Annual Report 2011

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)

同修仁徳
濟世養生

趙樸初書

Contents

Corporate Information

BOARD OF DIRECTORS

Executive Directors

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

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 *(Chairman)*
Tam Wai Chu, Maria
Jin Shi Yuan

REMUNERATION COMMITTEE

Jin Shi Yuan *(Chairman)*[1]
Mei Qun
Ting Leung Huel, Stephen

NOMINATION COMMITTEE

Mei Qun *(Chairman)*
Tam Wai Chu, Maria
Jin Shi Yuan

AUTHORIZED REPRESENTATIVES

Mei Qun
Zhang Jing Yan

AUTHORIZED PERSON TO ACCEPT SERVICE OF PROCESS AND NOTICE

Zhang Jing Yan

INDEPENDENT AUDITOR

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

LEGAL ADVISOR (AS TO HONG KONG LAW)

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

Note:

1. During the meeting of the Board of Directors held on 16 March 2012, Mr. Jin Shi Yuan, an independent non-executive Director, was appointed as the Chairman of the Remuneration Committee in place of Mr. Mei Qun who remains as a member of the Remuneration Committee.

Corporate Information

REGISTERED ADDRESS

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

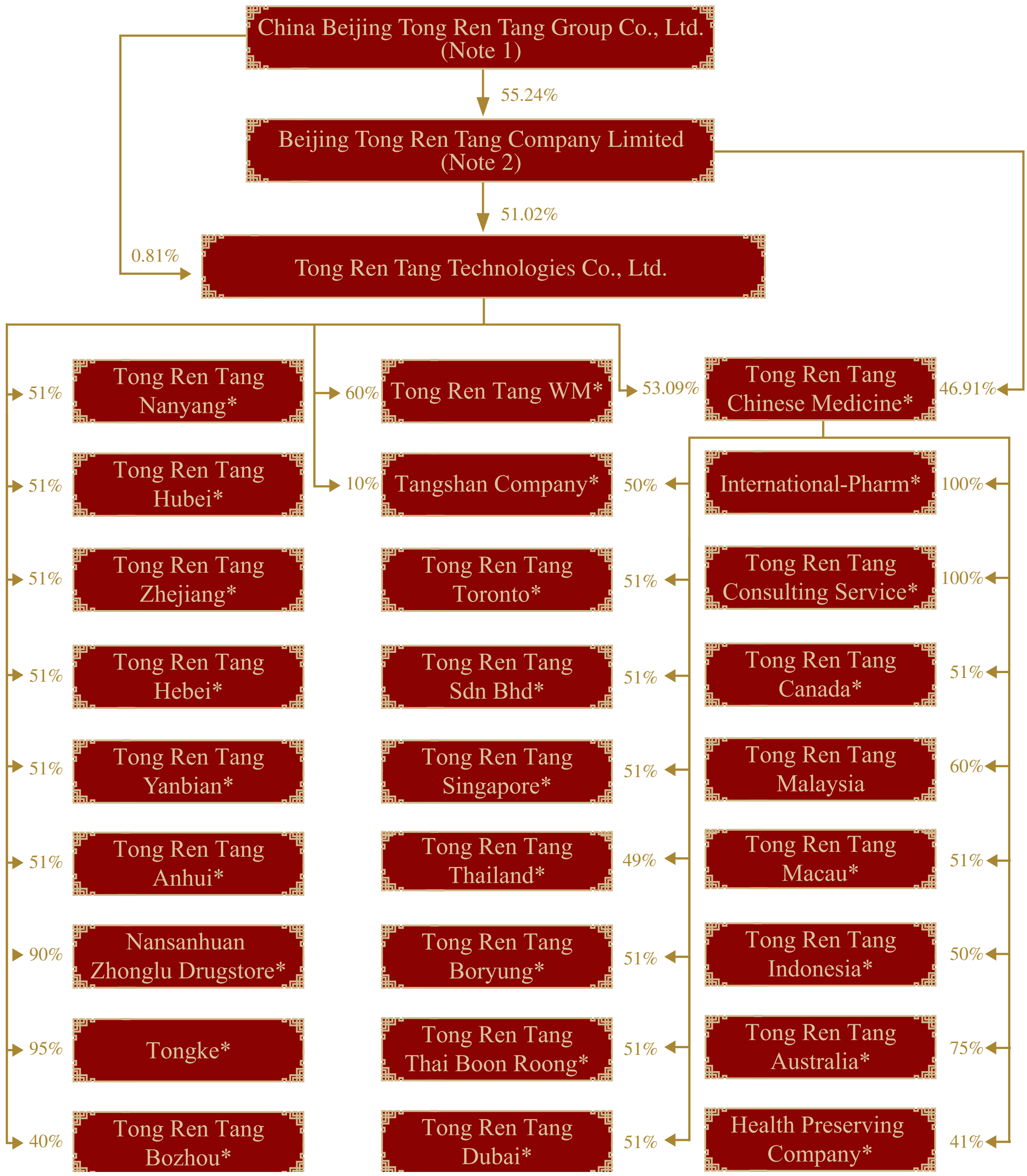
STOCK CODE

1666

OFFICE AND MAILING ADDRESS

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

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" or "Company").*

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

	2011 RMB'000	2010 RMB'000 (Restated)	2009 RMB'000 (Previously stated)	2008 RMB'000 (Previously stated)	2007 RMB'000 (Previously stated)
RESULTS					
Revenue	**1,936,418**	1,578,914	1,352,202	1,211,455	1,157,030
Profit before income tax	**335,897**	266,794	227,252	197,248	179,528
Income tax expense	**(54,444)**	(42,068)	(37,133)	(30,509)	(25,474)
Profit for the year	**281,453**	224,726	190,119	166,739	154,054
Profit attributable to					
Owners of the Company	**254,687**	197,978	176,369	160,528	153,915
Non-controlling interests	**26,766**	26,748	13,750	6,211	139
ASSETS AND LIABILITIES					
Non-current assets	**598,968**	479,950	467,049	500,160	542,517
Current assets	**2,218,911**	1,699,132	1,463,918	1,295,022	1,190,541
TOTAL ASSETS	**2,817,879**	2,179,082	1,930,967	1,795,182	1,733,058
Non-current liabilities	**57,324**	30,288	16,104	13,250	12,250
Current liabilities	**821,485**	408,367	293,666	297,027	313,003
TOTAL LIABILITIES	**878,809**	438,655	309,770	310,277	325,253
Equity attributable to					
Owners of the Company	**1,718,888**	1,562,927	1,476,795	1,360,392	1,284,931
Non-controlling interests	**220,182**	177,500	144,402	124,513	122,874
TOTAL EQUITY	**1,939,070**	1,740,427	1,621,197	1,484,905	1,407,805

Chairman's Statement

I am pleased to present the annual report of Company and its subsidiaries and joint ventures (hereafter collectively referred to as the "Group") for the year ended 31 December 2011 for shareholders' review.

RESULTS OF THE YEAR

For the year ended 31 December 2011, the Group's revenue amounted to RMB1,936,418,000, representing an increase of 22.64% from RMB1,578,914,000 in the corresponding period of last year; profit attributable to owners of the Company amounted to RMB254,687,000, representing an increase of 28.64% from RMB197,978,000 as restated in the corresponding period of last year.

REVIEW OF THE YEAR

2011 was the year when the medical and healthcare system reform of the PRC was brought about in full swing, and marked the beginning of China's 12th Five-Year Plan for the development of the pharmaceutical industry. As the new medical and healthcare reform was promoted in an all-round way and deepened continuously, medical and healthcare expenses accounted for an increasing proportion of the total government expenditure. The restructuring and reallocation of China's medical and healthcare resources favored the Chinese medicine industry and provided it with the momentum for further growth. Meanwhile, the standardization of the pharmaceutical industry was strengthened, as evident by the implementation of the new GMP guidance and the electronic monitoring of products on the National Essential Medicine List. However, the developed economies of the world resorted to budget-cuts in 2011 in face of the sovereign debt crisis which put a severe drag on global economy growth again since the 2008 financial crisis. In addition, the nature of Chinese medicine raw materials is prone to environmental changes which cause frequent price fluctuations. The highflying CPI index in domestic market also led to an increase in the operating cost of traditional Chinese medicine enterprises.

2011 was key to the Company in integrating the Group's various businesses. During the year, insisting in its belief in sustainable development, the Company has maintained an open mind while acting in prudence, and accumulated experience while moving with restraint. In order to achieve our goals of "specialization, scalability and integration", the Company led the close cooperation between various departments and the coordination between different production bases, mapped out a comprehensive strategy, fanned out the successful experience of a few to the entire company, and rolled out, step-by-step, the differentiated operation of our major products without jeopardizing the stable development of the Group. The Company also amended and perfected its various quality standards to better reflect its status as a well-established, century-long brand. By carrying out special tasks and key projects, the Company succeeded in realizing an overall stable and healthy growth.

OUTLOOK AND PROSPECTS

The possible deterioration of the European sovereign debt crisis in 2012 overshadows the economic recovery in Europe even in a global scale. Considering the increasingly limited means in which the macroeconomic policies of the world can be coordinated, the global economy will likely maintain minimal growth and the growth of the emerging economies will also shift to a lower gear. Meanwhile, the inflationary pressures of global shall continue to remain. Looking forward, the Traditional Chinese Medicine industry will be seeing tremendous opportunities as a result of the government's emphasis on its development and the advance of the new medical reform policies, which are favorable to the industry. The State's enforcement of price ceilings to pharmaceutical products and the centralization of pharmaceutical product procurement shall take industry concentration to a new level. As such, pharmaceutical enterprises shall attach greater importance in the maintenance and improvement of their brand images. A healthy brand image has always been indicative of the core competitiveness of an enterprise and the result of stable product quality over a lengthy period. Thus, maintaining such image is the only way the Group can gain a decided edge over rivals in a competitive market and occupy a high ground in the long-term development of the industry.

2012 will be a critical year for the Company to ride its momentum. I shall, together with our entire staff, stimulate thoughts and ideas, lay the bricks for our stable development, optimize our administrative structure, facilitate the development of our subsidiaries, and realize an "integrated" operation through "specialization" and "scalability".

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.

Mei Qun
Chairman

Beijing, the PRC
16 March 2012

Management Discussion and Analysis

BUSINESS REVIEW

In 2011, the Company executed its overall strategy of "strengthening our foundation and optimizing our management" amidst the changing internal and external economic environment and shifting industry policies. The Company employed a pragmatic approach and was united to bring in innovation and progress and was successful in building on a positive and sustainable momentum for development. For the year ended 31 December 2011, revenue of the Group amounted to RMB1,936,418,000, representing an increase of 22.64% from RMB1,578,914,000 in the corresponding period of last year; profit attributable to owners of the Company amounted to RMB254,687,000, representing an increase of 28.64% from RMB197,978,000 as restated in the corresponding period of last year.

SALES

In 2011, the Company further diversified its product portfolio, expanded and streamlined its sales network, explored its potential, enhanced its control and management, and attained a balanced overall growth.

In 2011, the Company made adjustments and supplements its existing sales strategy in accordance with the evolving market conditions, to coordinate the marketing of products, the establishment of sales channels, and the development of end market. On one hand, the Company was in active search for resourceful dealers in the end market and in the medical industry to engage in the establishment of our sales network in full force, while forging long-term strategic cooperation with dominant dealers. This allowed the Company to facilitate the growth of new sales channels as well as strengthening its original sales channels. On the other hand, the Company enhanced the development of the end market and increased its retail market share. The Company focused on products promotion, co-operated with local media and public welfare organizations to promote local sales, relied on various forms of promotional campaigns such as themed activities and free medical consultation services to assist the stable development of the end market.

During the year, the Company continued to improve its operating efficiency, keep away operational risks, enhance market surveillance, stabilize the price of major products and impose order in the market. Its emphasis on the quality of receivables and steady cash flows guaranteed an efficient operation with controllable risks. Meanwhile, the Company stepped up its efforts in encouraging our sales team to gain and cultivate their professional attitude and skills as well as inciting their initiative in order to improve their marketing techniques and capacity to innovate.

In 2011, the Company clearly defined the positioning of our products further. Differentiated sales were conducted which emphasized the distinctiveness of different major products and regions. The product portfolio of medicine for reducing internal heat, cold and nutritional supplements were enriched. During the year, the Company produced and sold more than one hundred kinds of products, of which 21 products achieved total sales of more than RMB10 million; and 17 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 Liuwei Dihuang Pills (六味地黃丸) series grew by 18.52% as compared with last year. Ganmao Qingre Grannule (感冒清熱顆粒) series grew by 13.76% as compared with last year, while Niuhuang Jiedu Tablets (牛黃解毒片) series maintained stable sales 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, Shengmai Liquor (生脈飲) series, Jiawei Xiaoyao Pills (加味逍遙丸) series, Shugan Hewei Pills (舒肝和胃丸) series, which grew by more than 20% over the corresponding period last year.

In overseas markets, the slowdown of the global economic recovery and the continued appreciation of RMB in 2011 resulted in a downward slopping movement of Chinese export after an initial rise in the beginning of the year, also bringing along substantial risks and challenges for the Company's export business. In face of the increasingly difficult external business environment and to tackle the impact exerted by the changes therein, the Company optimized its product portfolio intended for export, the market structure and regional restructure so as to improve our capacity to maintain the sustainability of our exports. In 2011, the export sales of the Company's products amounted to US$5,914,000, representing an increase of 20.60% over last year.

PRODUCTION

In 2011, the Company delivered medical products to the market in more than ten forms including pills, tablets, granules, capsules and liquid. During the year, taking into consideration of our future development scale and managerial needs, the Company implemented a branch factory system, the transformation of our production bases from simple manufacturing facilities to branch factories which are responsible for their own production management. Each branch factory is redesigning the division of labor, developing its organizational and personnel placement structure, and streamlining its workflow and management system according to the new manufacturing system. Furthermore, the manage team of branch factories

improved their overall management capability innovatively. They established assessment and incentive mechanisms and extended the mechanism of branch personnel dispatched; we reinvented human resources management by nurturing multi-talented staff; we attained technological innovation by modifying and modernizing our technologies and production processes. As such, the Company laid a solid groundwork for its "integration".

During the year, in response to the electronic monitoring requirement implemented by the State Food and Drug Administration in relation to the pharmaceutical products included in the National Essential Medicine List, the Company imposed stricter electronic monitoring and upgraded the relevant information systems. It has also perfected the electronic labeling and identification system and developed an electronic tracking system to trace certain selected pharmaceutical products. Furthermore, the Company focused on improving the automation level of our facilities and put in substantial effort in breaking the production bottleneck of our large honeyed pills production line by acquiring a number of wax dipping machine and peeling machine after successfully modifying the single-forming production process of our small pills, effectively improved our production efficiency and drove down cost.

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) ("**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 2011, 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, representing 5% of the total investment. In 2011, 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 management in 2011. In respect of the frequent fluctuations of Chinese medicinal raw materials' price, the Company kept track of market changes, analyzed the causes of the price surges and price drops. The Company formulated a comprehensive plan in advance which factored in the number of sales orders and the Company's production plan as well as kept a reasonable reserve, so as to minimize procurement costs. Moreover, the Company conducted investigations on its list of suppliers regularly to review their reputation and the quality of goods provided, and also refined the reviewing standards and strengthened its quality control and supervision of the suppliers.

In 2011, the Company tackled special tasks by adopting a special task management model. The successful experience was fanned out to the entire company, which boosted execution power and management efficiency in a company-wide manner. This management model has become an effective means for the Company to execute its key projects, and received the 1st price of "Innovative Modern Enterprise Management in Award" in Beijing. In addition, with the implementation of both the electronic monitoring code and the new GMP guidance, the Company was able to complete its quality management systems, refine the quality standards and normalize quality management in accordance with the standards worthy of a century-old brand. During the year, the Company passed the re-examination for certification issued by the Therapeutic Goods Administration in Australia.

In respect of R&D, the Company took incremental steps to enhance its research capability, placed equal emphasis on R&D as well as the application of technological breakthroughs. The Company engaged in the research of quality standards and specificity successively to provide technical support to the product sales. Besides, the Company strives for result transformation by putting ideas into reality and serving the production needs. During the year, the Company has been recognised again as innovation company.

