manufacture and sales of healthcare products and food.

Acquisition of Overseas Joint Ventures of the Company, Tong Ren Tang Ltd. and Tong Ren Tang International by Tong Ren Tang Chinese Medicine

On 20 October 2010, Tong Ren Tang Chinese Medicine entered into three equity transfer agreements with the Company, Tong Ren Tang Ltd. and Tong Ren Tang International respectively. Pursuant to which, Tong Ren Tang Chinese Medicine purchased interests in several overseas companies that previously held by aforementioned three companies. Tong Ren Tang Chinese Medicine paid an aggregate consideration at HK$18,854,163 for the four joint ventures of Tong Ren Tang Malaysia, Tong Ren Tang Macau, Tong Ren Tang Canada and Tong Ren Tang Indonesia under the company and HK$8,489,200 for the two joint ventures of Tong Ren Tang Boryung and Tong Ren Tang Thailand under Tong Ren Tang Ltd. respectively by the issuance and allotment of new shares. Tong Ren Tang Chinese Medicine paid a cash consideration of HK$17,382,623 to Tong Ren Tang International for the three Joint ventures which were Tong Ren Tang Australia, Tong Ren Tang Singapore and Tong Ren Tang Sdn Bhd.

Tong Ren Tang Chinese Medicine is a 51% owned subsidiary of the Company and is also a 49%-owned company of Tong Ren Tang Ltd. on the signing day, the controlling shareholder of the Company whereas Tong Ren Tang International is a 99.5%-owned subsidiary of Tong Ren Tang Holdings, the ultimate controlling shareholder of the Company; thus, Tong Ren Tang Chinese Medicine, Tong Ren Tang Ltd. and Tong Ren Tang International are connected persons of the Company under the Listing Rules and the above two transactions constitutes connected transactions of the Company. For details about the above transactions, please refer to the relevant announcements of the Company dated 22 June 2010 and 20 October 2010.

Save as disclosed above, there is no related party transaction or continuing related party transaction set out in note 32 to the financial statements fall into the category of connected transactions or continuing connected transactions under the Listing Rules. The Company has complied with the requirements under Chapter 14A of the Listing Rules with respect to the connected transaction and continuing connected transaction.

PURCHASE, SALE OR REDEMPTION OF SECURITIES OF THE COMPANY

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

PRE-EMPTIVE RIGHT

There is no provision for pre-emptive rights under the PRC Law or the Articles of Association, which would oblige the Company to offer new shares on pro-rata basis to exsiting shareholders.

INDEPENDENT AUDITOR

The accompanying financial statements were audited by PricewaterhouseCoopers. The Company did not change auditor in any year over the past three years. A resolution for the reappointment of PricewaterhouseCoopers as the independent auditor of the Company for the year 2011 is to be proposed at the AGM.

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

Beijing, the PRC
17 March 2011

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, relevant laws and regulations of Hong Kong and the articles of association of the Company (the "Articles of Association").

During the year, the Supervisory Committee reviewed cautiously the operation and development plans of the Company and put forward reasonable suggestions and opinions to the Board 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.

The Supervisory Committee 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 2010 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
17 March 2011

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 2010, the Company complied with all the code provisions set out in Appendix 15 of the Code on Corporate Governance Practices of the Rules Governing the Listing of Securities on the GEM of the Hong Kong Stock Exchange (the "GEM Listing Rules") or Appendix 14 of the Code on Corporate Governances Practices of the Listing Rules.

The Company has adopted the principles in the Code on Corporate Governances and aims to establish a corporate governance structure from the Company's standard and experience on the basis of such code.

DIRECTORS' DEALING IN SECURITIES

The Company has formulated and implemented its own Code on Dealing in Securities pursuant to the required standard of dealings as set out in Rule 5.48 to Rule 5.67 of the GEM Listing Rules or Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the 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 or the Model Code and these requirements are also applicable to Supervisors and the senior management of the Company. After enquiry by the Company to all the Directors, Supervisors and senior management, all the Directors, Supervisors and senior management have confirmed that they have been complying with the required standard of dealings or the Model Code 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 of Directors 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 or Listing Rules and other related regulations, the Board and the Committees should work under the written terms of reference.

The Board of Directors convenes its plenary meeting at least once a quarter or when significant decision-making has to be carried out. The Board of Directors convened nine meetings in 2010 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 2010:

Directors	Board of Directors	Audit Committee	Remuneration Committee	Nomination Committee
	Attendance/Number of meetings			
Executive Directors				
Mei Qun	9/9		1/1	1/1
Yin Shun Hai	9/9			
Wang Yu Wei	9/9			
Fang Jia Zhi	9/9			
Zhang Huan Ping (resigned on 26 April 2010)	4/4			
Xie Zhan Zhong (appointed on 18 June 2010)	3/3			
Non-executive Director				
Ding Yong Ling (redesignated as a non-executive Director on 26 April 2010 from an executive Director and resigned on 17 March 2011)	9/9			
Independent non-executive Directors				
Tam Wai Chu, Maria	9/9	2/2		1/1
Ting Leung Huel, Stephen	9/9	2/2	1/1	
Jin Shi Yuan	9/9	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 fourth session of the Board of Directors of the Company was comprised of nine Directors who were elected at the annual general meetings in 2009 and 2010. Their term of office will end upon the conclusion of the annual general meeting in 2012. Other than those re-elected, Mr. Wang Yu Wei, Ms. Fang Jia Zhi and Mr. Zhang Huan Ping were newly elected as executive Directors of the Company on 25 June 2009 and Mr. Xie Zhan Zhong was newly elected as executive Directors of the Company on 18 June 2010. Mr. Zhang Huan Ping resigned as an executive Director of the Company on 26 April 2010. Ms. Ding Yong Ling was redesignated as a non-executive Director from an executive Director on 26 April 2010.

As at 31 December 2010, the Board of Directors comprises five executive Directors, Mr. Mei Qun, Mr. Yin Shun Hai, Mr. Wang Yu Wei, Ms. Fang Jia Zhi and Mr. Xie Zhan Zhong, one non-executive Director Ms. Ding Yong Ling, and three independent non-executive Directors, Miss Tam Wai Chu, Maria, Mr. Ting Leung Huel, Stephen and Mr. Jin Shi Yuan. Mr. Mei Qun is the Chairman of the Company. In non-executive Directors, Ms. Ding Yong Ling was appointed as an executive Director on 16 May 2005 and re-elected at the annual general meeting in 2006 and 2009, and redesignated as a non-executive Director from an executive Director on 26 April 2010. Miss Tam Wai Chu, Maria and Mr. Ting Leung Huel, Stephen were appointed as independent non-executive Directors on 11 October 2000 and were re-elected at the annual general meeting in 2003 and 2006 and 2009 respectively. Mr. Jin Shi Yuan was appointed as an independent non-executive Director on 16 October 2000 and re-elected at the annual general meeting in 2003 and 2006 and 2009. Independent non-executive Directors are independent of the management and in possession of solid experience in business and finance. They provide to the Board of Directors and the senior management with significant contribution to the development of the Company, and provide balancing mechanism to protect shareholders and the Company as a whole.

Members of the Board of Directors, Supervisory Committee and senior management do not have any financial, business, family or other material relationship with each other save for working relationship.

As at 31 December 2010, 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 or 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 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:

1. approved the adoption of the International Financial Reporting Standards;

2. selected and applied appropriate accounting policies;

3. made judgments and estimates that is reasonable; and

4. 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 or C.3 of the Appendix 14 of the 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 or C.3 of the Appendix 14 of the 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 audit committee of the Company 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 2010, the audit committee has conducted two meetings. The first meeting was held on 15 March 2010 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 2009 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 4 August 2010 to review and discuss the operating results, financial position and major accounting policies and internal audit matters with respect to the unaudited interim report of the Company for the six months ended 30 June 2010 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 9 March 2011 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 2010 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 or the 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 (including approving their service contracts) 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 or the Listing Rules that independent non-executive Directors should form the majority of the remuneration committee.

During the year of 2010, one meeting has been conducted by the Remuneration Committee. On 15 March 2010, the Committee reviewed and discussed the Directors', Supervisors' and senior management' emoluments for the year ended 31 December 2009.

NOMINATION COMMITTEE

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

(i) 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

(ii) 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 or the Listing Rules that independent non-executive Directors should form the majority of the nomination committee. The Nomination Committee shall, when nominating directors, take into account of the integrity of the relevant persons, their accomplishments and experiences, their professional and educational background and other factors such as time to be devoted to the Company. Factors set out in Rule 3.13 of the Listing Rules shall be considered while reviewing the independence of the non-executive directors.

During 2010, one meeting has been conducted by the Nomination Committee. On 15 March 2010, 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 2010. 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 2010 is set out in section "auditor's remuneration" of Note 24 to the consolidated financial statements. Besides, the Company paid for auditor's expenses of lodging, meals and traveling expenses 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 of the Company, the major rights enjoyed by shareholders are highlighted in the section under "Shareholders' Rights and Obligation".

During the reporting period, the annual general meetings was held at No. 52 Dong Xing Long Street, Dong Cheng District, Beijing, the PRC on 18 June 2010. The percentage of the votes for approving the related resolutions proposed are as follows:

Ordinary Resolutions

1. To approve the audited consolidated financial statements of the Company and the Report of the Directors and the Auditors for the year ended 31 December 2009 (100% voted for the resolution);

2. To approve the Report of the Supervisory Committee for the year ended 31 December 2009 (100% voted for the resolution);

3. To approve the profit distribution proposal of the Company for the year ended 31 December 2009 (100% voted for the resolution);

4. To approve the appointment of Mr. Xie Zhan Zhong as an executive Director for a term up to the date of the annual general meeting to be convened in 2012 and to authorize the Board of Directors of the Company to fix his remuneration; (100% voted for the resolution);

5. To re-appoint PricewaterhouseCoopers as the auditors of the Company for the year 2010 and to authorize the board of directors of the Company to fix their remuneration (100% voted for the resolution);

Special Resolution

6. To approve the amendments of Articles of Association (100% voted for the resolution).

All resolutions proposed at the annual general meeting 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, Supervisors, 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 extraordinary general meeting (the "EGM") 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 annual or extraordinary general meetings.

Directors, Supervisors and Senior Management

EXECUTIVE DIRECTORS

Mr. Mei Qun, aged 54, 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 Tong Ren Tang Pharma Factory, the assistant to the manager of Beijing Medicinal Materials Company, the assistant to the general manager and deputy general manager of Tong Ren Tang Holdings, general manager of Tong Ren Tang Ltd., and the vice-chairman of the Company. He is currently the 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 chairman of Beijing Tong Ren Tang Traditional Chinese Medine Hospital, the vice-chairman of Tong Ren Tang Chinese Medicine and a director of Tong Ren Tang International. 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 District 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 National People's Congress ("NPC"), a delegate to the Chongwen District'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 promoters of the Company. Mr. Mei had been a Director of the Company since 9 March 2000. Mr. Mei was re-elected as an executive Director at the annual general meeting in 2003 and 2006 and 2009, respectively.

Mr. Yin Shun Hai, aged 57, is a senior economist with a postgraduate qualification. He was formerly the manager of No. 2 of Tong Ren Tang Pharma Factory, 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, the vice-chairman of Tong Ren Tang Ltd., the chairman of Tong Ren Tang International, the chairman of Tong Ren Tang Chinese Medicine, the vice president of Patent Protection Association of China, an executive member of the 9th China Federation of Industry & Commerce and a delegate to the 11th Beijing's CPPCC. He is one of the promoters of the Company. Mr. Yin had been a Director of the Company since 9 March 2000. Mr. Yin was re-elected as an executive Director of the Company at the annual general meeting in 2003 and 2006 and 2009, respectively.

Mr. Wang Yu Wei, aged 43, is a senior engineer with a postgraduate qualification. He formerly served as the deputy officer of the new technology development centre and the deputy factory manager of No. 2 of Beijing Tong Ren Tang Pharma Factory, the assistant to the general manager and the deputy general manager of the Company. He is currently the general manager of the Company, a director of Tong Ren Tang Chinese Medicine and the chairman of Beijing Tong Ren Tang Nansanhuan Zhonglu Drugstore Co., Limited. He is also a delegate to the Fengtai District's 14th NPC of Beijing. Mr. Wang was appointed as an executive Director on 25 June 2009.

