北京同仁堂
Beijing Tong Ren Tang

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)

ANNUAL REPORT 2012

同修仁德
濟世養生

趙樸初書

Contents

Corporate Information

As at 31 December 2012

BOARD OF DIRECTORS

Executive Directors

Mei Qun *(Chairman)*
Xie Zhan Zhong *(Vice-chairman)*[1]
Yin Shun Hai
Wang Yu Wei
Fang Jia Zhi

Independent Non-executive Directors

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

SUPERVISORS

Zhang Xi Jie *(Chairman)*
Wu Yi Gang
Bai Jian[2]

SENIOR MANAGEMENT[4]

Yang De Chun
Liu Cun Ying
Guo Gui Qin
Chen Jia Fu
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)*[3]
Mei Qun[3]
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 LAWS

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

Note 1: *On 22 August 2012, Mr. Xie Zhan Zhong, an executive director, was elected as the Vice-Chairman of the Company by the board of the directors of the Company (the "Board").*

Note 2: *Mr. Bai Jian was elected as an employee representative supervisor of the fifth session of the supervisory committee of the Company (the "Supervisory Committee") at the employee representatives' general meeting of the Company held on 29 June 2012.*

Note 3: *At a meeting of the Board held on 16 March 2012, Mr. Jin Shi Yuan, an independent non-executive director, was eleceted as the Chairman of the Remuneration Committee in place of Mr. Mei Qun who remains as a member of the Remuneration Committee.*

Note 4: *The senior management who also act as the directors or supervisors of the Company are not included.*

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

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

REGISTERED ADDRESS

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

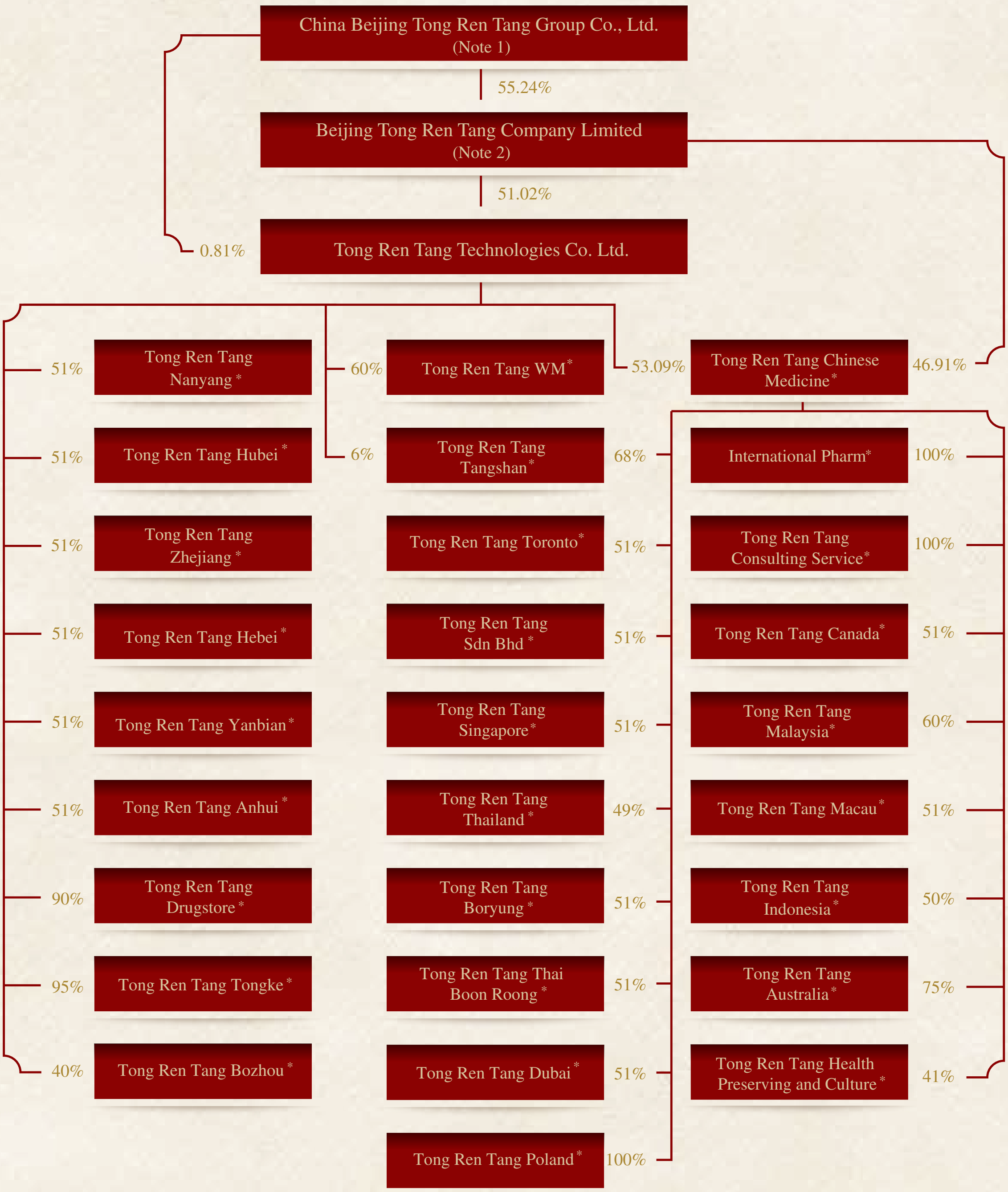
OFFICE AND MAILING ADDRESS

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

STOCK CODE

1666

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 the "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 full names of the subsidiaries and joint ventures, please refer to Note 1 to the consolidated financial statements.*

Financial Highlights

	2012 RMB'000	2011 RMB'000	2010 RMB'000	2009 RMB'000	2008 RMB'000
RESULTS					
Revenue	**2,447,132**	1,936,418	1,578,914	1,352,202	1,211,455
Profit before income tax	**481,078**	335,897	266,794	227,252	197,248
Income tax expense	**(81,547)**	(54,444)	(42,068)	(37,133)	(30,509)
Profit for the year	**399,531**	281,453	224,726	190,119	166,739
Profit attributable to:					
Owners of the Company	**330,171**	254,687	197,978	176,369	160,528
Non-controlling interests	**69,360**	26,766	26,748	13,750	6,211
ASSETS AND LIABILITIES					
Non-current assets	**683,815**	598,968	479,950	467,049	500,160
Current assets	**2,485,131**	2,218,911	1,699,132	1,463,918	1,295,022
TOTAL ASSETS	**3,168,946**	2,817,879	2,179,082	1,930,967	1,795,182
Non-current liabilities	**57,479**	57,324	30,288	16,104	13,250
Current liabilities	**887,218**	821,485	408,367	293,666	297,027
TOTAL LIABILITIES	**944,697**	878,809	438,655	309,770	310,277
Equity attributable to:					
Owners of the Company	**1,936,038**	1,718,888	1,562,927	1,476,795	1,360,392
Non-controlling interests	**288,211**	220,182	177,500	144,402	124,513
TOTAL EQUITY	**2,224,249**	1,939,070	1,740,427	1,621,197	1,484,905

Chairman's Statement

I am pleased to present the annual report of the Company and its subsidiaries and joint ventures (hereafter collectively referred to as the "Group") for the year ended 31 December 2012 for shareholders' review.

RESULTS OF THE YEAR

For the year ended 31 December 2012, the Group's revenue amounted to RMB2,447,132,000, representing an increase of 26.37% from RMB1,936,418,000 for the corresponding period of last year; profit attributable to owners of the Company amounted to RMB330,171,000, representing an increase of 29.64% from RMB254,687,000 for the corresponding period of last year.

REVIEW OF THE YEAR

During the year of 2012, the government issued a number of policies targeting the pharmaceutical and related industries, and reforms of the pharmaceutical and healthcare systems continued to be deepened. In addition, by raising the industry access threshold and strengthening supervision of medicine and food safety, the soft power of the pharmaceutical industry was further enhanced, and the industrial pattern and market environment were moving toward benign development gradually. However, pressures posed by the volatility in the price of traditional Chinese medical raw materials and emergencies caused by adverse reaction also lead to the increase of the uncertainty of the overall development of the industry from time to time.

The Company has always been striving for a sustainable operating model and taking the interests of the shareholders as a whole into consideration, as well as continuously improving the level of corporate governance and enhancing its core competence, so as to strengthen investors' confidence in the Company. During 2012, the Company remained vigilant about changes in market conditions and was always keeping highly introspective. Through the formulation and implementation of various reasonable and effective measures and the specialization of each subsidiary in its own field, the Group realized the overall healthy and stable development.

OUTLOOK AND PROSPECTS

Given the current status of Chinese pharmaceutical industry, the ever-changing market conditions require the Company to continuously deepen reforms and foster innovations. In the future, Chinese pharmaceutical industry is set to be growing continuously under the influence of a number of factors including expected economic growth, ageing of the population and increasing in per capita disposable income. Meanwhile, the pharmaceutical sector will continue to raise industry access threshold and standards so as to ensure drug safety. With the implementation of the new edition of Good Manufacturing Practice ("**GMP**") entering into the countdown stage, and the promulgation and implementation of the new edition of Good Supplying Practice ("**GSP**"), reshuffling in the pharmaceutical retail sector will definitely affect the development trend of the entire industry.

Looking into 2013, I will work with all the staff of the Group to conduct in-depth analysis of the situations at home and abroad, catch up with advanced market players, seek opportunities from challenges and maintain stable operations, so as to ensure the long-term steady development of the Group.

I hereby would like to express my sincere gratitude to the colleagues in the Board and all the staff of the Group for their tireless efforts and excellent performance; and to all the shareholders for their continuous support to and understanding of the Company. Just as in the past, we will continue to satisfy the shareholders by good performance.

Mei Qun
Chairman

Beijing, the PRC
19 March 2013

金匱腎氣丸

【功能】

溫補腎陽
化氣行水

【主治】

用於腎虛水腫，腰膝酸軟，
小便不利，畏寒肢冷。

Jinkui Shenqi Pills

Indications:

Warmly invigorating kidney Yang, functioning of Qi for promoting diuresis. It is always used to treat edema caused by kidney deficiency, soreness and weakness of waist and knees, dysuria, fear of cold and cold extremities.

阿膠

【功能】

滋陰補血
潤燥，止血

【主治】

用於血虛萎黃，眩暈心悸，
心煩不眠，肺燥咳嗽。

Ejiao

Indications:

Replenishing blood for nourishing Yin, moistening dryness and hemostasis. It is always used to treat blood deficiency and sallow complexion, vertigo and palpitation, irritability and sleepless, and cough due to lung-dryness.

Management Discussion and Analysis

BUSINESS REVIEW

During the year of 2012, faced with all aspects of pressures, including the fierce competition in the market and the adjustment to the State policies, the Company maintained sustainable and stable development, with various activities carried out in an orderly manner. For the year ended 31 December 2012, revenue of the Group amounted to RMB2,447,132,000, representing an increase of 26.37% as compared with RMB1,936,418,000 for the corresponding period of last year; profit attributable to owners of the Company amounted to RMB330,171,000, representing an increase of 29.64% as compared with RMB254,687,000 for the corresponding period of last year.

Sales

During the year of 2012, with the focus on brand popularization, the Company further boost the scale and quality of the Company's overall operations by expanding its product portfolio, continuously strengthening its regional independence and actively expanding its distribution network, as well as pushing forward the progress of its strategic cooperation.

During the year, the Company continued to steadily expand its sales channels, optimized its end market cooperation network, and further explored the untapped markets. On the one hand, the Company continued to expand and improve its distribution networks in the new region, as well as explored the untapped markets in a targeted manner through strategic cooperation. On the other hand, the Company further explored end markets by focusing on brand popularization. The Company increased the frequency and diversified the format of the theme-based promotional activities by adopting the end market display cases and targeting different seasons and products, so as to raise the end sales rate of products.

During the year, the Company continued to enhance and maintain its brand value and constantly enlarged the scale of its product portfolio relying on its consumers' confidence in our brand. Meanwhile, the Company, by utilizing its advantage of complete variety of products and great diversification of drug forms, implemented differentiated sales models in each sub-market, segmented the market and developed market positioning on target consumer groups. The Company strengthened promotions of cardiovascular and cerebrovascular, nutritional as well as gynecological and pediatric medicines, thereby driving the hierarchical development as well as overall growth of the product portfolio.

During the year, the Company produced and sold more than one hundred kinds of products, of which 26 kinds of products respectively achieved sales of more than RMB10 million; and 16 kinds of products respectively achieved sales in the range between RMB5 million and RMB10 million. The scale of the product portfolio was further enlarged. Among the major products of the Company, the sales of Liuwei Dihuang Pills (六味地黄丸) series grew by 5.86% as compared with the corresponding period of last year, the sales of Niuhuang Jiedu Tablets (牛黄解毒片) series grew by 29.97% as compared with the corresponding period of last year. Except the sales of Ganmao Qingre Grannule (感冒清熱顆粒) series maintained stable as compared with the corresponding period of last year, there was a remarkable increase in the sales of some other product series including Xihuang Pills (西黃丸) series, JinKui Shenqi Pills (金匱腎氣丸) series, Fufang Danshen Tablets series(復方丹參片), Shengmai Liquor (生脈飲) series which grew by more than 20% over the corresponding period of last year.

With regard to overseas markets, as the global economy remained sluggish during the year, domestic companies struggled with tough conditions in the export market. Faced with this complicated external environment, the Company achieved stable growth of sales revenue by focusing on promoting traditional Chinese medicine culture in overseas markets and taking full advantage of its strength in brand and product quality. In 2012, the export sales of the Company's products amounted to RMB60,004,300, representing an increase of 69.34% over last year. For the purpose of further expanding the sales of Tong Ren Tang brand of products in the overseas market, on 29 October 2012, the Company entered into an exclusive distributorship framework agreement with Beijing Tong Ren Tang Chinese Medicine Company Limited ("**Tong Ren Tang Chinese Medicine**"), pursuant to which Beijing Tong Ren Tang International Natural-Pharm Company Limited ("**International Pharm**"), a wholly-owned subsidiary of Tong Ren Tang Chinese Medicine, is appointed as the sole overseas distributor of the Group for the distribution of the relevant products of the Group outside of the PRC mainland from 1 November 2012 to 31 December 2014, so as to take full advantage of the increasingly growing overseas distributorship network of Tong Ren Tang Chinese Medicine.

Production

In 2012, the Company produced more than ten forms of products including pills, tablets, granules, capsules and liquid. With the aim to raise the level of mechanization, the Company strengthened equipment renovation and upgrading, developed potential productivity, and finished the installation and testing of the syrup grouting machine, oral liquid grouting machine and the automated mini-pill grouting line which were also put into operation during the year, so as to further enhance the Company's production capacity. At the same time, each branch factory continued to deepen efforts in energy consumption reduction, waste reduction and production efficiency enhancement, and upgraded the skills of technical staff with job-specific training and job rotation, so as to seek higher profitability from innovation and better management. Moreover, each branch factory conscientiously explored the "branch system" and improved the information technology and network construction, realizing the efficient and real-time information flows and also improving the scope and capability of the extensive management of each branch factory.

As the 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 Company**"), which is located at Tongzhou District, Beijing, has produced semi-finished goods for different forms of medicines of the Company since 2007. As at 31 December 2012, Tongke Company had a total investment of RMB 75 million, of which RMB 71.25 million was cumulatively contributed by the Company, representing 95% of the total investment; and RMB3.75 million was cumulatively contributed by Beijing Tongzhou NiuBaoTun Medicine Processing Factory, representing 5% of the total investment. In 2012, the semi-finished goods produced by Tongke Company effectively satisfied the production needs of the Company.

THE DRUG STORE IN CENTRAL, HONG KONG

Beijing Tong Ren Tang (Tangshan) Nurtition and Healthcare Co., Ltd.(“**Tangshan Company**”), which is located in Tangshan, Hebei Province, was jointly invested and established by the Company, Tong Ren Tang Chinese Medicine, Tangshan Jiayi Packaging Industries Co., Ltd. (唐山佳藝包裝工業有限公司) and Bozhou Jingqiao Medicine Co., Ltd. (亳州市京譙醫藥有限責任公司). The registered capital of Tangshan Company are RMB 120,000,000, among which as to 6%, 68%, 20% and 6% is owned by the Company, Tong Ren Tang Chinese Medicine, Tangshan Jiayi Packaging Industries Co., Ltd. and Bozhou Jingqiao Medicine Co., Ltd., respectively. Tangshan Company completed the construction of all its production plants by the end of 2012 and is conducting equipment installation and testing and pre-production preparations. When completed and put into operation, Tangshan Company will focus on producing gel products, so as to lay a solid foundation for further development of the Group in gel industry.