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) ("**Nansanhuan Zhonglu Drugstore**") is a retail drugstore located at Nansanhuan Zhonglu, Fentai District, Beijing. In 2011, Nansanhuan Zhonglu Drugstore gave full play to its featured operations. Adhering to the operating direction of "establishing itself as a top-notch drugstore selling quality medicines", Nansanhuan Zhonglu Drugstore secured a foothold for long term development and enhanced its quality of services in pursuit of strengthening values of brands. Nansanhuan Zhonglu Drugstore realized a revenue of RMB59,755,500 for the reporting period, representing an increase of 22.34% 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 2011, the Chinese medicinal raw materials production bases of the Company participated in producing, collecting and processing of Chinese medicinal raw materials. Capitalizing on the favorable government policies, Anhui Base cooperated with Peony Research Institute of Tongling City (銅陵市牡丹研究所) in carrying out the comprehensive program addressing preventive measures and recommended cures of peony diseases. The program had also been recognized by Anhui Food and Drug Administration and Supervision Bureau (安徽省食品藥品監督管理局) as an Anhui Medicinal Project (皖藥行動項目). Yanbian Base joined hands with the economic channel of Yanbian Satellite TV in promoting itself as well as the corporate culture of Tong Ren Tang. Moreover, Hebei Base proactively participated in the projects in connection with optimization and upgrade of standardized planting bases of local Chinese medicinal raw materials in Northern China and the comprehensive research and development of series of products. Hebei Base also collaborated with Tangshan Normal University in developing projects of standardized planting bases of isatis root (板藍根) and bupleurum sinense (北柴胡) and relevant research on optimization and upgrade of SOP projects. In 2011, all of these Company's production bases for traditional Chinese medicinal raw materials achieved a sale revenue of RMB111,773,700, representing an increase of 33.76% as compared with last year. 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 million 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 promoting its application in pharmaceuticals and cosmetics with a wide range of product offerings, such as lotion, cream, facial and eye masks and liposome skincare products. Tong Ren Tang WM forged ahead with its roll-out of new products during the year, with a total of 9 products, including herbal makeup remover, multi-functional blemish balm cream (BB Cream), herbal moisturizing spray, being launched. In 2011, Tong Ren Tang WM generated a total revenue of RMB39,407,600, representing an increase of 8.32% as compared with last year.

BEIJING TONG REN TANG CHINESE MEDICINE COMPANY LIMITED ("TONG REN TANG CHINESE MEDICINE")/SALES NETWORK OUTSIDE PRC MAINLAND

Tong Ren Tang Chinese Medicine, which is located in the Hong Kong Special Administrative Region ("**Hong Kong**"), was jointly invested and established by the Company and Tong Ren Tang Ltd. As at 31 December 2011, its total investment amounted to HK$201,430,000, of which HK$106,940,000 was contributed by the Company, representing 53.09% of the total investment; and HK$94,490,000 was contributed by Tong

Ren Tang Ltd., representing 46.91% of the total investment. Tong Ren Tang Chinese Medicine is principally engaged in (1) distribution and retail of Chinese medicine through its overseas distribution network; (2) providing overseas sales agency services for the Company and Tong Ren Tang Ltd.; (3) development, production and sales of its own products.

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 gross floor area of over 10,000 square metres. It produces products in various forms including pills and capsules 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 into domestic and overseas markets and recorded desirable sales. With its corporate positioning as the overseas culture messenger of Tong Ren Tang, upholding the core value of Tong Ren Tang culture and tapping into the organic essence of Chinese traditional culture, Chinese medicine health preserving culture, Tong Ren Tang historic and diversity of overseas culture, Tong Ren Tang Chinese Medicine strengthened the construction of overseas sales network by setting up new sales terminal with a view to establishing and optimizing its distribution network. During the year, Tong Ren Tang Chinese Medicine established Beijing Tong Ren Tang (Dubai) Company Limited (北京同仁堂（迪拜）有限公司) in Dubai, United Arab Emirates ("**UAE**") and set up some new Chinese medicine stores in Hong Kong and the Macau Special Administrative Region ("**Macau**"). The move further expanded its market share and generated satisfactory social benefits and economic benefits.

As at the end of 2011, Tong Ren Tang Chinese Medicine had established twelve joint ventures in eleven countries and regions outside the PRC and Hong Kong (Macau, Malaysia, Canada, Indonesia, Korea, Thailand, Australia, Singapore, Brunei, Cambodia and UAE). 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 2011, the said twelve joint ventures achieved an aggregate sales revenue of RMB94,504,600, representing a growth of 28.39% as compared with RMB73,607,900 for the corresponding period of the previous year.

In 2011, Tong Ren Tang Chinese Medicine generated a total revenue of RMB234,302,500, representing an increase of 41.32% from RMB165,801,300 in the corresponding period of last year.

THE DRUG STORE IN CENTRAL, HONG KONG

FINANCIAL REVIEW

Liquidity and Financial Resources

The Group has maintained a sound financial position. During 2011, the Group's primary source of funds was cash provided by operating activities and bank loans.

As at 31 December 2011, the Group had cash and cash equivalents amounted to RMB671,695,000 (31 December 2010: RMB441,108,000) and short-term borrowings of RMB125,000,000 (31 December 2010: RMB15,000,000). The borrowings carried an interest rate of 6.459% (31 December 2010: 4.779%) per annum.

As at 31 December 2011, the Group had total assets amounting to RMB2,817,879,000 (31 December 2010(Restated): RMB2,179,082,000). The funds comprised of non-current liabilities of RMB57,324,000 (31 December 2010: RMB30,288,000), current liabilities of RMB821,485,000 (31 December 2010: RMB408,367,000), equity attributable to owners of the Company of RMB1,718,888,000 (31 December 2010(Restated): RMB1,562,927,000) and non-controlling interests of RMB220,182,000 (31 December 2010: RMB177,500,000).

Capital Structure

Details of changes in the capital structure of the Group as at 31 December 2011 as compared with that as at 31 December 2010 are set out in Note 1 and 15 to the consolidated financial statements.

Gearing and liquidity ratios

As at 31 December 2011, the Group's gearing ratio, the ratio between total borrowings and equity attributable to owners of the Company was 0.07 (31 December 2010 (Restated): 0.01). The Group's liquidity ratio, the ratio between current assets over current liabilities, was 2.70 (31 December 2010: 4.16), reflecting that the Group had flourishing financial resources.

Charges over Group's assets

As at 31 December 2011, none of the Group's assets was pledged as security for liabilities (31 December 2010: Nil).

Contingent liabilities

The Group had no contingent liabilities as at 31 December 2011 (31 December 2010: Nil).

Foreign exchange risk

The Group has foreign exchange risk as certain cash and cash equivalents are denominated in foreign currency, primarily with respect to Hong Kong dollar ("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 2011, 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 RMB21,287,000 (31 December 2010: RMB6,602,000).

Significant investment/Significant acquisitions and disposals of assets

During 2011 the Group did not have significant investment, significant acquisitions or disposals of assets.

FUTURE INVESTMENT PLAN

The Company has proposed the construction of Da Xing Production Base ("Da Xing Base") and Bo Zhou Base for preprocessing and logistics of medicine materials ("Bo Zhou Base") in Da Xing Bio-Pharm Industrial Base at Zhongguancun Technology Park District, Beijing City and Bo Zhou City, Anhui Province, the People's Republic of China, respectively. Upon the completion of the construction, Da Xing Base will become an integrated industrial base with functions of both production and technology research including productive workshops such as solid dosage forms, liquid formulation, etc and Bo Zhou Base will provide the Company such as pure selection and pharmaceutical processing of the traditional Chinese medicine materials, which aims at enhancing its production capacity and improving the supply chain.

FUTURE PROSPECTS

In 2012, adhering to its development direction of "pursuing specialization, scalability, and integrated group operation", the Company will take every opportunity to realize stable development, further broaden its development mindset, innovate development pattern and enhance development quality so as to support sustainable business growth of Tong Ren Tang, aiming at building a leading, strong and large-scale group. The major objectives for the Company in 2012 are as follows:

1. *Fostering the Construction of Comprehensive Product Portfolio and Sharpening Brand Images to Achieve Specialized Operation*

Capitalizing on the development trend of medicine industry especially the Chinese medicine industry, the Company will set a clear direction in line with its market orientation and actual conditions as well as broaden its business mindset so as to promote specialized business positioning of subsidiaries, specialized model for distribution channels, specialized management of research and development and specialized staff training. Through such initiatives, the Company will further optimize the operational structure and focus on its core business in a bid to enhance its core competitiveness and further reinforce the leading position and dominance of the Company in the Chinese medicine industry.

2. *Forging the construction of production bases and Promoting Operating Productivity to Achieve Scale Benefits*

The Company will establish new production base and pre-processing and logistic. The new bases will be planed and designed in accordance with the growing capacity requirements. The new bases will maximize the capacity by actively carrying out the new equipment, application of new technologies in the production process and optimizing the process route design. The company also will strengthen the management and organization of the project construction. The Internal Audit Department will audit and oversee the whole process of project construction and maintain a comprehensive control over the progress, quality and costs. Furthermore, the Company will strengthen the implementation of "branch system" and consolidate the industrial basis, seeking for an optimized industrial layout and production of scale.

3. *Optimizing System Construction and Facilitating Transformation of Functions to Promote Group Operation*

The Company will strive to optimize its system construction. With strengthened process control and system reform, the Company will continue to innovate and strengthen its fundamental management and avoid potential risks through regulated, organized and standardized management and the implementation of "branch system". In particular, the Company will materialize the transformation of functions among departments and divisions, thus gearing into efficient group operation with special focus on the planning, management, services and supervision from the model of horizontal management. Meanwhile, efforts will be put in strengthening the organizational construction and assessment system at the basic level to pursue healthy growth and integrated group operation.

Report of the Board of Directors

The Board of Directors of is pleased to present the 2011 annual report together with the audited financial statements of the Group for the year ended 31 December 2011.

PRINCIPAL ACTIVITIES

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

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

	2011	2010
	RMB'000	RMB'000
Sales of medicine		
– the PRC Mainland	**1,744,805**	1,449,593
– Outside the PRC Mainland	**174,062**	117,656
	1,918,867	1,567,249
Agency Fee income for distribution services		
– Outside the PRC Mainland	**17,551**	11,665
	1,936,418	1,578,914

MAJOR CUSTOMERS AND SUPPLIERS

During the reporting period, sales attributable to the five largest customers of the Group accounted for less than 30% (2010: less than 30%) of the Group's sales.

During the reporting period, purchases from the five largest suppliers of the Group accounted for less than 30% (2010: less than 30%) of the Group's purchases.

Save as disclosed above, none of the Directors, their respective associates, or to the knowledge of the Board of Directors, shareholders who are interested in more than 5% of the Company's share capital, has any beneficial interest in the five largest customers or the five largest suppliers of the Group.

RESULTS

The results and financial position of the Group for the year ended 31 December 2011 are set out on pages 48 to 118 of the annual report.

FINAL DIVIDEND AND TAX

The Board of Directors proposed a final dividend of RMB0.19 (including tax) per share for the year ended 31 December 2011 (2010: RMB0.48 (including tax) per share) based on the issued and fully paid share capital of 588,000,000 shares (2010: 196,000,000 shares), totaling RMB111,720,000 (2010: RMB94,080,000). If the profit distribution proposal is approved by the shareholders at the 2011 annual general meeting to be held on Tuesday, 22 May 2012 by way of an ordinary resolution, the final dividend will be paid to the shareholders whose names appear on the register of members of the Company on Friday, 1 June 2012. Dividend payable to the shareholders of H shares will be paid in HKD. The exchange rate between RMB and HKD shall be ascertained on the basis of the average of the middle exchange rates as published by the People's Bank of China for the five trading days prior to the date of the annual general meeting.

As stipulated by the Notice on Issues relating to Enterprise Income Tax Withholding over Dividends Distributable to Their H-Share Holders Who are Overseas Non-resident Enterprises by Chinese Resident Enterprises published by the State Administration of Taxation (Guoshuihan [2008] No.897), when Chinese resident enterprises distribute annual dividends for the year 2008 and years thereafter to the shareholders of H shares who are overseas non-resident enterprises, enterprise income tax shall be withheld at a uniform rate of 10%. According to this, the Company is required to withhold corporate income tax at the rate of 10% before distributing the final dividend to non-resident enterprise shareholders as appeared on the H share register of members of the Company. Any shares registered in the name of the non-individual registered shareholders, including HKSCC Nominees Limited, other nominees, trustees or other groups and organizations, will be treated as being held by non-resident enterprise shareholders and therefore their dividends receivables will be subject to the withholding of the corporate income tax.

Pursuant to Notice on the Issues on Levy of Individual Income Tax after the Abolishment of Guo Shui Fa [1993] No. 045 Document issued by the State Administration of Taxation on 28 June 2011, the dividend to be distributed by the PRC non-foreign invested enterprises whose shares have been issued in Hong Kong to the overseas resident individual shareholders is subject to individual income tax with a tax rate of 10% in general. However, the tax rates for respective overseas resident individual shareholders may vary depending on the relevant tax agreements between the countries where they are residing and Mainland China. Pursuant to the aforesaid Notice, when the final dividend is distributed to the individual shareholders of H shares whose names appear on the H share register of members of the Company, the Company will withhold 10% of the final dividend as individual income tax unless otherwise specified by the relevant tax regulations, tax agreements or the Notice.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Saturday, 21 April 2012 to Tuesday, 22 May 2012 (both days inclusive). In order to qualify to attend the annual general meeting and to vote at the meeting, all instruments of transfer of the shareholders of H shares of the Company must be lodged at the H shares registrar of the Company at Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong no later than 4:30 p.m. on Friday, 20 April 2012.

The register of members of the Company will be closed from Monday, 28 May 2012 to Friday, 1 June 2012 (both days inclusive). In order to qualify to receive dividend payment, all instruments of transfer of the shareholders of H shares of the Company must be lodged at the H shares registrar of the Company at Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong no later than 4:30 p.m. on Friday, 25 May 2012.

BONUS ISSUE OF SHARES

The Company issued bonus shares to all Shareholders which was approved at the annual general meeting of the Company held on 13 May 2011 on the basis of: i) one bonus share for every share held by capitalization of retained earnings; and ii) one separate bonus issue of shares on the basis of every share by way of capitalization of the capital reserve. Upon completion of the bonus issue of shares on 20 May 2011, the share capital of the Company increased by 392,000,000 new shares. The Articles of Association of the Company (the "Articles of Association") has made amendments to reflect changes in the shareholding structure.

For details about the bonus issue of shares, please refer to the relevant announcements of the Company dated 17 March 2011 and 13 May 2011 and the circular of the Company dated 28 March 2011.

SHARE CAPITAL

The movement in the share capital of the Company during this year is in Note 15 to the consolidated financial statements.

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 (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

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 2011, the retained earnings attributable to owners of the Company was approximately RMB642,555,000 (31 December 2010 (Restated): approximately RMB700,596,000).

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 2.19, 25 and 30 to the consolidated financial statements.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2011, the Company had 1,827 employees (31 December 2010: 1,778 employees). Remunerations are determined with reference to market terms and the performance, qualifications and experience of individual employee. Discretionary bonuses based on individual performance will be paid to employees as recognition of and reward for their contributions. Other benefits include Company's contributions to the pension scheme, medical insurance scheme, unemployment insurance scheme, industrial accident insurance scheme, maternity insurance scheme and housing fund. The Company also has a senior management incentive plan ("Incentive Plan"). Based on the growth rate of the audited net profit attributable to owners of the Company as compared with last year, the Board shall appropriate certain funds in accordance with the pre-set percentage ratios and distribute to senior management. For details of the Incentive Plan, please refer to the circular of the Company dated 21 April 2011.

STAFF QUARTERS

During 2011:

1. the Company did not provide any staff quarters to its staff (2010: Nil);

2. the details of housing fund benefits provided by the Group to its staff are set out in Note 31 to the consolidated financial statements; and

3. the Company also provided housing subsidies to its staff at an average of RMB80 per person per month (2010: RMB80).