Ms. Fang Jia Zhi, aged 44, is a senior auditor with a university qualification. She formerly served as the deputy head and head of audit department of Tong Ren Tang Holdings, the deputy chief accountant of the Company. She is currently the chief accountant of the Company, the Director of Beijing Tong Ren Tang Yanbian Chinese Medicinal Raw Materials Co., Limited, Beijing Tong Ren Tang Anhui Chinese Medicinal Raw Materials Co., Limited, Beijing Tong Ren Tang Zhejiang Chinese Medicinal Raw Materials Co., Limited, Beijing Tong Ren Tang Hebei Chinese Medicinal Raw Materials Technologies Co., Limited, Beijing Tong Ren Tang Hubei Chinese Medicinal Raw Materials Co., Limited, Beijing Tong Ren Tang Nanyang Shanzhuyu Co., Limited, Beijing Tong Ren Tang Tongke Pharmaceutical Company Limited and Beijing Tong Ren Tang WM Dianorm Biotech Co., Limited. Ms. Fang was appointed as an executive Director on 25 June 2009.

Mr. Xie Zhan Zhong, aged 58, is a senior economist with a bachelor's degree. Mr. Xie has previously served various positions in the Tong Ren Tang Holdings, such as the section chief of the cadre administration department, the deputy chief economist as well as the manager of human resources department, the deputy chief economist, an assistant to the general manager, the deputy general manager of the Tong Ren Tang Holdings. Mr. Xie currently serves as the secretary to the Party Committee, the deputy general manager and the chief auditor of Tong Ren Tang Ltd. since 2006 and 2010 respectively. Mr. Xie was appointed as an executive Director on 18 June 2010.

NON-EXECUTIVE DIRECTOR

Ms. Ding Yong Ling, aged 47, 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 Director and General Manager of Tong Ren Tang International and Tong Ren Tang Chinese Medicine and the vice-chairman of Beijing Tong Ren Tang Health Pharmaceutical Co., Ltd. Ms. Ding was appointed as an executive Director on 16 May 2005 and re-elected at the annual general meeting in 2006 and 2009. She was redesignated as a non-executive Director of the Company on 26 April 2010.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Miss Tam Wai Chu, Maria, aged 65, GBS, JP, LL.B (Honours), barrister. She is currently an independent non-executive director of seven listed companies namely 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 Operations Review Committee of the ICAC and a member of the Witness Protection Review Board of ICAC effective from January 2010. She is a delegate to the National People's Congress of The People's Republic of China and a member of the Hong Kong Basic Law Committee. Miss Tam was appointed as an independent non-executive Director on 11 October 2000 and was re-elected at the annual general meetings in 2003, 2006 and 2009, respectively.

Mr. Ting Leung Huel, Stephen, (MH, FCCA, FCPA (Practising), ACA, CTA(HK), FHKIoD), aged 57, is the chairman of the audit committee and a member of the remuneration committee of the Company. He is a non-executive director of Chow Sang Sang Holdings International Limited and an independent non-executive director of seven listed companies namely Tongda Group Holding Limited, Minmetals Resources Limited, JLF Investment Company Limited, Computer And Technologies Holdings Limited, Texhong Textile Group Limited, Dongyue Group Limited and China SCE Property Holdings Limited respectively. Save as disclosed above, Mr. Ting has not held any directorship in other listed public companies in the past three years. Mr. Ting is a member of the 9th and 10th Chinese People's Political & Consultative Conference, Fujian. Mr. Ting is an accountant in public practice and the managing partner of Messrs. Ting Ho Kwan & Chan, Certified Public Accountants (Practising). Mr. Ting was appointed as an independent non-executive Director on 11 October 2000 and was re-elected at the annual general meetings in 2003, 2006 and 2009 respectively.

Mr. Jin Shi Yuan, aged 84, a chief pharmacist, is the Chinese medicine investigation expert in state secret technology for the State Ministry of Science and Technology, evaluation expert in Chinese medicine project for the National Natural Science Foundation of China, appraisal expert in science and technology achievements for the State Administration of Traditional Chinese Medicine, appraisal expert in basic medicines for the State Food and Drug Administration, appraisal expert in Chinese medicine prices for the State Development and Reform Commission, and representative successor to Chinese medicine preparations technology in State nonmaterial cultural heritages. Mr. Jin is also a lifelong councilor of the China Association of Traditional Chinese Medicine, 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 Beijing University of Chinese Medicine, 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 and 2009 respectively.

SUPERVISORS

Mr. Zhang Xi Jie, aged 56, Chairman of the Supervisory Committee of the Company, is a senior accountant and Chinese certified public accountant with a postgraduate qualification. He served as the 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, the chairman of the supervisory committee of Tong Ren Tang Ltd., the chairman of Beijing Tong Ren Tang Commercial Investment Development 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., Beijing Tong Ren Tang Biological Product Development Co., Ltd. and the chairman of Beijing Tong Ren Tang Shen Rong Co., Ltd.. Mr. Zhang was appointed as a Supervisor on 18 May 2006 and re-elected at the annual general meeting in 2009.

Mr. Wu Yi Gang, aged 52, holding a bachelor degree 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 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 and 2009 respectively.

Ms. Wang Yan Rong, aged 49, is an economist with a bachelor's degree. She served as the section officer of human resources department and Administrative Office, deputy department head and department head of Manager Office of Tong Ren Tang Holdings. She is currently the secretary to the Party Committee and the general auditor of the Company. She was appointed as a Supervisor of the Company on 25 June 2009.

SENIOR MANAGEMENT

Mr. Bai Jian, aged 51, is a deputy chief pharmacist with MBA. He formerly served as the head of the foreign economic relations and trade section of No. 2 of Tong Ren Tang Pharma Factory, 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 52, is a senior engineer with a postgraduate qualification. Mr. Li formerly served as the factory manager of the Northern Plant of Beijing Tong Ren Tang Pharma Factory, 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 46, 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 No. 2 of Beijing Tong Ren Tang Pharma Factory, 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 46, 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. Guo Gui Qin, aged 46, 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 37, 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 of the Board of Directors and the Company Secretary.

Independent Auditor's Report

PRICEWATERHOUSECOOPERS

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

We have audited the consolidated financial statements of Tong Ren Tang Technologies Co., Ltd. (the "Company") and its subsidiaries (together, the "Group") set out on pages 48 to 114, which comprise the consolidated and company balance sheets as of 31 December 2010, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

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

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

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

Independent Auditor's Report

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as of 31 December 2010, and of the Group's profit 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,
17 March 2011

Balance Sheets

As of 31 December 2010

	Note	The Group 2010 RMB'000	The Group 2009 RMB'000 (Restated)	The Company 2010 RMB'000	The Company 2009 RMB'000
ASSETS					
Non-current assets					
Leasehold land and land use rights	6	**45,841**	47,537	**22,655**	23,227
Property, plant and equipment	7	**387,982**	412,072	**224,993**	245,686
Investments in subsidiaries	8	**–**	–	**200,946**	156,442
Investments in joint ventures	9	**–**	–	**10,953**	22,683
Investment in an associate	10	**2,892**	–	**–**	–
Prepayments		**29,048**	–	**–**	–
Deferred income tax assets	14	**9,746**	6,601	**5,727**	2,932
Other long-term assets		**531**	839	**380**	–
		476,040	467,049	**465,654**	450,970
Current assets					
Inventories	13	**957,134**	834,754	**913,091**	793,280
Trade and bills receivables, net	12	**155,229**	148,450	**147,235**	136,859
Amounts due from related parties	32(d)	**18,871**	29,446	**15,936**	28,175
Prepayments and other current assets		**30,261**	17,321	**14,809**	11,494
Short-term bank deposits	31	**96,529**	54,021	**90,000**	40,000
Cash and cash equivalents	31	**441,108**	379,926	**289,482**	263,989
		1,699,132	1,463,918	**1,470,553**	1,273,797
Total assets		**2,175,172**	1,930,967	**1,936,207**	1,724,767
EQUITY					
Equity attributable to owners of the parent					
Share capital	15	**196,000**	196,000	**196,000**	196,000
Reserves	16				
– Proposed dividends	27	**486,080**	88,200	**486,080**	88,200
– Other reserves		**876,937**	1,192,595	**850,962**	1,157,186
		1,559,017	1,476,795	**1,533,042**	1,441,386
Non-controlling interests		**177,500**	144,402	**–**	–
Total equity		**1,736,517**	1,621,197	**1,533,042**	1,441,386

The accompanying notes on pages 55 to 114 are an integral part of these financial statements.

Balance Sheets (Cont'd)

As of 31 December 2010

		The Group		The Company	
	Note	**2010 RMB'000**	2009 RMB'000 (Restated)	**2010 RMB'000**	2009 RMB'000
LIABILITIES					
Non-current liabilities					
Deferred income tax liabilities	14	**5,251**	5,494	**–**	–
Deferred income – government grants	18	**25,037**	10,610	**24,574**	10,155
		30,288	16,104	**24,574**	10,155
Current liabilities					
Trade payables	20	**212,463**	176,270	**199,938**	166,751
Salary and welfare payables	21	**5,117**	6,362	**3,038**	4,212
Advances from customers		**48,999**	15,419	**43,389**	8,897
Amounts due to related parties	32(d)	**17,380**	15,262	**10,148**	10,148
Amounts due to subsidiaries		**–**	–	**11,983**	10,172
Current income tax liabilities		**12,018**	9,697	**6,296**	5,471
Accrued expenses and other current liabilities		**97,390**	55,656	**88,799**	52,575
Short-term borrowings	19	**15,000**	15,000	**15,000**	15,000
		408,367	293,666	**378,591**	273,226
Total liabilities		**438,655**	309,770	**403,165**	283,381
Total equity and liabilities		**2,175,172**	1,930,967	**1,936,207**	1,724,767
Net current assets		**1,290,765**	1,170,252	**1,091,962**	1,000,571
Total assets less current liabilities		**1,766,805**	1,637,301	**1,557,616**	1,451,541

Mei Qun
Director

Fang Jia Zhi
Director

The accompanying notes on pages 55 to 114 are an integral part of these financial statements.

Consolidated Income Statement

For the year ended 31 December 2010

	Note	2010 RMB'000	2009 RMB'000 (Restated)
Revenue	22	**1,578,914**	1,352,202
Cost of sales		**(817,058)**	(709,836)
Gross profit		**761,856**	642,366
Distribution costs		**(352,797)**	(287,459)
Administrative expenses		**(146,382)**	(131,211)
Operating profit		**262,677**	223,696
Finance income – net	23	**4,933**	3,556
Share of loss of an associate	10	**(388)**	–
Profit before income tax	24	**267,222**	227,252
Income tax expense	25	**(42,132)**	(37,133)
Profit for the year		**225,090**	190,119
Profit attributable to:			
Owners of the parent		**198,342**	176,369
Non-controlling interests		**26,748**	13,750
		225,090	190,119
Earnings per share for profit attributable to equity holders of the Company during the year	26		
– Basic		**1.01**	0.90
– Diluted		**1.01**	0.90

The accompanying notes on pages 55 to 114 are an integral part of these financial statements.

	Note	2010 RMB'000	2009 RMB'000
Dividends	27	**486,080**	88,200

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2010

	Note	2010 RMB'000	2009 RMB'000 (Restated)
Profit for the year		**225,090**	190,119
Other comprehensive (expense)/income:			
Foreign currency translation differences		**(1,651)**	3,372
Other comprehensive (expense)/income for the year, net of tax		**(1,651)**	3,372
Total comprehensive income for the year		**223,439**	193,491
Attributable to:			
Equity holders of the Company		**198,312**	179,531
Non-controlling interests		**25,127**	13,960
Total comprehensive income for the year		**223,439**	193,491

The accompanying notes on pages 55 to 114 are an integral part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2010

	Attributable to equity holders of the Company									Non-controlling interests	Total equity
	Share capital	Capital reserve	Statutory surplus reserve fund	Statutory public welfare fund	Tax reserve	Foreign currency translation 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
Balance as of 1 January 2009, as previously stated	196,000	355,309	136,824	45,455	102,043	(16,428)	(468)	541,657	1,360,392	124,513	1,484,905
Adoption of merger accounting (Notes 2.2 (a) and 17)	–	–	–	–	–	(2,354)	18,184	(1,172)	14,658	6,105	20,763
Balance as of 1 January 2009, as restated	196,000	355,309	136,824	45,455	102,043	(18,782)	17,716	540,485	1,375,050	130,618	1,505,668
Profit for the year	–	–	–	–	–	–	–	176,369	176,369	13,750	190,119
Foreign currency translation differences	–	–	–	–	–	3,162	–	–	3,162	210	3,372
Capital injection to a newly formed subsidiary by the then shareholders	–	–	–	–	–	–	1,742	–	1,742	1,674	3,416
Distribution by the acquired business before the business combinations under common control	–	–	–	–	–	–	–	(1,128)	(1,128)	(1,083)	(2,211)
Dividends paid	–	–	–	–	–	–	–	(78,400)	(78,400)	(767)	(79,167)
Appropriation from retained earnings	–	–	16,203	–	–	–	–	(16,203)	–	–	–
Balance as of 31 December 2009, as restated	196,000	355,309	153,027	45,455	102,043	(15,620)	19,458	621,123	1,476,795	144,402	1,621,197

The accompanying notes on pages 55 to 114 are an integral part of these financial statements.