Management and Research and Development

With regard to raw material procurement, during the year of 2012, the Company closely watched changes in the price of Chinese medical raw material, made reasonable judgments about future price trends, lowered procurement costs as much as possible and managed inventories in a scientific manner, so as to effectively avoid market price risks while ensuring the quality of raw materials procured. In addition, the Company further strengthened supplier management, selected and assessed suppliers in a dynamic fashion, thus ensuring the quality of the Company’s raw material supplies.

During the year of 2012, the Company remained vigilant at the peace time. Seizing the opportunity of the implementation of the new edition of GMP, the Company strengthened the authority of quality management, improved the quality inspection system and reduced the risks in its quality management system, thereby ensuring the safety and stability of the Company’s products. During the year, 15 production lines of the Company involving 11 forms of drugs passed the new edition of GMP certification.

Based on its orientation of specialization and the consideration of whether the product can bring in business value in the future, the Company strengthened its effects in research and development on product serialization and the transformation of research and development results into actual products. During the year, the Company successfully finished the quality studies on a number of ointments such as Qiuli Runfei Ointment and the research on several new medicine forms. In the meantime, the staff in research and development division continued to adhere to the notion of prioritizing production and operations, and resolved the technical issues in a timely manner by leveraging on the existing production portfolio resources and technological advantages to ensure the production being carried out in an orderly manner.

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**”), located at Nansanhuan Zhonglu, Fentai District, Beijing, is the only retail drugstore invested and established by the Company in PRC Mainland.

In 2012, 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" and leveraging on the brand of Tong Ren Tang, Nansanhuan Zhonglu Drugstore achieved a powerful increase in its sales revenue by strongly controlling the medicine quality and improving the service level. In 2012, Nansanhuan Zhonglu Drugstore realized a revenue of RMB 68,762,300, representing an increase of 15.07% as compared with the corresponding period of last year.

Chinese Medicinal Raw Materials Production Bases

Currently, the Company has established six subsidiaries in Hebei Province, Henan Province, Hubei Province, Zhejiang Province, Anhui Province, Jilin Province respectively, which can provide the Company with major traditional Chinese medicinal raw materials such as cornel (山茱萸), Tuckahoe (茯苓) and catnip (荊芥).

During the year of 2012, while conducting raw material collection and processing, the Chinese medical raw material production bases under the Company further upgraded their internal control and lowered their operational risks. Each production base, while ensuring a steady increase in the supplies of major raw materials, rigorously implemented national quality standards to safeguard the quality of raw materials. In 2012, all of these Company's production bases for traditional Chinese medicinal raw materials achieved a sales revenue of RMB 115,593,200, representing an increase of 3.42% as compared with the corresponding period of last year. These 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. Its major products include lotion, cream, facial and eye masks and liposome skincare products. During the year of 2012, Tong Ren Tang WM continued to strengthen its production portfolio construction and diversifying its product mix with a range of newly developed facial masks under the Hancao Zhiyuan series. In addition, Tong Ren Tang WM continued to promote the construction of directly-operated end sales channels by establishing special sales counters in more drug stores or shopping malls. During the year, Tong Ren Tang WM was granted an invention patent of "Compound freckle removing and whitening Chinese herbal medicine for external use" by the State Intellectual Property Office of the PRC. In 2012, Tong Ren Tang WM generated a total revenue of RMB 53,001,400, representing an increase of 34.50% as compared with last year.

Sales Network Outside Mainland China

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 the end of 31 December 2012, its total investment amounted to HK$201,430,000, of which the Company representing 53.09% and Tong Ren Tang Ltd. representing 46.91%. Tong Ren Tang Chinese Medicine is principally engaged in construction of overseas distribution network and distribution of products of TRT brand and other Chinese medicine health products, and development, production and sales of its own products.

During the year of 2012, Tong Ren Tang Chinese Medicine continued its endeavors in promoting traditional Chinese medicine culture in overseas markets and raising market recognition of Chinese medical products and Chinese medicine consulting services. Tong Ren Tang Chinese Medicine expanded its overseas distribution network by moving into new overseas markets and increasing the retail drugstores in existing markets. During the year, Tong Ren Tang Chinese Medicine established Beijing Tong Ren Tang (Poland) Co., Ltd. in Poland and added a number of retail drugstores in Hong Kong, Singapore, Canada and Australia. As at the end of 2012, Tong Ren Tang Chinese Medicine had established thirteen joint ventures in twelve countries and regions outside the PRC mainland and Hong Kong (Macau, Malaysia, Canada, Indonesia, Korea, Thailand, Australia, Singapore, Brunei, Cambodia, United Arab Emirates and Poland). Upholding the splendid tradition of Beijing Tong Ren Tang and the combination of "illustrious brand", "quality medicine" and "top doctors", each joint venture and stores conducted the distribution operations of the Chinese medicine products in its respective locations with positive performance. In 2012, the said thirteen joint ventures achieved an aggregate sales revenue of RMB 126,139,400, representing a growth of 33.47% as compared with RMB 94,504,600 for the corresponding period of the previous year.

At the same time, 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, and has obtained the Manufacturer Certificate (Good Manufacturing Practice in respect of Proprietary Chinese Medicines) issued by Chinese Medicines Traders Committee under Chinese Medicine Council of Hong Kong. Tong Ren Tang Chinese Medicine currently manufacture two products to distribute in the overseas market, namely Angong Niuhuang Pills and Sporoderm-broken Ganoderma Lucidum Spores Powder Capsules.

In 2012, Tong Ren Tang Chinese Medicine and its subsidiaries and joint ventures generated a total revenue of RMB 386,677,100, representing an increase of 65.03% as compared with RMB 234,302,500 for the corresponding period of last year.

FINANCIAL REVIEW

Liquidity and Financial Resources

The Group has maintained a sound financial position. During the year of 2012, the Group's primary source of funds was cash generated from operating activities and bank loans. As at 31 December 2012, the Group had cash and cash equivalents amounted to RMB844,034,000(31 December 2011: RMB671,695,000), and short-term bank borrowings of RMB128,678,000(31 December 2011: RMB125,000,000), of which, the unsecured short-term bank borrowing amounted to RMB 125,000,000 (31 December 2011: RMB125,000,000), carrying an interest rate of 6.321% (2011: 6.459%) per annum; and the short-term bank borrowing secured by properties amounted to RMB3,678,000 (31 December 2011: Nil), carrying an interest rate of 4.400% (2011: Nil) per annum.

As at 31 December 2012, the total assets of the Group amounted to RMB 3,168,946,000 (31 December 2011: RMB2,817,879,000). The funds comprised of non-current liabilities of RMB 57,479,000 (31 December 2011: RMB57,324,000), current liabilities of RMB887,218,000 (31 December 2011: RMB 821,485,000), equity attributable to owners of the Company of RMB1,936,038,000 (31 December 2011: RMB1,718,888,000) and non-controlling interests of RMB288,211,000 (31 December 2011: RMB220,182,000).

Capital Structure

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

During the year of 2012, the Group's primary source of funds was cash generated from operating activities and bank loans, which were mainly used for production and operation activities, disposal of the non-current assets and repayment of bank loans and loan interest, etc.

The Group mainly uses Renminbi to make borrowings and loans and to hold cash and cash equivalents.

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 its capital on the basis of the gearing ratio. This ratio is calculated as total borrowings divided by total equity. Total borrowings include 'current and non-current borrowings' as set out in the consolidated balance sheet. Total equity was set out in the consolidated balance sheet.

Gearing and Liquidity Ratios

As at 31 December 2012, the Group's gearing ratio, the ratio between total borrowings and equity attributable to owners of the Company, was 0.07 (31 December 2011: 0.07). The Group's liquidity ratio, the ratio between current assets over current liabilities, was 2.80 (31 December 2011: 2.70), reflecting that the Group had flourishing financial resources.

Charges over Assets of the Group

As at the end of 31 December 2012, the carrying amount of the properties pledged as security for the Group's bank borrowings was RMB6,368,000 (31 December 2011: Nil). The details are set out in Note 7 to the consolidated financial statements.

Contingent Liabilities

The Group had no contingent liabilities as at 31 December 2012 (31 December 2011: Nil).

Foreign Currency 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

As at 31 December 2012, the capital commitments of the Group relating to the constructions of production facilities which had been contracted for but had not been reflected in the consolidated financial statements of the Group amounted to approximately RMB170,426,000 (31 December 2011: RMB 21,287,000).

Significant Investment/Material Acquisitions and Disposals of Assets

During the year of 2012, the Group did not have any significant investment, material acquisitions or disposals of assets.

FUTURE INVESTMENT PLAN

As at the end of 2012, the Company had bought a total industrial land of approximately 108,700 square meters in Da Xing Bio-Pharm Industrial Base at Zhongguancun Technology Park District, Beijing, for the construction of Da Xing Production Base ("**Da Xing Base**"). The total investment of Da Xing Base is expected to be approximately RMB1,088 million, which will be paid by internal funds, bank borrowings or others. Currently, preparation work at the early stage of construction such as designing and planning, documents submission and approval and invitation for bids is under way. The Company also had bought a total industrial land of approximately 55,000 square meters in Qiaocheng District, Bo Zhou City, for the construction of Bo Zhou Base for pre-processing and logistics of Chinese medicine materials ("**Bo Zhou Base**"). The total investment of Bo Zhou Base is expected to be approximately RMB185 million, which will be paid by internal funds, bank borrowings or others. Civil engineering and construction has commenced during the year. Upon the completion of the construction, Da Xing Base will become an integrated industrial base with functions of both production and technology research for all forms of Chinese medicines such as solid dosage form and liquid formulation, and Bo Zhou Base will provide the Company with the traditional Chinese medicine raw materials after pure selection and pharmaceutical processing, which aims at enhancing the production capacity of the Company and improving its supply chain.

On 1 March 2012, the Company and Tong Ren Tang Ltd. established Beijing Tong Ren Tang Chinese Medicine (Hong Kong) Group Co., Ltd. (“**Chinese Medicine Group Co., Ltd.**”) in Hong Kong. The issued share capital of Chinese Medicine Group Co., Ltd. was HK$10,000, of which 53.09% and 46.91% were owned by the Company and Tong Ren Tang Ltd. respectively. On 25 January 2013, the Company and Tong Ren Tang Ltd. entered into a capital increase agreement, pursuant to which the Company and Tong Ren Tang Ltd. agreed to increase their investment in Chinese Medicine Group Co., Ltd. on a pro rata basis by cash respectively. Upon completion of the capital increase, the total investment in Chinese Medicine Group Co., Ltd. was increased to HK$75,000,000, which was remained to be owned by the Company and Tong Ren Tang Ltd. as to their previous shareholding percentage. Chinese Medicine Group Co., Ltd. co-operates with Asia-Pacific Satellite Television Co., Ltd. to open up a healthcare satellite TV channel to introduce the Chinese Medicine culture and the history of Beijing “Tong Ren Tang” Chinese Medicine; introduce the knowledge of Chinese Medicine; and promote the “Tong Ren Tang” brand and the healthcare concept, thereby promoting the spread of the culture of Chinese medicine and the long history of Beijing Tong Ren Tang. (For details, please refer to the announcement of the Company dated 25 January 2013.)

FUTURE PROSPECTS

In 2013, continuously sticking to the basis of sustained and healthy development, the Company will forge ahead and strive for a more sustainable, stronger and larger Tong Ren Tang.

1. *Strengthening product development and emphasizing on channel construction to achieve new progress in marketing model reform*

The Company will conduct in-depth market analysis and utilize its advantages to continuously develop innovative marketing models. Through prioritizing the improvement of operational quality, giving overall consideration and coordinating development, the Company ultimately aims to achieve steady growth in the sales of its principal products and those with potential. In the meantime, the Company will further promote strategic cooperation based on the consolidation of mature channels, take full advantage of its brand and culture, and strive to expand the scale of regional sales, so as to improve the overall competitive advantages of the Company.

2. *Advancing construction projects and coordinating production and operations to create a new pattern of large-scale production*

The Company will accelerate project construction on the premise of quality assurance to lay a solid foundation for the realization of large-scale production. In addition, branch factories continue to strive for higher production efficiency through coordinated control and scientific planing. Given their own characteristics, branch factories enhance their production scheduling with rational layout to ensure that the Company’s products are able to meet market demand in a timely manner.

3. *Promoting functional adjustments and optimizing management system to achieve new breakthroughs in management transformation and upgrading*

The Company continues to strengthen the functional positioning of its departments and divisions. By combining reasonable decentralization and internal control and supervision, the Company clarifies the requirements of standardized management and reorganizes the management process to further perfect the establishment of the management system. Meanwhile, the Company continues the construction of its branch factories and subsidiaries through functional adjustment and process reorganization. By combining cultivation and development and strengthened supervision, the Company, with scientific design and steady progress, continuously improves the management and control procedure of its subsidiaries, thus achieving a sustained and healthy development of the Group as a whole.

Report of the Board of Directors

The Board is pleased to present the 2012 annual report together with the audited financial statements of the Group for the year ended 31 December 2012.

PRINCIPAL ACTIVITIES

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

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

	2012	2011
	RMB'000	RMB'000
Sales of medicine		
– Mainland China	**2,110,053**	1,744,805
– Outside Mainland China	**324,284**	174,062
	2,434,337	1,918,867
Agency Fee income for Distribution Services		
–Outside Mainland China	**12,795**	17,551
	2,447,132	1,936,418

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2012, sales to the five largest customers of the Group accounted for less than 30% (2011: less than 30%) of the total sales of the Group.

For the year ended 31 December 2012, purchases from the five largest suppliers of the Group accounted for less than 30% (2011: less than 30%) of the total purchases of the Group.

For the year ended 31 December 2012, none of the directors of the Company (the "**Directors**"), their respective associates, or to the knowledge of the Board, shareholders who are interested in more than 5% of the share capital of the Company, has any material 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 2012 are set out on pages 50 to 118 of the annual report.

FINAL DIVIDEND AND TAX

The Board proposed a final dividend (the "**Final Dividend**") of RMB0.25 (including tax) per share for the year ended 31 December 2012 (2011: RMB0.19 (including tax) per share) based on the Company's issued and fully paid share capital of 588,000,000 shares (2011: 588,000,000 shares), totaling RMB147,000,000 (2011: RMB111,720,000). The profit distribution proposal is subject to the approval by the shareholders at the 2012 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 aforesaid Notice.

An announcement containing information in relation to the last registration date and the period of closure of register of members for attending the 2012 annual general meeting of the Company and for receiving the proposed Final Dividend for the year ended 31 December 2012, will be published separately when the date of the 2012 annual general meeting of the Company is fixed.

SHARE CAPITAL

There was no movement in the share capital of the Company during this year. The details are set out in Note 15 to the consolidated financial statements.

PUBLIC FLOAT

During the year of 2012 and 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 satisfied the public float requirement 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 2012, the retained earnings attributable to owners of the Company were approximately RMB835,477,000 (31 December 2011: approximately RMB642,555,000).

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.

PENSION SCHEME

Details of the pension scheme of the Group are set out in Notes 2.19, 24 and 29 to the consolidated financial statements.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2012, the Group had a total of 2,931 employees (31 December 2011: 2,675 employees), of which the Company had 1,921 employees (31 December 2011: 1,827 employees). Remunerations of the employees of the Company are determined with reference to the prevailing market level as well as the performance, qualifications and experience of individual employee. Discretionary bonuses based on individual performance will be paid to the employees as recognition of and a reward for their contributions to the Company. Other benefits include contributions by the Company to the endowment insurance, medical insurance, unemployment insurance, industrial accident insurance, maternity insurance and housing fund. The Company also set up the senior management incentive plan (the "**Incentive Plan**"). Based on the growth rate of the audited profit attributable to owners of the Company as compared with the same for last year, the Board may appropriate certain funds within the pre-set percentage range to distribute to the members of the senior management. For details of the Incentive Plan, please refer to the circular of the Company dated 21 April 2011. In 2012, as approved by the Board, the Company distributed RMB2,817,600 to the members of the senior management according to the Incentive Plan.

STAFF QUARTERS

During the year of 2012:

1. the Company did not provide quarters to any of its staff (2011: Nil);

2. the Company made annual contributions to the housing fund based on certain percentages of the employees salaries for full-time employees.

3. the Company also provided housing allowance to its staff at an average of RMB80 per person per month (2011: RMB80 per person per month).

