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

Contents

Corporate Information

BOARD OF DIRECTORS

Executive Directors

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

Independent Non-Executive Directors

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

SUPERVISORS

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

SENIOR MANAGEMENT

Wang Yu Wei
Bai Jian
Liu Zi Lu
Li Da Ming
Xie Su Hua
Deng Wen Lin
Chi Yu Ming
Zhang Jing Yan
Chan Ngai Chi, *FCPA, FCCA*

QUALIFIED ACCOUNTANT AND COMPANY SECRETARY

Chan Ngai Chi, *FCPA, FCCA*

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

Mei Qun
Ting Leung Huel, Stephen
Jin Shi Yuan

NOMINATION COMMITTEE

Mei Qun
Tam Wai Chu, Maria
Jin Shi Yuan

COMPLIANCE OFFICER

Mei Qun

AUTHORIZED REPRESENTATIVES

Mei Qun
Chan Ngai Chi, *FCPA, FCCA*

AUTHORIZED PERSON TO ACCEPT SERVICE OF PROCESS AND NOTICE

Chan Ngai Chi, *FCPA, FCCA*

AUDITORS

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

LEGAL ADVISORS

Mallesons Stephen Jaques
37th Floor, Two International Finance Centre,
8 Finance Street, Central, Hong Kong

PRINCIPAL BANKERS

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

H-SHARE REGISTRAR AND TRANSFER OFFICE

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

REGISTERED OFFICE

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

OFFICE AND MAILING ADDRESS

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

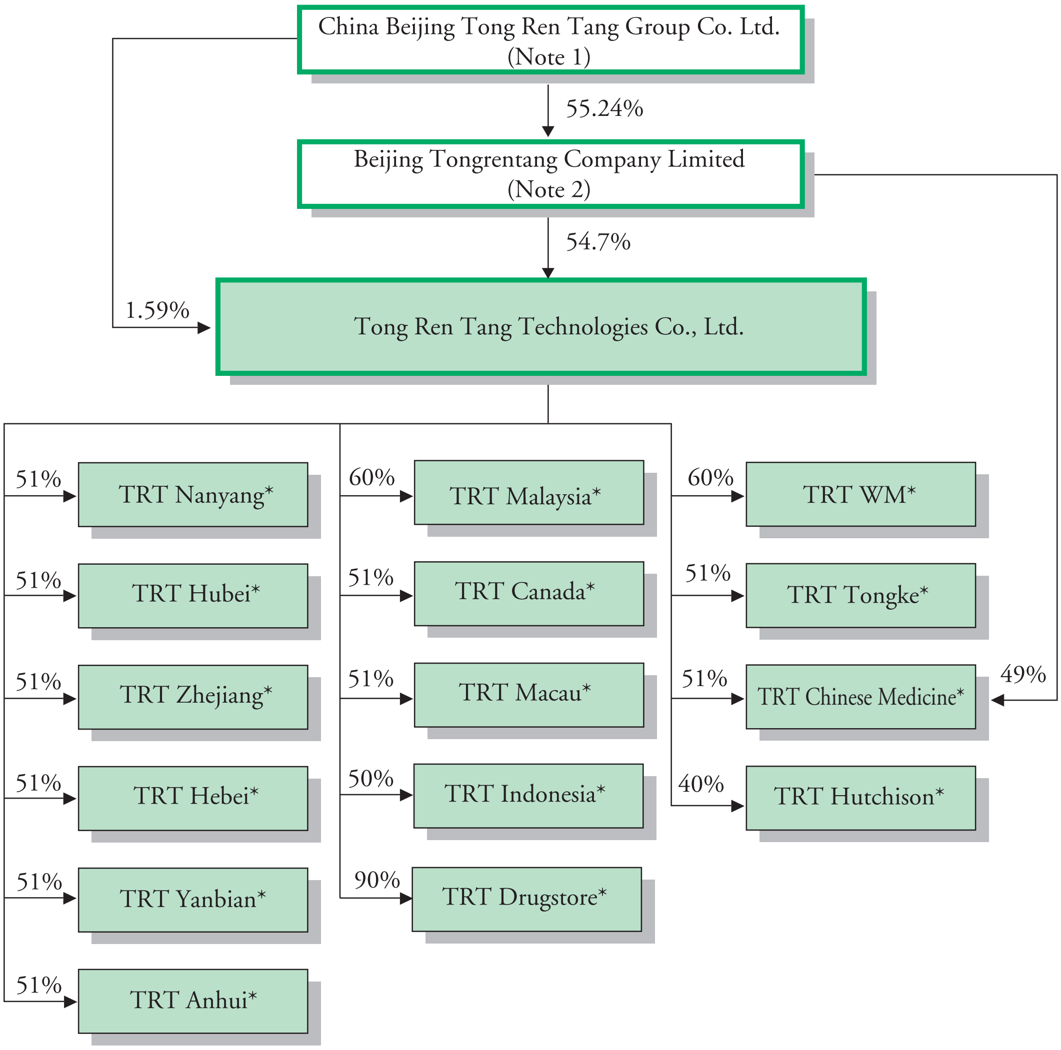
OFFICE IN HONG KONG

20th Floor, Park Avenue,
No. 5 Moreton Terrace,
Causeway Bay, Hong Kong

GEM STOCK CODE

8069

Corporate Structure



Note 1: China Beijing Tong Ren Tang Group Co. Ltd. ("Tongrentang Holdings") is the ultimate holding company of Tong Ren Tang Technologies Co. Ltd. ("Tongrentang Technologies" or the "Company").

Note 2: Beijing Tongrentang Company Limited ("Tongrentang Ltd.") was incorporated in 1997 and listed on the Shanghai Stock Exchange in June of the same year. Tongrentang Ltd. is the holding company of Tongrentang Technologies.

* For the full names of the subsidiaries, joint ventures and associated company, please refer to note 1 to the financial statements for details.

Financial Highlights

RESULTS

A summary of the consolidated results of Tong Ren Tang Technologies Co., Ltd. (the "Company") and its subsidiaries (hereafter collectively referred to as the "Group") and joint ventures for each of the five years ended 31 December 2006, as extracted from the audited financial statements of the Group, is set out below:

	Year ended 31 December				
	2006	2005	2004	2003	2002
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	1,034,768	1,135,678	983,249	864,976	662,891
Profit before taxation	171,236	251,964	225,422	193,414	148,632
Income tax expense	(27,780)	(19,469)	(18,162)	(16,493)	953
Profit for the year	143,456	232,495	207,260	176,921	149,585
Attributable to:					
Minority interests	(4,871)	1,309	1,653	2,578	2,351
Equity holders of the Company	148,327	231,186	205,607	174,343	147,234
	RMB	RMB	RMB	RMB	RMB
Earnings per share	0.81	1.26	1.12	0.95	0.81
Dividends per share	0.40	0.46	0.46	0.43	0.39

Financial Highlights

ASSETS AND LIABILITIES

A summary of the consolidated balance sheet of the Group as at each of the five years ended 31 December 2006, as extracted from the audited financial statements of the Group, is set out below:

	As at 31 December				
	2006	2005	2004	2003	2002
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
			(Restated)		
Non-current assets	595,424	577,676	445,554	316,341	245,669
Current assets	904,717	872,422	893,472	582,172	546,652
TOTAL ASSETS	1,500,141	1,450,098	1,339,026	898,513	792,321
Non-current liabilities	12,808	14,583	10,974	9,511	–
Current liabilities	436,111	440,179	511,151	220,030	228,941
Minority interests	52,968	59,645	38,195	17,059	14,481
TOTAL LIABILITIES AND MINORITY INTERESTS	501,887	514,407	560,320	246,600	243,422
NET ASSETS	998,254	935,691	778,706	651,913	548,899
	RMB	RMB	RMB	RMB	RMB
Net assets per share	5.46	5.12	4.26	3.57	3.00

Chairman's Statement

I am pleased to present the audited consolidated results of Tong Ren Tang Technologies Co., Ltd. (the "Company") and its subsidiaries (hereafter collectively referred to as the "Group") and its joint ventures for the year ended 31 December 2006.

RESULTS OF THE YEAR

Affected by the external marketing competition and the internal cost increase pressure, the Company had designated 2006 as a year of adjustment, and had focused on restoring market order, re-establishing the market pricing system and enhancing the quality of operations. As such, the Company's result was affected accordingly, showing a decrease when compared with the corresponding period last year. For the year ended 31 December 2006, the revenue amounted to RMB1,034,768,000, representing a decrease of 8.89% compared to the corresponding period last year; profit attributable to the shareholders of the Company amounted to RMB148,327,000, representing a decrease of 35.84% compared to the corresponding period last year.