DIRECTORS AND SUPERVISORS

The Directors (the "**Directors**") and supervisors (the "**Supervisors**") of the Company who held office during 2011 and up to the date of this report were:

Executive Directors

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

Non-Executive Director

Ding Yong Ling (Vice-chairman, resigned as a non-executive director 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 in 2012.

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

DIRECTORS' AND SUPERVISOR S' INTERESTS IN CONTRACTS

None of the Directors and Supervisors 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 2011, the Company has not entered into nor there was any contract relating to the overall business or the management of material part of the business of the Company.

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 of Directors 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, except for 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 the independent non-executive Directors shall not be financially dependent on any listed Company. Therefore, 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 2011, Mr. Mei Qun, Mr. Yin Shun Hai, Mr. Wang Yu Wei, Ms. Fang Jia Zhi and Mr. Xie Zhan Zhong (each an executive Director), 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 in their capacity as Supervisors did not receive Supervisors' remuneration from the Company. Mr. Wang Yu Wei (executive Director), Ms. Fang Jia Zhi (executive Director), Ms. Ding Yong Ling (non-executive Director) and Ms. Wang Yan Rong (employee representative Supervisor), received remuneration from the Group in accordance with their respective management positions in the Group.

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 2011 and 2010 are set out in Note 29 to the consolidated financial statements.

DIRECTORS', SUPERVISORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES

As at 31 December 2011, 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 Stock Exchange pursuant to the standards of dealings 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	1,500,000	0.460%	0.255%
Mr. Mei Qun	Personal	Beneficial owner	1,500,000	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	116,550	0.009%
Mr. Mei Qun	Personal	Beneficial owner	93,242	0.007%

Note: All represented A shares.

Beijing Tong Ren Tang International Co., Limited

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

Save as disclosed above, as at 31 December 2011, 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 Stock Exchange pursuant to the standards of dealings by Directors as referred to in Appendix 10 of the Listing Rules.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2011, 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	300,000,000	92.013%	–	51.020%
Tong Ren Tang Holdings	Interest in a controlled corporation	300,000,000 *(Note 1)*	92.013%	–	51.020%
	Beneficial owner	4,740,000	1.454%	–	0.806%
Yuan Sai Nan	Beneficial owner	18,360,000(L) *(Note 2,3)*	–	7.009%	3.122%

Notes:

(1) *Such shares were held through Tong Ren Tang Ltd.. As at 31 December 2011, 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 300,000,000 shares of the Company held by Tong Ren Tang Ltd.*

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

(3) *As at 13 May 2011, 6,120,000 H shares were held by this shareholder. Upon completion of the bonus issue of shares by the Company on 20 May 2011, shares held by this shareholder increased from 6,120,000 H shares to 18,360,000 H shares.*

Save as disclosed above, as at 31 December 2011, 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, 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 the 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 fall below 30%.

The Company and the independent non-executive Directors have confirmed upon the review: during the year 2011, 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 2011.

4 We also agree that this confirmation be published in the Company's annual report.

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.
16 March 2012

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 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 2011.

4 We also agree that this confirmation be published in the Company's annual report.

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
16 March 2012

CONTINUING CONNECTED TRANSACTIONS

Continuing Connected Transactions with Tong Ren Tang Holdings

(i) Land Use Right Leasing Agreement

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 for a term of 20 years from 6 October 2000 to 5 October 2020. 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: 43,815.15sq.m.) from Tong Ren Tang Holdings for operating purposes. The rental for leasing based on the rate of RMB53.95 per sq.m and is payable in cash on the 20th day of December of each year. The annual cap of the rental fee for each of the three years ending 31 December 2013 was RMB3,000,000.

In 2011, the rental fee paid by the Company to Tong Ren Tang Holdings amounted to RMB2,364,000, which was under the annual cap.

(ii) Storage and Custody Agreement

On 18 January 2011, the Company entered into the storage and custody agreement with Tong Ren Tang Holdings for a term of three years from 1 January 2011, whereby Tong Ren Tang Holdings agreed to provide storage and custody services to the Company. The annual storage fee is determined by reference to the annual rate of RMB252 per sq.m and the actual leased storage area by the Company and the annual storage fee is payable in cash in two installments. The annual cap of the storage fee for each of the three years ending 31 December 2013 was RMB7,000,000.

In 2011, the storage fee paid by the Company to Tong Ren Tang Holdings amounted to RMB2,916,000, which was under the annual cap.

(iii) Distribution Framework Agreement

On 18 January 2011, the Company entered into the distribution framework agreement with Tong Ren Tang Holdings for a term of three years from 1 January 2011, whereby the Company may sell its products to Tong Ren Tang Holdings or any of its subsidiaries, joint ventures and associated companies (excluding the Company) which it directly or indirectly hold interest in (the "Tong Ren Tang Group"). The purchase price payable by the Tong Ren Tang Group to the Group shall be no less than that charged by the Group to other independent third parties. The annual caps for the transactions under the distribution framework agreement shall be RMB350,000,000, RMB480,000,000 and RMB650,000,000 for the three years ending 31 December 2013, respectively.

In 2011, the Group sold products of RMB260,530,000 via the Tong Ren Tang Group, which was under the annual cap.

(iv) Master Procurement Agreement

On 28 February 2011, the Company entered into the master procurement agreement with Tong Ren Tang Holdings for a term of three years from 1 January 2011, whereby the Group may purchase the raw materials and semi-finished products and products for manufacturing and distribution from the Tong Ren Tang Group. The price for the Products procured by the Group from the Tong Ren Tang Group shall be negotiated by the parties on an arm's length basis. Tong Ren Tang Group shall not supply the Products to members of the Group (1) at a price higher than that of the products of the same type and quality offered to the Group by independent third parties or the prevailing market price; (2) if there is not any comparable market price available for the relevant materials/products, the price shall be determined based on the integrated cost plus not more than 15% surcharge, and in any event, the price for such procurement shall be no less favourable than terms offered by independent third parties to the Group. The annual caps for the purchase of the raw materials and semi-finished products were RMB30,000,000, RMB30,000,000 and RMB25,000,000 for the three years ending 31 December 2013, and for the purchase of the products were RMB35,000,000, RMB35,000,000 and RMB40,000,000, respectively.

In 2011, the Group purchased the raw materials and semi-finished products and the products of RMB18,009,000 and RMB31,622,000 from the Tong Ren Tang Group respectively, which were under the annual caps

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 18 January 2011 and 28 February 2011.

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 for a term of three years from 1 January 2010. 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 overseas distribution agreement were RMB4,500,000, RMB4,800,000 and RMB5,000,000 for each of the three financial years ending 31 December 2012, respectively. On the same date, Tong Ren Tang Ltd. entered into the Overseas Distribution Agreement with Tong Ren Tang Chinese Medicine for a term of three years from 1 January 2010. 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 cap for the Tong Ren Tang overseas distribution agreement were RMB17,000,000, RMB19,000,000 and RMB21,000,000 for each of the three financial years ending 31 December 2012, respectively.

In 2011, the Company and Tong Ren Tang Ltd. paid Tong Ren Tang Chinese Medicine an agency fee of RMB2,772,000 and RMB17,551,000 respectively, which were under the annual caps.

Tong Ren Tang Chinese Medicine is a non-wholly owned subsidiary of the Company. It is owned as to 53.09% by the Company and 46.91% by Tong Ren Tang Ltd. which is a holding company of the Company, and thus Tong Ren Tang Chinese Medicine and Tong Ren Tang Ltd. were connected persons 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.

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 unqualified letter containing the findings and conclusions in respect of the continuing connected transactions during 2011 disclosed by the Group above in accordance with paragraph 14A.38 of the Listing Rules.

The independent non-executive Directors of the Company has reviewed the aforementioned continuing connected transactions and confirmed that during 2011:

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

(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 Group 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; and

(iv) the aggregate amount of each of these transactions has not exceeded the aggregate amount of annual caps as approved by the Stock Exchange.

Connected Transactions

Increase the Registered Capital 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 September 2011, the Company, Tangshan Jiayi Packaging Industries Co., Ltd (唐山佳億包裝工業有限公司) ("Tangshan Jiayi"), Bozhou Jingqiao Medicine Co., Ltd (亳州市京譙醫藥有限責任公司) ("Jingqiao Medicine") and Tong Ren Tang Chinese Medicine entered into the capital increase agreement, pursuant to which the parties contributed RMB200,000, RMB3,000,000, RMB200,000 and RMB46,600,000 respectively, to increase RMB50,000,000 in the registered capital of Tangshan Company for the purpose of construction of production plant and purchase of equipment. Upon completion of the capital increase, the registered capital of Tangshan Company will be RMB120,000,000, and the Tangshan Company will be owned as to 6%, 20%, 6% and 68% by the Company, Jiayi Packaging, Jingqiao Medicine and Tong Ren Tang Chinese Medicine, respectively.

Tong Ren Tang Chinese Medicine is a 53.09%-owned subsidiary of the Company and is also a 46.91%-owned company of Tong Ren Tang Ltd., the controlling shareholder of the Company whereas Tangshan Company is a 50%-owned subsidiary of Tong Ren Tang Chinese Medicine as at the date of entering into the transaction; thus, Tong Ren Tang Chinese Medicine and Tangshan Company are connected persons of the Company under the Listing Rules and the transaction constitute connected transaction of the Company. For details about the transaction, please refer to the relevant announcement of the Company dated 22 September 2011.

Save as disclosed above, there is no related party transaction set out in note 34 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 2011, 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 existing shareholders.

INDEPENDENT AUDITOR

The accompanying financial statements were audited by PricewaterhouseCoopers. The Company did not change of 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 2012 is to be proposed at the forthcoming annual general meeting.

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

Beijing, the PRC
16 March 2012

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 Board of 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 2011 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
16 March 2012

Corporate Governance Report

The Board of Directors believes that a good and steady framework of corporate governance is extremely important for the development of the Company. For the year ended 31 December 2011, the Company complied with all the code provisions in the Code on Corporate Governance Practices (the "Practices Code") as set out in Appendix 14 to the Listing Rules.

The Company has adopted the principles in the Practices Code 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 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 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 Model Code and the Code on Dealing in Securities of the Company during 2011.

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 of Directors 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 Listing Rules and other related regulations, the Board and the Committees should work under the well-established written terms of reference.

The Board of Directors convenes its plenary meeting at least once a quarter or when significant decision has to be made. The Board of Directors convened five meetings in 2011 to discuss and decide development strategies, major operational matters, financial matters and other matters as stipulated under the Articles of Association. The following table sets out the attendance of Directors at meetings of the Board of Directors and the Committees meeting in 2011:

	Attendance/Number of meetings			
Directors	**Board of Directors**	**Audit Committee**	**Remuneration Committee**	**Nomination Committee**
Executive Directors				
Mei Qun	5/5		1/1	1/1
Yin Shun Hai	5/5			
Wang Yu Wei	5/5			
Fang Jia Zhi	5/5			
Xie Zhan Zhong	5/5			

Directors	Board of Directors	Attendance/Number of meetings Audit Committee	Remuneration Committee	Nomination Committee
Non-executive Director				
Ding Yong Ling (resigned on 17 March 2011)	3/5			
Independent non-executive Directors				
Tam Wai Chu, Maria	5/5	2/2		1/1
Ting Leung Huel, Stephen	5/5	2/2	1/1	
Jin Shi Yuan	5/5	2/2	1/1	1/1

Note: Ms. Ding Yong Ling resigned as a non-executive Director on 17 March 2011. She attend all the meeting Board of Directors before resigned.

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 Directors of the Board of the Company were elected at the general meetings in 2009 and 2010. Their term of office will end upon the conclusion of the general meeting in 2012. Ms. Ding Yong Ling resigned as a non-executive Director on 17 March 2011.

As at 31 December 2011, 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, and three independent non-executive Directors, Miss Tam Wai Chu, Maria, Mr. Ting Leung Huel, Stephen and Mr. Jin Shi Yuan and the chairman of the Board is Mr. Mei Qun. With solid experience in business and finance, they make recommendations to the Board of Directors and senior management on the development of the Company, and provide balancing mechanism to protect the wealth of shareholders and the Company.

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 2011, at any time the Board of Directors fulfilled the minimum requirement of appointing at least three independent non-executive Directors as required by the 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 of Directors 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 of Directors 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 of Directors 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 of Directors 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 of Directors assesses the internal control system annually, through its chief auditor, designated internal audit department and the Audit Committee, reviewing the effectiveness of the Company's internal control system covering financial, operational, compliance and risk management processes. The Board of Directors is satisfied that the Company's internal control system is working effectively and on an ongoing basis.

AUDIT COMMITTEE

Pursuant to the Practices Code 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 Practices Code 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 completeness and feasibility of 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 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 2011, the Audit Committee had conducted two meetings. The first meeting was held on 9 March 2011 to review and discuss the operating results, financial position, major accounting policies in respect of the audited financial statements of the Company for the year ended 31 December 2010, as well as matters in relation to risk management, legal compliance and internal audit, and to listen to the result of audit by the auditors. The committee concluded the meeting with agreement to the contents of the relevant annual report. The second meeting was held on 11 August 2011 to review and discuss the operating results, financial position and major accounting policies in respect of the unaudited financial statements of the Company for the six months ended 30 June 2011, as well as matters in relation to risk management, legal compliance and internal audit. The committee concluded the meeting with agreement to the contents of the relevant interim report.

The Audit Committee held a meeting on 13 March 2012 to review and discuss the operating results, financial position, major accounting policies in respect of the audited financial statements of the Company for the year ended 31 December 2011, as well as matters in relation to risk management, legal compliance and internal audit, and to listen to the result of audit by the auditors. The committee concurred in the contents of the relevant annual report.

REMUNERATION COMMITTEE

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

The previously Chairman of the Remuneration Committee was Mr. Mei Qun. Mr. Jin Shi Yuan who is an independent non-executive Director was appointed the Chairman of the Remuneration Committee with effect from 16 March 2012. The Remuneration Committee also comprises of one executive Director, Mr. Mei Qun, and two independent non-executive Directors, Mr. Ting Leung Huel, Stephen and Mr. Jin Shi Yuan, which is in compliance with the requirement of the Listing Rules that independent non-executive Directors should form the majority of the remuneration committee.

During the year of 2011, one meeting has been conducted by the Remuneration Committee. On 9 March 2011, the Remuneration Committee reviewed and discussed the Directors', Supervisors' and senior management' emoluments for the year ended 31 December 2010.

NOMINATION COMMITTEE

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

i. reviewing the framework, size and composition of the Board of Directors including skill, knowledge and professional knowledge and making proposals to the Board of Directors in respect of any changes regularly; and

ii. identifying suitable persons for appointment of Director and making proposals to the Board of Directors in respect of any selecting of Director.

The Nomination Committee is chaired by Mr. Mei Qun, the chairman of the Board of Directors and the Committee also comprises of two independent non-executive Directors, Ms. Tam Wai Chu, Maria and Mr. Jin Shi Yuan, which is in compliance with the requirement of 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 of the Main Board shall be considered while reviewing the independence of the non-executive directors.

During 2011, one meeting has been conducted by the Nomination Committee. On 9 March 2011, the Nomination 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 2011. Other than annual auditing services, PwC did not provide non-auditing services to the Company or any company of the Group during the year.

The independent auditor's remuneration for year ended 31 December 2011 is set out in section "auditor's remuneration" of Note 25 to the consolidated financial statements. Besides, the Company paid for auditor's expenses of lodging, meals and traveling during the period the auditing services were provided.

SHAREHOLDERS AND GENERAL MEETINGS

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

During the reporting period, the 2011 extraordinary general meeting held at No. 52 Dong Xing Long Street, Dong Cheng District, Beijing, the PRC on 14 March 2011, and the annual general meeting, the H share class meeting and the domestic share class meeting were held at No. 52 Dong Xing Long Street, Dong Cheng District, Beijing, the PRC on 13 May 2011. The percentage of the votes for approving the related resolutions proposed are as follows:

The Extraordinary General Meeting

Ordinary Resolution

To consider and, if thought fit, to approve "THAT, the distribution framework agreement dated 18 January 2011 and entered into between the Company and Tong Ren Tang Holdings, and the annual caps for the three years ending 31 December 2013 for the transactions contemplated thereunder are hereby approved, ratified and confirmed; and THAT any one Director of the Company be and is hereby authorized to sign or execute such other documents or supplemental agreements or deeds on behalf of the Company and to do all such things and take all such actions as he may consider necessary or desirable for the purpose of giving effect to the Distribution Framework Agreement and completing the transactions contemplated thereunder with such changes as he may consider necessary, desirable or expedient." (100% voted for the resolution)

As more than 50% of the votes were cast in favour of this resolution, the resolution was duly passed as an ordinary resolution.