DIRECTORS AND SUPERVISORS

The Directors and supervisors of the Company (the "**Supervisors**") who held office during the year of 2012 or as at the date of this report are as follows:

Executive Directors

Mei Qun *(Chairman)*
Xie Zhan Zhong (Appointed as Vice-chairman on 22 August 2012)
Yin Shun Hai
Wang Yu Wei
Fang Jia Zhi

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 (Resigned as an employee representative Supervisor on 29 June 2012)
Bai Jian (Appointed as an employee representative Supervisor on 29 June 2012)

DIRECTORS' AND SUPERVISORS' SERVICE CONTRACTS

Each of the Directors and Supervisors has entered into a service contract with the Company for a term commencing on his or her appointment date to the conclusion of the 2014 annual general meeting.

None of the Directors or Supervisors has entered into any service contract with the Company that cannot be terminated by the Company within one year without payment of compensation (other than statutory compensation).

DIRECTORS' AND SUPERVISORS' INTERESTS IN CONTRACTS

During the year of 2012, 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 which was subsisting on the balance sheet date of the year or at any time during the year.

MANAGEMENT CONTRACT

During the year of 2012, the Company has not entered into nor was there 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 the Directors, Supervisors and members of the senior management are set out on pages 44 to 47.

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

CHANGE OF DIRECTORS AND SUPERVISORS

At the 2011 annual general meeting, Mr. Mei Qun, Mr. Yin Shun Hai, Mr. Wang Yu Wei, Ms. Fang Jia Zhi and Mr. Xie Zhan Zhong were re-elected as the executive Directors of the fifth session of the Board; Miss Tam Wai Chu, Mr. Ting Leung Huel and Mr. Jin Shi Yuan were re-elected as the independent non-executive Directors of the fifth session of the Board; Mr. Zhang Xi Jie and Mr. Wu Yi Gang were re-elected as the shareholder representative Supervisors of the fifth session of the Supervisory Committee, all with a term of office of three years commencing from the date of the 2011 annual general meeting to the date of the 2014 annual general meeting. Ms. Wang Yan Rong was also re-elected as an employee representative Supervisor of the fifth session of the Supervisory Committee at the employee representatives' general meeting of the Company, with a term of three years commencing from the date of the 2011 annual general meeting to the date of the 2014 annual general meeting. (For details, please refer to the announcement of the Company dated 22 May 2012.)

Ms. Wang Yan Rong, the employee representative Supervisor of the fifth session of the Supervisory Committee resigned as a Supervisor from 29 June 2012 due to job re-designation. On the same day, Mr. Bai Jian was elected as an employee representative Supervisor of the fifth session of the Supervisory Committee at the employee representatives' general meeting of the Company, with a term from 29 June 2012 to the date of the 2014 annual general meeting. (For details, please refer to the announcement of the Company dated 29 June 2012.)

On 22 August 2012, Mr. Xie Zhan Zhong, an executive Director, was elected as the Vice-chairman of the Company by the Board, with immediate effect. (For details, please refer to the announcement of the Company dated 22 August 2012.)

EMOLUMENTS OF DIRECTORS AND SUPERVISORS

All Directors and Supervisors are elected at the general meetings or the employee representatives' general meetings, and the Board is also authorized by the shareholders to fix the remuneration for each of Directors or Supervisors. The remuneration of Directors or Supervisors includes director's or supervisor's fees, basic salaries and allowance, employer's contribution to pension scheme and bonus. Except for the independent non-executive Directors and the external Supervisors, the Directors or Supervisors also holding management positions in the Group shall be paid remuneration by the Group corresponding to such management positions 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 and the external Supervisors are paid director's or supervisor's fees in line with the prevailing local market rate.

In 2012, Mr. Mei Qun, Mr. Xie Zhan Zhong, Mr. Yin Shun Hai, Mr. Wang Yu Wei and Ms. Fang Jia Zhi (each of whom is an executive Director) in their capacities as Directors did not receive any remuneration from the Company. Mr. Zhang Xi Jie, Mr. Bai Jian and Ms. Wang Yan Rong in their capacities as Supervisors did not receive any remuneration from the Company. Mr. Wang Yu Wei (executive Director), Ms. Fang Jia Zhi (executive Director), Mr. Bai Jian (employee representative Supervisor) and Ms. Wang Yan Rong (employee representative Supervisor), received remuneration from the Group corresponding to their respective management positions in the Group.

Details of the Directors' and Supervisors' emoluments or remuneration from the Group corresponding to their management positions in the Group for the year of 2012 and 2011 are set out in Note 28 to the consolidated financial statements.

EMOLUMENTS OF SENIOR MANAGEMENT

The emoluments paid to the senior management of the Company which is mentioned in the annual report (except two Directors and two Supervisors (2011: two Directors and one Supervisor)) by band are as follows:

	Number of senior management	
Emoluments by Band	**2012**	2011
RMB 0-500,000	**2**	5
RMB 500,001-1,000,000	**4**	1
RMB 1,000,001-1,500,000	**1**	–

DIRECTORS', SUPERVISORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2012, 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, Chapter 571 of the Laws of Hong Kong, 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 requirements in the Model Code for Securities Transactions by Directors of Listed Companies ("**Model Code**") as set out in Appendix 10 to the Listing Rules, were as follows:

Long Positions in Shares

The Company

Name	**Type of interests**	**Capacity**	**Number of shares** (Note)	**Percentage of domestic shares**	**Percentage of total registered share capital**
Mr. Yin Shun Hai	Personal	Beneficial owner	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 interests	Capacity	Number of shares (Note)	Percentage of total registered share capital	Number of convertible bonds
Mr. Yin Shun Hai	Personal	Beneficial owner	116,550	0.009%	–
Mr. Mei Qun	Personal	Beneficial owner	93,242	0.007%	–
	Personal	Beneficial owner	–	–	86,000

Note: All represented A shares.

Beijing Tong Ren Tang International Co., Limited

Name	Type of interests	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 2012, 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 requirements in the Model Code.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2012, the following persons (other than the Directors, Supervisors and the chief executive of the Company) had interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO:

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 *(Note 2)*	Interest of controlled corporation by the substantial shareholder	300,000,000	92.013%	–	51.020%
	Beneficial owner	4,740,000	1.454%	–	0.806%
Yuan Sai Nan *(Note 3)*	Beneficial owner	18,360,000(L)	–	7.009%	3.122%
Commonwealth Bank of Australia *(Note 4)*	Interest of controlled corporation by the substantial shareholder	15,953,000(L)	–	6.090%	2.713%

Notes:

(1) (L) – Long position

(2) Such shares were held through Tong Ren Tang Ltd.. As at 31 December 2012, Tong Ren Tang Ltd. was owned as to 55.24% by Tong Ren Tang Holdings. According to Part XV of the SFO, Tong Ren Tang Holdings was deemed to be interested in the 300,000,000 shares held by Tong Ren Tang Ltd.

(3) As known to the Directors, on 13 May 2011, this shareholder held 6,120,000 H shares of the Company. Upon completion of the bonus issue of shares of the Company on 20 May 2011 and as of 31 December 2012, he held 18,360,000 H shares of the Company.

(4) As at 31 December 2012, Commonwealth Bank of Australia indirectly held 15,953,000 H shares of the Company in long position through a series of entities under its control.

Save as disclosed above, as at 31 December 2012, the Directors were not aware of any other person (other than the Directors, Supervisors and the chief executive of the Company) who had any interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO.

COMPETING INTERESTS

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

Both the Company and Tong Ren Tang Ltd. engage in the production and sale of Chinese patent medicines, but the principal products of each of them 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 (同仁堂大活絡丸), 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 honeyed 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 Holdings 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. is 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 above, the Directors confirm that none of the other products of the Company is in direct 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, honeyed 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 the 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 to exercise 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 2012, 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 in 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 includes but not limited to the options, pre-emptive rights or first rights of refusal 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 2012.

4 We also agree that this confirmation be published in the Company's 2012 annual report.

We further undertake that if we become aware of any data or information in the future which constitutes 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.
19 March 2013

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, 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 includes but not limited to the options, pre-emptive rights or first rights of refusal 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 2012.

4 We also agree that this confirmation be published in the Company's 2012 annual report.

We further undertake that if we become aware of any data or information in the future which constitutes 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
19 March 2013

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 is based on the rate of RMB53.95 per sq.m and is payable in cash on the 20th day of December of each year. On 18 January 2011, the Company applied the annual cap of such agreements for each of the three years ended 31 December 2013. The annual cap of the rental fee for each of the three years ending 31 December 2013 was RMB3,000,000.

For the year ended 31 December 2012, the rental fee paid by the Company to Tong Ren Tang Holdings amounted to RMB2,364,000, which does not exceed the relevant 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.

For the year ended 31 December 2012, the storage fee paid by the Company to Tong Ren Tang Holdings amounted to RMB2,916,000, which does not exceed the relevant 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 (either directly owned or indirectly owned) and its associates (excluding the Company) in which it directly or indirectly hold interest (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.

For the year ended 31 December 2012, sales by the Group to the Tong Ren Tang Group amounted to RMB304,073,000, which does not exceed the relevant 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 Chinese medicine raw materials and semi-finished products and finished products (the "**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 on terms no less favourable than those 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 finished products were RMB35,000,000, RMB35,000,000 and RMB40,000,000, respectively.

For the year ended 31 December 2012, purchase of the raw materials and semi-finished products and purchase of finished products by the Group from the Tong Ren Tang Group amounted to RMB27,156,000 and RMB29,543,000, respectively, both of which do not exceed the relevant annual caps.

Tong Ren Tang Holdings is the ultimate holding company of the Company, and thus a connected person of the Company pursuant to the Listing Rules. As such, all the transactions between Tong Ren Tang Holdings and the Company under the aforementioned agreements constitute continuing connected transactions of the Company. For details about the aforementioned transactions, please refer to the relevant announcements of the Company dated 18 January 2011 and dated 28 February 2011.

Continuing Connected Transactions with Tong Ren Tang Chinese Medicine

(i) Overseas Agency Agreements

On 2 March 2010, the Company entered into the overseas agency 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 agency fees under the overseas agency agreement were RMB 4,500,000, RMB 4,800,000 and RMB 5,000,000 for each of the three financial years ending 31 December 2012, respectively. On the same date, Tong Ren Tang Ltd. entered into the Tong Ren Tang overseas agency 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 agency fee under the Tong Ren Tang overseas distribution agreement were RMB 17,000,000, RMB 19,000,000 and RMB 21,000,000 for each of the three financial years ending 31 December 2012, respectively.

For the year ended 31 December 2012, the agency fees paid by the Company and Tong Ren Tang Ltd. to Tong Ren Tang Chinese Medicine for the continuing connected transactions contemplated under the overseas agency agreement and the Tong Ren Tang overseas agency agreement amounted to RMB4,017,000 and RMB12,795,000 respectively, both of which do not exceed the relevant annual caps.

(ii) Exclusive Distributorship Framework Agreements

On 29 October 2012, the Company entered into an exclusive distributorship framework agreement with Tong Ren Tang Chinese Medicine, for a term from 1 November 2012 to 31 December 2014. Pursuant to the agreement, the Company appoints International Pharm, a wholly-owned subsidiary of Tong Ren Tang Chinese Medicine, as its sole overseas distributor for the purpose of the distribution of the relevant products of the Group (for the purpose of the exclusive distributorship framework agreement, the Group refers to the Company and its subsidiaries and joint ventures and associates, excluding Tong Ren Tang Chinese Medicine and its subsidiaries and joint ventures and associates) outside the PRC. Within the term of the agreement and for the purpose of the overseas distribution of the relevant products of the Group, International Pharm will procure from the Group, and the Group shall supply to International Pharm, the relevant products as agreed by the parties. The price of the relevant products supplied by the Group to International Pharm shall not be higher than the wholesale price of the relevant products sold by the Group to the wholesale customers in the PRC and shall be determined with reference to the then prevailing market price. The annual caps for the total amount paid by International Pharm to the Group for the continuing connected transactions contemplated under the exclusive distributorship framework agreement for the two months ended 31 December 2012 and the two years ending 31 December 2014 amount to RMB1 million, RMB10 million, and RMB12 million, respectively. On the same day, Tong Ren Tang Ltd. entered into an TRT exclusive distributorship framework agreement with Tong Ren Tang Chinese Medicine, for a term from 1 November 2012 to 31 December 2014. Pursuant to the agreement, Tong Ren Tang Ltd. appoints International Pharm as its sole overseas distributor for the purpose of the distribution of the relevant products of Tong Ren Tang Ltd. Group (for the purpose of the TRT exclusive distributorship framework agreement, Tong Ren Tang Ltd. Group refers to Tong Ren Tang Ltd. and its subsidiaries and joint ventures and associates, excluding the Company and its subsidiaries and joint ventures and associates) outside the PRC. Within the term of the agreement and for the purpose of the overseas distribution of the relevant products of Tong Ren Tang Ltd. Group, International Pharm will procure from Tong Ren Tang Ltd. Group, and Tong Ren Tang Ltd. Group shall supply to International Pharm, the relevant products as agreed by the parties. The price of the relevant products supplied by Tong Ren Tang Ltd. Group to International Pharm shall not be higher than the wholesale price of the relevant products sold by Tong Ren Tang Ltd. Group to the wholesale customers in the PRC and shall be determined with reference to the then prevailing market price. The annual caps for the total amount paid by International Pharm to Tong Ren Tang Ltd. Group for the continuing connected transactions contemplated under the TRT exclusive distributorship framework agreement for the two months ended 31 December 2012 and the two years ending 31 December 2014 amount to RMB4 million, RMB40 million, and RMB45.5 million, respectively.

For the two months ended 31 December 2012, no actual transation amount has occurred for the continuing connected transactions under the exclusive distributorship framework agreement and the TRT exclusive distributorship framework agreement.

Tong Ren Tang Ltd. is the direct controlling shareholder of the Company, which holds 51.02% interest in the Company, and 46.91% direct interest in Tong Ren Tang Chinese Medicine which is a non-wholly owned subsidiary of the company. Therefore, Tong Ren Tang Chinese Medicine and Tong Ren Tang Ltd. are both connected persons of the Company pursuant to the Listing Rules. As such, all the transactions between Tong Ren Tang Chinese Medicine and Tong Ren Tang Ltd., and between Tong Ren Tang Chinese Medicine and the Company under the abovementioned agreements constitute continuing connected transactions of the Company. For details about the aforementioned transactions, please refer to the relevant announcements of the Company dated 2 March 2010 and 29 October 2012.

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 non-exempt continuing connected transactions during 2012 disclosed by the Group above in accordance with Rule 14A.38 of the Listing Rules. And in respect of the disclosed continuing connected transactions:

(i) nothing has come to their attention that causes them to believe that the disclosed continuing connected transactions have not been approved by the Board.

(ii) for transactions involving the provision of goods or services by the Group, nothing has come to their attention that causes them to believe that the transactions were not, in all material respects, in accordance with the pricing policies of the Company.

(iii) nothing has come to their attention that causes them to believe that the transactions were not entered into, in all material respects, in accordance with the relevant agreements governing such transactions.

(iv) with respect to the aggregate amount of each of the continuing connected transactions, nothing has come to their attention that causes them to believe that the amount occurred under such continuing connected transactions have exceeded the annual caps disclosed in the previous announcements made by the Company in respect of each of the disclosed continuing connected transactions.

The independent non-executive Directors have reviewed the abovementioned continuing connected transactions and confirmed that for the year ended 31 December 2012:

(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 relevant annual caps as set out in relevant announcements of the Company.

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

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

In 2012, neither the Company nor any of 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 Laws or the Articles of Association of the Company (the "Articles of Association") to offer new shares on a pro-rata basis to exsiting shareholders.

INDEPENDENT AUDITOR

The accompanying financial statements were audited by PricewaterhouseCoopers ("PwC"). The Company did not change its auditor in any of the past three years. A resolution in relation to the re-appointment of PwC as the independent auditor of the Company for the year 2013 is to be proposed at the forthcoming 2012 annual general meeting.

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

Beijing, the PRC
19 March 2013

Report of the Supervisory Committee

To the Shareholders:

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 its work in a reasonable, cautious 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.

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. It also strictly and effectively monitored and supervised the significant policies and specific decisions made by the management of the Company to ensure that they were in compliance with the laws and regulations of the PRC and the Articles of Association, and in the interests of the Company's shareholders.