Consolidated Statement of Changes in Equity (Cont'd)

For the year ended 31 December 2010

	Attributable to equity holders of the Company									Non-controlling interests	Total equity
	Share capital RMB'000	Capital reserve RMB'000	Statutory surplus reserve fund RMB'000	Statutory public welfare fund RMB'000	Tax reserve RMB'000	Foreign currency translation difference RMB'000	Other reserve RMB'000	Retained earnings RMB'000	Total RMB'000	RMB'000	RMB'000
Balance as of 1 January 2010, as previously stated	196,000	355,309	153,027	45,455	102,043	(15,874)	(468)	620,081	1,455,573	134,467	1,590,040
Adoption of merger accounting (Notes 2.2 (a) and 17)	–	–	–	–	–	254	19,926	1,042	21,222	9,935	31,157
Balance as of 1 January 2010, as restated	196,000	355,309	153,027	45,455	102,043	(15,620)	19,458	621,123	1,476,795	144,402	1,621,197
Profit for the year	–	–	–	–	–	–	–	198,342	198,342	26,748	225,090
Foreign currency translation differences	–	–	–	–	–	(30)	–	–	(30)	(1,621)	(1,651)
Capital injection to the newly formed subsidiaries	–	–	–	–	–	–	–	–	–	29,906	29,906
Distribution by the acquired business before the business combinations under common control	–	–	–	–	–	–	–	(4,530)	(4,530)	(1,151)	(5,681)
Dividends paid	–	–	–	–	–	–	–	(88,200)	(88,200)	(6,195)	(94,395)
Partial disposal of equity interest in a subsidiary	–	–	–	–	–	(256)	(898)	(102)	(1,256)	1,256	–
Business combinations under common control (Note 17)	–	–	–	–	–	(1,103)	(22,632)	3,494	(20,241)	5,282	(14,959)
Share issuance costs of a subsidiary	–	–	–	–	–	–	(1,865)	–	(1,865)	(1,647)	(3,512)
Purchase of additional interest in a subsidiary	–	–	–	–	–	–	(806)	–	(806)	(20,194)	(21,000)
Contribution from ultimate holding company to a non-wholly owned subsidiary	–	–	–	–	–	–	808	–	808	714	1,522
Appropriation from retained earnings	–	–	17,606	–	–	–	–	(17,606)	–	–	–
Balance as of 31 December 2010	196,000	355,309	170,633	45,455	102,043	(17,009)	(5,935)	712,521	1,559,017	177,500	1,736,517

The accompanying notes on pages 55 to 114 are an integral part of these financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 December 2010

	Note	2010 RMB'000	2009 RMB'000 (Restated)
Cash flows from operating activities:			
Cash generated from operations	31	**310,757**	251,619
Interest paid		**(721)**	(774)
Income tax paid		**(43,199)**	(14,551)
Net cash generated from operating activities		**266,837**	236,294
Cash flows from investing activities:			
Purchase of property, plant and equipment		**(32,277)**	(11,854)
Purchase of other long-term assets		**(504)**	–
Deposit for purchase of land use rights		**(24,873)**	–
Proceeds from disposal of property, plant and equipment		**251**	463
Proceeds from short-term bank deposits		**54,021**	9,744
Increase in short-term bank deposits		**(96,529)**	(54,021)
Payment for business combinations under common control (Note 17)		**(14,959)**	–
Investment in an associated company		**(3,280)**	–
Acquisition of additional equity interests in a subsidiary from non-controlling interests		**(21,000)**	–
Interest received		**6,466**	4,367
Net cash used in investing activities		**(132,684)**	(51,301)
Cash flows from financing activities:			
Proceeds from short-term borrowings		**15,000**	15,000
Repayments of short-term borrowings		**(15,000)**	(15,000)
Capital injection from non-controlling interests		**29,906**	3,416
Share issuance costs of a subsidiary		**(3,512)**	–
Distribution by the acquired business before the business combinations under common control		**(5,681)**	(2,211)
Dividends paid		**(94,395)**	(79,167)
Net cash used in financing activities		**(73,682)**	(77,962)
Net increase in cash and cash equivalents		**60,471**	107,031
Cash and cash equivalents at beginning of the year		**379,926**	270,613
Exchange gains on cash and cash equivalents		**711**	2,282
Cash and cash equivalents at end of the year	31	**441,108**	379,926

The accompanying notes on pages 55 to 114 are an integral part of these financial statements.

Notes to the Consolidated Financial Statements

31 December 2010

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.

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 Mainland and Hong Kong.

The directors of the Company (the "Directors") consider China Beijing Tong Ren Tang Group Co., Ltd., a limited liability company incorporated in Beijing, the PRC, as the ultimate holding company.

The Company was listed on the Growth Enterprise Market (the "GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 31 October 2000.

On 9 July 2010, the Company transferred the listing from GEM to the Main Board (the "MB") of the Stock Exchange (the "Transfer"). The Transfer had no effect on the existing share certificates in respect of the H Shares and not involved any transfer or exchange of the existing share certificates. As of 31 December 2010, the registered share capital of the Company was RMB196,000,000, representing 108,680,000 Domestic shares and 87,320,000 H shares with a par value of RMB1 per share.

On 20 October 2010, one subsidiary of the Company, Beijing Tong Ren Tang Chinese Medicine Company Limited ("Tong Ren Tang Chinese Medicine"), entered into three equity transfer agreements with the Company, Beijing Tong Ren Tang Company Limited ("Parent Company" or "Tong Ren Tang Ltd.") and Beijing Tong Ren Tang International Co., Ltd. ("Tong Ren Tang International") respectively. Pursuant to which, Tong Ren Tang Chinese Medicine purchased interests in several overseas companies that previously held by aforementioned three companies.

Tong Ren Tang Ltd. and Tong Ren Tang International are under common controlled by the ultimate holding company of the Company. The purchase of interests from Tong Ren Tang Ltd. and Tong Ren Tang International (hereafter collectively referred to as the "Acquired Business") is regarded as business combinations under common control (Note 2.2 (a)). Details of the relevant statements of adjustments for the common control combinations on the Group's financial position as at 31 December 2010 and 2009 and the Group's results for the years then ended are set out in Note 17.

These consolidated financial statements have been approved for issue by the Board of Directors on 17 March 2011.

Notes to the Consolidated Financial Statements

31 December 2010

1. GENERAL INFORMATION (CONT'D)

As of 31 December 2010, the Group had equity interests in these subsidiaries:

Name	Place/date of incorporation/kind of legal entity	Percentage of equity interest held	Issued/ registered and paid-up capital	Principal activities/ place of operation
Subsidiaries:				
Beijing Tong Ren Tang Nanyang Shanzhuyu Co., Limited ("Tong Ren Tang 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 ("Tong Ren Tang 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 ("Tong Ren Tang 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 ("Tong Ren Tang Hebei")	Hebei, PRC 19 November 2001 Limited liability company	51%*	RMB8,000,000	Purchasing, processing and selling of Chinese medicinal raw materials Hebei, PRC
Beijing Tong Ren Tang Tongke Pharmaceutical Company Limited ("Tongke")	Beijing, PRC 4 November 2003 Limited liability company	95%*	RMB75,000,000	Production of ointment, and medical research and development Beijing, PRC
Beijing Tong Ren Tang Chinese Medicine Company Limited ("Tong Ren Tang Chinese Medicine")	Hong Kong, PRC 18 March 2004 Limited liability company	53.09%*	HK$201,430,473	Development, production and sales of healthcare products Hong Kong, PRC
Beijing Tong Ren Tang Nansanhuan Zhonglu Drugstore Co., Limited ("Nansanhuan Zhonglu 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 ("Tong Ren Tang Yanbian")	Jilin, PRC 24 September 2004 Limited liability company	51%*	RMB4,000,000	Purchasing and selling of agricultural by-products Jilin, PRC

* *Shares directly held by the Company*

1. GENERAL INFORMATION (CONT'D)

Name	Place/date of incorporation/kind of legal entity	Percentage of equity interest held	Issued/ registered and paid-up capital	Principal activities/ place of operation
Subsidiaries: *(Cont'd)*				
Beijing Tong Ren Tang Anhui Chinese Medicinal Raw Materials Co., Limited ("Tong Ren Tang Anhui")	Anhui, PRC 18 October 2004 Limited liability company	51%*	RMB4,000,000	Purchasing and selling of agricultural by-products Anhui, PRC
Beijing Tong Ren International Natural-Pharm Company Limited ("International Pharm")	Beijing, PRC 6 March 2006 Limited liability company	100%	HK$10,000,000	Sales and distribution of Chinese medicines and health care products Beijing, PRC
Beijing Tong Ren Tong (Australia) Pty Ltd ("Tong Ren Tang Australia")	Sydney, Australia 20 May 2004 Limited liability company	75%	AUD1,000,000	Wholesale and retail of Chinese medicine, health care products and Chinese medicine consultation and treatment Sydney, Australia
Beijing Tong Ren Tong Science Arts (Singapore) Co Pte. Ltd ("Tong Ren Tang Singapore")	Singapore 2 December 2003 Limited liability company	51%	SGD857,000	Retail of Chinese medicine, health care products and Chinese medicine consultation and treatment Singapore
Beijing Tong Ren Tong (B) Sdn Bhd ("Tong Ren Tang Sdn Bhd")	Bandar Seri Begawan, Brunei 23 July 2009 Limited liability company	51%	USD500,000	Retail of Chinese medicine and health care products Seri Begawan, Brunei
Beijing Tong Ren Tong (Toronto) Inc. ("Tong Ren Tang Toronto")	Toronto, Canada 24 June 2010 Limited liability company	51%	CAD100	Retail of Chinese medicine, health care products and Chinese medicine consultation and treatment Toronto, Canada
Beijing Tong Ren Tang (Tangshan) Nutrition and Healthcare Co., Ltd ("Tangshan Company")	TangShan, PRC 13 September 2010 Limited liability company	60%**	RMB70,000,000	Production and sales of healthcare products Hebei, PRC
Beijing Tong Ren Tang Consulting Service Ltd ("Tong Ren Tang Consulting Service")	Beijing, PRC 30 March 2010 Limited liability company	100%	RMB600,000	Administrative services for group companies Beijing, PRC

* *Shares directly held by the Company*

** *10% of which directly held by the Company*

1. GENERAL INFORMATION (CONT'D)

The Group 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 companies by simple majority votes and the Group can appoint more than half of the board members in each of these companies. Accordingly, they are considered as the Group's subsidiaries under International Financial Reporting Standards ("IFRS").