The Annual General Meeting

Ordinary Resolutions

1. To consider and, if thought fit, to approve the audited consolidated financial statements of the Company for the year ended 31 December 2010. (100% voted for the resolution)

2. To consider and, if thought fit, to approve the report of the Board of Directors of the Company for the year ended 31 December 2010. (100% voted for the resolution)

3. To consider and, if thought fit, to approve the report of the Supervisory Committee of the Company for the year ended 31 December 2010. (100% voted for the resolution)

4. To consider and, if thought fit, to approve the proposal for payment of a cash dividend of RMB0.48 per share (tax inclusive). (100% voted for the resolution)

5. To consider and, if thought fit, to approve the reappointment of PricewaterhouseCoopers as the auditor of the Company for the year ending 31 December 2011 and to authorize the Audit Committee under the Board of Directors of the Company to fix its remuneration. (100% voted for the resolution)

6. To consider and, if thought fit, to approve the incentive plan of the Company for the members of the senior management of the Company, and to authorize the Board of Directors of the Company to establish the relevant detailed administrative measures for the Incentive Plan and implement the Incentive Plan accordingly. (100% voted for the resolution)

As more than 50% of the votes cast were in favour of these resolutions, these resolutions were duly passed as ordinary resolutions.

Special Resolutions

7. To consider and, if thought fit, to approve the proposed bonus issue of shares on the basis of two Bonus Shares (as defined in the circular dated 28 March 2011 of the Company) for every share held, and to authorize any one director of the Company to take any action and execute any document as he thinks necessary or fit to effect and implement the bonus issue of shares. (100% voted for the resolution)

8. To consider and, if thought fit, to approve a general mandate to the Board of Directors of the Company to issue, allot and deal with additional shares. (92.80% voted for the resolution)

As more than two-thirds of the votes cast were in favour of these resolutions, these resolutions were duly passed as special resolutions.

The H Share Class Meeting

Special Resolution

To consider and, if thought fit, to approve the proposed bonus issue of shares on the basis of two Bonus Shares (as defined in the circular dated 28 March 2011 of the Company) for every share held, and to authorize any one director of the Company to take any action and execute any document as he thinks necessary or fit to effect and implement the bonus issue of shares. (71.41% voted for the resolution)

As more than two-thirds of the votes cast were in favour of the resolution, the resolution was duly passed as a special resolution.

The Domestic Share Class Meeting

Special Resolution

To consider and, if thought fit, to approve the proposed bonus issue of shares on the basis of two Bonus Shares (as defined in the circular dated 28 March 2011 of the Company) for every share held, and to authorize any one director of the Company to take any action and execute any document as he thinks necessary or fit to effect and implement the bonus issue of shares. (100% voted for the resolution)

As more than two-thirds of the votes cast were in favour of the resolution, the resolution was duly passed as a special resolution.

All resolutions proposed at the extraordinary general meeting, the annual general meeting, the H share class meeting and the domestic share class meeting were passed and their poll results were published on the website of the Company and the website of the 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 annual general meeting provides an opportunity for communication between the Board and the Company's shareholders. The Company regards the of Directors 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 annual general meeting or extraordinary general meeting about corporate business and prospects.

Enquiries may be put to the Board of Directors by contacting either the Company Secretary through telephone, e-mail or directly by questions at an annual general meeting or an extraordinary general meeting.

Directors, Supervisors and Senior Management

EXECUTIVE DIRECTORS

Mr. Mei Qun, aged 55, 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 and Shen Rong Investment 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 Tong Ren Tang Ltd., the chairman of Beijing Tong Ren Tang Traditional Chinese Medicine Hospital and a director of Beijing Tong Ren Tang International Co., Ltd.. He is the vice president of Chinese Society of Traditional Chinese Medicine, a standing committee member of Beijing Pharmaceutical Association, an executive committee member of Beijing Trade and Industry Association, the vice president of Beijing Enterprise Confederation, the vice president of Chongwen General Chamber of Commerce, a member of China Council for the Promotion of International Trade and a standing committee member of China Association of Trade in Services. He was also a delegate to the Beijing's 13th National People's Congress ("NPC"), a delegate to the Chongwen's 12th, 13th and 14th NPC, and the Dongcheng's 15th NPC. He is responsible for the overall decision-making of the Company. He is one of the sponsors 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.

Mr. Yin Shun Hai, aged 58, is a senior economist with a postgraduate qualification. He was formerly the factory manager of Factory 2 of Tong Ren Tang Pharma, the deputy general manager and general manager of Tong Ren Tang Holdings, and the chairman of the Company. He is currently the chairman and the secretary to the Party Committee of Tong Ren Tang Holdings, the vice-chairman of Tong Ren Tang Ltd., the chairman of Beijing Tong Ren Tang International Co., Limited, the chairman of Tong Ren Tang Chinese Medicine, the vice president of Patent Protection Association of China, an executive member of the 9th All-China Federation of Industry & Commerce and a delegate to the 11th Beijing's Chinese People's Political & Consultative Conference ("CPPCC"). He is one of the sponsors 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.

Mr. Wang Yu Wei, aged 44, 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 Factory 2 of Beijing Tong Ren Tang Pharma, the assistant to the general manager and the deputy general manager of the Company. He is currently the general manager of the Company and the chairman of Beijing Tong Ren Tang Nansanhuan Zhonglu Drugstore Co., Limited. He is also a delegate to the Fengtai District's 14th and 15th NPC of Beijing. Mr. Wang was appointed as an executive Director on 25 June 2009.

Ms. Fang Jia Zhi, aged 45, 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 59, 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.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Miss. Tam Wai Chu, Maria, aged 66, GBS, JP, LL.D (Honoris Causa), 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 Deputy to the NPC of the PRC 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.

Mr. Ting Leung Huel, Stephen, MH, FCCA, FCPA (Practising), ACA, CTA(HK), FHKIoD, aged 58. He is a non-executive Director of Chow Sang Sang Holdings International Limited and an independent non-executive Director of six listed companies namely Tongda Group Holdings Limited, Minmetals Resources Limited, JLF Investment Company Limited, Computer And Technologies Holdings Limited, Texhong Textile Group Limited, Dongyue Group Limited and China SCE Property Holdings Limited respectively. Save as disclosed above, Mr. Ting was an independent non-executive director of Minmetals Resources Limited, a listed company in Hong Kong until 29th November 2011. Mr. Ting is a member of the 9th and 10th CPPCC, 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.

Mr. Jin Shi Yuan, aged 85, 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.

SUPERVISORS

Mr. Zhang Xi Jie, aged 57, chief supervisor 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 Holdings Co., Ltd., director of Beijing Tong Ren Tang Health Pharmaceutical Co., Ltd., Beijing Tong Ren Tang Pharmaceutical Co., Ltd. and Beijing Tong Ren Tang Biological Product Development 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 53, 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.

Ms. Wang Yan Rong, aged 50, 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 52, is a deputy chief pharmacist with MBA. He formerly served as the head of the foreign economic relations and trade section of Factory 2 of Tong Ren Tang Pharma, the assistant to the factory manager, the deputy factory manager, the deputy factory manager of pharmaceuticals factory of Tong Ren Tang Ltd. and the factory manager of southern pharmaceuticals branch factory of Tong Ren Tang Ltd.. He is currently the deputy general manager of the Company.

Mr. Li Da Ming, aged 53, 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, 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 47, is a senior engineer and a licensed pharmacist with a postgraduate qualification. She formerly served as the deputy head of the Technology Section, assistant to the factory manager and the deputy factory manager of Factory 2 of Beijing Tong Ren Tang Pharma, the assistant to the general manager and the deputy general manager of the Company. She is currently the chief engineer of the Company.

Ms. Liu Cun Ying, aged 47, 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 47, 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 38, is a licensed pharmacist with a master degree in Economics. She formerly served as a securities representative of Tong Ren Tang Ltd.. She is currently the secretary to the Company's Board of Directors and the Company secretary.

Independent Auditor's Report

pwc 羅兵咸永道

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 118, which comprise the consolidated and company balance sheets as at 31 December 2011, 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.

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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 at 31 December 2011, 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,
16 March 2012

Balance Sheets

As of 31 December 2011

	Note	The Group 2011 RMB'000	The Group 2010 RMB'000 (Restated)	The Company 2011 RMB'000	The Company 2010 RMB'000 (Restated)
ASSETS					
Non-current assets					
Leasehold land and land use rights	6	**143,879**	45,841	**97,809**	22,655
Property, plant and equipment	7	**434,341**	392,582	**236,140**	229,593
Investments in subsidiaries	8	**–**	–	**215,845**	200,946
Investments in joint ventures	9	**–**	–	**2,000**	10,953
Investment in an associate	10	**1,554**	2,892	**–**	–
Prepayments		**–**	29,048	**–**	–
Deferred income tax assets	14	**18,901**	9,056	**8,356**	5,037
Other long-term assets		**293**	531	**256**	380
		598,968	479,950	**560,406**	469,564
Current assets					
Inventories	13	**1,328,034**	957,134	**1,265,543**	913,091
Trade and bills receivables, net	12	**142,857**	155,229	**123,913**	147,235
Amounts due from related parties	34(d)	**16,701**	18,871	**8,881**	15,936
Prepayments and other current assets		**50,217**	30,261	**32,273**	14,809
Short-term bank deposits	32	**9,407**	96,529	**–**	90,000
Cash and cash equivalents	32	**671,695**	441,108	**489,737**	289,482
		2,218,911	1,699,132	**1,920,347**	1,470,553
Total assets		**2,817,879**	2,179,082	**2,480,753**	1,940,117
EQUITY					
Equity attributable to owners of the Company					
Share capital	15	**588,000**	196,000	**588,000**	196,000
Reserves	16				
– Proposed final dividends	28	**111,720**	486,080	**111,720**	486,080
– Other reserves		**1,019,168**	880,847	**972,341**	854,872
		1,718,888	1,562,927	**1,672,061**	1,536,952
Non-controlling interests		**220,182**	177,500	**–**	–
Total equity		**1,939,070**	1,740,427	**1,672,061**	1,536,952

The accompanying notes on pages 55 to 118 are an integral part of these financial statements.

Balance Sheets (Cont'd)

As of 31 December 2011

	Note	The Group 2011 RMB'000	The Group 2010 RMB'000 (Restated)	The Company 2011 RMB'000	The Company 2010 RMB'000 (Restated)
LIABILITIES					
Non-current liabilities					
Deferred income tax liabilities	14	**5,139**	5,251	**–**	–
Deferred income – government grants	18	**52,185**	25,037	**35,050**	24,574
		57,324	30,288	**35,050**	24,574
Current liabilities					
Trade payables	20	**466,483**	212,463	**441,202**	199,938
Salary and welfare payables	21	**3,574**	5,117	**507**	3,038
Advances from customers		**86,194**	48,999	**75,202**	43,389
Amounts due to related parties	34(d)	**37,092**	17,380	**16,033**	10,148
Amounts due to subsidiaries		**–**	–	**41,696**	11,983
Current income tax liabilities		**19,804**	12,018	**8,693**	6,296
Accrued expenses and other current liabilities		**83,338**	97,390	**65,309**	88,799
Short-term borrowings	19	**125,000**	15,000	**125,000**	15,000
		821,485	408,367	**773,642**	378,591
Total liabilities		**878,809**	438,655	**808,692**	403,165
Total equity and liabilities		**2,817,879**	2,179,082	**2,480,753**	1,940,117
Net current assets		**1,397,426**	1,290,765	**1,146,705**	1,091,962
Total assets less current liabilities		**1,996,394**	1,770,715	**1,707,111**	1,561,526

Mei Qun
Director

Fang Jia Zhi
Director

The accompanying notes on pages 55 to 118 are an integral part of these financial statements.

Consolidated Income Statement

For the year ended 31 December 2011

	Note	2011 RMB'000	2010 RMB'000 (Restated)
Revenue	22	**1,936,418**	1,578,914
Cost of sales		**(998,926)**	(817,470)
Gross profit		**937,492**	761,444
Distribution costs		**(402,221)**	(352,797)
Administrative expenses		**(184,859)**	(146,398)
Other losses – net	23	**(17,958)**	–
Operating profit		**332,454**	262,249
Finance income – net	24	**4,781**	4,933
Share of loss of an associate	10	**(1,338)**	(388)
Profit before income tax	25	**335,897**	266,794
Income tax expense	26	**(54,444)**	(42,068)
Profit for the year		**281,453**	224,726
Profit attributable to:			
Owners of the Company		**254,687**	197,978
Non-controlling interests		**26,766**	26,748
		281,453	224,726
Earnings per share for profit attributable to owners of the Company during the year	27		
– Basic		**RMB 0.43**	RMB 0.34
– Diluted		**RMB 0.43**	RMB 0.34

The accompanying notes on pages 55 to 118 are an integral part of these financial statements.

	Note	2011 RMB'000	2010 RMB'000
Dividends	28	**111,720**	486,080

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2011

	2011 RMB'000	2010 RMB'000 (Restated)
Profit for the year	**281,453**	224,726
Other comprehensive expense:		
Foreign currency translation differences	**(13,355)**	(1,651)
Other comprehensive expense for the year, net of tax	**(13,355)**	(1,651)
Total comprehensive income for the year	**268,098**	223,075
Attributable to:		
Owners of the Company	**248,176**	197,948
Non-controlling interests	**19,922**	25,127
Total comprehensive income for the year	**268,098**	223,075

The accompanying notes on pages 55 to 118 are an integral part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2011

	Attributable to owners 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 differences	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 2010, as previously stated	196,000	355,309	153,027	45,455	102,043	(15,620)	19,458	621,123	1,476,795	144,402	1,621,197
Adjustment for Adoption of amendment to IFRS 1 (Note 17)	–	15,835	–	–	–	–	–	(11,561)	4,274	–	4,274
Balance as of 1 January 2010, as restated	196,000	371,144	153,027	45,455	102,043	(15,620)	19,458	609,562	1,481,069	144,402	1,625,471
Profit for the year	–	–	–	–	–	–	–	197,978	197,978	26,748	224,726
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 to shareholders of the Company of 2009	–	–	–	–	–	–	–	(88,200)	(88,200)	–	(88,200)
Dividends paid to non-controlling interests of 2009	–	–	–	–	–	–	–	–	–	(6,195)	(6,195)
Partial disposal of equity interest in a subsidiary	–	–	–	–	–	(256)	(898)	(102)	(1,256)	1,256	–
Business combinations under common control	–	–	–	–	–	(1,103)	(22,632)	3,494	(20,241)	5,282	(14,959)
Cost incurred for an intended listing of a subsidiary during current year	–	–	–	–	–	–	(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, as restated	196,000	371,144	170,633	45,455	102,043	(17,009)	(5,935)	700,596	1,562,927	177,500	1,740,427

The accompanying notes on pages 55 to 118 are an integral part of these financial statements.