The Supervisory Committee has reviewed earnestly and approved the report of the Board, audited financial statements and the dividend payment proposal to be presented by the Board at the forthcoming 2012 annual general meeting. We are of the opinion that the Directors, 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 so that the Company is operated within the regulatory framework, and the internal control regime is increasingly improving. The transactions between the Company and associated companies were executed on terms in the interests of the shareholders of the Company as a whole and at fair and reasonable prices. Up till now, none of the Directors, general manager or senior management of the Company has been found to have abused their authority, damaged the interests of the Company or infringed upon the interests of the shareholders and employees of the Company, 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 2012 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 of the Supervisory Committee

Beijing, the PRC
19 March 2013

Corporate Governance Report

The Board believes that a good and steady framework of corporate governance is extremely important for the development of the Company. The Company has adopted the principles and standards contained in the Corporate Governance Code (the "Code") as set out in Appendix 14 to the Listing Rules as the Company's standards, and combined with its own experience, aiming to establish a good corporate governance structure. For the year ended 31 December 2012, the Company had always strictly complied with all the code provisions in the Code which comes into effect from 1 April 2012 and the Code on Corporate Governance Practices which was effective before 1 April 2012.

DIRECTORS' AND SUPERVISORYS' DEALING IN SECURITIES

The Company has adopted a Code of Conduct regarding securities transactions by the Directors and Supervisors on terms no less exacting than the required standards contained in the Model Code. Having made specific enquiry of all the Directors and Supervisors, all of them confirmed that they had complied with the required standards set out in the Model Code and the Code of Conduct of the Company for the year ended 31 December 2012.

BOARD OF DIRECTORS

The Company's business and operation are leaded and authorized to manage by the Board. Several powers shall be entrusted by the Board to the management, so that the management can formulate and implement the Company's scheme and operational planning, as well as conduct the Company's daily operation. The Board tries its best to monitor the performance of the management, while it is the management's responsibility to conduct the daily operation of the Company.

The Board has established 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 laws, the Board and the committees shall work under the well-established written terms of reference.

The Board convenes its plenary meeting at least once a quarter and when significant decision has to be made. The Board convened six meetings in 2012 to discuss and decide development strategies, major operational matters, financial matters and other matters of the Company as stipulated under the Articles of Association. The following table sets out the attendance of Directors at the Board meeting, Committee meeting, general meeting, and conference between the Chairman and independent non-executive Directors in 2012:

	Attendance/Number of meetings					
Directors	**Board meeting**	**Audit Committee meeting**	**Remuneration Committee meeting**	**Nomination Committee meeting**	**General meeting**	**Conference between the Chairman and independent non-executive Directors**
Executive Directors						
Mei Qun(Chairman)	6/6		2/2	1/1	1/1	1/1
Xie Zhan Zhong	6/6				1/1	
Yin Shun Hai	6/6				0/1	
Wang Yu Wei	6/6				1/1	
Fang Jia Zhi	6/6				1/1	
Independent non-executive Directors						
Tam Wai Chu, Maria	6/6	2/2		1/1	1/1	1/1
Ting Leung Huel, Stephen	6/6	2/2	2/2		1/1	1/1
Jin Shi Yuan	6/6	2/2	2/2	1/1	1/1	1/1

Note: Each Director attended the above meetings in person rather than by proxy.

Composition of the Board

The Directors are elected at the annual general meetings for a term of office of three years, and can be re-elected when the term expires. All the Directors of the Fifth Session of the Board were elected at the 2011 annual general meetings on 22 May 2012 with the term of office ending upon the conclusion of the 2014 annual general meeting.

The non-executive Directors are independent of the management with solid experience in business and finance, they make recommendations to the Board and management on the development of the Company, and provide balancing mechanism to protect the interests of shareholders and the Company as a whole.

All of the three independent non-executive Directors have been serving for more than nine years. In a circular to shareholders dated 3 April 2012 regarding the re-election of such independent non-executive Directors, the Company has confirmed the independence of the three persons and set out the reasons for their re-election pursuant to the provisions of the Listing Rules. Each of such persons was re-elected as the independent non-executive Director as approved at the 2011 annual general meeting by a separate resolution (please refer to the circular of the Company dated 3 April 2012 and the announcement of the Company dated 22 May 2012 for details).

According to the requirement of the Listing Rules, the Company has received the written confirmation of independence for the year of 2012 from all independent non-executive Directors. The Company considers that all independent non-executive Directors are independent of the Company.

For the year ended 31 December 2012, at any time the Board has complied with the minimum requirement of appointing at least three independent non-executive Directors and the number of independent non-executive Directors being at least one-third of the members of the Board under the Listing Rules, and it also met the requirement of having one independent non-executive Director with appropriate professional qualifications or accounting or related financial management expertise.

Responsibilities of the Board and Management

According to the Articles of Association, the Board is responsible for the general meeting and exercises the following powers:

- to convene general meetings and report its work to the general meeting;
- to implement the resolutions of general meetings;
- to determine the Company's business plans and investment plans;
- to formulate the Company's plans on annual financial budgets and final accounts;
- to formulate the Company's profit distribution plans and plans on making up losses;
- to formulate the proposals for increase or decrease of the registered capital of the Company and issue of corporate bonds;
- to formulate plans for merger, division and dissolution of the Company;
- to determine the establishment of the Company's internal management structure;
- to appoint or remove the manager of the Company and to appoint or remove the deputy manager and chief financial officer of the Company based on the nomination by the manager and to determine their remunerations;
- to formulate the basic management system of the Company;
- to formulate proposals for amendment to the Articles of Association;
- to determine the establishment of specific committees and to appoint and remove the relevant persons in charge.

Pursuant to the provisions of the Code, the terms of reference of the Board in respect of corporate governance are set out below:

- to formulate and review the principles and policies of the Company's corporate governance;
- to review and monitor the implementation of corporate governance policies by the Company as a whole and to ensure compliance with statutory and regulatory requirements;
- to review the Company's compliance with the Code and other rules applicable;
- to approve the Company's annual corporate governance report and its publication on the websites of the Stock Exchange and the Company;
- to formulate, review and monitor the shareholder communication policy to ensure its effectiveness;
- to review and monitor the training and continuous professional development of the Directors and senior management;
- to handle other corporate governance issues that the Board shall be responsible for.

According to the Articles of Association, the management are the executives of the Company, shall be accountable to the Board and exercise the following powers:

- to lead the Company's production, operation and management, organize to carry out the Board's resolutions;
- to organize the implementation of the Company's annual business plans and investment plans;
- to draft plans for the establishment of the Company's internal management structure;
- to draft the Company's basic management system;
- to formulate the basic rules and regulations of Company;
- to propose the appointment or dismissal of the Company's deputy manager(s) and chief financial officer;
- to appoint or dismiss management personnel other than those required to be appointed or dismissed by the Board;
- to exercise other powers conferred under the Articles of Association and by the Board.

Chairman of the Board and General Manager

Mr. Mei Qun is the Chairman of the Board and Mr. Wang Yu Wei is the general manager of the Company. The Chairman of the Board and the general manager of the Company are two clearly defined positions. The Chairman is responsible for the operation of the Board while the general manager is in charge of day-to-day operational management. The Board formulated and approved the Terms of Reference of Chairman and General Manager, which sets out their respective duties and powers in written form.

Continuous Professional Development of Directors

Directors should participate in continuous professional development to develop and update their knowledge and skills in order to ensure that they continue making contribution to the Board in an informed and appropriate manner. During the year ended 31 December 2012, Directors actively participated in training sessions to enhance their ability in performing their duties. Given the work requirement, Directors took part in training on directors' duties and role and the continuous responsibility of the directors of listed issuers; and read materials on their own initiative to learn about directors' job and responsibilities and the operations of the board of directors. Through such training, Directors further clarified their own responsibilities and reinforced their understanding and grasp of the supervision and standard operations of listed companies, thereby effectively enhancing their ability to perform their duties.

Directors	Attending training course	Reading relevant information
Executive Directors		
Mei Qun	✓	✓
Xie Zhan Zhong	✓	✓
Yin Shun Hai	✓	✓
Wang Yu Wei	✓	✓
Fang Jia Zhi	✓	✓
Independent non-executive Directors		
Tam Wai Chu, Maria	✓	✓
Ting Leung Huel, Stephen	✓	✓
Jin Shi Yuan	✓	✓

FINANCIAL REPORTING

The management provides members of the Board with updated information on a monthly basis, setting out relevant accounts data and financial position of the Company. This is to ensure Directors have sufficient information and knowledge about the Company's affairs to effectively fulfill their responsibilities and obligations.

The Directors acknowledged their responsibility for preparation of financial statements which shall give a true and fair view of the Company's state of business, 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 reasonable judgments and estimates; and

4. prepared the financial statements on a going concern basis.

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

INTERNAL CONTROL

The Board is committed to managing risk and maintaining a proper and effective system of internal control to safeguard the shareholders' interests and the Company's assets. Procedures have been established for safeguarding assets against unauthorized use or disposal; for maintaining proper accounting records; for the reliability of financial information used in the course of conducting business or for publication; and for ensuring compliance with the relevant laws and regulations.

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

AUDIT COMMITTEE

The Company has set up an Audit Committee with specific written terms of reference which deal clearly with its authority and duties pursuant to the relevant requirements of the Listing Rules and "A Guide For The Formation of An Audit Committee" compiled by the Hong Kong Institute of Certified Public Accountants. 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 to review the Company's annual and interim results and other related documents.

The Audit Committee comprises all the independent non-executive Directors, being Miss Tam Wai Chu, Maria, Mr. Ting Leung Huel, Stephen and Mr. Jin Shi Yuan, of which Mr. Ting Leung Huel, Stephen, the Chairman of the Committee, possesses appropriate professional qualification and financial experience.

During the year of 2012, the Audit Committee convened two meetings. The first meeting was held on 13 March 2012 to review and discuss the operating results, financial position and major accounting policies contained in the audited financial statements of the Group 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 reported by the auditors. The committee concluded the meeting with agreement to the contents of the 2011 annual report. The second meeting was held on 9 August 2012 to review and discuss the operating results, financial position and major accounting policies contained in the unaudited financial statements of the Group for the six months ended 30 June 2012, 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 2012 interim report.

In addition, the Audit Committee reviewed the effectiveness of the Company's financial control, internal control and risk management; made recommendation to the Board on matters relating to the re-appointment of the auditors; and held separate meetings with the auditor to discuss matters relating to its audit fees and other issues arising from the audit.

The Audit Committee held a meeting on 12 March 2013 to review and discuss the operating results, financial position and major accounting policies contained in the audited financial statements of the Group for the year ended 31 December 2012, as well as matters in relation to risk management, legal compliance and internal audit, and to listen to the result of audit reported by the auditors. The committee concurred in the contents of the 2012 annual report.

REMUNERATION COMMITTEE

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

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

According to Rule B.1.2 of the Code, the Remuneration Committee of the Company makes proposals to the Board with respect to the remuneration packages for individual executive Directors and senior management, including non-monetary benefits, pension rights and compensation (including the compensation for the loss or termination of office or appointment). The exact amount shall be determined by the Board according to the general meeting's authorization.

During the year of 2012, two meetings have been held by the Remuneration Committee. On 13 March 2012, the Committee reviewed and discussed the Directors', Supervisors' and senior management' emoluments for the year ended 31 December 2011. On 22 May 2012, the Committee reviewed and discussed the Directors' and Supervisors' emoluments and relevant service contracts.

NOMINATION COMMITTEE

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

(i) reviewing the framework, size and composition (including skills, knowledge and professional knowledge) of the Board on a regular basis and making proposals to the Board in respect of any proposed changes; and

(ii) identifying individuals suitably qualified to become Board members and selecting or making recommendations to the Board on the selection of individuals nominated for directorships.

The Nomination Committee is chaired by Mr. Mei Qun, the executive Director and the Chairman of the Board 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 account of the integrity of the relevant persons, their accomplishments and experience, their professional and educational background and other factors such as time to be devoted to the Company. Factors set out in Rule 3.13 of the Listing Rules shall be considered while assessing the independence of the independent non-executive Directors.

During the year of 2012, one meeting was held by the Nomination Committee. On 13 March 2012, the Committee reviewed and discussed the framework, number of members and composition of the Board, as well as reviewed and discussed the planning with respect to the re-election of Directors.

In addition, the Nomination Committee assessed the independence of the independent non-executive Directors; and reviewed the adequacy of time devoted by Directors in performing their duties.

CORPORATE GOVERNANCE

During the year of 2012, the Board reviewed the Company's compliance with the Code and other rules applicable according to the requirement of the Code, formulated and revised the rules in respect of the corporate governance, and approved the Company's annual corporate governance report and its publication on the websites of the Stock Exchange and the Company.

INDEPENDENT AUDITOR'S REMUNERATION

PwC was the independent auditor of the Company for the year ended 31 December 2012. Other than annual auditing services, PwC also provided the services for Tong Ren Tang Chinese Medicine in connection with the proposed initial listing of shares on the Growth Enterprise Market of the Stock Exchange. Save as disclosed above, PwC did not provide any non-auditing services to the Company or any company of the Group during the year.

The independent auditor's remuneration in respect of its audit and non-audit services for the year ended 31 December 2012 is set out in the section "auditor's remuneration" of Note 24 to the consolidated financial statements. In addition, the Company paid for auditor's expenses of lodging, meals and traveling during the period the auditing services were provided.

SHAREHOLDERS' RIGHTS AND COMMUNICATIONS WITH SHAREHOLDERS

The Board and senior management recognize that they represent the interests of all shareholders and that they need to enhance the value of the Company in full force. The major rights enjoyed by shareholders and how to enforce them are highlighted in the sections under "Shareholders' Rights and Obligations" and "Shareholders' General Meetings".

The Company attaches great importance to the communication with the shareholders and investors. The Company uses a number of channels to account for the performance and operations of the Company to shareholders, 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 on its website (http://www.tongrentangkj.com) by electronic means. The annual general meeting (the "AGM") provides a good opportunity for the communication between the Board and the shareholders of the Company. The Company regards the AGM as an important event in the 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. For the year ended 31 December 2012, the Company held conferences and/or conference calls, as well as arranged many field trip for investors.

The Company encourages the shareholders to involve in the Company's affair and to discuss the corporate business and prospects directly at the AGM or extraordinary general meeting (the "EGM").

Pursuant to the Articles of Association, two or more shareholders together holding 10% or more of the shares conferring the right to vote at the forthcoming EGM can sign and submit one or more written requests in the same format and content to the Board to request the convening of an EGM, with the issues to be discussed clearly stated. The Board shall convene an EGM as soon as possible upon receiving such written request(s). If the Board fails to issue a convening notice within 30 days after the receipt of such written request(s), the shareholders making the request may convene an EGM on their own within four months after the Board's receipt of such request(s). The procedure for convening the meeting shall be consistent with that for convening general meetings by the Board to the greatest extent possible.

At the AGM convened by the Company, shareholders holding 5% or more of the total voting shares shall have the right to make new proposals to the Company in writing. The Company shall incorporate the issues raised in the proposal that fall within the terms of reference of the general meeting into the meeting agenda.

Enquiries may be made to the Board either by contacting the Company Secretary through office and mailing address as set out under the Corporate Information of the annual report or directly by questions at the AGM or EGM.