REVIEW OF THE YEAR

2006 was a tough and crucial year for the Company. Competition in medicine market intensifies. As most our Company's products are not produced on an exclusive basis, same kinds of products compete severely in the market; our mainstream products are competing in an unhealthy environment. All these factors make the business difficult to further grow. Constraints rooted in the existing operation model and the pressure from maintaining growth made it hard for the Company to launch a sweeping reform. Regarding internal factors, increase in production and operation costs in every process, increase in depreciation of fixed assets and increase in raw and supplementary material costs, all attributed for the increase in overall production cost by various extent. Furthermore, the income tax privilege previously enjoyed already expired. The Company faced not only internal as well as external pressure in many aspects, but the competitiveness of our products was also under grim challenge.

As such, the Company set "Reform" and "Management" as the two main working themes for 2006. "Reform" means innovation in operation model, focusing marketing activities to establish more ultimate points of distribution and regulating agents' sales behavior in order to enhance the Company's control over its product channel. "Management" means tackling cost pressure by implementing the "reducing 5 heights" program, putting efforts to reduce costs in areas such as production, raw and supplementary materials procurement, quality control and sales, implementing stringent control over expenses, and exploring other sources of revenue, in an attempt to ensure a steady development of the Company.

Chairman's Statement

As a review of the whole year, thanks to our hard work over the year the market order of the Company's products is restoring, control over the marketing channel is enhancing, and the quality of our operations is steadily improving. All these built up a solid foothold for nourishing sustainable growth.

OUTLOOK AND PROSPECTS

2007 will be a year of changing and reform for medicine industry, with both challenges and opportunities. It is expected that the macroeconomic environment of China will continue to grow steadily, the reform in medical and hygiene system will continue in a fast pace. The new high tides of industry reorganization will lead to market integration, and at the same time, increasing aging population and the promotion of new cooperative medical system in villages will create a lot of business opportunities. On the other hand, dropping medicine price will continue, hits against corporate commission mounted in medicine transactions will go on as well. Enterprises engaging in medicine production are also subject to challenges.

In this connection, the Company will put enormous effort on reform and innovation, especially on sales and employment mechanisms. In order to carry out bold reform and innovate, we have to eliminate certain parts in our existing systems incompatible with market economy, or those hindering our growth. The Company will become more adaptive to the ever-changing medicine market by bringing new elements and momentum to such renowned brand with nearly 338 years history, and become a mainstay enterprise in modern Traditional Chinese Medicine production by capturing economy of scale.

The Board has confidence in the future development of the Company and so am I, we believe that the Company can build up strength and drive quality upgrade under temporary suffer. Together with all our fellow staff, I am enthusiastically looking forward to a new round of future growth of Tong Ren Tang Technologies.

I would like to express my sincere gratitude to the Board and all the staff of the Company for their efforts and excellent performance. We will continue to make our best efforts to achieve good results in order to have better returns to our shareholders.

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

Beijing, the PRC
19 March 2007

Management Discussion and Analysis

BUSINESS REVIEW

In line with the management target of "striving for excellence on a prudent and practical basis" set by the Board, in 2006, the Company has upheld two major priorities of "reform" and "management", and adhered to an operating philosophy which is centred on profit making and focused on cash flow control. We have worked out a revenue generating and cost reducing principle as a leading idea setting up a cost-saving and highly-efficient enterprise in order to further improve the profitability and management standards of the Company. For the year ended 31 December 2006, revenue of the Company amounted to RMB1,034,768,000, representing a decrease of 8.89% as compared with that for the corresponding period last year. The decrease in sales was due to our efforts to restoring market order by limiting supply of certain products. Profit before income tax was RMB171,236,000, representing a decrease of 32.04% as compared with that for the corresponding period last year, it was mainly due to the decease in gross profit margin which was, in turn, caused by the decrease in revenue, increase in costs of raw and supplementary materials, increase in depreciation of fixed assets and so on. Profit attributable to equity holders of the Company was RMB148,327,000, representing a decrease of 35.84% as compared with that for the corresponding period last year. The decrease in profit attributable to equity holders of the Company was due to the expiration of the preferential income tax treatment previously enjoyed by the Company in 2005.

SALES

During 2006, the marketing efforts of the Company were mainly made in changing the operating mode. The Company has made concerted efforts in strengthening ultimate points of distribution. With a goal of upgrading our operation quality, we have streamlined management flows and channel maintenance in order to enhance the Company's overall marketing strengths.