Consolidated Statement of Changes in Equity (Cont'd)

For the year ended 31 December 2011

	Attributable to owners 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 differences	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 2011, as previously stated	**196,000**	**355,309**	**170,633**	**45,455**	**102,043**	**(17,009)**	**(5,935)**	**712,521**	**1,559,017**	**177,500**	**1,736,517**
Adjustment for Adoption of amendment to IFRS 1 (Note 17)	–	15,835	–	–	–	–	–	(11,925)	3,910	–	3,910
Balance as of 1 January 2011, as restated	**196,000**	**371,144**	**170,633**	**45,455**	**102,043**	**(17,009)**	**(5,935)**	**700,596**	**1,562,927**	**177,500**	**1,740,427**
Profit for the year	–	–	–	–	–	–	–	254,687	254,687	26,766	281,453
Foreign currency translation differences	–	–	–	–	–	(6,511)	–	–	(6,511)	(6,844)	(13,355)
Capital injection to the newly formed subsidiaries	–	–	–	–	–	–	–	–	–	2,478	2,478
Dividends paid to shareholders of the Company of 2010	392,000	(196,000)	–	–	–	–	–	(290,080)	(94,080)	–	(94,080)
Dividends paid to non-controlling interests of 2010	–	–	–	–	–	–	–	–	–	(2,085)	(2,085)
Business combination (Notes 33)	–	–	–	–	–	–	–	–	–	20,720	20,720
Cost incurred for an intended listing of a subsidiary transfer out from reserve	–	–	–	–	–	–	1,865	–	1,865	1,647	3,512
Appropriation from retained earnings	–	–	22,648	–	–	–	–	(22,648)	–	–	–
Balance as of 31 December 2011	**588,000**	**175,144**	**193,281**	**45,455**	**102,043**	**(23,520)**	**(4,070)**	**642,555**	**1,718,888**	**220,182**	**1,939,070**

The accompanying notes on pages 55 to 118 are an integral part of these financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 December 2011

	Note	2011 RMB'000	2010 RMB'000
Cash flows from operating activities:			
Cash generated from operations	32	**317,322**	310,757
Interest paid		**(4,281)**	(721)
Income tax paid		**(57,211)**	(43,199)
Net cash generated from operating activities		**255,830**	266,837
Cash flows from investing activities:			
Purchase of property, plant and equipment		**(91,387)**	(32,277)
Purchases of land use rights		**(75,956)**	–
Purchase of other long-term assets		**–**	(504)
Deposit for purchase of land use rights		**–**	(24,873)
Proceeds from government grants relating to land use rights		**25,993**	–
Proceeds from disposal of property, plant and equipment		**1,340**	251
Proceeds from short-term bank deposits		**96,529**	54,021
Increase in short-term bank deposits		**(9,407)**	(96,529)
Payment for business combinations under common control		**–**	(14,959)
Investment in an associate		**–**	(3,280)
Acquisition of subsidiaries achieved in stage, net of cash acquired	32	**16,855**	–
Acquisition of additional equity interests in a subsidiary from non-controlling interests		**–**	(21,000)
Interest received		**9,431**	6,466
Net cash used in investing activities		**(26,602)**	(132,684)
Cash flows from financing activities:			
Proceeds from short-term borrowings		**125,000**	15,000
Repayments of short-term borrowings		**(15,000)**	(15,000)
Capital injection from non-controlling interests		**2,478**	29,906
Cost incurred for an intended listing of a subsidiary during current year		**(12,259)**	(3,512)
Distribution by the acquired business before the business combinations under common control		**–**	(5,681)
Dividends paid to shareholders of the Company		**(94,080)**	(88,200)
Dividends paid to non-controlling interests		**(2,085)**	(6,195)
Net cash generated from/(used in) financing activities		**4,054**	(73,682)
Net increase in cash and cash equivalents		**233,282**	60,471
Cash and cash equivalents at beginning of the year		**441,108**	379,926
Exchange (losses)/gains on cash and cash equivalents		**(2,695)**	711
Cash and cash equivalents at end of the year	32	**671,695**	441,108

The accompanying notes on pages 55 to 118 are an integral part of these financial statements.

Notes to the Consolidated Financial Statements

31 December 2011

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, 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.

On 20 May 2011, the Company distributed a bonus issue to all shareholders on the basis of 1 bonus share for every share, held by capitalisation of retained earnings, and a separate bonus issue of shares on the basis of 1 share for every share by way of capitalisation of the capital reserve, totalling RMB392,000,000. As of 31 December 2011, the registered share capital of the Company was RMB588,000,000, representing 326,040,000 Domestic shares and 261,960,000 H shares with a par value of RMB1 per share.

On 20 October 2010, a 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 is regarded as business combinations under common control.

These consolidated financial statements have been approved for issue by the Board of Directors on 16 March 2012.

1. GENERAL INFORMATION (CONT'D)

As of 31 December 2011, 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	Production and sales of Chinese medicine Hong Kong, PRC
Beijing Tong Ren Tang Nansanhuan Zhonglu Drugstore Co., Limited ("Nanshanhuan 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*

Notes to the Consolidated Financial Statements

31 December 2011

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 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 Beijing, PRC
Beijing Tong Ren International Natural-Pharm Company Limited ("International Pharm")	Beijing, PRC 6 March 2006 Limited liability company	100%	HK$10,000,000	Development, sales and distribution of Chinese medicine 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, healthcare 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	Wholesale and retail of Chinese medicine, healthcare 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 healthcare products Bandar 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, healthcare 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

* *Shares directly held by the Company*
** *10% of which 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 (Macau) Company Limited ("Tong Ren Tang Macau")	Macau, PRC 14 May 2003 Limited liability company	51%	MOP1,000,000	Wholesale and retail of Chinese medicine, healthcare products and provision of Chinese medicine consultation and treatment Macau, PRC
Beijing Tong Ren Tang Gulf FZLLC ("Tong Ren Tang Dubai")	Dubai, United Arab Emirates 8 June 2011	51%	AED2,920,000	Retail of Chinese medicine, healthcare products and provision of Chinese medical consultation and treatment Dubai, United Arab Emirates
Beijing Tong Ren Tang Consulting Service Ltd ("Tong Ren Tang Consulting Service")	Beijing, PRC 30 March 2010 Limited liability company	100%	RMB600,000	Provision of trading consultation and services Beijing, PRC

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 2011, 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 Bozhou Chinese Medicinal Raw Materials and Logistics Co., Limited ("Tong Ren Tang Bozhou")	Anhui, PRC 12 July 2011 Limited liability company	40%*	RMB5,000,000	Purchasing, processing and selling of Chinese medicinal raw materials, storage and logistics
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, healthcare products and provision of Chinese medicine consultation and treatment

* *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 Tang Canada Co., Ltd. ("Tong Ren Tang Canada")	Vancouver, Canada 11 January 2002 Limited liability company	51%	CAD100	Retail of Chinese medicine, healthcare 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 healthcare 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, healthcare 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 healthcare products
Beijing Tong Ren Tong (Thai Boon Roong) Company Limited ("Tong Ren Tang Thai Boon Roong")	Phnom Penh, Cambodia 29 December 2005 Limited liability company	51%	USD500,000	Retail of Chinese medicine and healthcare 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 2011, 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 2011

- Amendment to IFRS 1, Limited exemption from comparative IFRS 7 disclosures for first-time adopters
- IAS 24 (Revised), 'Related party disclosures'
- IAS 32 (Amendment), 'Classification of rights issue'
- Amendment to IFRIC – Int 14, 'Prepayments of a minimum funding requirement'
- IFRIC – Int 19, 'Extinguishing financial liabilities with equity instruments'
- IASB's annual improvements project published in May 2010
  - IFRS 1 (Amendment), 'First time Adoption of International Financial Reporting Standards'
  - IFRS 3 (Amendment), 'Business combinations'
  - IFRS 7 (Amendment), "Financial instruments: Disclosures"
  - IAS 1 (Amendment), "Presentation of financial statements"
  - IAS 27 (Amendment), 'Consolidated and separate financial statements'
  - IAS 34 (Amendment), "Interim financial reporting"
  - IFRIC – Int 13 (Amendment), "Customer loyalty programmes"

The International Accounting Standards Board ("IASB") issued the amendment to Appendix D of IFRS 1 "First-time Adoption of International Financial Reporting Standards" in May 2010. With this amendment, a first-time adopter ("FTA") may elect to use event-driven (such as privatisation or initial public offering) fair values under previous accounting standards as its deemed costs under International Financial Reporting Standards ("IFRS"), provided that the revaluation took place at periods before or during the FTA's first set of IFRS financial statements. An entity shall apply those amendments for annual periods beginning on or after 1 January 2011.

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 2011 (Cont'd)

The amendment can be applied by existing IFRS preparers retrospectively in the first annual period after the amendment is effective.

The Group had established a deemed cost in accordance with Chinese Accounting Standards and Interpretations ("CAS") for assets and liabilities by measuring them at fair values during the privatisation in 2000. Those revaluation surplus were reversed under IFRS, causing a GAAP difference.

In order to eliminate this GAAP difference of the financial information prepared under CAS and IFRS, the Group has adopted the IFRS 1 (Amendment) from 1 January 2011 and has applied it retrospectively.

Details of the adjustment for adoption of amendment to IFRS 1 on the Group's financial position as at 31 December 2011 and 2010 and the Group's results for the years then ended are set out in Note17.

IAS 24 (Revised), 'Related party disclosures' (effective 1 January 2011). The amendment introduces an exemption from all of the disclosure requirements of IAS 24 for transactions among government-related entities and the government. Those disclosures are replaced with a requirement to disclose the name of the government and the nature of their relationship; the nature and amount of any individually-significant transactions; and the extent of any collectively-significant transactions qualitatively or quantitatively. It also clarifies and simplifies the definition of a related party. The Group has adopted this amendment and simplified the disclosures for related party transactions and balances with government-related entities (refer to details in Note 34).

Except for above analysis, 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), Severe hyperinflation and removal of fixed dates for first-time adopters (effective for annual periods beginning on or after 1 July 2011)
- IFRS 7 (Amendment), "Disclosures – Transfers of financial assets' (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 2015)
- IFRS 10, 'Consolidated financial statements' (effective for annual periods beginning on or after 1 January 2013)
- IFRS 11, 'Joint arrangements' (effective for annual periods beginning on or after 1 January 2013)
- IFRS 12, 'Disclosure of interests in other entities' (effective for annual periods beginning on or after 1 January 2013)
- IFRS 13, 'Fair value measurements' (effective for annual periods beginning on or after 1 January 2013)
- IAS 1 (Amendment), 'Presentation of financial statements' (effective for annual periods beginning on or after 1 July 2012)
- IAS 12 (Amendment), 'Deferred tax – Recovery of underlying assets' (effective for annual periods beginning on or after 1 January 2012)
- IAS 19 (Amendment), 'Employee benefits' (effective for annual periods beginning on or after 1 January 2013)

2.2 Subsidiaries

2.2.1 Consolidation

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.

Inter-company transactions, balances, income and expenses on transactions between group companies are eliminated. Profits and losses resulting from inter-company transactions that are recognised in assets are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

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

2.2 Subsidiaries (Cont'd)

2.2.1 Consolidation (Cont'd)

(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.

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) Acquisition method for business combinations other than common control combinations

The Group applies the acquisition method to account for business combinations other than common control combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets.

Acquisition-related costs are expensed as incurred.

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

2.2 Subsidiaries (Cont'd)

2.2.1 Consolidation (Cont'd)

(b) Acquisition method for business combinations other than common control combinations (Cont'd)

If the business combination is achieved in stages, the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

Goodwill is initially measured as the excess of the aggregate of the consideration transferred and the fair value of non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss.

(c) Changes in ownership interests in subsidiaries without change of control

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions – that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

2.2.2 Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost also includes direct attributable costs of investment. The results of subsidiaries are accounted for by the company on the basis of dividend and receivable.

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

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

2.3 *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.

The Group recognises the disposal of an interest in a jointly controlled entity when it ceases to have joint control and the risks and rewards of ownership have passed to the acquirer.

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

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.

2.4 *Associates*

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. The Group's investment in associates includes goodwill identified on acquisition.

The Group's share of post-acquisition profit or loss is recognised in the income statement, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income with a corresponding adjustment to the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

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

2.4 *Associates (Cont'd)*

The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount adjacent to 'share of profit/(loss) of an associate' in the income statement.

Profits and losses resulting from upstream and downstream transactions between the Group and its associate are recognised in the Group's financial statements only to the extent of unrelated investor's interests in the associates. Unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

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

2.5 *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.

2.6 *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 Renminbi ('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'.

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

2.6 *Foreign currency translation (Cont'd)*

(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.

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

2.7 *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.

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

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.9).

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.

2.8 *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 2.9.

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

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

2.10 Financial assets

2.10.1 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.

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 the amounts that are settled or expected to be settled more 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 2.13 and 2.14).

2.10.2 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.

2.11 Impairment of financial assets

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.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

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

2.11 Impairment of financial assets (Cont'd)

Assets carried at amortised cost (Cont'd)

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.

2.12 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.

2.13 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.

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.

2.14 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.

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

2.16 *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.

2.17 *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.

2.18 *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.

(a) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the company'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.

(b) Deferred income tax

Inside basis differences

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, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or 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.

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

2.18 Current and deferred income tax (Cont'd)

(b) Deferred income tax (Cont'd)

Inside basis differences (Cont'd)

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.

Outside basis differences

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.

(c) Offsetting

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.

2.19 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.

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

2.20 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods supplied, stated net of discounts returns and value added taxes. The Group recognises revenue when the amount of revenue can be reliably measured; when 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 of return 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.

2.21 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.

2.22 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.

2.23 Dividend distribution

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

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

2.24 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 Hong Kong 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 2011, if RMB had weakened/strengthened by 5% (2010: 3%) against the Hong Kong dollar with all other variables held constant, post-tax profit for the year would have been RMB3,170,000 (2010: RMB1,257,000) higher/lower, mainly as a result of foreign exchange gains/losses on translation of Hong Kong dollar denominated bank deposits. Profit is more sensitive to movement in RMB/Hong Kong dollar exchange rates in 2011 than 2010 because of the increased amount of Hong Kong 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 2011 and 2010, 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 2011, main part of the bank deposits is due with state-owned banks, which are at lower credit risk.

	The Group		The Company	
	2011 RMB'000	2010 RMB'000	**2011 RMB'000**	2010 RMB'000
State-owned banks and other financial institutions (Note 32(b))	**641,341**	489,557	**489,708**	379,443
Other banks	**38,335**	46,689	**–**	–
	679,676	536,246	**489,708**	379,443

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 35.

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.

	2011 **RMB'000**	2010 RMB'000 (Restated)
Total borrowings	**125,000**	15,000
Total equity	**1,939,070**	1,740,427
Gearing ratio	**6%**	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

The Board of Directors is the Group's chief operating decision-maker. Management has determined the operating segments based on the information reviewed by the Board of Directors for the purposes of allocating resources and assessing performance.

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 (i) the manufacture and sale of Chinese medicine of the Company in China, and (ii) the operation of the distribution network of Tong Ren Tang Chinese Medicine and the manufacture of Chinese medicine outside the PRC mainland.

Other companies are engaged in processing and purchasing of Chinese medicinal raw materials and sales of medicinal products, etc. 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.

5. SEGMENT INFORMATION (CONT'D)

The segment information provided to the Board of Directors for the reportable segments for the year ended 31 December 2011 is as follows:

	The Company RMB'000	Tong Ren Tang Chinese Medicine RMB'000	All other segments RMB'000	Total RMB'000
Segment revenue	1,608,835	234,303	238,019	2,081,157
Inter-segment revenue	(6,681)	(2,772)	(135,286)	(144,739)
Revenue from external customers	1,602,154	231,531	102,733	1,936,418
Profit after income tax	224,357	48,266	8,830	281,453
Interest income	7,954	1,040	437	9,431
Interest expense	(4,281)	–	–	(4,281)
Depreciation of property, plant and equipment	(26,029)	(8,404)	(4,589)	(39,022)
Amortisation of prepaid operating lease payments	(841)	(906)	(140)	(1,887)
Provision for impairment of inventories	(12,837)	(1,927)	–	(14,764)
Reversal of provision for impairment of receivables	4,487	–	–	4,487
Provision for impairment of property, plant and equipment	–	(4,501)	–	(4,501)
Provision for impairment of non-current prepayment	–	(5,440)	–	(5,440)
Income tax expense	(37,191)	(15,933)	(1,320)	(54,444)
Total assets	2,249,567	394,269	174,043	2,817,879
Total assets include:				
Additions to non-current assets (other than deferred tax assets)	109,092	81,366	5,405	195,863
Total liabilities	766,996	63,429	48,384	878,809

5. SEGMENT INFORMATION (CONT'D)

The segment information for the year ended 31 December 2010 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	1,338,902	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	168,292	54,267	2,167	224,726
Interest income	5,654	652	160	6,466
Interest expense	(721)	–	–	(721)
Depreciation of property, plant and equipment	(30,556)	(7,133)	(5,149)	(42,838)
Amortisation of prepaid operating lease payments	(572)	(468)	(146)	(1,186)
Provision for impairment of inventories	(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	(26,849)	(12,943)	(2,276)	(42,068)
Total assets	1,719,514	307,642	151,926	2,179,082
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

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.