General Meeting

During the year, the 2011 AGM was held at No. 52 Dong Xing Long Street, Dong Cheng District, Beijing, the PRC on 22 May 2012. The relevant resolutions proposed for approval at the above meeting and the percentage of the affirmative votes are as follows:

Ordinary Resolutions

1. To consider and, if thought fit, to approve the audited consolidated financial statements of the Company and its subsidiaries for the year ended 31 December 2011. (100% voted for the resolution)

2. To consider and, if thought fit, to approve the report of the Board for the year ended 31 December 2011. (100% voted for the resolution)

3. To consider and, if thought fit, to approve the report of the Supervisory Committee for the year ended31 December 2011. (100% voted for the resolution)

4. To consider and, if thought fit, to approve the proposal for payment of a final dividend of RMB0.19 per share (tax inclusive) for the year ended 31 December 2011. (99.998% voted for the resolution)

5. To consider and approve the re-election of Mr. Mei Qun as an executive Director of the Fifth Session of the Board with a term of three years commencing from the conclusion of the 2011 AGM to the date of the AGM to be convened in 2015; and to authorize the Board to fix the remuneration and to enter into the service contract with Mr. Mei Qun on and subject to such terms and conditions as the Board shall think fit and to do all such acts and things to give effect to such matters. (99.93% voted for the resolution)

6. To consider and approve the re-election of Mr. Yin Shun Hai as an executive Director of the Fifth Session of the Board with a term of three years commencing from the conclusion of the 2011 AGM to the date of the AGM to be convened in 2015; and to authorize the Board to fix the remuneration and to enter into the service contract with Mr. Yin Shun Hai on and subject to such terms and conditions as the Board shall think fit and to do all such acts and things to give effect to such matters. (100% voted for the resolution)

7. To consider and approve the re-election of Mr. Wang Yu Wei as an executive Director of the Fifth Session of the Board with a term of three years commencing from the conclusion of the 2011 AGM to the date of the AGM to be convened in 2015; and to authorize the Board to fix the remuneration and to enter into the service contract with Mr. Wang Yu Wei on and subject to such terms and conditions as the Board shall think fit and to do all such acts and things to give effect to such matters. (100% voted for the resolution)

8. To consider and approve the re-election of Ms. Fang Jia Zhi as an executive Director of the Fifth Session of the Board with a term of three years commencing from the conclusion of the 2011 AGM to the date of the AGM to be convened in 2015; and to authorize the Board to fix the remuneration and to enter into the service contract with Ms. Fang Jia Zhi on and subject to such terms and conditions as the Board shall think fit and to do all such acts and things to give effect to such matters. (100% voted for the resolution)

9. To consider and approve the re-election of Mr. Xie Zhan Zhong as an executive Director of the Fifth Session of the Board with a term of three years commencing from the conclusion of the 2011 AGM to the date of the AGM to be convened in 2015; and to authorize the Board to fix the remuneration and to enter into the service contract with Mr. Xie Zhan Zhong on and subject to such terms and conditions as the Board shall think fit and to do all such acts and things to give effect to such matters. (100% voted for the resolution)

10. To consider and approve the re-election of Miss Tam Wai Chu, Maria as an independent non-executive Director of the Fifth Session of the Board with a term of three years commencing from the conclusion of the 2011 AGM to the date of the AGM to be convened in 2015; and to authorize the Board to fix the remuneration and to enterinto the service contract with Miss Tam Wai Chu, Maria on and subject to such terms and conditions as the Board shall think fit and to do all such acts and things to give effect to such matters. (97.14% voted for the resolution)

11. To consider and approve the re-election of Mr. Ting Leung Huel, Stephen as an independent non-executive Director of the Fifth Session of the Board with a term of three years commencing from the conclusion of the 2011 AGM to the date of the AGM to be convened in 2015; and to authorize the Board to fix the remuneration and to enter into the service contract with Mr. Ting Leung Huel, Stephen on and subject to such terms and conditions as the Board shall think fit and to do all such acts and things to give effect to such matters. (97.14% voted for the resolution)

12. To consider and approve the re-election of Mr. Jin Shi Yuan as an independent non-executive Director of the Fifth Session of the Board with a term of three years commencing from the conclusion of the 2011 AGM to the date of the AGM to be convened in 2015; and to authorize the Board to fix the remuneration and to enter into the service contract with Mr. Jin Shi Yuan on and subject to such terms and conditions as the Board shall think fit and to do all such acts and things to give effect to such matters. (100% voted for the resolution)

13. To consider and approve the re-election of Mr. Zhang Xi Jie as a shareholder representative Supervisor of the Fifth Session of the Supervisory Committee with a term of three years commencing from the conclusion of the 2011 AGM to the date of the AGM to be convened in 2015; and to authorize the Board to fix the remuneration and to enter into the service contract with Mr. Zhang Xi Jie on and subject to such terms and conditions as the Board shall think fit and to do all such acts and things to give effect to such matters. (100% voted for the resolution)

14. To consider and approve the re-election of Mr. Wu Yi Gang as a shareholder representative Supervisor of the Fifth Session of the Supervisory Committee with a term of three years commencing from the conclusion of the 2011 AGM to the date of the AGM to be convened in 2015; and to authorize the Board to fix the remuneration and to enter into the service contract with Mr. Wu Yi Gang on and subject to such terms and conditions as the Board shall think fit and to do all such acts and things to give effect to such matters. (100% voted for the resolution)

15. To consider and approve the authorization to the Board to fix the remuneration and to enter into the service contract with Ms. Wang Yan Rong as an employee representative Supervisor on and subject to such terms and conditions as the Board shall think fit and to do all such acts and things to give effect to such matters. (100% voted for the resolution)

16. To consider and, if thought fit, to approve the re-appointment of PwC as the independent auditor of the Company for the year ending 31 December 2012, and to authorize the Board to fix its remuneration. (100% voted for the resolution)

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

Special Resolution

17. To consider and, if thought fit, to approve a general mandate to the Board to issue, allot and deal with (1)additional domestic shares not exceeding 20% of the domestic shares in issue; and (2) additional H shares not exceeding 20% of the H shares in issue, and to authorize the Board to make such corresponding amendments to the Articles of Association as it thinks fit so as to reflect the new capital structure upon the allotment and issue of the shares. (92.78% voted for the resolution)

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

ARTICLES OF ASSOCIATION

For the year ended 31 December 2012, no amendment was made to the Articles of Association.

Directors, Supervisors and Senior Management

EXECUTIVE DIRECTORS

Mr. Mei Qun, aged 56, 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 Tong Ren Tang Ltd.,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 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, the vice president of Beijing Enterprise Confederation, a standing committee member of China Association of Trade in Services and the vice president of Beijing Brand Association, the vice-president of Beijing Pharmaceutical Profession Association. He was also a special committee member of the Beijing's 14th National People's Congress ("NPC"),and the Dongcheng's 15th NPC. He is responsible for the overall decision-making of the Company. He is the compliance officer of the Company and responsible for overseeing all matters relating to the listing of the Company. He is one of the sponsors of the Company. 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 and 2012.

Mr. Xie Zhan Zhong, aged 60, vice chairman of the Company, 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 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 and 2012.

Mr. Yin Shun Hai, aged 59, 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 chairman of Tong Ren Tang Chinese Medicine, the chairman of Tong Ren Tang International, the director of Tong Ren Tang Ltd., the vice president of Beijing Federation of Industrial Economics, the president of Beijing Pharmacist Association, the president of Beijing Tong Ren Tang Society of Culture and a delegate to the 12th 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 and 2012.

Mr. Wang Yu Wei, aged 45, 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、15th and 16th NPC of Beijing. Mr. Wang was appointed as an executive Director on 25 June 2009 and 2012.

Ms. Fang Jia Zhi, aged 46, 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 and 2012.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Miss. Tam Wai Chu, Maria, aged 67, GBS, JP, LL.D (Honoris Causa), LL.B (Honours), barrister, is a member of the audit committee and a member of the nomination committee of the Company. She is currently an independent non-executive Director of six listed companies namely Guangnan (Holdings) Limited, Minmetals Land Limited, Nine Dragons Paper (Holdings) Limited, Sa Sa International Holdings Limited, Sinopec Kantons Holdings Limited and Wing On Company International Limited, all are listed on the Stock Exchange. 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 National People's Congress of The People's Republic of China and a member of the Hong Kong Basic Law Committee. Miss. Tam was appointed as an independent non-executive Director on 11 October 2000 and was re-elected at the annual general meetings in 2003, 2006, 2009 and 2012.

Mr. Ting Leung Huel, Stephen, MH, FCCA, FCPA (Practising), ACA, CTA(HK), FHKIoD, aged 59, is the chairman of the audit committee and a member of the remuneration committee of the Company. He is a non-executive Director of Chow Sang Sang Holdings International Limited and an independent non-executive Director of six listed companies namely Tongda Group Holdings 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,10th and 11th Chinese People's Political & Consultative Conference, Fujian. Mr. Ting is an accountant in public practice and the managing partner of Messrs. Ting Ho Kwan & Chan, Certified Public Accountants (Practising). Mr. Ting was appointed as an independent non-executive Director on 11 October 2000 and was re-elected at the annual general meetings in 2003, 2006, 2009 and 2012.

Mr. Jin Shi Yuan, aged 86, a chief pharmacist, is currently 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, 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, 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, and the technical consultant of China National (Group) Corporation of Traditional & Herbal 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 and 2012.

SUPERVISORS

Mr. Zhang Xi Jie, aged 58, chairman of the Supervisory Committee of the Company, is a senior accountant and Chinese certified public accountant with a postgraduate qualification. He served as the deputy head of finance department of Beijing Medicine Company, head of finance, accounting and pricing department, deputy manager of capital operation department of Beijing Medicine Group Limited, executive deputy head, head and deputy chief accountant of the development office of Tong Ren Tang Holdings. He is currently a director and the chief accountant of Tong Ren Tang Holdings, the chairman of the supervisory committee of Tong Ren Tang Ltd., director of Beijing Tong Ren Tang Health Pharmaceutical Co., Ltd., and Beijing Tong Ren Tang Pharmaceutical Co., Ltd., 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 and 2012.

Mr. Wu Yi Gang, aged 54, 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 2006,2009 and 2012.

Mr. Bai Jian, aged 53, 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. and the deputy general manager of the Company. He is currently the secretary to the Party Committee and the general audior 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 and Beijing Tong Ren Tang WM Dianorm Biotech Co., Limited. He was appointed as a supervisor of the Company on 29 June 2012.

SENIOR MANAGEMENT

Mr. Yang De Chun, aged 49, a Pharmacist-in-charge with a master degree. He formerly served as the a assistant to the factory manager and the deputy factory manager of Beijing TRT Pharma, the deputy factory manager of southern pharmaceuticals branch factory of Tong Ren Tang Ltd., the deputy factory manager of northern branch factory, the deputy factory manager of southern branch factory, the factory manager of northern branch factory, the secretary to the branch of Party Committee, the deputy secretary to the Party Committee, the secretary to the Disciplinary Committee and the Chairman of the labour committee of the Company. He is currently the deputy general manager of the Company.

Ms. Liu Cun Ying, aged 48, is a senior accountant with a bachelor degree. 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 48, is a senior engineer and a licensed pharmacist 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.

Mr. Chen Jia Fu, aged 44, a Pharmacist-in-charge and a licensed pharmacist with a master degree. He formerly served as the assistant to factory manager of southern pharmaceuticals branch factory of Tong Ren Tang Ltd., the deputy factory manager of southern branch factory, the factory manager of Yi Zhuang branch factory, the deputy secretary to the Party Committee, the secretary to the Disciplinary Committee and the Chairman of the labour committee of the Company. He is currently the deputy general manager of the Company.

Ms. Zhang Jing Yan, aged 39, 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 50 to 118, which comprise the consolidated and company balance sheets as at 31 December 2012, 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 2012, 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, 19 March 2013

Balance Sheets

As of 31 December 2012

		The Group		The Company	
	Note	**2012 RMB'000**	2011 RMB'000	**2012 RMB'000**	2011 RMB'000
ASSETS					
Non-current assets					
Leasehold land and land use rights	6	**140,961**	143,879	**95,718**	97,809
Property, plant and equipment	7	**518,247**	434,341	**274,181**	236,140
Investments in subsidiaries	8	**–**	–	**216,044**	215,845
Investments in joint ventures	9	**–**	–	**2,000**	2,000
Investment in an associate	10	**753**	1,554	**–**	–
Deposits paid for purchase of property, plant and equipment		**8,297**	–	**2,725**	–
Deferred income tax assets	14	**13,445**	18,901	**8,507**	8,356
Other long-term assets		**2,112**	293	**2,090**	256
		683,815	598,968	**601,265**	560,406
Current assets					
Inventories	13	**1,402,588**	1,328,034	**1,321,608**	1,265,543
Trade and bills receivables, net	12	**150,399**	142,857	**124,382**	123,913
Amounts due from related parties	32(d)	**12,833**	16,701	**9,122**	8,881
Prepayments and other current assets		**66,515**	50,217	**45,513**	32,273
Short-term bank deposits	31	**8,762**	9,407	**–**	–
Cash and cash equivalents	31	**844,034**	671,695	**567,829**	489,737
		2,485,131	2,218,911	**2,068,454**	1,920,347
Total assets		**3,168,946**	2,817,879	**2,669,719**	2,480,753
EQUITY					
Equity attributable to owners of the Company					
Share capital	15	**588,000**	588,000	**588,000**	588,000
Reserves	16				
– Proposed final dividend	27	**147,000**	111,720	**147,000**	111,720
– Other reserves		**1,201,038**	1,019,168	**1,080,622**	972,341
		1,936,038	1,718,888	**1,815,622**	1,672,061
Non-controlling interests		**288,211**	220,182	**–**	–
Total equity		**2,224,249**	1,939,070	**1,815,622**	1,672,061

The accompanying notes on pages 56 to 118 are an integral part of these financial statements.

Balance Sheets

As of 31 December 2012

	Note	The Group 2012 RMB'000	The Group 2011 RMB'000	The Company 2012 RMB'000	The Company 2011 RMB'000
LIABILITIES					
Non-current liabilities					
Deferred income tax liabilities	14	**3,241**	5,139	**–**	–
Deferred income – government grants	17	**54,238**	52,185	**36,912**	35,050
		57,479	57,324	**36,912**	35,050
Current liabilities					
Trade payables	19	**384,154**	466,483	**330,202**	441,202
Salary and welfare payables	20	**6,616**	3,574	**443**	507
Advances from customers		**116,084**	86,194	**102,844**	75,202
Amounts due to related parties	32(d)	**23,751**	37,092	**14,214**	16,033
Amounts due to subsidiaries		**–**	–	**45,141**	41,696
Current income tax liabilities		**14,261**	19,804	**3,952**	8,693
Other payables		**213,674**	83,338	**195,389**	65,309
Short-term borrowings	18	**128,678**	125,000	**125,000**	125,000
		887,218	821,485	**817,185**	773,642
Total liabilities		**944,697**	878,809	**854,097**	808,692
Total equity and liabilities		**3,168,946**	2,817,879	**2,669,719**	2,480,753
Net current assets		**1,597,913**	1,397,426	**1,251,269**	1,146,705
Total assets less current liabilities		**2,281,728**	1,996,394	**1,852,534**	1,707,111

Mei Qun
Director

Fang Jia Zhi
Director

The accompanying notes on pages 56 to 118 are an integral part of these financial statements.

Consolidated Income Statement

For the year ended 31 December 2012

	Note	2012 RMB'000	2011 RMB'000
Revenue	21	**2,447,132**	1,936,418
Cost of sales		**(1,202,510)**	(998,926)
Gross profit		**1,244,622**	937,492
Distribution costs		**(557,476)**	(402,221)
Administrative expenses		**(197,134)**	(184,859)
Other losses – net	22	**(9,096)**	(17,958)
Operating profit		**480,916**	332,454
Finance income	23	**9,142**	9,431
Finance costs	23	**(8,179)**	(4,650)
Finance income – net	23	**963**	4,781
Share of loss of an associate	10	**(801)**	(1,338)
Profit before income tax	24	**481,078**	335,897
Income tax expense	25	**(81,547)**	(54,444)
Profit for the year		**399,531**	281,453
Profit attributable to:			
Owners of the Company		**330,171**	254,687
Non-controlling interests		**69,360**	26,766
		399,531	281,453
Earnings per share for profit attributable to owners of the Company during the year	26		
– Basic		**RMB 0.56**	RMB 0.43
– Diluted		**RMB 0.56**	RMB 0.43

The accompanying notes on pages 56 to 118 are an integral part of these financial statements.