As of 31 December 2010, the Group had equity interests in these joint ventures:

Name	Place/date of incorporation/kind of legal entity	Percentage of equity interest held	Issued/ registered and paid-up capital	Principal activities/ place of operation
Joint ventures:				
Beijing Tong Ren Tang WM Dianorm Biotech Co., Limited ("Tong Ren Tang WM")	Beijing, PRC 20 February 2001 Sino-foreign equity joint venture	60%*	US$3,000,000	Technological development and sales of biological products, Chinese and western medicines and cosmetics
Peking Tongrentang (M) SDN. BHD. ("Tong Ren Tang Malaysia")	Kuala Lumpur, Malaysia 19 January 2001 Limited liability company	60%	MYR1,900,000	Retail of Chinese medicine, health care products and Chinese medicine consultation and treatment
Beijing Tong Ren Tang Canada Co., Ltd. ("Tong Ren Tang Canada")	Vancouver, Canada 11 January 2002 Limited liability company	51%	CAD100	Retail of Chinese medicine, health care products and Chinese medicine consultation and treatment
Beijing Tong Ren Tang (Macau) Company Limited ("Tong Ren Tang Macau")	Macau, PRC 14 May 2003 Limited liability company	51%	MOP1,000,000	Retail of Chinese medicine, health care products and Chinese medicine consultation and treatment
PT. Beijing Tong Ren Tang Indo. ("Tong Ren Tang Indonesia")	Jakarta, Indonesia 22 September 2003 Limited liability company	50%	US$1,000,000	Retail of Chinese medicine and health care products
Beijing Tong Ren Tong (Thailand) Company Limited ("Tong Ren Tang Thailand")	Bangkok, Thailand 23 March 2000 Limited liability company	49%	THB38,000,000	Wholesale and retail of Chinese medicine, health care products and Chinese medicine consultation and treatment
Beijing Tong Ren Tong (Boryung) Co., Ltd. ("Tong Ren Tang Boryung")	Boryung, Korea 10 May 2002 Limited liability company	51%	WON 1,829,835,000	Wholesale of Chinese medicine and health care products

* *Shares directly held by the Company*

1. GENERAL INFORMATION (CONT'D)

Name	Place/date of incorporation/kind of legal entity	Percentage of equity interest held	Issued/ registered and paid-up capital	Principal activities/ place of operation
Joint ventures: *(Cont'd)*				
Beijing Tong Ren Tong (Thai Boon Roong) Co., Ltd. ("Tong Ren Tang Thai Boon Roong")	Phnom Penh, Cambodia 29 December 2005 Limited liability company	51%	USD500,000	Retail of Chinese medicine and health care products

These companies are considered as the Group's joint ventures under IFRS because their strategic operating, investing and financing activities are jointly controlled by the Group and the joint venture partners.

As of 31 December 2010, the Company indirectly held equity interests in below associate:

Name	Place/date of incorporation/kind of legal entity	Percentage of equity interest held	Issued/ registered and paid-up capital	Principal activities/ place of operation
Associate:				
Beijing Tong Ren Tang Health Preserving and Culture Co., Ltd. ("Health Preserving Company")	Beijing, PRC 24 May 2010 Limited liability company	41%	RMB8,000,000	Provision of Chinese medical consultation and treatment

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of preparation

The consolidated financial statements of Tong Ren Tang Technologies Co., Ltd. have been prepared in accordance with International Financial Reporting Standards (IFRS). The consolidated financial statements have been prepared under the historical cost convention.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

2.1.1 Changes in accounting policy and disclosures

(a) Standards, amendments and interpretations effective in 2010

- IFRS 1 (Revised), 'First-time adoption of IFRSs'
- IFRS 1 (Amendment), 'Additional exemptions for first-time adopters'
- IFRS 2 (Amendment), 'Group cash-settled share-based payment transactions'
- IFRS 3 (Revised), 'Business combinations'
- IAS 27 (Revised), 'Consolidated and separate financial statements'
- IAS 39 (Amendment), 'Eligible hedge items'
- IFRIC - Int 17, 'Distribution of non-cash assets to owners'
- IFRIC - Int 18, 'Transfer of assets from customers'
- IASB's annual improvements project published in May 2008
  - IFRS 5 (Amendment), 'Non-current assets held for sale and discontinued operations' and consequential amendment to IFRS 1, 'First-time adoption'
- IASB's annual improvements project published in April 2009
  - IFRS 2 (Amendment), 'Scope of IFRS 2 and IFRS 3 (revised)'
  - IFRS 5 (Amendment), 'Disclosures required in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations'
  - IFRS 8 (Amendment), 'Disclosure of information about segment assets'
  - IAS 1 (Amendment), 'Current/non-current classification of convertible instruments'
  - IAS 7 (Amendment), 'Classification of expenditures on unrecognised assets'
  - IAS 17 (Amendment), 'Classification of leases of land and buildings'
  - IAS 18 (Amendment), 'Determining whether an entity is acting as a principal or as an agent'

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

2.1 Basis of preparation (Cont'd)

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

(a) Standards, amendments and interpretations effective in 2010 (Cont'd)

- IASB's annual improvement project published in April 2009 **(Cont'd)**
  - IAS 36 (Amendment), 'Unit of accounting for goodwill impairment test'
  - IAS 38 (Amendment), 'Additional consequential amendments arising from IFRS 3 (revised) and measuring the fair value of an intangible asset acquired in business combination'
  - IAS 39 (Amendment), 'Treating loan prepayment penalties as closely related derivatives'
  - IAS 39 (Amendment), 'Cash flow hedge accounting'
  - IAS 39 (Amendment), 'Scope exemption for business combination contracts'
  - IFRIC - Int 9 and IFRS 3 (revised)
  - IFRIC - Int 16, 'Hedges of a net investment in a foreign operation'

IAS 17 (Amendment), 'Classification of leases of land and buildings', deletes specific guidance regarding classification of leases of land, so as to eliminate inconsistency with the general guidance on lease classification. As a result, leases of land should be classified as either finance or operating lease using the general principles of IAS 17, i.e. whether the lease transfers substantially all the risks and rewards incidental to ownership of an asset to the lessee. Prior to the amendment, land interest which title is not expected to pass to the Group by the end of the lease term was classified as operating lease under "Leasehold land and land use rights", and amortised over the lease term.

IAS 17 (amendment) has been applied retrospectively for annual periods beginning 1 January 2010 in accordance with the effective date and transitional provisions of the amendment. The Group has reassessed the classification of unexpired leasehold land and land use rights as at 1 January 2010 on the basis of information existing at the inception of those leases. As a result of the reassessment, the Directors consider the leasehold land and land use right of the Group is classified as operating lease, which is consistent with prior year's treatment.

As a whole, the adoption of the above standards, amendments and interpretations does not have any significant financial impact to the Group.

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

2.1 Basis of preparation (Cont'd)

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

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

- IFRS 1 (Amendment), 'First time Adoption of International Financial Reporting Standards' (effective for annual periods beginning on or after 1 July 2011)
- IFRS 9, 'Financial Instruments' (effective for annual periods beginning on or after 1 January 2013)
- IAS 12 (Amendments), 'Deferred tax - Recovery of underlying assets' (effective for annual periods beginning on or after 1 January 2012)
- IAS 24 (Revised), 'Related party disclosures' (effective for annual periods beginning on or after 1 January 2011)
- IAS 32 (Amendment), 'Classification of rights issue' (effective for annual periods beginning on or after 1 February 2010)
- Amendment to IFRIC - Int 14, 'Prepayments of a minimum funding requirement' (effective for annual periods beginning on or after 1 January 2011)
- IFRIC - Int 19, 'Extinguishing financial liabilities with equity instruments' (effective for annual periods beginning on or after 1 July 2010)

2.2 Consolidation

(a) Merger accounting for common control combinations

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

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

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

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

2.2 Consolidation (Cont'd)

(a) Merger accounting for common control combinations (Cont'd)

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

(b) Subsidiaries

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

Investments in subsidiaries are accounted for at cost less impairment. Cost is adjusted to reflect changes in consideration arising from contingent consideration amendments. Cost also includes direct attributable costs of investment.

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 to ensure consistency with the policies adopted by the Group.

(c) Transactions with non-controlling interests

The Group treats transactions with non-controlling interests as transactions with equity owners of the Group. For purchases from non-controlling 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 non-controlling interests are also recorded in equity.

When the Group ceases to have control or significant influence, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss where appropriate.

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

2.2 *Consolidation (Cont'd)*

(d) Joint ventures

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 party is in a position to control unilaterally the activity of the venture.

The Group's interests in jointly controlled entities are accounted for by proportionate consolidation. The Group combines its share of the joint ventures' individual income and expenses, assets and liabilities and cash flows on a line-by-line basis with similar items in the Group's financial statements. The Group recognises the portion of gains or losses on the sale of assets by the group to the joint venture that is attributable to the other venturers. The Group does not recognise its share of profits or losses from the joint venture that result from the Group's purchase of assets from the joint venture until it re-sells the assets to an independent party. However, a loss on the transaction is recognised immediately if the loss provides evidence of a reduction in the net realisable value of current assets, or an impairment loss.

Investments in joint ventures are accounted for at cost less impairment. Cost is adjusted to reflect changes in consideration arising from contingent consideration amendments. Cost also includes direct attributable costs of investment.

(e) Associates

Associates are all entities over which the group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost. The Group's investment in associates includes goodwill identified on acquisition, net of any accumulated impairment loss.

The Group's share of its associates' post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

Dilution gains and losses arising in investments in associates are recognised in the income statement.

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

2.3 *Segment reporting*

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of Directors that makes strategic decisions.

2.4 *Foreign currency translation*

(a) Functional and presentation currency

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

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the income statement within 'Finance income/costs - net'.

(c) Group companies

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

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

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

2.4 *Foreign currency translation* (Cont'd)

(c) Group companies (Cont'd)

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

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

2.5 *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 to the income statement during the financial period in which they are incurred.

Depreciation on property, plant and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

Buildings	8-50 years
Equipment and machinery	3-15 years
Motor vehicles	5-8 years
Office equipment	2.5-12 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.7).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in the income statement.

Construction in progress ("CIP") represents property, plant and equipment in the course of construction or pending installation and is stated at cost less any recognised impairment losses. Cost includes the costs of construction of property, plant and equipment, and interest charges arising from borrowings used to 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)

2.6 *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 2.7.

2.7 *Impairment of investments in subsidiaries, joint ventures, associates and non-financial assets*

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

2.8 *Financial assets*

2.8.1 Classification

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

(a) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. The Group's loans and receivables comprise `trade and bill receivables net' and `cash and cash equivalents' in the balance sheet (Notes 2.11 and 2.12).

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

2.8 Financial assets (Cont'd)

2.8.2 Recognition and measurement

Regular way purchases and sales of financial assets are recognised on the trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

2.9 Impairment of financial assets

(a) Assets carried at amortised cost

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The criteria that the Group uses to determine that there is objective evidence of an impairment loss include:

- Significant financial difficulty of the issuer or obligor;
- A breach of contract, such as a default or delinquency in interest or principal payments;
- The Group, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
- It becomes probable that the borrower will enter bankruptcy or other financial reorganisation; or
- Observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:

  (i) adverse changes in the payment status of borrowers in the portfolio;

  (ii) national or local economic conditions that correlate with defaults on the assets in the portfolio.

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

2.9 *Impairment of financial assets (Cont'd)*

(a) Assets carried at amortised cost (Cont'd)

The Group first assesses whether objective evidence of impairment exists.

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated income statement. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the consolidated income statement.

Impairment testing of trade and other receivables is described in Note 2.11.

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

2.10 *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.

2.11 *Trade and other receivables*

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

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

2.11 Trade and other receivables (Cont'd)

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

2.12 Cash and cash equivalents

In the consolidated statement of cash flows, cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less.

2.13 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

2.14 Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

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

2.15 Borrowings

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

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

2.16 Current and deferred income tax

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

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

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

2.16 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 substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

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

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the group and it is probable that the temporary difference will not reverse in the foreseeable future.

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

2.17 Employee benefits

(a) Pension obligations

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

The Group has no legal or constructive obligations to make further payments once the required contributions have been paid, even if the plans do not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

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

2.17 *Employee benefits (Cont'd)*

(b) Termination benefits

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

2.18 *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 and discounts and after eliminating sales within the Group.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and when specific criteria have been met for each of the Group's activities as described below. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

(a) 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.

(b) Agency fee income

Agency fee income is recognised when the services for distribution of products are provided.

(c) Interest income

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

2.19 *Leases*

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

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

2.20 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.

2.21 Government grants

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

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

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

3. FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk and interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

(a) Market risk

(i) Foreign exchange risk

The Group has foreign exchange risk as certain cash and cash equivalents are denominated in foreign currencies, primarily with respect to 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 2010, if RMB had weakened/strengthened by 3% (2009: 2%) against the HK dollar with all other variables held constant, post-tax profit for the year would have been RMB1,257,000 (2009 (Restated): RMB1,262,000) 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 2010 than 2009 because of the decreased amount of HK dollar denominated bank deposits.

3. FINANCIAL RISK MANAGEMENT (CONT'D)

3.1 *Financial risk factors (Cont'd)*

(a) Market risk (Cont'd)

(ii) Interest rate risk

As the Group has no significant interest-bearing assets other than cash and cash equivalents, the Group's income and operating cash flows are substantially independent of changes in market interest rates. As of 31 December 2010 and 2009, 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 19. The Group has not used any interest rate swaps to hedge its exposure to interest rate risk. However, the current debt level of the Group is relatively low and the exposure to the fair value interest rate risk is limited for the Group. The management of the Group monitors the interest rate exposure regularly.