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 RMB476,235,000 (2010: RMB355,359,000 as restated), and the total of these non-current assets located in other countries is RMB103,832,000 (2010: RMB115,535,000).

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	
	2011 RMB'000	2010 RMB'000	**2011 RMB'000**	2010 RMB'000
In the PRC Mainland, held on:				
Leases of between 10 to 50 years	**128,261**	28,905	**97,809**	22,655
In Hong Kong, held on:				
Leases of between 10 to 50 years	**15,618**	16,936	**–**	–
	143,879	45,841	**97,809**	22,655

	The Group		The Company	
	2011 RMB'000	2010 RMB'000	**2011 RMB'000**	2010 RMB'000
At 1 January	**45,841**	47,537	**22,655**	23,227
Additions	**100,829**	–	**75,995**	–
Amortisation of prepaid operating lease payments	**(1,887)**	(1,186)	**(841)**	(572)
Exchange differences	**(904)**	(510)	**–**	–
At 31 December	**143,879**	45,841	**97,809**	22,655

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 2010						
Cost, as previously stated	345,892	335,148	14,464	19,903	395	715,802
Adjustment for Adoption of amendment to IFRS 1 (Note 17)	6,983	8,033	77	203	–	15,296
Cost, as restated	352,875	343,181	14,541	20,106	395	731,098
Accumulated depreciation, as previously stated	(78,399)	(202,483)	(9,672)	(13,176)	–	(303,730)
Adjustment for Adoption of amendment to IFRS 1 (Note 17)	(2,392)	(7,621)	(67)	(188)	–	(10,268)
Accumulated depreciation, as restated	(80,791)	(210,104)	(9,739)	(13,364)	–	(313,998)
Net book amount, as restated	272,084	133,077	4,802	6,742	395	417,100
Year ended 31 December 2010						
Opening net book amount, as previously stated	267,493	132,665	4,792	6,727	395	412,072
Adjustment for Adoption of amendment to IFRS 1 (Note 17)	4,591	412	10	15	–	5,028
Opening net book amount as restated	272,084	133,077	4,802	6,742	395	417,100
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)	(219)	(42)	(105)	–	(414)
Depreciation	(11,808)	(28,277)	(1,009)	(1,744)	–	(42,838)
Impairment	(561)	(8,421)	–	–	–	(8,982)
Closing net book amount	265,746	112,170	6,356	6,967	1,343	392,582

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 2010						
Cost as previously stated	352,242	348,832	16,252	20,574	1,343	739,243
Adjustment for Adoption of amendment to IFRS 1 (Note 17)	6,983	7,810	53	162	–	15,008
Cost as restated	359,225	356,642	16,305	20,736	1,343	754,251
Accumulated depreciation, as previously stated	(90,125)	(228,632)	(9,903)	(13,619)	–	(342,279)
Adjustment for Adoption of amendment to IFRS 1 (Note 17)	(2,793)	(7,419)	(46)	(150)	–	(10,408)
Accumulated depreciation, as restated	(92,918)	(236,051)	(9,949)	(13,769)	–	(352,687)
Accumulated impairment	(561)	(8,421)	–	–	–	(8,982)
Net book amount, as restated	265,746	112,170	6,356	6,967	1,343	392,582
Year ended 31 December 2011						
Opening net book amount, as previously stated	**261,556**	**111,779**	**6,349**	**6,955**	**1,343**	**387,982**
Adjustment for Adoption of amendment to IFRS 1 (Note 17)	**4,190**	**391**	**7**	**12**	**–**	**4,600**
Opening net book amount, as restated	**265,746**	**112,170**	**6,356**	**6,967**	**1,343**	**392,582**
Exchange differences	**(3,768)**	**(1,250)**	**(30)**	**(1,821)**	**(1,070)**	**(7,939)**
Additions	**7,334**	**4,841**	**1,010**	**3,833**	**78,016**	**95,034**
Transferred from CIP	**1,931**	**22,416**	**2,131**	**7,489**	**(33,967)**	**–**
Disposals	**(264)**	**(835)**	**(453)**	**(261)**	**–**	**(1,813)**
Depreciation	**(12,828)**	**(22,995)**	**(1,338)**	**(1,861)**	**–**	**(39,022)**
Impairment	**–**	**(4,501)**	**–**	**–**	**–**	**(4,501)**
Closing net book amount	**258,151**	**109,846**	**7,676**	**14,346**	**44,322**	**434,341**
At 31 December 2011						
Cost	**362,636**	**376,605**	**18,290**	**29,203**	**44,322**	**831,056**
Accumulated depreciation	**(103,924)**	**(253,837)**	**(10,614)**	**(14,857)**	**–**	**(383,232)**
Accumulated impairment	**(561)**	**(12,922)**	**–**	**–**	**–**	**(13,483)**
Net book amount	**258,151**	**109,846**	**7,676**	**14,346**	**44,322**	**434,341**

Depreciation expense of RMB29,810,000 (2010: RMB31,423,000) has been charged in 'Cost of sales', RMB2,697,000 (2010: RMB1,922,000) in 'Distribution costs' and RMB6,515,000 (2010: RMB9,493,000) in 'Administrative expenses'.

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

The Company:

	Buildings RMB'000	Equipment and machinery RMB'000	Motor vehicles RMB'000	Office equipment RMB'000	CIP RMB'000	Total RMB'000
At 1 January 2010						
Cost, as previously stated	219,343	267,317	12,129	9,612	–	508,401
Adjustment for Adoption of amendment to IFRS 1 (Note 17)	6,983	8,033	77	203	–	15,296
Cost as restated	226,326	275,350	12,206	9,815	–	523,697
Accumulated depreciation, as previously stated	(63,139)	(183,566)	(8,083)	(7,927)	–	(262,715)
Adjustment for Adoption of amendment to IFRS 1 (Note 17)	(2,392)	(7,621)	(67)	(188)	–	(10,268)
Accumulated depreciation, as restated	(65,531)	(191,187)	(8,150)	(8,115)	–	(272,983)
Net book amount, as restated	160,795	84,163	4,056	1,700	–	250,714
Year ended 31 December 2010						
Opening net book amount, as previously stated	156,204	83,751	4,046	1,685	–	245,686
Adjustment for Adoption of amendment to IFRS 1 (Note 17)	4,591	412	10	15	–	5,028
Opening net book amount as restated	160,795	84,163	4,056	1,700	–	250,714
Additions	–	16	–	38	18,670	18,724
Transferred from CIP	–	15,300	1,932	1,351	(18,583)	–
Disposals	–	(219)	(35)	(53)	–	(307)
Depreciation	(6,671)	(22,600)	(740)	(545)	–	(30,556)
Impairment	(561)	(8,421)	–	–	–	(8,982)
Closing net book amount	153,563	68,239	5,213	2,491	87	229,593

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

The Company: **(Cont'd)**

	Buildings RMB'000	Equipment and machinery RMB'000	Motor vehicles RMB'000	Office equipment RMB'000	CIP RMB'000	Total RMB'000
At 31 December 2010						
Cost, as previously stated	219,343	280,469	13,388	10,506	87	523,793
Adjustment for Adoption of amendment to IFRS 1 (Note 17)	6,983	7,810	53	162	–	15,008
Cost as restated	226,326	288,279	13,441	10,668	87	538,801
Accumulated depreciation, as previously stated	(69,409)	(204,200)	(8,182)	(8,027)	–	(289,818)
Adjustment for Adoption of amendment to IFRS 1 (Note 17)	(2,793)	(7,419)	(46)	(150)	–	(10,408)
Accumulated depreciation, as restated	(72,202)	(211,619)	(8,228)	(8,177)	–	(300,226)
Accumulated impairment	(561)	(8,421)	–	–	–	(8,982)
Net book amount, as restated	153,563	68,239	5,213	2,491	87	229,593
Year ended 31 December 2011						
Opening net book amount, as previously stated	**149,373**	**67,848**	**5,206**	**2,479**	**87**	**224,993**
Adjustment for Adoption of amendment to IFRS 1 (Note 17)	**4,190**	**391**	**7**	**12**	**–**	**4,600**
Opening net book amount, as restated	**153,563**	**68,239**	**5,213**	**2,491**	**87**	**229,593**
Additions	**–**	**–**	**–**	**45**	**33,052**	**33,097**
Transferred from CIP	**–**	**22,416**	**2,131**	**7,489**	**(32,036)**	**–**
Disposals	**–**	**(426)**	**(73)**	**(22)**	**–**	**(521)**
Depreciation	**(6,772)**	**(17,508)**	**(1,053)**	**(696)**	**–**	**(26,029)**
Closing net book amount	**146,791**	**72,721**	**6,218**	**9,307**	**1,103**	**236,140**
At 31 December 2011						
Cost	**226,326**	**305,467**	**14,748**	**17,755**	**1,103**	**565,399**
Accumulated depreciation	**(78,974)**	**(224,325)**	**(8,530)**	**(8,448)**	**–**	**(320,277)**
Accumulated impairment	**(561)**	**(8,421)**	**–**	**–**	**–**	**(8,982)**
Net book amount	**146,791**	**72,721**	**6,218**	**9,307**	**1,103**	**236,140**

Depreciation expense of RMB21,707,000 (2010: RMB23,190,000) has been charged in 'Cost of sales', RMB261,000 (2010: RMB147,000) in 'Distribution costs' and RMB4,061,000 (2010: RMB7,219,000) in 'Administrative expenses'.

8. INVESTMENTS IN SUBSIDIARIES

	The Company	
	2011	2010
	RMB'000	RMB'000
Investments, at cost	**215,845**	200,946

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

9. INVESTMENTS IN JOINT VENTURES

	The Company	
	2011	2010
	RMB'000	RMB'000
Unlisted shares, at cost	**2,000**	14,899
Less: Provision for impairment losses	**–**	(3,946)
	2,000	10,953

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	
	2011	2010
	RMB'000	RMB'000
Assets		
Non-current assets	**2,570**	4,174
Current assets	**20,424**	48,575
	22,994	52,749
Liabilities		
Non-current liabilities	**40**	46
Current liabilities	**5,336**	12,930
	5,376	12,976
Net assets	**17,618**	39,773

9. INVESTMENTS IN JOINT VENTURES (CONT'D)

	For the year ended 31 December	
	2011	2010
	RMB'000	RMB'000
Revenue	**53,312**	49,424
Expenses	**(47,260)**	(44,294)
Profit after income tax	**6,052**	5,130

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	
	2011	2010
	RMB'000	RMB'000
Unlisted shares, at cost	**3,280**	3,280
Share of accumulated losses	**(1,726)**	(388)
	1,554	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	
	2011	2010
	RMB'000	RMB'000
Assets		
Non-current assets	**–**	114
Current assets	**1,908**	2,830
	1,908	2,944
Liabilities		
Current liabilities	**354**	52
Net assets	**1,554**	2,892

10. INVESTMENT IN AN ASSOCIATE (CONT'D)

	For the year ended 31 December	
	2011	2010
	RMB'000	RMB'000
Revenue	**263**	27
Expenses	**(1,601)**	(415)
Profit after income tax	**(1,338)**	(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	
	2011	2010
	RMB'000	RMB'000
Assets as per consolidated balance sheet		
Trade and bills receivables, net	**142,857**	155,229
Amounts due from related parties	**16,701**	18,871
Short-term bank deposits	**9,407**	96,529
Cash and cash equivalents	**671,695**	441,108
Total	**840,660**	711,737

	Financial liabilities at amortised cost	
	2011	2010
	RMB'000	RMB'000
Liabilities as per consolidated balance sheet		
Trade payables	**466,483**	212,463
Salary payable	**1,904**	942
Amounts due to related parties	**37,092**	17,380
Accrued expenses and other current liabilities	**83,338**	97,390
Short-term borrowings	**125,000**	15,000
Total	**713,817**	343,175

11. FINANCIAL INSTRUMENTS BY CATEGORY (CONT'D)

The Company:

	Loans and receivables	
	2011 RMB'000	2010 RMB'000
Assets as per balance sheet		
Trade and bills receivables, net	**123,913**	147,235
Amounts due from related parties	**8,881**	15,936
Short-term bank deposits	**–**	90,000
Cash and cash equivalents	**489,737**	289,482
Total	**622,531**	542,653

	Financial liabilities at amortised cost	
	2011 RMB'000	2010 RMB'000
Liabilities as per balance sheet		
Trade payables	**441,202**	199,938
Salary payable	**443**	443
Amounts due to related parties	**16,033**	10,148
Amounts due to subsidiaries	**41,696**	11,983
Accrued expenses and other current liabilities	**65,309**	88,799
Short-term borrowings	**125,000**	15,000
Total	**689,683**	326,311

12. TRADE AND BILLS RECEIVABLES, NET

	The Group		The Company	
	2011 RMB'000	2010 RMB'000	**2011 RMB'000**	2010 RMB'000
Trade and bills receivables	**158,457**	175,316	**139,513**	167,322
Less: provision for impairment of receivables	**(15,600)**	(20,087)	**(15,600)**	(20,087)
Trade and bills receivables, net	**142,857**	155,229	**123,913**	147,235

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 2011 and 2010, the ageing analysis of trade and bills receivables based on invoice date was as follows:

	The Group		The Company	
	2011 RMB'000	2010 RMB'000	**2011 RMB'000**	2010 RMB'000
Within 4 months	**114,786**	133,250	**97,316**	127,340
Over 4 months but within 1 year	**36,038**	34,504	**35,958**	33,743
Over 1 year but within 2 years	**81**	1,323	**–**	–
Over 2 years but within 3 years	**1,313**	3,175	**–**	3,175
Over 3 years	**6,239**	3,064	**6,239**	3,064
	158,457	175,316	**139,513**	167,322

As of 31 December 2011, trade and bills receivables of RMB15,600,000 (2010: RMB20,087,000) 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	
	2011 RMB'000	2010 RMB'000	**2011 RMB'000**	2010 RMB'000
Over 4 months	**15,600**	20,087	**15,600**	20,087

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

	The Group		The Company	
	2011 RMB'000	2010 RMB'000	**2011 RMB'000**	2010 RMB'000
At 1 January	**20,087**	30,147	**20,087**	30,147
Reversal of provision for impairment of receivables	**(4,487)**	(10,060)	**(4,487)**	(10,060)
At 31 December	**15,600**	20,087	**15,600**	20,087

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	
	2011 RMB'000	2010 RMB'000	**2011 RMB'000**	2010 RMB'000
Raw materials	**560,355**	421,877	**553,341**	412,068
Work-in-progress	**169,118**	173,488	**167,815**	171,763
Finished goods	**598,561**	361,769	**544,387**	329,260
	1,328,034	957,134	**1,265,543**	913,091

The cost of inventories recognised as expense and included in 'Cost of sales' amounted to RMB554,203,000 (2010: RMB475,323,000).