Basing on the existing sales networks, the Company strengthened its overall marketing planning and reinforced the establishment, maintenance and management of its ultimate points of distribution. In this regard, the Company further restructured its marketing framework. A branch company specialized in marketing was set up for dealing with the establishment and maintenance of the retail points and with the marketing and promotion of products. By conducting site visit and marketing research, the marketing branch company has collected such information as the distribution of ultimate drugstores and accessibility of the Company's products in Tianjin, Shijiazhuang, Chongqing, Jinan and Xian. And, the marketing branch company also established exclusive counters for Tongrentang products over various regions in order to reinforce the promotion amongst ultimate drugstores, to enhance brand recognition of the Company's products, and to create demand from end users.

Management Discussion and Analysis

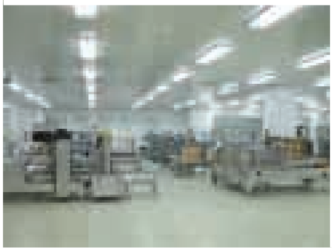
To cope with the fiercely competitive market, in respect of the sale of mainstream products, the Company regulated the activities of distributors, strengthened monitoring, enhanced integrated management of pricing system and market order, so as to maintain orderly market operation. Sales policies were stringently implemented; penalties were imposed on some distributors for noncompliance thereof. This measure helped maintaining market order and cultivating healthy business environment. We also kept eye on cash flow control in a way of managing the good balance between deliveries and cash receipts and enhancing budgetary control on sale costs, in order to maximize profits with committed sale costs.

The Company continued to enrich its product portfolio and organize promotional campaigns and healthcare seminars for different types of products in a timely manner. To satisfy the demand of different consumers, we continued to refine and innovate forms of medicine, packaging and specifications, and to promote products with market potentials. In 2006, the Company produced and sold more than a hundred types of products. Of which, one product exceeded sales of RMB100,000,000, two products between RMB50,000,000 and RMB100,000,000, and 15 products between RMB10,000,000 and RMB50,000,000. Sales of mainstream products decreased as compared with those for the corresponding period last year, of which series of Liuwei Dihuang Pill (六味地黃丸) decreased by 9.78%, each of Ganmao Qingre Granule (感冒清熱顆粒) and Niuhuang Jiedu Tablet (牛黃解毒片) decreased by more than 20%. Leveraging on the diversification strategies of product series, sales of certain other series, including Niuhuang Jiangya Pill (牛黃降壓丸), Tracheitis Pill (氣管炎丸), Banlangen Granule (板藍根顆粒) and Qiju Dihuang Pill (杞菊地黃丸), increased as compared with those for the corresponding period last year.

Management Discussion and Analysis

In respect of overseas market, because of divergence and non-recognition of medical policies and regulations between China and other countries, registration of Chinese patent medicine progress with obstacles in overseas. The Company has conducted active investigations into the prevailing policies, made new product series and innovated operating modes, in order to timely and promptly respond to the increasing legalization of medical policies and regulations and the stricter supervision on medicinal products in different countries. In 2006, to catch up the rapidly changing demands of the international markets, the Company has introduced over 10 product series of concentrated tablets to the non-traditional markets in such western countries as Australia, the United States and Canada. During the period under review, the Company recorded export sales of approximately USD3,980,000, representing an increase of 15.03% as compared with those for the corresponding period last year.

PRODUCTION



In such a dynamic product market, production has to keep up with sales. Each and every production base and production control division of the Company is dedicated to fulfill orders through proactive and initiative coordination among various sections, namely production, quality control, supply and distribution. Smooth flows from craftsmanship, material procurement, product packaging, equipment selection, production supervision and product inspection to logistic distribution were achieved through a perfect match among the quality control, R&D as well as engineering divisions. Thus, the market supply of products was sufficiently guaranteed. During the period under review, the production lines of pill and soft capsules in the Company's production bases have passed the GMP re-test. Certain production lines have also gone through the GMP re-test by TGA of Australia.

Management Discussion and Analysis

Beijing Tong Ren Tang Tongke Pharmaceutical Company Limited (北京同仁堂通科藥業有限責任公司) is located at Tongzhou district of Beijing City. Given the completion of all construction works of the Chinese medicine raw materials preprocessing workshop and plant and the completion of the installation, adjustment and trial runs of equipment, production operation will commence in 2007. The workshop will produce semi-finished goods for different forms of medicine of the Company, further enhancing the overall productivity of the Company.