(b) Credit risk

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

Cash at bank and short-term bank deposits are deposited with high-credit-quality financial institutions. The Group has policies that limit the amount of credit exposure to any financial institution. As of 31 December 2010, main part of the bank deposits is due with state-owned banks, which are at lower credit risk.

	The Group		**The Company**	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
		(Restated)		
State-owned banks and other financial institutions (Note 31(b))	**489,557**	403,720	**379,443**	303,944
Other banks	**46,689**	29,828	**–**	–
	536,246	433,548	**379,443**	303,944

3. FINANCIAL RISK MANAGEMENT (CONT'D)

3.1 *Financial risk factors (Cont'd)*

(c) Liquidity risk

The Group's policy is to maintain sufficient cash and cash equivalents or have available funding through adequate amount of committed credit facilities to meet its working capital requirements. The amount of undrawn credit facilities at the balance sheet date is disclosed in Note 33.

The borrowings are all these short-term borrowings that will mature within one year (Note 19). Generally, there is no specific credit period granted by the suppliers but the related trade payables are normally expected to be settled within one year after receipt of goods or services.

The carrying amounts of the Group's and the Company's financial liabilities approximate their fair values as the impact of discounting is not significant.

3.2 *Capital risk management*

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

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, issue new shares or repay borrowings. The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as total borrowings divided by total equity.

	2010 **RMB'000**	2009 RMB'000 (Restated)
Total borrowings	**15,000**	15,000
Total equity	**1,736,517**	1,621,197
Gearing ratio	**1%**	1%

3.3 *Fair value estimation*

The carrying amounts of the Group's financial assets, including cash and cash equivalents, short-term bank deposits, receivables; and financial liabilities including payables, short-term borrowings, approximate their fair values due to their short maturities of less than one year.

For disclosure purpose, discounted cash flow analysis is used to determine fair value for the financial instruments.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

The group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal 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 taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

5. SEGMENT INFORMATION

Management has determined the operating segments based on the reports reviewed by the Board of Directors that are used to make strategic decisions.

The Board of Directors considers the business from an operational entity perspective. Generally, the Board of Directors considers the performance of business of each entity within the Group separately. Thus, each entity within the Group is an operating segment.

The reportable operating segments derive their revenue primarily from the manufacture and sale of Chinese medicine and healthcare products on a wholesale basis in China.

Other companies are engaged in raw materials supply and sales of medicinal products. They do not form separate reportable segments as they do not meet the quantitative thresholds required by IFRS 8.

The Board of Directors assesses the performance of the operating segments based on revenue and profit after income tax of each segment.

The segment information provided to the Board of Directors for the reportable segments for the year ended 31 December 2010 is as follows:

	The Company RMB'000	Tong Ren Tang Chinese Medicine RMB'000	All other segments RMB'000	Total RMB'000
Segment revenue	1,338,902	165,801	178,819	1,683,522
Inter-segment revenue	(6,166)	(2,645)	(95,797)	(104,608)
Revenue from external customers	1,332,736	163,156	83,022	1,578,914
Profit after income tax	168,656	54,267	2,167	225,090
Interest income	5,654	652	160	6,466
Interest expenses	(721)	–	–	(721)
Depreciation of property, plant and equipment	(30,144)	(7,133)	(5,149)	(42,426)
Amortisation of prepaid operating lease payments	(572)	(468)	(146)	(1,186)
Provision for impairment of inventory	(8,915)	–	–	(8,915)
Reversal of provision for impairment of receivables	10,060	–	–	10,060
Provision for impairment of property, plant and equipment	(8,982)	–	–	(8,982)
Income tax expense	(26,913)	(12,943)	(2,276)	(42,132)
Total assets	1,715,604	307,642	151,926	2,175,172
Total assets include:				
Additions to non-current assets (other than deferred tax assets)	19,228	39,647	3,758	62,633
Total liabilities	391,181	25,720	21,754	438,655

5. SEGMENT INFORMATION (CONT'D)

The segment information for the year ended 31 December 2009 is as follows:

(Restated)	The Company RMB'000	Tong Ren Tang Chinese Medicine RMB'000	All other segments RMB'000	Total RMB'000
Segment revenue	1,191,487	114,740	102,912	1,409,139
Inter-segment revenue	(2,833)	(2,582)	(51,522)	(56,937)
Revenue from external customers	1,188,654	112,158	51,390	1,352,202
Profit after income tax	157,656	29,809	2,654	190,119
Interest income	3,776	338	253	4,367
Interest expenses	(774)	–	–	(774)
Depreciation of property, plant and equipment	(34,470)	(6,546)	(5,034)	(46,050)
Amortisation of prepaid operating lease payments	(572)	(473)	(146)	(1,191)
Provision for impairment of inventory	(7,786)	–	–	(7,786)
Provision for impairment of receivables	(8,732)	–	–	(8,732)
Income tax expense	(28,636)	(7,137)	(1,360)	(37,133)
Total assets	1,541,905	250,132	138,930	1,930,967
Total assets include:				
Additions to non-current assets (other than deferred tax assets)	5,544	1,267	1,223	8,034
Total liabilities	273,209	20,389	16,172	309,770

During 2009, the Company did not disclose Tong Ren Tang Chinese Medicine as a reportable operating segment. However, after the acquisition in 2010 as mentioned in Note 1, Tong Ren Tang Chinese Medicine qualifies as a reportable operating segment and, therefore, the comparatives are consistent in this regard.

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

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

5. SEGMENT INFORMATION (CONT'D)

Revenues from external customers are derived from the sales of medicine and agency fee for distribution services. The breakdown of sales of medicine by region is provided in Note 22.

The total of the non-current assets other than deferred income tax assets located in PRC Mainland is RMB350,759,000 (2009: RMB343,135,000), and the total of these non-current assets located in other countries is RMB115,535,000 (2009: RMB117,313,000).

6. LEASEHOLD LAND AND LAND USE RIGHTS

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

	The Group		The Company	
	2010 RMB'000	2009 RMB'000 (Restated)	**2010 RMB'000**	2009 RMB'000
In the PRC Mainland, held on:				
Leases of between 10 to 50 years	**28,905**	29,617	**22,655**	23,227
In Hong Kong, held on:				
Leases of between 10 to 50 years	**16,936**	17,920	**–**	–
	45,841	47,537	**22,655**	23,227

	The Group		The Company	
	2010 RMB'000	2009 RMB'000 (Restated)	**2010 RMB'000**	2009 RMB'000
Opening as previously stated	**47,537**	48,755	**23,227**	23,799
Amortisation of prepaid operating lease payments	**(1,186)**	(1,191)	**(572)**	(572)
Exchange difference	**(510)**	(27)	**–**	–
	45,841	47,537	**22,655**	23,227

7. 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 2009						
Cost, as previously stated	341,650	332,792	11,729	16,843	601	703,615
Adoption of merger accounting (Notes 2.2 (a) and 17)	2,893	1,039	319	2,005	–	6,256
Cost, as restated	344,543	333,831	12,048	18,848	601	709,871
Accumulated depreciation, as previously stated	(65,952)	(170,816)	(9,121)	(10,509)	–	(256,398)
Adoption of merger accounting (Notes 2.2 (a) and 17)	(1,818)	(943)	(161)	(1,260)	–	(4,182)
Accumulated depreciation, as restated	(67,770)	(171,759)	(9,282)	(11,769)	–	(260,580)
Net book amount, as restated	276,773	162,072	2,766	7,079	601	449,291
Year ended 31 December 2009						
Opening net book amount, as previously stated	275,698	161,976	2,608	6,334	601	447,217
Adoption of merger accounting (Notes 2.2 (a) and 17)	1,075	96	158	745	–	2,074
Opening net book amount as restated	276,773	162,072	2,766	7,079	601	449,291
Exchange differences	745	66	81	188	–	1,080
Additions	358	427	2,136	903	4,210	8,034
Transferred from CIP	369	2,763	836	448	(4,416)	–
Disposals	(3)	(161)	(16)	(103)	–	(283)
Depreciation	(10,749)	(32,502)	(1,011)	(1,788)	–	(46,050)
Closing net book amount	267,493	132,665	4,792	6,727	395	412,072

7. 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 2009						
Cost as previously report	342,454	333,972	14,102	17,191	395	708,114
Adoption of merger accounting (Notes 2.2 (a) and 17)	3,438	1,176	362	2,712	–	7,688
Cost as restated	345,892	335,148	14,464	19,903	395	715,802
Accumulated depreciation, as previously reported	(76,010)	(201,471)	(9,476)	(11,687)	–	(298,644)
Adoption of merger accounting (Notes 2.2 (a) and 17)	(2,389)	(1,012)	(196)	(1,489)	–	(5,086)
Accumulated depreciation, as restated	(78,399)	(202,483)	(9,672)	(13,176)	–	(303,730)
Net book amount, as restated	267,493	132,665	4,792	6,727	395	412,072
Year ended 31 December 2010						
Opening net book amount	**267,493**	**132,665**	**4,792**	**6,727**	**395**	**412,072**
Exchange differences	**(1,252)**	**(620)**	**(77)**	**(130)**	**(6)**	**(2,085)**
Additions	**5,526**	**896**	**750**	**771**	**21,858**	**29,801**
Transferred from CIP	**1,805**	**15,734**	**1,932**	**1,433**	**(20,904)**	**–**
Disposals	**(48)**	**(208)**	**(39)**	**(103)**	**–**	**(398)**
Depreciation	**(11,407)**	**(28,267)**	**(1,009)**	**(1,743)**	**–**	**(42,426)**
Impairment	**(561)**	**(8,421)**	**–**	**–**	**–**	**(8,982)**
Closing net book amount	**261,556**	**111,779**	**6,349**	**6,955**	**1,343**	**387,982**
At 31 December 2010						
Cost	**352,242**	**348,832**	**16,252**	**20,574**	**1,343**	**739,243**
Accumulated depreciation	**(90,125)**	**(228,632)**	**(9,903)**	**(13,619)**	**–**	**(342,279)**
Accumulated impairment	**(561)**	**(8,421)**	**–**	**–**	**–**	**(8,982)**
Net book amount	**261,556**	**111,779**	**6,349**	**6,955**	**1,343**	**387,982**

Depreciation expense of RMB31,011,000 (2009: RMB34,484,000) has been charged in 'Cost of sales', RMB1,922,000 (2009: RMB1,277,000) in 'Distribution costs' and RMB9,493,000 (2009: RMB10,289,000) in 'Administrative expenses'.

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

The Company:

	Buildings	Equipment and machinery	Motor vehicles	Office equipment	CIP	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2009						
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
Year ended 31 December 2009						
Opening net book amount	162,439	108,655	1,899	1,835	–	274,828
Additions	–	90	2,055	158	3,241	5,544
Transferred from CIP	42	2,011	836	352	(3,241)	–
Disposals	–	(161)	(16)	(39)	–	(216)
Depreciation	(6,277)	(26,844)	(728)	(621)	–	(34,470)
Closing net book amount	156,204	83,751	4,046	1,685	–	245,686
At 31 December 2009						
Cost	219,343	267,317	12,129	9,612	–	508,401
Accumulated depreciation	(63,139)	(183,566)	(8,083)	(7,927)	–	(262,715)
Net book amount	156,204	83,751	4,046	1,685	–	245,686
Year ended 31 December 2010						
Opening net book amount	**156,204**	**83,751**	**4,046**	**1,685**	**–**	**245,686**
Additions	**–**	**16**	**–**	**38**	**18,670**	**18,724**
Transferred from CIP	**–**	**15,300**	**1,932**	**1,351**	**(18,583)**	**–**
Disposals	**–**	**(208)**	**(32)**	**(51)**	**–**	**(291)**
Depreciation	**(6,270)**	**(22,590)**	**(740)**	**(544)**	**–**	**(30,144)**
Impairment	**(561)**	**(8,421)**	**–**	**–**	**–**	**(8,982)**
Closing net book amount	**149,373**	**67,848**	**5,206**	**2,479**	**87**	**224,993**
At 31 December 2010						
Cost	**219,343**	**280,469**	**13,388**	**10,506**	**–**	**523,706**
Accumulated depreciation	**(69,409)**	**(204,200)**	**(8,182)**	**(8,027)**	**87**	**(289,731)**
Accumulated impairment	**(561)**	**(8,421)**	**–**	**–**	**–**	**(8,982)**
Net book amount	**149,373**	**67,848**	**5,206**	**2,479**	**87**	**224,993**

Depreciation expense of RMB22,778,000 (2009: RMB26,600,000) has been charged in 'Cost of sales', RMB147,000 (2009: RMB127,000) in 'Distribution costs' and RMB7,219,000 (2009: RMB7,743,000) in 'Administrative expenses'.