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	
	2011 RMB'000	2010 RMB'000 (Restated)	**2011 RMB'000**	2010 RMB'000 (Restated)
Deferred tax assets:				
– Deferred tax asset to be recovered after more than 12 months	**(2,177)**	(3,543)	**(1,840)**	(1,060)
– Deferred tax asset to be recovered within 12 months	**(16,724)**	(5,513)	**(6,516)**	(3,977)
	(18,901)	(9,056)	**(8,356)**	(5,037)
Deferred tax liabilities:				
– Deferred tax liabilities to be recovered after more than 12 months	**4,488**	5,125	**–**	–
– Deferred tax liabilities to be recovered within 12 months	**651**	126	**–**	–
	5,139	5,251	**–**	–
Deferred tax assets, net	**(13,762)**	(3,805)	**(8,356)**	(5,037)

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	
	2011 RMB'000	2010 RMB'000	**2011 RMB'000**	2010 RMB'000
Beginning of the year, as previously stated	**9,746**	6,601	**5,727**	2,932
Adjustment for Adoption of amendment to IFRS 1 (Note 17)	**(690)**	(754)	**(690)**	(754)
Beginning of the year, as restated	**9,056**	5,847	**5,037**	2,178
Credited to income statement	**9,845**	3,209	**3,319**	2,859
End of the year	**18,901**	9,056	**8,356**	5,037
Provided for in respect of:				
Provision for termination benefits	**319**	306	**319**	306
Amortisation of leasehold land and land use rights	**283**	289	**283**	289
Unrealised profit resulting from intragroup transactions	**10,209**	3,676	**–**	–
Accelerated accounting depreciation	**84**	140	**–**	–
Provision for inventories	**5,211**	3,095	**5,022**	3,095
Provision for property, plant and equipment	**1,347**	1,347	**1,347**	1,347
Tax losses	**63**	203	**–**	–
Deferred income arising from government grant	**1,385**	–	**1,385**	–
	18,901	9,056	**8,356**	5,037

14. DEFERRED INCOME TAX (CONT'D)

Deferred income tax liabilities

	The Group		The Company	
	2011 RMB'000	2010 RMB'000	**2011 RMB'000**	2010 RMB'000
Beginning of the year	**5,251**	5,494	**–**	–
Business combination (Note 33)	**596**	–	**–**	–
Credited to income statement	**(708)**	(243)	**–**	–
End of the year	**5,139**	5,251	**–**	–
Provided for in respect of:				
Accelerated tax depreciation allowance	**4,615**	5,251	**–**	–
Deferred income tax liabilities arising from business combination	**524**	–	**–**	–
	5,139	5,251	**–**	–

15. SHARE CAPITAL

	2011		2010	
	Number of shares	**Nominal value RMB'000**	Number of shares	Nominal value RMB'000
Registered	**588,000,000**	**588,000**	196,000,000	196,000
Issued and fully paid				
– Domestic shares with a par value of RMB1 per share	**326,040,000**	**326,040**	108,680,000	108,680
– H shares with a par value of RMB1 per share	**261,960,000**	**261,960**	87,320,000	87,320
	588,000,000	**588,000**	196,000,000	196,000

	2011			2010		
	Domestic shares RMB'000	**H shares RMB'000**	**Total RMB'000**	Domestic shares RMB'000	H shares RMB'000	Total RMB'000
At 1 January	**108,680**	**87,320**	**196,000**	108,680	87,320	196,000
Issuance of bonus shares	**217,360**	**174,640**	**392,000**	–	–	–
At 31 December	**326,040**	**261,960**	**588,000**	108,680	87,320	196,000

15. SHARE CAPITAL (CONT'D)

On 20 May 2011, the Company distributed the bonus issue to all shareholders on the basis of 2 bonus shares for every share as mentioned in Note 1.

Apart from the minor differences due to 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 2010, as previously stated	355,309	153,027	45,455	102,043	589,552	1,245,386
Adjustment for Adoption of amendment to IFRS 1 (Note 17)	15,835	–	–	–	(11,561)	4,274
Balance as of 1 January 2010, as restated	371,144	153,027	45,455	102,043	577,991	1,249,660
Profit for the year	–	–	–	–	179,492	179,492
Dividends paid to shareholders of the Company of 2009	–	–	–	–	(88,200)	(88,200)
Appropriation from retained earnings	–	17,606	–	–	(17,606)	–
Balance as of 31 December 2010	371,144	170,633	45,455	102,043	651,677	1,340,952
Balance as of 1 January 2011, as previously stated	**355,309**	**170,633**	**45,455**	**102,043**	**663,602**	**1,337,042**
Adjustment for Adoption of amendment to IFRS 1 (Note 17)	**15,835**	**–**	**–**	**–**	**(11,925)**	**3,910**
Balance as of 1 January 2011, as restated	**371,144**	**170,633**	**45,455**	**102,043**	**651,677**	**1,340,952**
Profit for the year	**–**	**–**	**–**	**–**	**229,189**	**229,189**
Dividends paid to shareholders of the Company of 2010	**(196,000)**	**–**	**–**	**–**	**(290,080)**	**(486,080)**
Appropriation from retained earnings	**–**	**22,648**	**–**	**–**	**(22,648)**	**–**
Balance as of 31 December 2011	**175,144**	**193,281**	**45,455**	**102,043**	**568,138**	**1,084,061**

16. RESERVES (CONT'D)

Notes:

(a) Profit attributable to owners of the Company

The profit attributable to owners of the Company in the financial statements of the Company is RMB229,189,000 (2010: RMB179,492,000 as restated).

(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, and 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 RMB22,648,000 (2010: RMB17,606,000), 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 2011.

In accordance with the amendment of the Company Law of the PRC on 27 October 2005 effective from 1 January 2006, 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 convert as share capital of the Company.

(d) Tax reserve

According to the preferential enterprise income tax policy for new technology enterprises ("NTE") under the old PRC Enterprise Income Tax ("EIT") regulation (effective before 1 January 2008), a NTE located in a designated area of Beijing Economic and Technological Development Zone was subject to EIT at a preferential income tax rate of 15%. Moreover, upon approval by the relevant local tax bureau, the Company was entitled to full exemption from EIT from 2000 to 2002 and 50% reduction from 2003 to 2005. An amount for exemption and reduction has to be appropriated to a non-distributable tax reserve. However, the use of the exempted tax is restricted to specified purposes and not distributable to shareholders.

17. ADJUSTMENT FOR ADOPTION OF AMENDMENT TO IFRS 1

The Group adopts amendment to IFRS 1 as mentioned in Note 2.

Statements of adjustments for adoption of amendment to IFRS 1 on the consolidation balance sheets as at 31 December 2011 and 2010 and the Group's results for the years then ended are summarised as follows:

	The Group before Adoption of amendment to IFRS 1 RMB'000	Adjustment for Adoption of amendment to IFRS 1 RMB'000	Year ended 31 December 2011 RMB'000
Year ended 31 December 2011			
Revenues	1,936,418	–	1,936,418
Profit before income tax	336,120	(223)	335,897
Profit for the year	281,643	(190)	281,453

	The Group before Adoption of amendment to IFRS 1 RMB'000	Adjustment for Adoption of amendment to IFRS 1 RMB'000	As at 31 December 2011 RMB'000
As at 31 December 2011			
ASSETS			
Property, plant and equipment	429,964	4,377	434,341
Deferred income tax assets	19,558	(657)	18,901
Other non-current assets	145,726	–	145,726
Non-current assets	595,248	3,720	598,968
Current assets	2,218,911	–	2,218,911
Total assets	2,814,159	3,720	2,817,879
EQUITY			
Capital and reserves			
Share capital	588,000	–	588,000
Reserves	1,127,168	3,720	1,130,888
	1,715,168	3,720	1,718,888
Non-controlling interests	220,182	–	220,182
Total equity	1,935,350	3,720	1,939,070
LIABILITIES			
Non-current liabilities	57,324	–	57,324
Current liabilities	821,485	–	821,485
Total liabilities	878,809	–	878,809
Total equity and liabilities	2,814,159	3,720	2,817,879

17. ADJUSTMENT FOR ADOPTION OF AMENDMENT TO IFRS 1 (CONT'D)

	As previously stated RMB'000	Adjustment for Adoption of amendment to IFRS 1 RMB'000	As restated RMB'000
Year ended 31 December 2010			
Revenues	1,578,914	–	1,578,914
Profit before income tax	267,222	(428)	266,794
Profit for the year	225,090	(364)	224,726

	As previously stated RMB'000	Adjustment for Adoption of amendment to IFRS 1 RMB'000	As restated RMB'000
Year ended 31 December 2010			
ASSETS			
Property, plant and equipment	387,982	4,600	392,582
Deferred income tax assets	9,746	(690)	9,056
Other non-current assets	78,312	–	78,312
Non-current assets	476,040	3,910	479,950
Current assets	1,699,132	–	1,699,132
Total assets	2,175,172	3,910	2,179,082
EQUITY			
Capital and reserves			
Share capital	196,000	–	196,000
Reserves	1,363,017	3,910	1,366,927
	1,559,017	3,910	1,562,927
Non-controlling interests	177,500	–	177,500
Total equity	1,736,517	3,910	1,740,427
LIABILITIES			
Non-current liabilities	30,288	–	30,288
Current liabilities	408,367	–	408,367
Total liabilities	438,655	–	438,655
Total equity and liabilities	2,175,172	3,910	2,179,082

18. DEFERRED INCOME – GOVERNMENT GRANTS

	The Group		The Company	
	2011 RMB'000	2010 RMB'000	**2011 RMB'000**	2010 RMB'000
Beginning of the year	**25,037**	10,610	**24,574**	10,155
Government grants received	**27,994**	17,223	**11,022**	17,193
Amount recognised in the income statement (Note 25)	**(846)**	(2,796)	**(546)**	(2,774)
End of the year	**52,185**	25,037	**35,050**	24,574

The ending balance of the government grants are relating to:

	The Group		The Company	
	2011 RMB'000	2010 RMB'000	**2011 RMB'000**	2010 RMB'000
Government grants relating to research and development expenditure	**9,425**	7,460	**8,702**	6,997
Government grants relating to property, plant and equipment	**17,114**	17,577	**17,114**	17,577
Government grants relating to land use rights	**25,646**	–	**9,234**	–
Total	**52,185**	25,037	**35,050**	24,574

19. SHORT-TERM BORROWINGS

As of 31 December 2011, the Company and the Group had unsecured short-term bank borrowings of RMB125,000,000 (2010: RMB15,000,000) repayable within one year. These borrowings bear interest at the rate of 6.459% (2010: 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 2011, the ageing analysis of trade payables based on invoice date was as follows:

	The Group		The Company	
	2011	2010	**2011**	2010
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within 4 months	**425,078**	207,197	**400,833**	195,671
Over 4 months but within 1 year	**40,542**	4,896	**40,227**	4,128
Over 1 year but within 2 years	**863**	370	**142**	139
	466,483	212,463	**441,202**	199,938

21. SALARY AND WELFARE PAYABLES

	The Group		The Company	
	2011	2010	**2011**	2010
	RMB'000	RMB'000	**RMB'000**	RMB'000
Salary payable	**1,904**	942	**443**	443
Welfare payable	**1,670**	4,175	**64**	2,595
	3,574	5,117	**507**	3,038

22. REVENUE

	2011	2010
	RMB'000	RMB'000
Sales of medicine		
– the PRC Mainland	**1,744,805**	1,449,593
– Outside the PRC Mainland	**174,062**	117,656
	1,918,867	1,567,249
Agency fee income for distribution services		
– Outside the PRC Mainland	**17,551**	11,665
	1,936,418	1,578,914

23. OTHER LOSSES – NET

	2011 RMB'000	2010 RMB'000
Cost incurred for an intended listing of a subsidiary transfer out from reserve	**3,512**	–
Cost incurred for an intended listing of a subsidiary during current year	**16,427**	–
Gain on business combination (Note 33)	**(1,981)**	–
	17,958	–

24. FINANCE INCOME – NET

	2011 RMB'000	2010 RMB'000
Interest income on cash at bank and short-term bank deposits	**9,431**	6,466
Interest expense on bank borrowings repayable within one year	**(4,281)**	(721)
Exchange losses	**(369)**	(812)
Finance income – net	**4,781**	4,933

25. PROFIT BEFORE INCOME TAX

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

	2011 RMB'000	2010 RMB'000 (Restated)
Raw materials and consumables used	**796,346**	561,941
Change in inventories of finished goods and work-in-progress	**(242,143)**	(86,618)
Employee benefit expense		
– Salary and wages	**190,672**	151,237
– Staff welfare	**25,989**	21,566
– Housing fund	**11,671**	10,920
– Contribution to pension scheme	**36,403**	30,870
Depreciation of property, plant and equipment (Note 7)	**39,022**	42,838
Amortisation of prepaid operating lease payments (Note 6)	**1,887**	1,186
Amortisation of other long-term assets	**238**	812
Provision for impairment of inventories	**14,764**	8,915
Reversal of provision for impairment of receivables (Note 12)	**(4,487)**	(10,060)
Provision for impairment of property, plant and equipment (Note 7)	**4,501**	8,982
Provision for impairment of non-current prepayment	**5,440**	–
Operating lease rental	**47,036**	26,998
Auditor's remuneration – Audit services	**1,825**	1,615
Research and development costs	**10,490**	11,889
Advertising expenses	**58,082**	69,362
Loss on disposal of property, plant and equipment	**473**	163
Recognition of government grants (Note 18)	**(846)**	(2,796)
Cost incurred for an intended listing of a subsidiary transfer out from reserve	**3,512**	–
Cost incurred for an intended listing of a subsidiary during current year	**16,427**	–

26. 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% (2010: 25%). As of 31 December 2011 and 2010, the Company has obtained the HNTE certificate. Consequently, the applicable income tax rate of the Company in 2011 is 15% (2010: 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.

26. INCOME TAX EXPENSE (CONT'D)

Details of income tax during the year are as follows:

	2011 RMB'000	2010 RMB'000 (Restated)
Current PRC income tax expense	**43,984**	34,664
Current Overseas income tax expense	**21,013**	10,856
Deferred income tax expense	**(10,553)**	(3,452)
	54,444	42,068

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:

	2011 RMB'000	2010 RMB'000 (Restated)
Profit before income tax	**335,897**	266,794
Tax calculated at the PRC statutory income tax rate of 25% (2010: 25%)	**83,974**	66,699
Income not subject to tax	**(4,464)**	(4,465)
Expenses not deductible for tax purposes	**8,584**	3,400
Tax losses for which no deferred income tax asset was recognised	**1,389**	306
Effect of preferential income tax treatments	**(25,917)**	(18,989)
Effect of different applicable tax rates for certain subsidiaries and joint ventures	**(9,122)**	(4,883)
Income tax expense	**54,444**	42,068

27. EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the profit attributable to owners of the Company of approximately RMB254,687,000 (2010: RMB197,978,000 as restated) by the weighted average number of 588,000,000 shares (2010: 588,000,000 shares) in issue during the year.

27. EARNINGS PER SHARE (CONT'D)

The Company had no dilutive potential shares for the years ended 31 December 2011 and 2010.

	2011 RMB'000	2010 RMB'000 (Restated)
Profit attributable to owners of the Company	**254,687**	197,978
Weighted average number of ordinary shares in issue (thousands)	**588,000**	588,000
Earnings per share	**RMB0.43**	RMB0.34

On 20 May 2011, the Company distributed the bonus issue to all shareholders on the basis of 2 bonus shares for every share as mentioned in Note 1, thus the shares increased from 196,000,000 to 588,000,000. Because the bonus issue was without consideration, the Company treated it as if it had occurred on 1 January 2010 and calculated earnings per share based on 588,000,000 shares after the issuance of bonus shares. If it was calculated based on 196,000,000 shares before the issuance of bonus shares, the earnings per share of 2011 would be RMB1.30 (2010: RMB1.01).

28. DIVIDENDS

	2011 RMB'000	2010 RMB'000
Cash dividends proposed by the Board of Directors	**111,720**	94,080
Bonus shares proposed by the Board of Directors	–	196,000
Bonus issue of shares proposed, by way of capitalisation of the capital reserve by the Board of Directors	–	196,000
Total dividends proposed by the Board of Directors	**111,720**	486,080

The cash dividends paid in 2011 and 2010 were RMB94,080,000 (RMB0.48 per share based on 196,000,000 shares) and RMB88,200,000 (RMB0.45 per share based on 196,000,000 shares) respectively.

On 16 March 2012, the Board of Directors proposed a cash dividend for the year ended 31 December 2011 of RMB0.19 per share based on 588,000,000 shares, totalling approximately RMB111,720,000 (2010: RMB94,080,000). The cash dividends per share would be RMB0.57 (2010: RMB0.48) if based on 196,000,000 shares.

The proposed dividend distribution is subject to the shareholders' approval at the 2011 Annual General Meeting to be held in 2012. The dividend will be recorded in the Group's financial statements for the year ending 31 December 2012.