Yi Zhuang production base in Beijing

Beijing Tong Ren Tang Chinese Medicine Company Limited (北京同仁堂國藥有限公司), located at Hong Kong, was jointly invested and established by the Company and Tongrentang Ltd.. Its total investment was HK$150,000,000 under the original plan, and later was further increased by HK$28,000,000 as working capital replenishment. Of the total investment, the Company has contributed HK$90,780,000 for 51% interest, while Tongrentang Ltd. has contributed HK$87,220,000 for 49% interest. The production base of Tongrentang Chinese Medicine in Tai Po Industrial Estate has been fully completed by the end of 2006, and will be put into trial production in the first half of 2007. Such production base, upon completed, will focus on producing products for overseas markets so as to flourish sales of overseas markets.

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

Management Discussion and Analysis

MANAGEMENT AND RESEARCH AND DEVELOPMENT

To realize our philosophy of building up a cost-effective enterprise, in particular, to tackle a number of profit-shrinking pressures, the Company has set up a "Reducing 5 Heights" Task Force in a move to reduce costs and expenses in every aspect the operation, including raw material procurement, production, sales, transport and storage by adopting strengthened cost budgeting and stricter control on approval of over-budgeted funds. The profitability of the Company will thus be improved.

Scientific researches represented our steadfast vision for exploring market foothold, optimizing production process and meeting prospective challenges. The R&D of new products was speeded up, and the development of the existing products was fostered in order to capture market changes and respond to customers' needs for fresh forms of drugs, brand new packages and innovative specifications. In 2006, through repeated screening of the existing product series and based on market researches, feasibility analyses and analyses of competitors, the Company has selected more than 10 potential products to launch in the market to compete with others.

SALES NETWORK

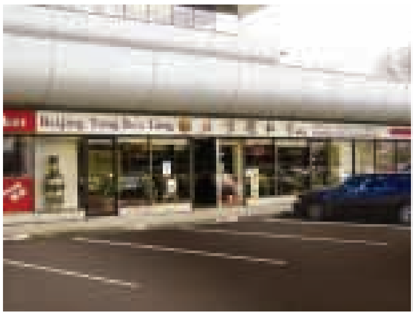
As a prudent-minded enterprise seeking for stable growth, the Company endeavours to steadily expand our sales network.

Currently, the Company's investments in four joint ventures, namely Peking Tongrentang (M) Sdn. Bhd., Beijing Tong Ren Tang Canada Co. Ltd., Beijing Tong Ren Tang (Macau) Company Limited and Beijing Tong Ren Tang (Indonesia) Company Limited, are expected to boost our distribution operations and drug retail outlets in the regions, thus pushing up the sales volume of the Company's products.

Management Discussion and Analysis

All of these four joint ventures, located at Malaysia, Canada, Macau Special Administrative Region and Indonesia respectively, have set up local drug retail outlets with good operating performance. The company in Malaysia has achieved higher profitability by further strengthening its internal management, streamlining business flows and developing distribution business. It is currently operating two drug retail outlets in Malaysia. The company in Canada has realized increased sales income through activities, such as recommendation of doctors, sale promotion of herbal medicine and patent medicine, and free medical diagnoses and decoction during public holidays. The company in Macau has promoted Chinese medicine and Tongrentang products through organizing social welfare activities. The company in Indonesia has continued to rationalize its operation and management by dedicating itself to become a reputable medicine clinic equipped with excellent doctors and high-quality medicine. In 2006, the above four joint ventures realized sales income of RMB10,603,300, RMB5,961,900, RMB7,781,400 and RMB7,903,900 respectively.

the drug store in Malaysia



the drug store in Canada

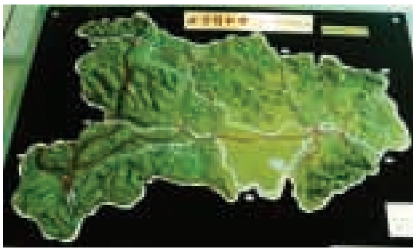
the drug store in Macau

Beijing Tong Ren Tang Nansanhuan Zhonglu Drugstore Co., Limited (北京同仁堂南三環中路藥店有限公司), a retail drugstore located at Nansanhuan Zhonglu, Fengtai District, Beijing (北京豐台區南三環中路), attained good operating performance. In 2006, while drugstore medical services were personalized, control on purchase costs and assessment on consolidated profit margin were reinforced. Realized sales income of RMB13,953,700 for the period under review, representing a 16% growth over the last corresponding figure.