	Note	2012 RMB'000	2011 RMB'000
Dividends	27	**147,000**	111,720

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2012

	2012 RMB'000	2011 RMB'000
Profit for the year	**399,531**	281,453
Other comprehensive income/(expense):		
Foreign currency translation differences	**2,062**	(13,355)
Other comprehensive income/(expense) for the year, net of tax	**2,062**	(13,355)
Total comprehensive income for the year	**401,593**	268,098
Attributable to:		
Owners of the Company	**331,106**	248,176
Non-controlling interests	**70,487**	19,922
Total comprehensive income for the year	**401,593**	268,098

The accompanying notes on pages 56 to 118 are an integral part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2012

	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	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 and bonus shares paid to shareholders of the Company relating to 2010	392,000	(196,000)	–	–	–	–	–	(290,080)	(94,080)	–	(94,080)
Dividends paid to non-controlling interests relating to 2010	–	–	–	–	–	–	–	–	–	(2,085)	(2,085)
Business combinations	–	–	–	–	–	–	–	–	–	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
Balance as of 1 January 2012	**588,000**	**175,144**	**193,281**	**45,455**	**102,043**	**(23,520)**	**(4,070)**	**642,555**	**1,718,888**	**220,182**	**1,939,070**
Profit for the year	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**330,171**	**330,171**	**69,360**	**399,531**
Foreign currency translation differences	**–**	**–**	**–**	**–**	**–**	**935**	**–**	**–**	**935**	**1,127**	**2,062**
Dividends paid to shareholders of the Company relating to 2011	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(111,720)**	**(111,720)**	**–**	**(111,720)**
Dividends paid to non-controlling interests relating to 2011	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(4,031)**	**(4,031)**
Capital injection to a subsidiary	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**3,200**	**3,200**
Acquisition of additional interests in a subsidiary	**–**	**–**	**–**	**–**	**–**	**–**	**(185)**	**–**	**(185)**	**185**	**–**
Cost incurred for an intended listing of a subsidiary	**–**	**–**	**–**	**–**	**–**	**–**	**(2,051)**	**–**	**(2,051)**	**(1,812)**	**(3,863)**
Appropriation from retained earnings	**–**	**–**	**25,529**	**–**	**–**	**–**	**–**	**(25,529)**	**–**	**–**	**–**
Balance as of 31 December 2012	**588,000**	**175,144**	**218,810**	**45,455**	**102,043**	**(22,585)**	**(6,306)**	**835,477**	**1,936,038**	**288,211**	**2,224,249**

The accompanying notes on pages 56 to 118 are an integral part of these financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 December 2012

	Note	2012 RMB'000	2011 RMB'000
Cash flows from operating activities:			
Cash generated from operations	31	**493,133**	317,322
Interest paid		**(7,953)**	(4,281)
Income tax paid		**(83,532)**	(57,211)
Net cash generated from operating activities		**401,648**	255,830
Cash flows from investing activities:			
Purchase of property, plant and equipment		**(121,113)**	(91,387)
Purchases of land use rights		**(56)**	(75,956)
Purchase of other long-term assets		**(2,282)**	–
Proceeds from government grants relating to land use rights		**–**	25,993
Proceeds from government grants relating to property, plant and equipment		**3,550**	–
Proceeds from disposal of property, plant and equipment		**91**	1,340
Proceeds from short-term bank deposits		**9,407**	96,529
Increase in short-term bank deposits		**(8,762)**	(9,407)
Acquisition of subsidiaries achieved in stage, net of cash acquired		**–**	16,855
Interest received		**9,142**	9,431
Net cash used in investing activities		**(110,023)**	(26,602)
Cash flows from financing activities:			
Proceeds from short-term borrowings		**128,678**	125,000
Repayments of short-term borrowings		**(125,000)**	(15,000)
Capital injection from non-controlling interests		**3,200**	2,478
Cost incurred for an intended listing of a subsidiary during current year		**(11,343)**	(12,259)
Dividends paid to shareholders of the Company		**(111,720)**	(94,080)
Dividends paid to non-controlling interests		**(4,031)**	(2,085)
Net cash (used in)/generated from financing activities		**(120,216)**	4,054
Net increase in cash and cash equivalents		**171,409**	233,282
Cash and cash equivalents at beginning of the year		**671,695**	441,108
Exchange gains/(losses) on cash and cash equivalents		**930**	(2,695)
Cash and cash equivalents at end of the year	31	**844,034**	671,695

The accompanying notes on pages 56 to 118 are an integral part of these financial statements.

Notes to the Consolidated Financial Statements

31 December 2012

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 Mainland China 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 "Hong Kong 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. As of 31 December 2012, 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.

These consolidated financial statements have been approved for issue by the Board of Directors on 19 March 2013.

1. GENERAL INFORMATION (CONT'D)

As of 31 December 2012, 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

* *Shares directly held by the Company*

1. GENERAL INFORMATION (CONT'D)

Name	Place/date of incorporation/kind of legal entity	Percentage of equity interest held	Issued/ registered and paid-up capital	Principal activities/ place of operation
Subsidiaries: *(Cont'd)*				
Beijing Tong Ren Tang 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
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 Tang Chinese Medicine (Hong Kong) Group Co., Ltd. ("Tong Ren Tang Chinese Medicine Group")	Hong Kong, PRC 1 March 2012 Limited liability company	53.09%**	HK$10,000	Promotion of Chinese Medicine culture. Hong Kong, PRC
Beijing Tong Ren International Natural-Pharm Co., Ltd. ("International Pharm")	Beijing, PRC 6 March 2006 Limited liability company	100%	HK$10,000,000	Sale and distribution of Chinese medicine and healthcare products Beijing, PRC
Beijing Tong Ren Tong (Australia) Pty. Ltd. ("Tong Ren Tang Australia")	Sydney, Australia 20 May 2004 Limited liability company	75%	AUD1,000,000	Wholesale and retail of Chinese medicine, healthcare products and provision of Chinese Medical Consultation and treatment Brisbane and Sydney, Australia
Beijing Tong Ren Tong Science Arts (Singapore) Co Pte. Ltd. ("Tong Ren Tang Singapore")	Singapore 1 December 2003 Limited liability company	51%	SGD857,000	Wholesale and retail of Chinese medicine, healthcare products and provision of Chinese Medical Consultation and treatment Singapore

* *Shares directly held by the Company*

** *Shares directly held by the Company but not paid*

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 Tong (B) Sdn Bhd ("Tong Ren Tang Sdn Bhd")	Bandar Seri Begawan, Brunei 20 May 2009 Limited liability company	51%	BND100	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 provision of Chinese Medical Consultation and treatment Toronto, Canada
Beijing Tong Ren Tang (Tangshan) Nutrition and Healthcare Co., Ltd. ("Tangshan Company")	Hebei, PRC 13 September 2010 Limited liability company	74%***	RMB120,000,000	Production and sales of healthcare products and Chinese medicine Hebei, PRC
Beijing Tong Ren Tang (Macau) Company Limited ("Tong Ren Tang Macau")	Macau, PRC 6 November 2002 Limited liability company	51%	MOP1,000,000	Wholesale and retail of Chinese medicine, healthcare products and provision of Chinese Medical Consultation and treatment Macau, PRC
Beijing Tong Ren Tang Gulf FZLLC ("Tong Ren Tang Dubai")	Dubai, United Arab Emirates 8 June 2011 Limited liability company	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 Poland sp.zo.o. ("Tong Ren Tang Poland")	Warsaw, Poland 26 July 2012, Limited liability company	100%	Zloty50,000	Retail of healthcare products and provision of Chinese Medical Consultation and treatment and setting up educational centre of Chinese regimen Warsaw, Poland
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 administrative services to group companies Beijing, PRC

**** 6% of which directly held by the Company*

1. GENERAL INFORMATION (CONT'D)

The Group has the power to control the strategic operating, investing and financing policies of its subsidiaries since these policies are decided by the board of directors of these companies by simple majority votes and the Group can appoint more than half of the board members in each of these companies. Accordingly, they are considered as the Group's subsidiaries under International Financial Reporting Standards ("IFRS").

As of 31 December 2012, 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
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

* *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
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 2012, 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 2012

- Amendment to IFRS 1, 'First time adoption', on hyperinflation and fixed dates
- Amendment to IFRS 7, 'Financial instruments: Disclosures', on transfer of financial assets
- Amendment to IAS 12, 'Income taxes', on deferred tax

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

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

- Amendment to IFRS 1,'First time adoption', on government loans (effective for annual periods beginning on or after 1 January 2013)
- Amendment to IFRS 7, 'Financial instruments: Disclosures', on asset and liability offsetting (effective for annual periods beginning on or after 1 January 2013)
- 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)

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 (Cont'd)

- 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)

- Amendment to IFRSs 10, 11 and 12 on transition guidance (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)

- Amendment to IAS 1, 'Financial statements presentation', regarding other comprehensive income (effective for annual periods beginning on or after 1 July 2012)

- Amendment to IAS 19, 'Employee benefits' (effective for annual periods beginning on or after 1 January 2013)

- IAS 27 (revised 2011), 'Separate financial statements' (effective for annual periods beginning on or after 1 January 2013)

- IAS 28 (revised 2011), 'Associates and joint ventures' (effective for annual periods beginning on or after 1 January 2013)

- Amendment to IAS 32, 'Financial instruments: Presentation', on asset and liability offsetting (effective for annual periods beginning on or after 1 January 2014)

- IFRIC – Int 20, 'Stripping costs in the production phase of a surface mine' (effective for annual periods beginning on or after 1 January 2013)

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 (Cont'd)

- Annual improvements 2011

  – IFRS 1, 'First time adoption' (effective for annual periods beginning on or after 1 January 2013)

  – IAS 1, 'Financial statement presentation' (effective for annual periods beginning on or after 1 January 2013)

  – IAS 16, 'Property plant and equipment' (effective for annual periods beginning on or after 1 January 2013)

  – IAS 32, 'Financial instruments; Presentation' (effective for annual periods beginning on or after 1 January 2013)

  – IAS 34, 'Interim financial reporting' (effective for annual periods beginning on or after 1 January 2013)

The Group has started to assess the impact of the above new standards, amendment and interpretations and believes that it will be impacted by IFRS 11 and IAS 28 (revised 2011). Upon the adoption of the amendments in IAS 28 (revised 2011), the accounting of the Group's investment in joint ventures will change from proportionate consolidation to equity method of accounting. If the equity method of accounting was used to account for the Group's investment in joint ventures, net assets as of 31 December 2012 and 2011 and net profit for the years then ended will remain unchanged. Its income would be reduced by RMB21,867,000 and RMB53,312,000 respectively, its expenses would be reduced by RMB18,517,000 and RMB47,260,000 respectively, while its share of profit from joint ventures would be increased by RMB3,350,000 and RMB6,052,000 respectively.

Except for above analysis, none of the other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Group.

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

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.

(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.

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***

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.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date, any gains or losses arising from such re-measurement are recognised in 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

2.2 Subsidiaries *(Cont'd)*

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.

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

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.

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 Executive Directors in the Board of Directors that makes strategic decisions.

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

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'.

(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 other comprehensive income.

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

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.

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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

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.

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

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.

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.

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

2.13 Trade and other receivables (Cont'd)

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

2.14 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 and 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.

2.16 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.

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

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

(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.

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, joint ventures 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

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.

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

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.

2.24 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 mat ch 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.

3. FINANCIAL RISK MANAGEMENT (CONT'D)

3.1 *Financial risk factors (Cont'd)*

(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 2012, if RMB had weakened/strengthened by 5% (2011: 5%) against the Hong Kong dollar with all other variables held constant, post-tax profit for the year would have been RMB6,125,000 (2011: RMB3,170,000) 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 2012 than 2011 because of the increased amount of Hong Kong dollar denominated bank deposits.

(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 2012 and 2011, 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 18. 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 2012, main part of the bank deposits is due with state-owned banks, which are at lower credit risk.

3. FINANCIAL RISK MANAGEMENT (CONT'D)

3.1 Financial risk factors (Cont'd)

(b) **Credit risk** (Cont'd)

	The Group		The Company	
	2012	2011	**2012**	2011
	RMB'000	RMB'000	**RMB'000**	RMB'000
State-owned banks (Note 31(b))	**796,200**	641,341	**567,793**	489,708
Other banks	**55,540**	38,335	**–**	–
	851,740	679,676	**567,793**	489,708

(c) **Liquidity risk**

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

The following tables show the remaining contractual maturities at the balance sheet date of the Group's financial liabilities based on undiscounted cash flows and the earliest date the Group can be required to pay. Specifically, for the bank loans which contain a repayment on demand clause which can be exercised at the banks' sole discretion, the analysis shows the cash outflow based on the earliest period in which the Group can be required to pay, that is if the lenders were to invoke their unconditional rights to call the loans with immediate effect. Balances due within 12 months equal their carrying balances (including both interest and principal) as the impact of discounting is not significant.

3. FINANCIAL RISK MANAGEMENT (CONT'D)

3.1 *Financial risk factors (Cont'd)*

(c) Liquidity risk (Cont'd)

The Group:

	On demand RMB'000	Less than 1 year RMB'000	Total undiscounted cash flow RMB'000
At 31 December 2012			
Trade payables	**–**	**384,154**	**384,154**
Amounts due to related parties	**–**	**23,751**	**23,751**
Other payables	**–**	**213,674**	**213,674**
Short-term borrowings	**3,678**	**128,625**	**132,303**
At 31 December 2011			
Trade payables	–	466,483	466,483
Amounts due to related parties	–	37,092	37,092
Other payables	–	83,338	83,338
Short-term borrowings	–	130,238	130,238

The Company:

	On demand RMB'000	Less than 1 year RMB'000	Total undiscounted cash flow RMB'000
At 31 December 2012			
Trade payables	**–**	**330,202**	**330,202**
Amounts due to related parties	**–**	**14,214**	**14,214**
Amounts due to subsidiaries	**–**	**45,141**	**45,141**
Other payables	**–**	**195,389**	**195,389**
Short-term borrowings	**–**	**128,625**	**128,625**
At 31 December 2011			
Trade payables	–	441,202	441,202
Amounts due to related parties	–	16,033	16,033
Amounts due to subsidiaries	–	41,696	41,696
Other payables	–	65,309	65,309
Short-term borrowings	–	130,238	130,238

3. FINANCIAL RISK MANAGEMENT (CONT'D)

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. Total borrowings included 'current and non-current borrowings' as shown in the consolidated balance sheet. Total equity was shown in the consolidated balance sheet.

	2012 **RMB'000**	2011 RMB'000
Total borrowings	**128,678**	125,000
Total equity	**2,224,249**	1,939,070
Gearing ratio	**6%**	6%

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.

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.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONT'D)

(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 Executive Directors in 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 Executive Directors in the Board of Directors for the purposes of allocating resources and assessing performance.

The Executive Directors in the Board of Directors considers the business from an operational entity perspective. Generally, the Executive Directors in 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 Mainland China.

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 Executive Directors in 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 Executive Directors in the Board of Directors for the reportable segments for the year ended 31 December 2012 is as follows:

	The Company RMB'000	Tong Ren Tang Chinese Medicine RMB'000	All other segments RMB'000	Total RMB'000
Segment revenue	1,939,598	386,677	281,562	2,607,837
Inter-segment revenue	(5,903)	(4,017)	(150,785)	(160,705)
Revenue from external customers	1,933,695	382,660	130,777	2,447,132
Profit after income tax	254,510	130,823	14,198	399,531
Interest income	7,580	853	709	9,142
Interest expense	(7,933)	(20)	–	(7,953)
Depreciation of property, plant and equipment	(25,990)	(8,741)	(5,037)	(39,768)
Amortisation of prepaid operating lease payments	(2,091)	(937)	(142)	(3,170)
Reversal of provision/Provision for impairment of inventories	10,958	(4,667)	–	6,291
Provision for impairment of receivables	(581)	–	–	(581)
Share of loss of an associate	–	(801)	–	(801)
Income tax expense	(44,234)	(31,035)	(6,278)	(81,547)
Segment assets and liabilities				
Total assets	2,433,613	551,896	183,437	3,168,946
Investment in an associate	–	753	–	753
Additions to non-current assets (other than deferred tax assets)	69,258	60,650	4,170	134,078
Total liabilities	808,957	91,595	44,145	944,697

5. SEGMENT INFORMATION (CONT'D)

The segment information 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 deposits paid for purchase of property, plant and equipment	–	(5,440)	–	(5,440)
Share of loss of an associate	–	(1,338)	–	(1,338)
Income tax expense	(37,191)	(15,933)	(1,320)	(54,444)
Segment assets and liabilities				
Total assets	2,249,567	394,269	174,043	2,817,879
Investment in an associate	–	1,554	–	1,554
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

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

5. SEGMENT INFORMATION (CONT'D)

The amounts provided to the Executive Directors in 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 21.

The total of the non-current assets other than deferred income tax assets located in Mainland China is RMB556,904,000 (2011: RMB476,235,000), and the total of these non-current assets located in other countries is RMB113,466,000 (2011: RMB103,832,000).

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	
	2012 RMB'000	2011 RMB'000	**2012 RMB'000**	2011 RMB'000
In Mainland China, held on:				
Leases of between 10 to 50 years	**125,780**	128,261	**95,718**	97,809
In Hong Kong, held on:				
Leases of between 10 to 50 years	**15,181**	15,618	**–**	–
	140,961	143,879	**95,718**	97,809

	The Group		The Company	
	2012 RMB'000	2011 RMB'000	**2012 RMB'000**	2011 RMB'000
At 1 January	**143,879**	45,841	**97,809**	22,655
Additions	**56**	100,829	**–**	75,995
Amortisation of prepaid operating lease payments	**(3,170)**	(1,887)	**(2,091)**	(841)
Exchange differences	**196**	(904)	**–**	–
At 31 December	**140,961**	143,879	**95,718**	97,809

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 2011						
Cost	359,225	356,642	16,305	20,736	1,343	754,251
Accumulated depreciation	(92,918)	(236,051)	(9,949)	(13,769)	–	(352,687)
Accumulated impairment	(561)	(8,421)	–	–	–	(8,982)
Net book amount	265,746	112,170	6,356	6,967	1,343	392,582
Year ended 31 December 2011						
Opening net book amount	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

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
Year ended 31 December 2012						
Opening net book amount	258,151	109,846	7,676	14,346	44,322	434,341
Exchange differences	147	10	14	70	458	699
Additions	11,892	340	1,905	2,754	106,552	123,443
Transferred from CIP	1,122	28,642	4,152	1,939	(35,855)	–
Disposals	(565)	(724)	(123)	(271)	–	(1,683)
Depreciation	(12,727)	(21,030)	(1,901)	(4,110)	–	(39,768)
Write-off	561	654	–	–	–	1,215
Closing net book amount	258,581	117,738	11,723	14,728	115,477	518,247
At 31 December 2012						
Cost	373,000	402,577	22,216	31,976	115,477	945,246
Accumulated depreciation	(114,419)	(272,571)	(10,493)	(17,248)	–	(414,731)
Accumulated impairment	–	(12,268)	–	–	–	(12,268)
Net book amount	258,581	117,738	11,723	14,728	115,477	518,247

Depreciation expense of RMB30,032,000 (2011: RMB29,810,000) has been charged in 'Cost of sales', RMB4,304,000 (2011: RMB2,697,000) in 'Distribution costs' and RMB5,432,000 (2011: RMB6,515,000) in 'Administrative expenses'.