8. INVESTMENTS IN SUBSIDIARIES

	The Company	
	2010	2009
	RMB'000	RMB'000
Investments, at cost (i)	**200,946**	100,090
Other investments (ii)	**–**	56,352
	200,946	156,442

(i) Details of the subsidiaries are set out in Note 1 to the consolidated financial statements.

(ii) As of 31 December 2009, the amount due from a subsidiary of RMB56,352,000 were regarded as part of the investments in the subsidiary since the Company did not seek repayment from the subsidiary, and the amount was contributed to the subsidiary as capital injection in 2010.

9. INVESTMENTS IN JOINT VENTURES

	The Company	
	2010	2009
	RMB'000	RMB'000
Unlisted shares, at cost	**14,899**	27,881
Less: Provision for impairment losses	**(3,946)**	(5,198)
	10,953	22,683

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 consolidated income statement:

	As of 31 December	
	2010	2009
	RMB'000	RMB'000
		(Restated)
Assets		
Non-current assets	**4,174**	3,876
Current assets	**48,575**	42,489
	52,749	46,365
Liabilities		
Non-current liabilities	**46**	–
Current liabilities	**12,930**	11,960
	12,976	11,960
Net assets	**39,773**	34,405

9. INVESTMENTS IN JOINT VENTURES (CONT'D)

	For the year ended 31 December	
	2010	2009
	RMB'000	RMB'000 (Restated)
Revenue	**49,424**	38,563
Expenses	**(44,294)**	(34,855)
Profit after income tax	**5,130**	3,708

There are no contingent liabilities relating to the Group's interests in the joint ventures, and no contingent liabilities of the ventures themselves. Details of the joint ventures are set out in Note 1 to the consolidated financial statements.

10. INVESTMENT IN AN ASSOCIATE

	The Group	
	2010	2009
	RMB'000	RMB'000
Unlisted shares, at cost	**3,280**	–
Share of accumulated losses	**(388)**	–
	2,892	–

The following amounts represent the Group's share of the assets and liabilities, and sales and results of the associate:

	As of 31 December	
	2010	2009
	RMB'000	RMB'000
Assets		
Non-current assets	**114**	–
Current assets	**2,830**	–
	2,944	–
Liabilities		
Current liabilities	**52**	–
Net assets	**2,892**	–

10. INVESTMENT IN AN ASSOCIATE (CONT'D)

	For the year ended 31 December	
	2010	2009
	RMB'000	RMB'000
Revenue	**27**	–
Expenses	**(415)**	–
Profit after income tax	**(388)**	–

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

11. FINANCIAL INSTRUMENTS BY CATEGORY

The Group:

	Loans and receivables	
	2010	2009
	RMB'000	RMB'000
		(Restated)
Assets as per consolidated balance sheet		
Trade and bills receivables, net	**155,229**	148,450
Amounts due from related parties	**18,871**	29,446
Short-term bank deposits	**96,529**	54,021
Cash and cash equivalents	**441,108**	379,926
Total	**711,737**	611,843

	Other financial liabilities at amortised cost	
	2010	2009
	RMB'000	RMB'000
		(Restated)
Liabilities as per consolidated balance sheet		
Trade payables	**212,463**	176,270
Salary payable	**942**	2,236
Amounts due to related parties	**17,380**	15,262
Accrued expenses and other current liabilities	**97,390**	55,656
Short-term borrowings	**15,000**	15,000
Total	**343,175**	264,424

11. FINANCIAL INSTRUMENTS BY CATEGORY (CONT'D)

The Company:

	Loans and receivables	
	2010	2009
	RMB'000	RMB'000
Assets as per balance sheet		
Trade and bills receivables, net	**147,235**	136,859
Amounts due from related parties	**15,936**	28,175
Short-term bank deposits	**90,000**	40,000
Cash and cash equivalents	**289,482**	263,989
Total	**542,653**	469,023

	Other financial liabilities at amortised cost	
	2010	2009
	RMB'000	RMB'000
Liabilities as per balance sheet		
Trade payables	**199,938**	166,751
Salary payable	**443**	443
Amounts due to related parties	**10,148**	10,148
Amounts due to subsidiaries	**11,983**	10,172
Accrued expenses and other current liabilities	**88,799**	52,575
Short-term borrowings	**15,000**	15,000
Total	**326,311**	255,089

12. TRADE AND BILLS RECEIVABLES, NET

	The Group		The Company	
	2010	2009	**2010**	2009
	RMB'000	RMB'000 (Restated)	**RMB'000**	RMB'000
Trade and bills receivables	**175,316**	178,597	**167,322**	167,006
Less: provision for impairment of receivables	**(20,087)**	(30,147)	**(20,087)**	(30,147)
Trade and bills receivables, net	**155,229**	148,450	**147,235**	136,859

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

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

The Group normally grants a credit period ranging from 30 days to 120 days to its trade customers. As of 31 December 2010 and 2009, the ageing analysis of trade and bills receivables based on invoice date was as follows:

	The Group		The Company	
	2010 RMB'000	2009 RMB'000 (Restated)	**2010 RMB'000**	2009 RMB'000
Within 4 months	**133,250**	136,539	**127,340**	127,289
Over 4 months but within 1 year	**34,504**	32,628	**33,743**	30,575
Over 1 year but within 2 years	**1,323**	6,366	**–**	6,078
Over 2 years but within 3 years	**3,175**	1,180	**3,175**	1,180
Over 3 years	**3,064**	1,884	**3,064**	1,884
	175,316	178,597	**167,322**	167,006

As of 31 December 2010, trade and bills receivables of RMB20,087,000 (2009: RMB30,147,000) were past due and fully provided for impairment. The individually impaired receivables mainly relate to medium and smaller customers, which are expected to have no business with the Group in future or in unexpectedly difficult economic situations. The ageing analysis of these receivables is as follows:

	The Group		The Company	
	2010 RMB'000	2009 RMB'000 (Restated)	**2010 RMB'000**	2009 RMB'000
Within 4 months	**–**	2,475	**–**	2,475
Over 4 months	**20,087**	27,672	**20,087**	27,672
	20,087	30,147	**20,087**	30,147

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

	The Group		The Company	
	2010 RMB'000	2009 RMB'000 (Restated)	**2010 RMB'000**	2009 RMB'000
At 1 January	**30,147**	21,415	**30,147**	21,415
(Reversal of provision)/provision for impairment of receivables	**(10,060)**	8,732	**(10,060)**	8,732
At 31 December	**20,087**	30,147	**20,087**	30,147

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

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

13. INVENTORIES

	The Group		The Company	
	2010	2009	**2010**	2009
	RMB'000	RMB'000 (Restated)	**RMB'000**	RMB'000
Raw materials	**421,877**	385,963	**412,068**	373,880
Work-in-progress	**173,488**	155,526	**171,763**	153,957
Finished goods	**361,769**	293,265	**329,260**	265,443
	957,134	834,754	**913,091**	793,280

The cost of inventories recognised as expense and included in 'Cost of sales' amounted to RMB475,323,000 (2009: RMB429,253,000).

14. DEFERRED INCOME TAX

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

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

	The Group		The Company	
	2010	2009	**2010**	2009
	RMB'000	RMB'000 (Restated)	**RMB'000**	RMB'000
Deferred tax assets:				
– Deferred tax asset to be recovered after more than 12 months	**(3,605)**	(1,286)	**(1,122)**	(1,286)
– Deferred tax asset to be recovered within 12 months	**(6,141)**	(5,315)	**(4,605)**	(1,646)
	(9,746)	(6,601)	**(5,727)**	(2,932)
Deferred tax liabilities:				
– Deferred tax liabilities to be recovered after more than 12 months	**5,125**	5,492	**–**	–
– Deferred tax liabilities to be recovered within 12 months	**126**	2	**–**	–
	5,251	5,494	**–**	–
Deferred tax assets, net	**(4,495)**	(1,107)	**(5,727)**	(2,932)

14. DEFERRED INCOME TAX (CONT'D)

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

Deferred income tax assets

	The Group		The Company	
	2010 RMB'000	2009 RMB'000 (Restated)	**2010 RMB'000**	2009 RMB'000
Beginning of the year	**6,601**	4,746	**2,932**	2,064
Credited to income statement	**3,145**	1,855	**2,795**	868
End of the year	**9,746**	6,601	**5,727**	2,932
Provided for in respect of:				
Provision for termination benefits	**305**	418	**305**	418
Amortisation of leasehold land and land use rights	**289**	295	**289**	295
Unrealised profit resulting from intragroup transactions	**3,676**	3,510	**–**	–
Decelerated tax depreciation allowance	**691**	754	**691**	754
Accelerated accounting depreciation	**140**	–	**–**	–
Provision for inventories	**3,095**	1,624	**3,095**	1,465
Provision for property, plant and equipment	**1,347**	–	**1,347**	–
Tax Losses	**203**	–	**–**	–
	9,746	6,601	**5,727**	2,932

14. DEFERRED INCOME TAX (CONT'D)

Deferred income tax liabilities

	The Group		The Company	
	2010	2009	**2010**	2009
	RMB'000	RMB'000 (Restated)	**RMB'000**	RMB'000
Beginning of the year	**5,494**	2,000	**–**	–
(Credited)/Charged to income statement	**(243)**	3,494	**–**	–
End of the year	**5,251**	5,494	**–**	–
Provided for in respect of:				
Accelerated tax depreciation allowance	**5,251**	5,494	**–**	–

15. SHARE CAPITAL

	2010		2009	
	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

Apart from the minor differences under the different regulatory jurisdictions, the economic and voting rights are the same for both the domestic and H shareholders.

16. RESERVES

	The Company					
	Capital reserve (Note(b)) RMB'000	Statutory surplus reserve fund (Note(c)) RMB'000	Statutory public welfare fund (Note(c)) RMB'000	Tax reserve (Note(d)) RMB'000	Retained earnings RMB'000	Total RMB'000
Balance as of 1 January 2009	355,309	136,824	45,455	102,043	526,583	1,166,214
Profit for the year	–	–	–	–	157,572	157,572
Dividends paid	–	–	–	–	(78,400)	(78,400)
Appropriation from retained earnings	–	16,203	–	–	(16,203)	–
Balance as of 31 December 2009	355,309	153,027	45,455	102,043	589,552	1,245,386
Balance as of 1 January 2010	**355,309**	**153,027**	**45,455**	**102,043**	**589,552**	**1,245,386**
Profit for the year	**–**	**–**	**–**	**–**	**179,856**	**179,856**
Dividends paid	**–**	**–**	**–**	**–**	**(88,200)**	**(88,200)**
Appropriation from retained earnings	**–**	**17,606**	**–**	**–**	**(17,606)**	**–**
Balance as of 31 December 2010	**355,309**	**170,633**	**45,455**	**102,043**	**663,602**	**1,337,042**

Notes:

(a) **Profit attributable to equity holders of the Company**

The profit attributable to equity holders of the company is dealt with in the financial statements of the company to the extent of RMB179,856,000 (2009: RMB157,572,000).

(b) **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.

(c) **Statutory reserves**

The Company sets aside 10% of its net profit after income tax, before distribution of dividend to shareholders, as stated in the financial statements prepared under PRC accounting standards to the statutory surplus reserve fund. Approximately RMB17,606,000 (2009: RMB16,203,000), 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 2010.

In accordance with the amendment of the Company Law of the PRC on 27 October 2005 effective from 1 January 2006, and pursuant to the Company's Articles of Association and the board resolution, the Company decided not to accrue for statutory public welfare fund since the year 2006. The balance together with statutory surplus reserve fund can be used to offset accumulated losses or covert as share capital of the Company.

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16. RESERVES (CONT'D)

Notes: (Cont'd)

(d) 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 (Note 25).