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

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

The remuneration before individual income tax of every director and supervisor for the year ended 31 December 2011 is set out below:

	Fees RMB'000	Basic salaries and allowance RMB'000	Contribution to pension scheme RMB'000	Bonuses RMB'000	Total RMB'000
Directors:					
Mr. Mei Qun	–	–	–	–	–
Ms. Ding Yong Ling*	–	511	10	–	521
Mr. Yin Shun Hai	–	–	–	–	–
Mr. Wang Yu Wei	–	1,267	30	–	1,297
Ms. Fang Jia Zhi	–	372	30	–	402
Mr. Xie Zhan Zhong	–	–	–	–	–
Miss Tam Wai Chu, Maria	149	–	–	–	149
Mr. Ting Leung Huel, Stephen	149	–	–	–	149
Mr. Jin Shi Yuan	48	–	–	–	48
Supervisors:					
Mr. Zhang Xi Jie	–	–	–	–	–
Mr. Wu Yi Gang	48	–	–	–	48
Ms. Wang Yan Rong	–	709	30	–	739

* *Resigned on 17 March 2011.*

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

(a) *Details of the directors' and supervisors' emoluments (Cont'd)*

The remuneration before individual income tax 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	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	–	1,269	29	–	1,298
Ms. Fang Jia Zhi	–	374	29	–	403
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	–	679	29	–	708

* *Resigned on 26 April 2010.*

** *Appointed on 18 June 2010.*

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.

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

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

The five individuals whose emoluments before individual income tax were the highest in the Group for the year include one (2010: one) director whose emoluments are reflected in the analysis presented in Note 29 (a) above. The emoluments payable to the remaining four (2010: four) individuals during the year are as follows:

	2011 RMB'000	2010 RMB'000
Basic salaries, allowance and bonuses	**3,357**	3,184
Contribution to pension scheme	**130**	342
	3,487	3,526

The emoluments fell within the following band:

	2011 RMB'000	2010 RMB'000
Nil to RMB 830,200 (Equivalent to Hong Kong Dollar 1,000,000)	**1**	1
RMB 830,201 – 1,245,300 (Equivalent to Hong Kong Dollar 1,000,001-1,500,000)	**3**	3

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 six directors or supervisors of the Company with a par value of RMB1 each. The Company does not have any other equity compensation benefits.

30. 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% (2010: 28% to 32%) of the employees' standard salaries, of which 20% to 24% (2010: 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.

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 2011 and 2010, were approximately RMB2,128,000 and RMB2,033,000 respectively.

31. HOUSING FUND

The Group's full-time employees in the PRC participate in a state-sponsored housing fund ("Fund"). The housing 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 housing fund is limited to the contributions payable in each period. For the year ended 31 December 2011, the Group contributed approximately RMB11,671,000 (2010: RMB10,920,000) to the Fund.

32. CASH GENERATED FROM OPERATIONS

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

	2011 RMB'000	2010 RMB'000 (Restated)
Profit before income tax	**335,897**	266,794
Adjustments for:		
Reversal of provision for impairment of receivables	**(4,487)**	(10,060)
Depreciation of property, plant and equipment	**39,022**	42,838
Amortisation of prepaid operating lease payments	**1,887**	1,186
Amortisation of other long-term assets	**238**	812
Provision for impairment of property, plant and equipment	**4,501**	8,982
Provision for impairment of non-current prepayment	**5,440**	–
Provision for impairment of inventory	**14,764**	8,915
Loss on disposal of property, plant and equipment	**473**	163
Deferred government grants recognised in the income statement	**(846)**	(2,796)
Interest income	**(9,431)**	(6,466)
Interest expense	**4,281**	721
Exchange losses	**369**	812
Share of loss of an associate	**1,338**	388
Gain on business combination	**(1,981)**	–
Cost incurred for an intended listing of a subsidiary transfer out from reserve	**3,512**	–
Cost incurred for an intended listing of a subsidiary during current year	**16,427**	–
Operating profit before working capital changes	**411,404**	312,289
Decrease/(increase) in current assets:		
Trade and bills receivables	**18,051**	3,281
Inventories	**(373,365)**	(132,089)
Prepayments and other current assets	**(19,956)**	(12,940)
Amounts due from related parties	**2,170**	10,575
Increase/(Decrease) in current liabilities:		
Trade payables	**244,554**	36,193
Other current liabilities	**12,751**	74,107
Amounts due to related parties	**19,712**	2,118
Proceeds from government grants relating to research and development expenditure	**2,001**	17,223
Cash generated from operations	**317,322**	310,757

32. 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	
	2011 RMB'000	2010 RMB'000	**2011 RMB'000**	2010 RMB'000
Cash at bank and in hand				
RMB	**564,911**	357,579	**480,639**	279,085
Hong Kong Dollar	**62,914**	41,396	**8,009**	9,310
United States Dollar	**7,435**	8,299	**1,089**	1,087
Macanese Pataca	**8,152**	2,672	**–**	–
Malaysian Ringgit	**1,742**	4,668	**–**	–
Indonesian Rupiah	**1,240**	1,221	**–**	–
Canadian Dollar	**2,906**	4,372	**–**	–
Thai Baht	**653**	950	**–**	–
Korean Won	**512**	1,004	**–**	–
Australian Dollar	**5,699**	6,417	**–**	–
Singapore Dollar	**11,425**	10,461	**–**	–
Brunei Ringgit	**2,189**	2,069	**–**	–
Arab Emirates Dirham	**1,917**	–	**–**	–
	671,695	441,108	**489,737**	289,482

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

	The Group		The Company	
	2011 RMB'000	2010 RMB'000	**2011 RMB'000**	2010 RMB'000
RMB	**–**	90,000	**–**	90,000
Hong Kong Dollar	**479**	504	**–**	–
United States Dollar	**926**	–	**–**	–
Malaysian Ringgit	**2,565**	775	**–**	–
Australian Dollar	**3,888**	3,609	**–**	–
Singapore Dollar	**1,538**	1,629	**–**	–
Thai Baht	**11**	12	**–**	–
	9,407	96,529	**–**	90,000

The weighted average effective interest rate on short-term bank deposits was 3.21% (2010: 3.69%) per annum. Cash at bank earns interest at floating rates based on daily bank deposit rates.

32. CASH GENERATED FROM OPERATIONS (CONT'D)

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

As of 31 December 2011, the cash in hand balance of the Group was RMB1,426,000 (2010: RMB1,391,000). Cash at bank and short-term bank deposits balance of the Group was RMB679,676,000 (2010:RMB536,246,000). Management did not expect any losses from non-performance by those banks.

(c) *Non-cash transaction*

Step acquisition of Tong Ren Tang WM and Tong Ren Tang Macau (Note 33)

	Tong Ren Tang WM RMB'000	**Tong Ren Tang Macau** RMB'000	**Total** RMB'000
Cash and bank balance	28,240	11,345	39,585
Property, plant and equipment	1,299	356	1,655
Inventories	12,369	13,855	26,224
Trade and other receivables	2,717	214	2,931
Trade and other payables	(12,468)	(9,139)	(21,607)
Deferred income tax liabilities	–	(596)	(596)
Non-controlling interests	(12,863)	(7,857)	(20,720)
Fair value of net assets acquired (Note 33)	19,294	8,178	27,472
Carrying amount of interest originally held by the Group as joint ventures	19,294	6,197	25,491
Gain on business combination	–	1,981	1,981
Consideration	–	–	–

(d) *Analysis of net cash flow in respect of acquisition of Tong Ren Tang WM and Tong Ren Tang Macau*

	Tong Ren Tang WM RMB'000	**Tong Ren Tang Macau** RMB'000	**Total** RMB'000
Cash consideration settled in cash (Note 33)	–	–	–
Cash and bank balance acquired	11,296	5,559	16,855
Total cash inflow from the acquisition	11,296	5,559	16,855

The cash and bank balance acquired excluded the cash and bank balance of RMB22,730,000 originally held by the Group under the proportionate consolidation.

33. BUSINESS COMBINATION

The Company has held 60% equity interest in Tong Ren Tang WM since 20 February 2001. On 1 November 2011, the articles of association of Tong Ren Tang WM was amended. The joint venturer has given up the joint control due to the change of business focus. As a result, the Company has obtained the control over the financial and operating policies of Tong Ren Tang WM. Tong Ren Tang WM has changed its status from a joint venture to a subsidiary of the Company. The Group consolidated the results of Tong Ren Tang WM from 1 November 2011 onwards.

The Group has held 51% equity interest in Tong Ren Tang Macau since 14 May 2003. On 29 November 2011, the articles of association of Tong Ren Tang Macau was amended. The joint venturers have given up the joint control due to the change of business focus. As a result, the Group has obtained the control over the financial and operating policies of Tong Ren Tang Macau. Tong Ren Tang Macau has changed its status from a joint venture to a subsidiary of the Group. The Group consolidated the results of Tong Ren Tang Macau from 29 November 2011 onwards.

The Group has obtained control of Tong Ren Tang WM and Tong Ren Tang Macau without any cash consideration. The carrying value of the Group's interest in Tong Ren Tang WM and Tong Ren Tang Macau immediately before the acquisition date was RMB25,491,000. The fair value of the identified net assets of Tong Ren Tang WM and Tong Ren Tang Macau shared by the Group at the acquisition date was RMB27,472,000. As a result, a gain on business combination arose.

The following table summarises the gain on business combination, fair value of the assets and liabilities acquired and non-controlling interests at the acquisition date.

33. BUSINESS COMBINATION (CONT'D)

	Tong Ren Tang WM	Tong Ren Tang Macau	Total
	At 1 November 2011	At 29 November 2011	
	RMB'000	RMB'000	RMB'000
Total consideration			
Fair value of equity interest held before the business combination	19,294	8,178	27,472
Fair value of net assets			
Cash and bank balance	28,240	11,345	39,585
Property, plant and equipment	1,299	356	1,655
Inventories	12,369	13,855	26,224
Trade and other receivables	2,717	214	2,931
Trade and other payables	(12,468)	(9,139)	(21,607)
Deferred income tax liabilities	–	(596)	(596)
Total identifiable net assets	32,157	16,035	48,192
Non-controlling interests	(12,863)	(7,857)	(20,720)
Fair value of net assets acquired	19,294	8,178	27,472
Carrying amount of interest originally held by the Group as joint ventures	19,294	6,197	25,491
Gain on business combination	–	1,981	1,981

The Group recognised a gain of RMB1,981,000 as a result of measuring at fair value its 51% equity interest in Tong Ren Tang Macau held before the business combination. The gain is included in "Other losses - net" of the Group's consolidated income statement for the year ended 31 December 2011.

The revenue included in the consolidated income statement since the respective acquisition dates contributed by Tong Ren Tang WM and Tong Ren Tang Macau was RMB7,092,000. Tong Ren Tang WM and Tong Ren Tang Macau also contributed a profit of RMB662,000 over the same period.

Had Tong Ren Tang WM and Tong Ren Tang Macau been consolidated from 1 January 2011, the consolidated revenue and profit would be RMB1,961,585,000 and RMB285,919,000 respectively.

34. 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.

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.

34. RELATED PARTY TRANSACTIONS (CONT'D)

(a) *Transactions with the ultimate holding company*

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

	2011 RMB'000	2010 RMB'000
Trademark licence fee (Note (i))	**850**	850
Rental expense (Note (ii))	**2,364**	2,364
Storage fee (Note (iii))	**2,916**	2,916

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 is authorised 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 2011 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 a lease 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 still remain effective.

(iii) A contract for storage and custody was renewed on 18 January 2011 between the Company and the ultimate holding company whereby the ultimate holding company agreed to provide storage and custody services to the Company, with an effective period from 2011 to 2013. 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.

34. RELATED PARTY TRANSACTIONS (CONT'D)

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

	2011 RMB'000	2010 RMB'000
Sales of Chinese medicine related products (Note (i))	**257,703**	191,562
Agency fee income for distribution services (Note (ii))	**17,551**	11,665
Royalty fee (Note (iii))	**–**	1,382
Purchases of Chinese medicine (Note (iv))	**23,155**	16,986
Purchases of raw materials and semi-finished products (Note (iv))	**18,009**	13,728

Notes:

(i) The Company renewed a sales agreement with the ultimate holding company on 18 January 2011. 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 2011 to 2013.

(ii) Tong Ren Tang Chinese Medicine renewed an agency agreement with the Parent Company on 2 March 2010. In accordance with this agreement, Tong Ren Tang Chinese Medicine is appointed as an agent in distributing the Parent Company's products, with an 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 agreements. Pursuant to these agreements, these subsidiaries and jointly ventures 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 the PRC including but not limited to the right to sub-license the "Tong Ren Tang" trademark without consideration from 1 October 2010 to 30 September 2013. Accordingly, Tong Ren Tang Chinese Medicine receives royalty fee from subsidiaries and joint ventures since 1 October 2010.

34. RELATED PARTY TRANSACTIONS (CONT'D)

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

Notes: (Cont'd)

(iv) The Company signed a procurement agreement with the ultimate holding company on 28 February 2011, with an effective period from 2011 to 2013. Pursuant to the agreement, the subsidiaries and joint ventures of the ultimate holding company can supply to the Group the products that are required for the Group's production, sale and distribution. The price procured by the Group from the ultimate holding company's subsidiaries and joint ventures shall be negotiated by the parties on an arm's length basis. The ultimate holding company shall not supply the products to the Group (1) at a price higher than that of the products of the same type and quality offered to the Group by independent third parties or the prevailing market price; (2) if there is not any comparable market price available for the relevant materials/products, the price shall be determined based on the integrated cost plus not more than 15% surcharge, and in any event, the price for such procurement shall be no less favorable than terms offered by independent third parties to the Group.

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

In the ordinary course of business, the Group sells goods to, and purchase goods from other state-owned enterprises based on terms as set out in the underlying agreements, market prices or actual cost incurred, or as mutually agreed.

Group places deposits in and receives loans mainly from state-owned financial institutions in the ordinary course of business. The deposits and loans are in accordance with the terms as set out in the respective agreements, and the interest rates are set at prevailing market rates.

(d) *Balances with related parties*

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

	The Group		The Company	
	2011 RMB'000	2010 RMB'000	**2011 RMB'000**	2010 RMB'000
Amounts due from related parties:				
Subsidiaries and joint ventures of the ultimate holding company	**15,388**	7,815	**7,597**	4,862
Other state-owned enterprises	**1,313**	11,056	**1,284**	11,074
	16,701	18,871	**8,881**	15,936
Amounts due to related parties:				
Subsidiaries and joint ventures of the ultimate holding company	**28,767**	16,012	**11,488**	8,781
Other state-owned enterprises	**8,325**	1,368	**4,545**	1,367
	37,092	17,380	**16,033**	10,148

34. RELATED PARTY TRANSACTIONS (CONT'D)

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

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	
	2011 RMB'000	2010 RMB'000	**2011 RMB'000**	2010 RMB'000
Within 4 months	**12,531**	17,272	**7,732**	15,127
Over 4 months but within 1 year	**3,988**	588	**967**	557
Over 1 year	**182**	1,011	**182**	252
	16,701	18,871	**8,881**	15,936

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

	The Group		The Company	
	2011 RMB'000	2010 RMB'000	**2011 RMB'000**	2010 RMB'000
Within 4 months	**35,962**	11,409	**15,427**	6,679
Over 4 months but within 1 year	**694**	5,940	**571**	3,438
Over 1 year	**436**	31	**35**	31
	37,092	17,380	**16,033**	10,148

35. BANKING FACILITIES

As of 31 December 2011, the Group had aggregated banking facilities of RMB336,000,000 (2010: RMB100,000,000) for loan and other trade financing. As of 31 December 2011, the unutilised banking facilities amounted to RMB211,000,000 (2010: RMB85,000,000).

36. 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	
	2011 RMB'000	2010 RMB'000	**2011 RMB'000**	2010 RMB'000
Construction of production facilities	**21,287**	6,602	**2,101**	4,002

(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	
	2011 RMB'000	2010 RMB'000	**2011 RMB'000**	2010 RMB'000
Not later than one year	**48,489**	26,533	**29,736**	15,130
Later than one year and no later than five years	**64,838**	55,596	**32,903**	32,029
Later than five years	**11,095**	11,951	**9,061**	11,425
	124,422	94,080	**71,700**	58,584