The building with carrying amount of RMB6,368,000 (2011: Nil) are pledged as security for the Group's bank borrowing (Note 18).

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 2011						
Cost	226,326	288,279	13,441	10,668	87	538,801
Accumulated depreciation	(72,202)	(211,619)	(8,228)	(8,177)	–	(300,226)
Accumulated impairment	(561)	(8,421)	–	–	–	(8,982)
Net book amount	153,563	68,239	5,213	2,491	87	229,593
Year ended 31 December 2011						
Opening net book amount	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

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
Year ended 31 December 2012						
Opening net book amount	146,791	72,721	6,218	9,307	1,103	236,140
Additions	–	2	1,479	473	62,297	64,251
Transferred from CIP	1,122	25,786	4,152	1,910	(32,970)	–
Disposals	(561)	(724)	(100)	(50)	–	(1,435)
Depreciation	(6,569)	(15,500)	(1,498)	(2,423)	–	(25,990)
Write-off	561	654	–	–	–	1,215
Closing net book amount	141,344	82,939	10,251	9,217	30,430	274,181
At 31 December 2012						
Cost	226,646	328,715	18,285	18,907	30,430	622,983
Accumulated depreciation	(85,302)	(238,009)	(8,034)	(9,690)	–	(341,035)
Accumulated impairment	–	(7,767)	–	–	–	(7,767)
Net book amount	141,344	82,939	10,251	9,217	30,430	274,181

Depreciation expense of RMB21,442,000 (2011: RMB21,707,000) has been charged in 'Cost of sales', RMB301,000 (2011: RMB261,000) in 'Distribution costs' and RMB4,247,000 (2011: RMB4,061,000) in 'Administrative expenses'.

8. INVESTMENTS IN SUBSIDIARIES

	The Company 2012 RMB'000	The Company 2011 RMB'000
Investments, at cost	216,044	215,845

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

9. INVESTMENTS IN JOINT VENTURES

	The Company	
	2012	2011
	RMB'000	RMB'000
Unlisted shares, at cost	**2,000**	2,000

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	
	2012	2011
	RMB'000	RMB'000
Assets		
Non-current assets	**9,637**	2,570
Current assets	**22,192**	20,424
	31,829	22,994
Liabilities		
Non-current liabilities	**147**	40
Current liabilities	**10,664**	5,336
	10,811	5,376
Net assets	**21,018**	17,618

	For the year ended 31 December	
	2012	2011
	RMB'000	RMB'000
Revenue	**21,867**	53,312
Expenses	**(18,517)**	(47,260)
Profit after income tax	**3,350**	6,052

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	
	2012	2011
	RMB'000	RMB'000
Unlisted shares, at cost	**3,280**	3,280
Share of accumulated losses	**(2,527)**	(1,726)
	753	1,554

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

	As of 31 December	
	2012	2011
	RMB'000	RMB'000
Assets		
Current assets	**1,218**	1,908
Liabilities		
Current liabilities	**465**	354
Net assets	**753**	1,554

	For the year ended 31 December	
	2012	2011
	RMB'000	RMB'000
Revenue	**493**	263
Expenses	**(1,294)**	(1,601)
Profit after income tax	**(801)**	(1,338)

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	
	2012	2011
	RMB'000	RMB'000
Assets as per consolidated balance sheet		
Trade and bills receivables, net	**150,399**	142,857
Amounts due from related parties	**12,833**	16,701
Prepayments and other current assets-Deposit	**11,759**	10,952
Short-term bank deposits	**8,762**	9,407
Cash and cash equivalents	**844,034**	671,695
Total	**1,027,787**	851,612

	Financial liabilities at amortised cost	
	2012	2011
	RMB'000	RMB'000
Liabilities as per consolidated balance sheet		
Trade payables	**384,154**	466,483
Amounts due to related parties	**23,751**	37,092
Other payables	**213,674**	83,338
Short-term borrowings	**128,678**	125,000
Total	**750,257**	711,913

11. FINANCIAL INSTRUMENTS BY CATEGORY (CONT'D)

The Company:

	Loans and receivables	
	2012	2011
	RMB'000	RMB'000
Assets as per balance sheet		
Trade and bills receivables, net	**124,382**	123,913
Amounts due from related parties	**9,122**	8,881
Prepayments and other current assets-Deposit	**5,670**	5,350
Cash and cash equivalents	**567,829**	489,737
Total	**707,003**	627,881

	Financial liabilities at amortised cost	
	2012	2011
	RMB'000	RMB'000
Liabilities as per balance sheet		
Trade payables	**330,202**	441,202
Amounts due to related parties	**14,214**	16,033
Amounts due to subsidiaries	**45,141**	41,696
Other payables	**195,389**	65,309
Short-term borrowings	**125,000**	125,000
Total	**709,946**	689,240

12. TRADE AND BILLS RECEIVABLES, NET

	The Group		The Company	
	2012	2011	**2012**	2011
	RMB'000	RMB'000	**RMB'000**	RMB'000
Trade and bills receivables	**166,580**	158,457	**140,563**	139,513
Less: provision for impairment of receivables	**(16,181)**	(15,600)	**(16,181)**	(15,600)
Trade and bills receivables, net	**150,399**	142,857	**124,382**	123,913

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

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

Retail sales at the Group's stores are usually made in cash or by debit or credit cards. For wholesale to distributors, the Group normally grants a credit period ranging from 30 days to 120 days. As of 31 December 2012 and 2011, the ageing analysis of trade and bills receivables based on invoice date was as follows:

	The Group		The Company	
	2012 RMB'000	2011 RMB'000	**2012 RMB'000**	2011 RMB'000
Within 4 months	**139,435**	114,786	**114,509**	97,316
Over 4 months but within 1 year	**19,176**	36,038	**18,514**	35,958
Over 1 year but within 2 years	**1,317**	81	**1,301**	–
Over 2 years but within 3 years	**78**	1,313	**–**	–
Over 3 years	**6,574**	6,239	**6,239**	6,239
	166,580	158,457	**140,563**	139,513

As of 31 December 2012, trade receivables of RMB16,181,000 (2011: RMB RMB15,600,000) were fully provided for impairment. The individually impaired receivables mainly relate to medium and smaller customers, which are in unexpectedly difficult economic situations. The ageing analysis of these receivables is as follows:

	The Group		The Company	
	2012 RMB'000	2011 RMB'000	**2012 RMB'000**	2011 RMB'000
Within 4 months	**2,670**	–	**2,670**	–
Over 4 months	**13,511**	15,600	**13,511**	15,600
	16,181	15,600	**16,181**	15,600

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

	The Group		The Company	
	2012 RMB'000	2011 RMB'000	**2012 RMB'000**	2011 RMB'000
At 1 January	**15,600**	20,087	**15,600**	20,087
Provision/(reversal of provision) for impairment of receivables	**581**	(4,487)	**581**	(4,487)
At 31 December	**16,181**	15,600	**16,181**	15,600

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

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	
	2012	2011	**2012**	2011
	RMB'000	RMB'000	**RMB'000**	RMB'000
Raw materials	**484,622**	580,577	**458,232**	572,725
Work-in-progress	**157,637**	169,118	**152,529**	167,815
Finished goods	**787,417**	612,424	**732,046**	557,160
	1,429,676	1,362,119	**1,342,807**	1,297,700
Less: Provision for impairment of inventories	**(27,088)**	(34,085)	**(21,199)**	(32,157)
	1,402,588	1,328,034	**1,321,608**	1,265,543

The cost of inventories recognised as expense and included in 'Cost of sales' amounted to RMB685,527,000 (2011: RMB554,203,000).

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.

14. DEFERRED INCOME TAX (CONT'D)

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

	The Group		The Company	
	2012 **RMB'000**	2011 RMB'000	**2012** **RMB'000**	2011 RMB'000
Deferred tax assets:				
– Deferred tax asset to be recovered after more than 12 months	**(1,753)**	(2,177)	**(1,753)**	(1,840)
– Deferred tax asset to be recovered within 12 months	**(11,692)**	(16,724)	**(6,754)**	(6,516)
	(13,445)	(18,901)	**(8,507)**	(8,356)
Deferred tax liabilities:				
– Deferred tax liabilities to be recovered after more than 12 months	**2,469**	4,488	**–**	–
– Deferred tax liabilities to be recovered within 12 months	**772**	651	**–**	–
	3,241	5,139	**–**	–
Deferred tax assets, net	**(10,204)**	(13,762)	**(8,507)**	(8,356)

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	
	2012 **RMB'000**	2011 RMB'000	**2012** **RMB'000**	2011 RMB'000
Deferred tax assets:				
Beginning of the year	**18,901**	9,056	**8,356**	5,037
(Charged)/credited to income statement	**(5,456)**	9,845	**151**	3,319
End of the year	**13,445**	18,901	**8,507**	8,356
Provided for in respect of:				
Provision for termination benefits	**428**	319	**428**	319
Amortisation of leasehold land and land use rights	**277**	283	**277**	283
Unrealised profit resulting from intragroup transactions	**3,276**	10,209	**–**	–
Accelerated accounting depreciation	**73**	84	**–**	–
Provision for inventories	**4,769**	5,211	**3,180**	5,022
Provision for property, plant and equipment	**1,165**	1,347	**1,165**	1,347
Tax losses	**–**	63	**–**	–
Provision for advertising expenses	**2,100**	–	**2,100**	–
Deferred income arising from government grant	**1,357**	1,385	**1,357**	1,385
	13,445	18,901	**8,507**	8,356

14. DEFERRED INCOME TAX (CONT'D)

Deferred income tax liabilities

	The Group		The Company	
	2012 RMB'000	2011 RMB'000	**2012 RMB'000**	2011 RMB'000
Beginning of the year	**5,139**	5,251	**–**	–
Business combination	**–**	596	**–**	–
Credited to income statement	**(1,898)**	(708)	**–**	–
End of the year	**3,241**	5,139	**–**	–
Provided for in respect of:				
Accelerated tax depreciation allowance	**3,187**	4,615	**–**	–
Deferred income tax liabilities arising from business combination	**54**	524	**–**	–
	3,241	5,139	**–**	–

Deferred income tax assets are recognised for tax loss carry-forwards to the extent that the realisation of the related tax benefit through future taxable profits is probable. The Group did not recognise deferred income tax assets of RMB2,096,000 (2011: RMB711,000) in respect of losses amounting to RMB10,029,000 (2011: RMB4,320,000) at 31 December 2012. At 31 December 2012, tax losses will expire between 2013 and 2021.

15. SHARE CAPITAL

	2012		2011	
	Number of shares	**Nominal value RMB'000**	Number of shares	Nominal value RMB'000
Registered	**588,000,000**	**588,000**	588,000,000	588,000
Issued and fully paid				
– Domestic shares with a par value of RMB1 per share	**326,040,000**	**326,040**	326,040,000	326,040
– H shares with a par value of RMB1 per share	**261,960,000**	**261,960**	261,960,000	261,960
	588,000,000	**588,000**	588,000,000	588,000

15. SHARE CAPITAL (CONT'D)

	2012			2011		
	Domestic shares	**H shares**	**Total**	Domestic shares	H shares	Total
	RMB'000	**RMB'000**	**RMB'000**	RMB'000	RMB'000	RMB'000
At 1 January	**326,040**	**261,960**	**588,000**	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**	326,040	261,960	588,000

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

16. RESERVES

	The Company					
	Capital reserve (Note(b))	**Statutory surplus reserve fund** (Note(c))	**Statutory public welfare fund** (Note(c))	**Tax reserve** (Note(d))	**Retained earnings**	**Total**
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance as of 1 January 2011	371,144	170,633	45,455	102,043	651,677	1,340,952
Profit for the year	–	–	–	–	229,189	229,189
Dividends and bonus shares paid to shareholders of the Company relating to 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
Balance as of 1 January 2012	**175,144**	**193,281**	**45,455**	**102,043**	**568,138**	**1,084,061**
Profit for the year	**–**	**–**	**–**	**–**	**255,281**	**255,281**
Dividends paid to shareholders of the Company relating to 2011	**–**	**–**	**–**	**–**	**(111,720)**	**(111,720)**
Appropriation from retained earnings	**–**	**25,529**	**–**	**–**	**(25,529)**	**–**
Balance as of 31 December 2012	**175,144**	**218,810**	**45,455**	**102,043**	**686,170**	**1,227,622**

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 RMB255,281,000 (2011: RMB229,189,000).

(b) Capital reserve

Capital reserve of the Company represents the difference between the amount of share capital issued by the Company and the historical net value of the assets, liabilities and interests transferred to the Company upon its establishment, 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 RMB25,529,000 (2011: RMB22,648,000), 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 2012.

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. DEFERRED INCOME – GOVERNMENT GRANTS

	The Group		The Company	
	2012	2011	**2012**	2011
	RMB'000	RMB'000	**RMB'000**	RMB'000
Beginning of the year	**52,185**	25,037	**35,050**	24,574
Government grants received	**6,228**	27,994	**5,709**	11,022
Amount recognised in the income statement (Note 24)	**(4,175)**	(846)	**(3,847)**	(546)
End of the year	**54,238**	52,185	**36,912**	35,050

The ending balance of the government grants are relating to:

	The Group		The Company	
	2012	2011	**2012**	2011
	RMB'000	RMB'000	**RMB'000**	RMB'000
Government grants relating to research and development expenditure	**8,454**	9,425	**7,336**	8,702
Government grants relating to property, plant and equipment	**18,789**	17,114	**18,789**	17,114
Government grants relating to land use rights	**25,256**	25,646	**9,048**	9,234
Government grants relating to other expenditure	**1,739**	–	**1,739**	–
Total	**54,238**	52,185	**36,912**	35,050

18. SHORT-TERM BORROWINGS

	The Group		The Company	
	2012	2011	**2012**	2011
	RMB'000	RMB'000	**RMB'000**	RMB'000
Current				
Bank borrowings				
– Secured	**3,678**	–	**–**	–
– Unsecured	**125,000**	125,000	**125,000**	125,000
Total borrowings	**128,678**	125,000	**125,000**	125,000

18. SHORT-TERM BORROWINGS (CONT'D)

According to IFRIC Int-5 "Presentative of financial statements – classification by the borrower of a term loan that contains a repayment on demand clause", bank loans contain a repayment on demand clause which can be exercised at the bank's direction have been classified as current liabilities on the balance sheets. The analysis below shows the cash flow based on the scheduled repayment dates set out in the loan agreements and ignores the effect of any repayment on demand clauses.

(a) At 31 December 2012, the Group's borrowings would be repayable as follows:

	The Group		The Company	
	2012 RMB'000	2011 RMB'000	**2012 RMB'000**	2011 RMB'000
Within 1 year	**125,204**	125,000	**125,000**	125,000
Between 1 and 2 years	**199**	–	**–**	–
Between 2 and 5 years	**645**	–	**–**	–
Over 5 years	**2,630**	–	**–**	–
	128,678	125,000	**125,000**	125,000

(b) Bank borrowings are secured by the building of the Group of RMB6,368,000 (2011: Nil) (Note 7).

(c) The carrying amounts of short-term borrowings approximate their fair value.