17. BUSINESS COMBINATIONS UNDER COMMON CONTROL

On 20 October 2010, a cash consideration of Hong Kong Dollar 17,383,000 which is equivalent to RMB14,959,000 was paid to Tong Ren Tang International by Tong Ren Tang Chinese Medicine for the business combinations under common control as mentioned in Note 1.

Statements of adjustments for common control combinations of the Acquired Business on the consolidated balance sheets as at 31 December 2010 and 2009 and the Group's result for the years then ended are as follows:

	The Group before acquired business RMB'000	Acquired business RMB'000		Adjustments RMB'000	Year ended 31 December 2010 RMB'000
Year ended 31 December 2010					
Revenues	1,531,856	47,636	(i)	(578)	1,578,914
Profit before income tax	263,941	3,486	(i)	(205)	267,222
Profit for the year	223,831	1,464	(i)	(205)	225,090

17. BUSINESS COMBINATIONS UNDER COMMON CONTROL (CONT'D)

	The Group before acquired business RMB'000	Acquired business RMB'000		Adjustments RMB'000	Year ended 31 December 2010 RMB'000
As at 31 December 2010					
ASSETS					
Non-current assets	471,558	4,482		–	476,040
Current assets	1,662,931	36,540	(i)	(339)	1,699,132
Total assets	2,134,489	41,022		(339)	2,175,172
EQUITY					
Capital and reserves					
Share capital	196,000	24,235	(ii)	(24,235)	196,000
Reserves	1,345,034	4,916	(ii)	13,067	1,363,017
	1,541,034	29,151		(11,168)	1,559,017
Non-controlling interests	166,671	–	(ii)	10,829	177,500
Total equity	1,707,705	29,151		(339)	1,736,517
LIABILITIES					
Non-current liabilities	30,235	53		–	30,288
Current liabilities	396,549	11,818		–	408,367
Total liabilities	426,784	11,871		–	438,655
Total equity and liabilities	2,134,489	41,022		(339)	2,175,172

17. BUSINESS COMBINATIONS UNDER COMMON CONTROL (CONT'D)

	As previously stated RMB'000	Acquired business RMB'000		Adjustments RMB'000	As restated RMB'000
Year ended 31 December 2009					
Revenues	1,307,897	44,587	(i)	(282)	1,352,202
Profit before income tax	220,191	7,023	(i)	38	227,252
Profit for the year	183,923	6,158	(i)	38	190,119

	As previously stated RMB'000	Acquired business RMB'000		Adjustments RMB'000	As restated RMB'000
As at 31 December 2009					
ASSETS					
Non-current assets	461,597	5,452		–	467,049
Current assets	1,427,385	36,676	(i)	(143)	1,463,918
Total assets	1,888,982	42,128		(143)	1,930,967
EQUITY					
Capital and reserves					
Share capital	196,000	18,849	(ii)	(18,849)	196,000
Reserves	1,259,573	12,451	(ii)	8,771	1,280,795
	1,455,573	31,300		(10,078)	1,476,795
Non-controlling interests	134,467	–	(ii)	9,935	144,402
Total equity	1,590,040	31,300		(143)	1,621,197
LIABILITIES					
Non-current liabilities	16,093	11		–	16,104
Current liabilities	282,849	10,817		–	293,666
Total liabilities	298,942	10,828		–	309,770
Total equity and liabilities	1,888,982	42,128		(143)	1,930,967

17. BUSINESS COMBINATIONS UNDER COMMON CONTROL (CONT'D)

Notes:

(i) Adjustments to eliminate the inter-group transactions for the year ended 31 December 2010 and 2009.

(ii) Adjustments to eliminate the investment costs, share capitals of the acquired business against reserves and non-controlling interests.

No other significant adjustments were made to the net assets and net profit of any entities or businesses as a result of the common control combinations to achieve consistency of accounting policies.

18. DEFERRED INCOME – GOVERNMENT GRANTS

	The Group		The Company	
	2010	2009	**2010**	2009
	RMB'000	RMB'000 (Restated)	**RMB'000**	RMB'000
Beginning of the year	**10,610**	11,266	**10,155**	10,765
Government grants received	**17,223**	1,369	**17,193**	1,360
Amount recognised in the income statement (Note 24)	**(2,796)**	(2,025)	**(2,774)**	(1,970)
End of the year	**25,037**	10,610	**24,574**	10,155

The ending balance of the government grants are relating to:

	The Group		The Company	
	2010	2009	**2010**	2009
	RMB'000	RMB'000 (Restated)	**RMB'000**	RMB'000
Government grants relating to research and development expenditure	**7,460**	8,343	**6,997**	7,888
Government grants relating to property, plant and equipment	**17,577**	2,267	**17,577**	2,267
Total	**25,037**	10,610	**24,574**	10,155

19. SHORT-TERM BORROWINGS

As of 31 December 2010, the Company and the Group had unsecured short-term bank borrowings of RMB15,000,000 (2009: RMB15,000,000) repayable in March 2011. These borrowings bear interest rate of 4.779% (2009: 4.779%) 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.

20. TRADE PAYABLES

As of 31 December 2010, the ageing analysis of trade payables based on invoice date was as follows:

	The Group		The Company	
	2010 RMB'000	2009 RMB'000 (Restated)	**2010 RMB'000**	2009 RMB'000
Within 4 months	**207,197**	147,047	**195,671**	138,898
Over 4 months but within 1 year	**4,896**	24,403	**4,128**	23,115
Over 1 year but within 2 years	**370**	4,820	**139**	4,738
	212,463	176,270	**199,938**	166,751

21. SALARY AND WELFARE PAYABLES

	The Group		The Company	
	2010 RMB'000	2009 RMB'000 (Restated)	**2010 RMB'000**	2009 RMB'000
Salary payable	**942**	2,236	**443**	443
Welfare payable	**4,175**	4,126	**2,595**	3,769
	5,117	6,362	**3,038**	4,212

22. REVENUE

	2010 **RMB'000**	2009 RMB'000 (Restated)
Sales of medicine		
– PRC Mainland	**1,449,593**	1,238,312
– Outside PRC Mainland	**117,656**	102,450
	1,567,249	1,340,762
Agency fee income for distribution services		
– Outside PRC Mainland	**11,665**	11,440
	1,578,914	1,352,202

23. FINANCE INCOME – NET

	2010 **RMB'000**	2009 RMB'000 (Restated)
Interest income on cash at bank and short-term bank deposits	**6,466**	4,367
Interest expenses on bank borrowings repayable within one year	**(721)**	(774)
Exchange losses	**(812)**	(37)
Finance income – net	**4,933**	3,556

24. PROFIT BEFORE INCOME TAX

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

	2010 RMB'000	2009 RMB'000 (Restated)
Raw materials and consumables used	**561,941**	530,166
Change in inventories of finished goods and work-in-progress	**(86,618)**	(100,913)
Employee benefit expense		
– Salary and wages	**151,237**	121,091
– Staff welfare	**21,566**	13,463
– Housing fund	**10,920**	10,167
– Contributions to retirement schemes	**30,870**	26,660
Depreciation of property, plant and equipment (Note 7)	**42,426**	46,050
Amortisation of prepaid operating lease payments (Note 6)	**1,186**	1,191
Amortisation of other long-term assets	**812**	710
Provision for impairment of inventories	**8,915**	7,786
(Reversal of provision)/provision for impairment of receivables (Note 12)	**(10,060)**	8,732
Provision for impairment of property, plant and equipment (Note 7)	**8,982**	–
Operating lease rental	**26,998**	23,675
Auditor's remuneration	**1,615**	1,616
Research and development costs	**11,889**	3,901
Advertising expenses	**69,362**	57,477
Loss/(gain) on disposal of property, plant and equipment	**147**	(180)
Recognition of government grants (Note 18)	**(2,796)**	(2,025)

25. INCOME TAX EXPENSE

Pursuant to the Corporate Income Tax Law of the PRC effective from 1 January 2008, enterprises with a High/New Technology Enterprise ("HNTE") status are able to enjoy a preferential tax rate of 15%. For the entities without the HNTE status, the PRC income tax rate is 25% (2009: 25%). As of 31 December 2010 and 2009, the Company has obtained the HNTE certificate. Consequently, the applicable income tax rate of the Company in 2010 is 15% (2009: 15%). 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.

Details of income tax during the year are as follows:

	2010 RMB'000	2009 RMB'000 (Restated)
Current PRC income tax expense	**34,664**	31,107
Current Overseas income tax expense	**10,856**	4,387
Deferred income tax expense	**(3,388)**	1,639
	42,132	37,133

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 to profits of the consolidated entities as follows:

	2010 RMB'000	2009 RMB'000 (Restated)
Profit before income tax	**267,222**	227,252
Tax calculated at the PRC statutory income tax rate of 25% (2009: 25%)	**66,806**	56,813
Income not subject to tax	**(4,465)**	(1,602)
Expenses not deductible for tax purposes	**3,400**	5,189
Tax losses for which no deferred income tax asset was recognised	**306**	45
Effect of preferential income tax treatments	**(19,032)**	(20,089)
Effect of different applicable tax rates for certain subsidiaries and joint ventures	**(4,883)**	(3,223)
Income tax expense	**42,132**	37,133

25. INCOME TAX EXPENSE (CONT'D)

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 as mentioned in Note 16 to the consolidated financial statements.

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 before 1 January 2008 as the Company was registered in BETDZ and kept its NTE status before 1 January 2008.

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 before 1 January 2008 would be approximately 2007: RMB4,388,000; 2006: RMB5,643,000. The Directors are of opinion that such additional EIT liabilities are unlikely to arise.

26. EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company of approximately RMB198,342,000 (2009: RMB176,369,000) by the weighted average number of 196,000,000 shares (2009: 196,000,000 shares) in issue during the year.

The Company had no dilutive potential shares for the years ended 31 December 2010 and 2009.

	2010 RMB'000	2009 RMB'000 (Restated)
Profit attributable to equity holders of the Company	**198,342**	176,369
Weighted average number of ordinary shares in issue (thousands)	**196,000**	196,000
Earnings per share	**RMB1.01**	RMB0.90

27. DIVIDENDS

	2010 RMB'000	2009 RMB'000
Cash dividends proposed	**94,080**	88,200
Bonus shares proposed	**196,000**	–
Bonus issue of Shares proposed, by way of capitalization of the capital reserve	**196,000**	–
Total dividends proposed	**486,080**	88,200

The cash dividends paid in 2010 and 2009 were RMB88,200,000 (RMB0.45 per share) and RMB78,400,000 (RMB0.40 per share) respectively. On 17 March 2011, the Board of Directors proposed a cash dividend of RMB0.48 per share (2009: RMB0.45 per share) for the year ended 31 December 2010, totalling approximately RMB94,080,000 (2009: RMB88,200,000). The Board of Directors also proposed a bonus issue to all shareholders on the basis of 1 bonus share for every share, held by capitalization of retained earnings, and a separate bonus issue of shares on the basis of 1 share for every share by way of capitalization of the capital reserve, totalling RMB392,000,000 (2009: nil). The proposed dividend distribution is subject to the shareholders' approval at the Annual General Meeting in 2011. The dividend will be recorded in the Group's financial statements for the year ending 31 December 2011.

28. 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 2010 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. Mei Qun	–	–	–	–	–
Ms. Ding Yong Ling	–	522	–	–	522
Mr. Yin Shun Hai	–	–	–	–	–
Mr. Wang Yu Wei	–	825	29	–	854
Ms. Fang Jia Zhi	–	305	29	–	334
Mr. Zhang Huan Ping*	–	434	–	–	434
Mr. Xie Zhan Zhong**	–	–	–	–	
Miss Tam Wai Chu, Maria	153	–	–	–	153
Mr. Ting Leung Huel, Stephen	153	–	–	–	153
Mr. Jin Shi Yuan	48	–	–	–	48
Supervisors:					
Mr. Zhang Xi Jie	–	–	–	–	–
Mr. Wu Yi Gang	48	–	–	–	48
Ms. Wang Yan Rong	–	516	29	–	545

* *Resigned on 26 April 2010.*

** *Appointed on 18 June 2010.*

28. 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 2009 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. Mei Qun	–	–	–	–	–
Ms. Ding Yong Ling	–	–	–	–	–
Mr. Kuang Gui Shen*	–	608	27	–	635
Mr. Yin Shun Hai	–	–	–	–	–
Mr. Wang Quan*	–	–	–	–	–
Mr. Wang Yu Wei**	–	693	27	–	720
Ms. Fang Jia Zhi**	–	276	27	–	303
Mr. Zhang Huan Ping**	–	–	–	–	–
Miss Tam Wai Chu, Maria	158	–	–	–	158
Mr. Ting Leung Huel, Stephen	158	–	–	–	158
Mr. Jin Shi Yuan	48	–	–	–	48
Supervisors:					
Mr. Zhang Xi Jie	–	–	–	–	–
Mr. Wu Yi Gang	48	–	–	–	48
Ms. Liu Gui Rong*	–	128	16	–	144
Ms. Wang Yan Rong**	–	276	27	–	303

* *Resigned on 25 June 2009.*

** *Appointed on 25 June 2009.*

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.

28. 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 (2009: two) director whose emoluments are reflected in the analysis presented in Note 28 (a) above. The emoluments payable to the remaining four (2009: three) individuals during the year are as follows:

	2010 **RMB'000**	2009 RMB'000
Basic salaries, allowance and bonuses	**2,751**	1,371
Contribution to pension scheme	**349**	80
	3,100	1,451

The emoluments fell within the following band:

	2010 **RMB'000**	2009 RMB'000
Nil to RMB871,300 (Equivalent to Hong Kong Dollar 1,000,000)	**3**	3
RMB871,301-1,306,950 (Equivalent to Hong Kong Dollar 1,000,001-1,500,000)	**1**	–

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

(c) Equity compensation benefits

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.

29. RETIREMENT AND TERMINATION BENEFITS

Pursuant to the PRC laws and regulations, the Group is required to make monthly contributions to various retirement benefit schemes organised by the relevant provincial and municipal governments for the Group's employees in the PRC at rates ranging from 28% to 32% (2009: 28% to 32%) of the employees' standard salaries, of which 20% to 24% (2009: 20% to 24%) is borne by the Group and the remaining portion is borne by the employees.

The Group's subsidiary in Hong Kong participates in a Mandatory Provident Fund scheme (the "MPF scheme") in accordance with the Mandatory Provident Fund Scheme Ordinance of Hong Kong (the "MPF Ordinance"). Under the rules of the MPF scheme, the employer and its employees in Hong Kong are each required to contribute 5% of their gross earnings with a ceiling of HK$1,000 per month to the MPF scheme. The only obligation of the Group with respect to the MPF Scheme is to make the required contributions under the scheme. No forfeited contribution is available to reduce the contribution payable in future year.

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 included in "Accrued expenses and other current liabilities" as of 31 December 2010 and 2009, were approximately RMB2,033,000 and RMB 2,785,000 respectively.

30. 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 2010, the Group contributed approximately RMB10,920,000 (2009: RMB10,167,000) to the fund.

31. CASH GENERATED FROM OPERATIONS

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

	2010 RMB'000	2009 RMB'000 (Restated)
Profit before income tax	**267,222**	227,252
Adjustments for:		
(Reversal of provision)/provision for impairment of receivables	**(10,060)**	8,732
Depreciation of property, plant and equipment	**42,426**	46,050
Amortisation of prepaid operating lease payments	**1,186**	1,191
Amortisation of other long-term assets	**812**	710
Property, plant and equipment provision	**8,982**	–
Inventory provision	**8,915**	7,786
Loss/(Gain) on disposal of property, plant and equipment	**147**	(180)
Deferred government grants recognised in the income statement	**(2,796)**	(2,025)
Interest income	**(6,466)**	(4,367)
Interest expenses	**721**	774
Exchange losses	**812**	37
Share of loss of an associated company	**388**	–
Operating profit before working capital changes	**312,289**	285,960
Decrease/(increase) in current assets:		
Trade and bills receivables	**3,281**	24,568
Inventories	**(132,089)**	(38,561)
Prepayments and other current assets	**(12,940)**	(8,754)
Amounts due from related parties	**10,575**	2,439
Increase/(Decrease) in current liabilities:		
Trade payables	**36,193**	(48,668)
Other current liabilities	**74,107**	25,077
Amounts due to related parties	**2,118**	8,189
Proceeds from government grants	**17,223**	1,369
Cash generated from operations	**310,757**	251,619

31. CASH GENERATED FROM OPERATIONS (CONT'D)

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

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

	The Group		The Company	
	2010	2009	**2010**	2009
	RMB'000	RMB'000 (Restated)	**RMB'000**	RMB'000
Cash at bank and in hand				
RMB	**357,579**	286,345	**279,085**	249,444
Hong Kong Dollar	**41,396**	63,113	**9,310**	13,458
US Dollar	**8,299**	7,509	**1,087**	1,087
Macanese Pataca	**2,672**	2,371	**–**	–
Malaysian Ringgit	**4,668**	2,308	**–**	–
Indonesian Rupiah	**1,221**	512	**–**	–
Canadian Dollar	**4,372**	1,211	**–**	–
Thai Baht	**950**	594	**–**	–
Korean Won	**1,004**	1,451	**–**	–
Australian Dollar	**6,417**	5,286	**–**	–
Singapore Dollar	**10,461**	8,118	**–**	–
Brunei Ringgit	**2,069**	1,108	**–**	–
	441,108	379,926	**289,482**	263,989

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

	The Group		The Company	
	2010	2009	**2010**	2009
	RMB'000	RMB'000 (Restated)	**RMB'000**	RMB'000
RMB	**90,000**	46,000	**90,000**	40,000
Hong Kong Dollar	**504**	–	**–**	–
Macanese Pataca	**–**	884	**–**	–
US Dollar	**–**	695	**–**	–
Malaysian Ringgit	**775**	772	**–**	–
Australian Dollar	**3,609**	4,146	**–**	–
Singapore Dollar	**1,629**	1,524	**–**	–
Thai Baht	**12**	–	**–**	–
	96,529	54,021	**90,000**	40,000

31. CASH GENERATED FROM 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 3.69% (2009: 1.84%) per annum. Cash at bank earns interest at floating rates based on daily bank deposit rates.

As of 31 December 2010, the cash in hand balance of the Group was RMB1,391,000 (2009: RMB399,000). Cash at bank and short-term bank deposits balance of the Group was RMB536,246,000 (2009: RMB433,548,000). Management did not expect any losses from non-performance by those banks.

32. RELATED PARTY TRANSACTIONS

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

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

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

32. RELATED PARTY TRANSACTIONS (CONT'D)

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

(a) Transactions with the ultimate holding company

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

	2010 RMB'000	2009 RMB'000 (Restated)
Trademark licence fee (Note (i))	**850**	850
Rental expense (Note (ii))	**2,364**	2,364
Storage fee (Note (iii))	**2,916**	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 2010 is RMB850,000. The parties are entitled to adjust the annual licence fee thereafter. Such annual increase or decrease shall not exceed 10% of that of the previous year.

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

32. RELATED PARTY TRANSACTIONS (CONT'D)

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

	2010 RMB'000	2009 RMB'000 (Restated)
Sales of Chinese medicines (Note (i))	**191,562**	152,001
Agency fee income for distribution services (Note (ii))	**11,665**	11,440
Royalty fee (Note (iii))	**1,382**	1,734
Purchase of Chinese traditional medicines	**16,986**	14,558
Purchase of raw materials	**13,728**	5,277

Notes:

(i) The Company signed a sales agreement with the ultimate holding company in 2008. In accordance with this agreement, the Group can sell its products to the subsidiaries and joint ventures of the ultimate holding company. The selling price to the ultimate holding company's subsidiaries and joint ventures shall not be lower than the prices to independent third parties. The agreement has been approved at the Company's Annual General Meeting and is effective from 2008 to 2010.

(ii) Tong Ren Tang Chinese Medicine signed an agency agreement with the Parent Company on 3 March 2010. In accordance with this agreement, the Company is appointed as an agent in distributing the Parent Company's products, with effective period from 2010 to 2012.

(iii) Certain subsidiaries and joint ventures signed royalty agreements with the ultimate holding company and a fellow subsidiary, Tong Ren Tang International. The royalty fee is charged annually at pre-determined rates ranging from 2% to 3% on turnover of the entities according to the royalty agreement. Pursuant to these agreements, these subsidiaries and jointly controlled entities are allowed to trade under "Tong Ren Tong" brand name.

On 28 September 2010, the ultimate holding company issued an authorisation letter to Tong Ren Tang Chinese Medicine that the ultimate holding company licensed to Tong Ren Tang Chinese Medicine for the right to use the "Tong Ren Tang" trademark outside of the PRC including but not limited to the right to sub-license the "Tong Ren Tang" trademark without consideration from 1 October 2010 to 30 September 2013. Tong Ren Tang Chinese Medicine receives royalty fee from subsidiaries and jointly controlled entities since 1 October 2010.

32. RELATED PARTY TRANSACTIONS (CONT'D)

(c) *Transactions with other state-owned enterprises*

	2010 RMB'000	2009 RMB'000 (Restated)
Revenue:		
Interest income from bank deposits	**5,768**	4,091
Expenses:		
Interest expenses on bank borrowings	**721**	774
Other transactions:		
Sales of Chinese medicine	**142,753**	156,379
Purchase of raw materials	**24,944**	7,611
Purchase of property, plant and equipment	**2,433**	1,118
Drawdown of bank loans	**15,000**	15,000
Repayments of bank loans	**15,000**	15,000

(d) *Balances with related parties*

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

	The Group		The Company	
	2010 RMB'000	2009 RMB'000 (Restated)	2010 RMB'000	2009 RMB'000
Bank deposits				
State-owned banks and other financial institutions (Note 3.1(b))	**489,557**	403,720	**379,443**	303,944
Amounts due from related parties:				
Subsidiaries and joint ventures of the ultimate holding company	**7,815**	10,231	**4,862**	8,963
Other state-owned enterprises	**11,056**	19,215	**11,074**	19,212
	18,871	29,446	**15,936**	28,175

32. RELATED PARTY TRANSACTIONS (CONT'D)

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

	The Group		The Company	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
		(Restated)		
Bank borrowings				
State-owned banks	**15,000**	15,000	**15,000**	15,000
Amounts due to related parties:				
Subsidiaries and joint ventures of the ultimate holding company	**16,012**	14,910	**8,781**	9,797
Other state-owned enterprises	**1,368**	352	**1,367**	351
	17,380	15,262	**10,148**	10,148

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

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

	The Group		The Company	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
		(Restated)		
Within 4 months	**17,272**	28,084	**15,127**	27,139
Over 4 months but within 1 year	**588**	1,105	**557**	780
Over 1 year	**1,011**	257	**252**	256
	18,871	29,446	**15,936**	28,175

32. RELATED PARTY TRANSACTIONS (CONT'D)

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

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

	The Group		The Company	
	2010 RMB'000	2009 RMB'000 (Restated)	**2010 RMB'000**	2009 RMB'000
Within 4 months	**11,409**	13,438	**6,679**	9,036
Over 4 months but within 1 year	**5,940**	1,300	**3,438**	588
Over 1 year	**31**	524	**31**	524
	17,380	15,262	**10,148**	10,148

33. BANKING FACILITIES

As of 31 December 2010, the Group had aggregated banking facilities of RMB100,000,000 (2009: RMB100,000,000) for loan and other trade financing. As of 31 December 2010, the unutilised banking facilities amounted to RMB85,000,000 (2009: RMB85,000,000).

34. 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	
	2010 RMB'000	2009 RMB'000 (Restated)	**2010 RMB'000**	2009 RMB'000
Construction of production facilities	**6,602**	237	**4,002**	–

34. COMMITMENTS (CONT'D)

(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	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
		(Restated)		
Not later than one year	**26,533**	21,763	**15,130**	16,608
Later than one year and no later than five years	**55,596**	46,782	**32,029**	37,975
Later than five years	**11,951**	15,461	**11,425**	13,789
	94,080	84,006	**58,584**	68,372

35. EVENTS AFTER THE BALANCE SHEET DATE

On 28 February 2011, the Company has submitted an application to the Stock Exchange, for a separate listing of Tong Ren Tang Chinese Medicine together with its subsidiaries on GEM by spin-off of the healthcare business and the overseas distribution operations of the Company ("Separate Listing"). Pursuant to a proposed deed of understanding to be entered into between Tong Ren Tang Ltd. and the Company, the Company will also remain a controlling shareholder of Tong Ren Tang Chinese Medicine upon completion of the Separate Listing.

The Separate Listing is subject to, among other things, the approval of the listing committee and the final decision of the Board of Directors and the board of directors of Tong Ren Tang Chinese Medicine, the Separate Listing may or may not occur.