(d) The carrying amounts of the Group's borrowings are denominated in the following currencies:

	The Group		The Company	
	2012 RMB'000	2011 RMB'000	**2012 RMB'000**	2011 RMB'000
RMB	**125,000**	125,000	**125,000**	125,000
Malaysian Ringgit	**3,678**	–	**–**	–
	128,678	125,000	**125,000**	125,000

18. SHORT-TERM BORROWINGS (CONT'D)

(e) The average interest rates (per annum) are as follows:

	The Group		The Company	
	2012	2011	**2012**	2011
Bank borrowings				
– RMB	**6.321%**	6.459%	**6.321%**	6.459%
– Malaysian Ringgit	**4.400%**	–	**–**	–

19. TRADE PAYABLES

As of 31 December 2012, the ageing analysis of trade payables based on invoice date was as follows:

	The Group		The Company	
	2012	2011	**2012**	2011
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within 4 months	**313,305**	425,078	**261,446**	400,833
Over 4 months but within 1 year	**70,471**	40,542	**68,440**	40,227
Over 1 year but within 2 years	**378**	863	**316**	142
	384,154	466,483	**330,202**	441,202

20. SALARY AND WELFARE PAYABLES

	The Group		The Company	
	2012	2011	**2012**	2011
	RMB'000	RMB'000	**RMB'000**	RMB'000
Salary payable	**4,582**	1,904	**443**	443
Welfare payable	**2,034**	1,670	**–**	64
	6,616	3,574	**443**	507

21. REVENUE

	2012 RMB'000	2011 RMB'000
Sales of medicine		
– Mainland China	**2,110,053**	1,744,805
– Outside Mainland China	**324,284**	174,062
	2,434,337	1,918,867
Agency fee income for distribution services		
– Outside Mainland China	**12,795**	17,551
	2,447,132	1,936,418

22. OTHER LOSSES – NET

	2012 RMB'000	2011 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	**9,096**	16,427
Remeasurement gain on previously held interest	**–**	(1,981)
	9,096	17,958

23. FINANCE INCOME AND COSTS

	2012 RMB'000	2011 RMB'000
Finance income		
Interest income on cash at bank and short-term bank deposits	**9,142**	9,431
Finance costs		
Interest expense on bank borrowings repayable within one year	**(7,953)**	(4,281)
Exchange losses	**(226)**	(369)
	(8,179)	(4,650)
Finance income – net	**963**	4,781

24. PROFIT BEFORE INCOME TAX

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

	2012 RMB'000	2011 RMB'000
Raw materials and consumables used	**849,039**	796,346
Change in inventories of finished goods and work-in-progress	**(163,512)**	(242,143)
Employee benefit expense		
– Salary and wages	**245,951**	190,672
– Staff welfare	**26,731**	25,989
– Housing fund	**13,712**	11,671
– Contribution to pension scheme	**44,430**	36,403
Depreciation of property, plant and equipment (Note 7)	**39,768**	39,022
Amortisation of prepaid operating lease payments (Note 6)	**3,170**	1,887
Amortisation of other long-term assets	**463**	238
(Reversal of provision)/provision for impairment of inventories	**(6,291)**	14,764
Provision/(reversal of provision) for impairment of receivables (Note 12)	**581**	(4,487)
Provision for impairment of property, plant and equipment (Note 7)	**–**	4,501
Provision for impairment of deposits paid for purchase of property, plant and equipment	**–**	5,440
Operating lease rental	**55,262**	47,036
Auditor's remuneration		
– Audit services	**1,822**	1,825
– Non-audit services	**2,615**	6,002
Research and development costs	**12,016**	10,490
Advertising expenses	**94,226**	58,082
Loss on disposal of property, plant and equipment	**377**	473
Recognition of government grants (Note 17)	**(4,175)**	(846)
Cost incurred for an intended listing of a subsidiary transfer out from reserve (Note 22)	**–**	3,512
Cost incurred for an intended listing of a subsidiary during current year (Note 22)	**9,096**	16,427
Processing costs	**159,837**	127,428
Promotion expenses	**62,036**	38,518
Transportation	**48,813**	32,764
Repair and maintenance	**36,156**	20,428
Utilities	**38,360**	40,305
Other taxes	**28,611**	18,246

25. INCOME TAX EXPENSE

Pursuant to the Corporate Income Tax Law of the PRC effective from 1 January 2008, enterprises with a High/New Technology Enterprise ("HNTE") status are able to enjoy a preferential tax rate of 15%. For the entities without the HNTE status, the PRC income tax rate is 25% (2011: 25%). As of 31 December 2012 and 2011, the Company has obtained the HNTE certificate. Consequently, the applicable income tax rate of the Company in 2012 is 15% (2011: 15%). Income tax on overseas profits has been calculated on the estimated assessable profit for the year at the income tax rates prevailing in the tax jurisdictions in which the Group operates.

Details of income tax during the year are as follows:

	2012 **RMB'000**	2011 RMB'000
Current PRC income tax expense	**51,388**	43,984
Current Overseas income tax expense	**26,601**	21,013
Deferred income tax expense	**3,558**	(10,553)
	81,547	54,444

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:

	2012 **RMB'000**	2011 RMB'000
Profit before income tax	**481,078**	335,897
Tax calculated at the PRC statutory income tax rate of 25% (2011: 25%)	**120,270**	83,974
Income not subject to tax	**(1,794)**	(4,464)
Expenses not deductible for tax purposes	**4,978**	8,584
Tax losses for which no deferred income tax asset was recognised	**2,151**	1,389
Effect of preferential income tax treatments	**(29,610)**	(25,917)
Effect of different applicable tax rates for certain subsidiaries and joint ventures	**(14,448)**	(9,122)
Income tax expense	**81,547**	54,444

26. EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the profit attributable to owners of the Company of approximately RMB330,171,000 (2011: RMB254,687,000) by the weighted average number of 588,000,000 shares (2011: 588,000,000 shares) in issue during the year.

The Company had no dilutive potential shares for the years ended 31 December 2012 and 2011.

	2012 **RMB'000**	2011 RMB'000
Profit attributable to owners of the Company	**330,171**	254,687
Weighted average number of ordinary shares in issue (thousands)	**588,000**	588,000
Earnings per share	**RMB0.56**	RMB0.43

27. DIVIDENDS

	2012 **RMB'000**	2011 RMB'000
Cash dividends proposed by the Board of Directors	**147,000**	111,720

The cash dividends paid in 2012 and 2011 were RMB111,720,000 (RMB0.19 (inclusive of tax) per share based on the total share capital of 588,000,000 shares) and RMB94,080,000 (RMB0.48 (Inclusive of tax) per share based on the total share capital of 196,000,000 shares) respectively.

On 19 March 2013, the Board of Directors proposed a cash dividend for the year ended 31 December 2012 of RMB0.25 (inclusive of tax) per share based on the total share capital of 588,000,000 shares, totalling approximately RMB147,000,000 (2011: RMB111,720,000).

The proposed dividend distribution is subject to the shareholders' approval at the 2012 annual general meeting to be held in 2013. The dividend will be recorded in the Group's financial statements for the year ending 31 December 2013.

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

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

The remuneration before individual income tax of every director, supervisor and the chief executive for the year ended 31 December 2012 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	–	–	–	–	–
Mr. Yin Shun Hai	–	–	–	–	–
Mr. Wang Yu Wei	–	1,272	33	700	2,005
Ms. Fang Jia Zhi	–	509	33	200	742
Mr. Xie Zhan Zhong	–	–	–	–	–
Miss Tam Wai Chu, Maria	146	–	–	–	146
Mr. Ting Leung Huel, Stephen	146	–	–	–	146
Mr. Jin Shi Yuan	80	–	–	–	80
Supervisors:					
Mr. Zhang Xi Jie	–	–	–	–	–
Mr. Wu Yi Gang	80	–	–	–	80
Ms. Wang Yan Rong*	–	785	33	400	1,218
Mr. Bai Jian**	–	700	33	200	933
Chief executive					
Mr. Wang Yu Wei	–	1,272	33	700	2,005

* *Resigned on 29 June 2012.*

** *Appointed on 29 June 2012.*

*** *Approved by the Board of Directors, the Company paid bonuses to senior management according to the results of the year 2011.*

28. 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, supervisor and the chief executive 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
Chief executive					
Mr. Wang Yu Wei	–	1,267	30	–	1,297

** Resigned on 17 March 2011.*

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

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

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

The five individuals whose emoluments before individual income tax were the highest in the Group for the year include one (2011: one) director and one (2011: Nil) supervisor whose emoluments are reflected in the analysis presented in Note 28(a) above. The emoluments payable to the remaining three (2011: four) individuals during the year are as follows:

	2012 RMB'000	2011 RMB'000
Basic salaries, allowance and bonuses	**3,932**	3,357
Contribution to pension scheme	**55**	130
	3,987	3,487

The emoluments fell within the following band:

	2012 RMB'000	2011 RMB'000
Nil to RMB813,600 (Equivalent to Hong Kong Dollar 1,000,000)	**–**	1
RMB813,601 – 1,220,400 (Equivalent to Hong Kong Dollar 1,000,001-1,500,000)	**1**	3
RMB1,220,401 – 1,627,200 (Equivalent to Hong Kong Dollar 1,500,001 – 2,000,000)	**2**	–

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.

29. RETIREMENT AND TERMINATION BENEFITS

Pursuant to the PRC laws and regulations, the Group is required to make monthly contributions to various retirement benefit schemes organised by the relevant provincial and municipal governments for the Group's employees in the PRC at rates ranging from 28% to 32% (2011: 28% to 32%) of the employees' standard salaries, of which 20% to 24% (2011: 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. Since 1 June 2012, the MPF scheme contribution has increased from HK$1,000 to HK$1,250 per month. The only obligation of the Group with respect to the MPF Scheme is to make the required contributions under the scheme.

29. RETIREMENT AND TERMINATION BENEFITS (CONT'D)

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 "Other payables" as of 31 December 2012 and 2011, were approximately RMB2,850,000 and RMB2,128,000 respectively.

30. 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 2012, the Group contributed approximately RMB13,712,000 (2011: RMB11,671,000) to the Fund.

31. CASH GENERATED FROM OPERATIONS

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

	2012 RMB'000	2011 RMB'000
Profit before income tax	**481,078**	335,897
Adjustments for:		
Provision/(reversal of provision) for impairment of receivables (Note 12)	**581**	(4,487)
Depreciation of property, plant and equipment	**39,768**	39,022
Amortisation of prepaid operating lease payments	**3,170**	1,887
Amortisation of other long-term assets	**463**	238
Provision for impairment of property, plant and equipment (Note 7)	**–**	4,501
Provision for impairment of deposits paid for purchase of property, plant and equipment	**–**	5,440
(Reversal of provision)/provision for impairment of inventory	**(6,291)**	14,764
Loss on disposal of property, plant and equipment	**377**	473
Deferred government grants recognised in the income statement (Note 17)	**(4,175)**	(846)
Interest income	**(9,142)**	(9,431)
Interest expense	**7,953**	4,281
Exchange losses	**226**	369
Share of loss of an associate	**801**	1,338
Remeasurement gain on previously held interest	**–**	(1,981)
Cost incurred for an intended listing of a subsidiary transfer out from reserve (Note 22)	**–**	3,512
Cost incurred for an intended listing of a subsidiary during current year (Note 22)	**9,096**	16,427
Operating profit before working capital changes	**523,905**	411,404
Decrease/(increase) in current assets:		
Trade and bills receivables	**(8,123)**	18,051
Inventories	**(68,252)**	(373,365)
Prepayments and other current assets	**(16,298)**	(19,956)
Amounts due from related parties	**3,868**	2,170
Increase/(Decrease) in current liabilities:		
Trade payables	**(82,329)**	244,554
Other current liabilities	**151,025**	12,751
Amounts due to related parties	**(13,341)**	19,712
Proceeds from government grants relating to expenditure	**2,678**	2,001
Cash generated from operations	**493,133**	317,322

31. CASH GENERATED FROM OPERATIONS (CONT'D)

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

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

	The Group		The Company	
	2012 RMB'000	2011 RMB'000	**2012 RMB'000**	2011 RMB'000
Cash at bank and in hand				
RMB	**673,173**	564,911	**558,783**	480,639
Hong Kong Dollar	**122,016**	62,914	**8,036**	8,009
United States Dollar	**6,724**	7,435	**1,010**	1,089
Singapore Dollar	**14,442**	11,425	**–**	–
Macanese Pataca	**8,274**	8,152	**–**	–
Australian Dollar	**7,954**	5,699	**–**	–
Canadian Dollar	**3,860**	2,906	**–**	–
Brunei Ringgit	**2,479**	2,189	**–**	–
Arab Emirates Dirham	**1,966**	1,917	**–**	–
Indonesian Rupiah	**1,230**	1,240	**–**	–
Malaysian Ringgit	**483**	1,742	**–**	–
Thai Baht	**597**	653	**–**	–
Korean Won	**108**	512	**–**	–
Polish złoty	**467**	–	**–**	–
European Dollar	**261**	–	**–**	–
	844,034	671,695	**567,829**	489,737

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

	The Group		The Company	
	2012 RMB'000	2011 RMB'000	**2012 RMB'000**	2011 RMB'000
Australian Dollar	**4,535**	3,888	**–**	–
Malaysian Ringgit	**2,144**	2,565	**–**	–
Canadian Dollar	**1,283**	–	**–**	–
Hong Kong Dollar	**480**	479	**–**	–
Singapore Dollar	**–**	1,538	**–**	–
United States Dollar	**320**	926	**–**	–
Thai Baht	**–**	11	**–**	–
	8,762	9,407	**–**	–

31. CASH GENERATED FROM OPERATIONS (CONT'D)

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

The weighted average effective interest rate on short-term bank deposits was 2.93% (2011: 3.21%) per annum. Cash at bank earns interest at floating rates based on daily bank deposit rates.

As of 31 December 2012, the cash in hand balance of the Group was RMB1,056,000 (2011: RMB1,426,000). Cash at bank and short-term bank deposits balance of the Group was RMB851,740,000 (2011: RMB679,676,000). Management did not expect any losses from non-performance by those banks.

32. RELATED PARTY TRANSACTIONS

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

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

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

32. RELATED PARTY TRANSACTIONS (CONT'D)

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

(a) Transactions with the ultimate holding company

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

	2012 **RMB'000**	2011 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 2012 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.

32. RELATED PARTY TRANSACTIONS (CONT'D)

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

	2012 RMB'000	2011 RMB'000
Sales of Chinese medicine related products (Note (i))	**304,073**	257,703
Agency fee income for distribution services (Note (ii))	**12,795**	17,551
Purchases of Chinese medicine (Note (iii))	**27,978**	23,155
Purchases of raw materials and semi-finished products (Note (iii))	**27,156**	18,009
Rental expense	**1,464**	–

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 was appointed as an agent in distributing the Parent Company's products, with an effective period from 2010 to 2012. These agreements expired in December 2012.

(iii) 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.

32. RELATED PARTY TRANSACTIONS (CONT'D)

(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	
	2012 RMB'000	2011 RMB'000	**2012 RMB'000**	2011 RMB'000
Amounts due from related parties:				
Subsidiaries and joint ventures of the ultimate holding company	**10,228**	15,388	**6,681**	7,597
Other state-owned enterprises	**2,605**	1,313	**2,441**	1,284
	12,833	16,701	**9,122**	8,881
Amounts due to related parties:				
Subsidiaries and joint ventures of the ultimate holding company	**17,464**	28,767	**8,082**	11,488
Other state-owned enterprises	**6,287**	8,325	**6,132**	4,545
	23,751	37,092	**14,214**	16,033

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

32. RELATED PARTY TRANSACTIONS (CONT'D)

(d) *Balances with related parties* (CONT'D)

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

	The Group		The Company	
	2012	2011	**2012**	2011
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within 4 months	**10,785**	12,531	**7,763**	7,732
Over 4 months but within 1 year	**1,349**	3,988	**1,269**	967
Over 1 year	**699**	182	**90**	182
	12,833	16,701	**9,122**	8,881

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

	The Group		The Company	
	2012	2011	**2012**	2011
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within 4 months	**18,705**	35,962	**13,267**	15,427
Over 4 months but within 1 year	**3,903**	694	**744**	571
Over 1 year	**1,143**	436	**203**	35
	23,751	37,092	**14,214**	16,033

33. BANKING FACILITIES

As of 31 December 2012, the Group had aggregated banking facilities of RMB400,000,000 (2011: RMB336,000,000) for loan and other trade financing. As of 31 December 2012, the unutilised banking facilities amounted to RMB275,000,000 (2011: RMB211,000,000).

34. COMMITMENTS

(a) Capital commitments

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

	The Group		The Company	
	2012	2011	**2012**	2011
	RMB'000	RMB'000	**RMB'000**	RMB'000
Property, plant and equipment	**170,426**	21,287	**72,399**	2,101

(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	
	2012	2011	**2012**	2011
	RMB'000	RMB'000	**RMB'000**	RMB'000
Not later than one year	**52,726**	48,489	**23,021**	29,736
Later than one year and no later than five years	**73,382**	64,838	**22,655**	32,903
Later than five years	**8,253**	11,095	**6,698**	9,061
	134,361	124,422	**52,374**	71,700