CHINESE MEDICINAL RAW MATERIALS PRODUCTION BASES

Currently, the Company's six joint ventures in Hebei, Henan, Hubei, Zhejiang, Anhui, Jilin respectively are capable of providing the Company with major Chinese medicinal raw materials such as cornel (山茱萸),

tuckahoe (茯苓), catnip (荊芥) and isatis root. In 2006, Other than producing, collecting and processing medicinal materials, some production bases cooperated with research institutions and achieved fruitful breakthroughs in the research of Chinese herbs production techniques. The "tuckahoc inducement growing" (茯苓誘引栽培) technique invented by the Hubei production base has been authenticated and examined. Basing on the state's GAP (Good Agriculture practice), each production base established their technical standards accordingly to further improve their quality control systems so as to fully guarantee the quality of raw materials. In 2006, the Company's production bases of Chinese medicinal raw materials achieved sales income of RMB15,880,000. The production bases of Chinese medicinal raw materials played an important part in securing supply and quality of Chinese medicinal raw materials required for the production of the Company's products.



Map of plantation fields of Beijing Tong Ren Tang Hubei Chinese Medicinal Raw Materials Co., Limited

FINANCIAL REVIEW

Liquidity and Financial Resources

The Group has maintained a sound financial position in this year. As at 31 December 2006, the Group had cash and bank balances amounting to RMB213,744,000 (2005: RMB234,032,000) and short-term borrowings of RMB85,000,000 (2005: RMB85,000,000). The borrowings bear fixed interest rates ranging from 5.27% to 5.51% (2005: 5.02%) per annum. As at 31 December 2006, the Group had total assets of RMB1,500,141,000 (2005: RMB1,450,098,000) which were financed by non-current liabilities of RMB12,808,000 (2005: RMB14,583,000), current liabilities of RMB436,111,000 (2005: RMB440,179,000), shareholders' equity of RMB998,254,000 (2005: RMB935,691,000) and minority interests of RMB52,968,000 (2005: RMB59,645,000).

Capital Structure

There has been no material change in the capital structure of the Group as at 31 December 2006 as compared with that as at 31 December 2005.

Gearing and liquidity ratio

The Group's gearing ratio, defined as the ratio between total borrowings and shareholders' equity, was 0.09 (2005: 0.09). The liquidity ratio of the Group, represented by a ratio between current assets over current liabilities, was 2.07 (2005: 1.98), reflecting the abundance of financial resources.

Charges on Group's assets

As at 31 December 2006, none of the Group's assets was pledged as security for liabilities (2005: Nil).

Contingent liabilities

Other than those disclosed in the note 20, the Group had no contingent liabilities as at 31 December 2006 (2005: Nil).

Foreign currency risk

The Group is subject to foreign currency risk as certain of its payables to equipment suppliers and certain accounts receivable arising from export sales are denominated in foreign currencies, principally U.S. dollars. Fluctuation of the exchange rates of Renminbi against foreign currencies could affect the Group's results of operations, but the effect is not expected to be significant.

Capital commitments

At as 31 December 2006, the Group had the following capital commitments which had been authorised and contracted for in the consolidated financial statements of the Group:

(i) Commitments relating to the construction of production facilities amounting to approximately RMB1,862,000 (2005: RMB3,600,000).

(ii) Commitments relating to investment contributions to investee entities: Nil (2005: RMB28,508,000).

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

Management Discussion and Analysis

PROSPECTS

Tongrentong has always strategically positioned itself as an internationally famous modern Chinese medicine group by developing in the medicinal healthcare sector from the core of modern Chinese medicine. It has a tactic mission of emerging as a "leading, strong and large" industry player. The Company will make sweeping reforms and innovative development in order to create sustainable growth, competitive edges and promising profitability. In 2007, the Company has the following important tasks:

1. Reform in Sale and Marketing System

The Company will place particular weight towards long-lasting growth. We will rationalize the market order by establishing a new mode of distribution logistics and cash flow control under our direct control, through which sales of products will gradually move towards community medical sector and retail sectors. To establish a marketing management system that can promptly respond to the changing market conditions, the Company will consolidate the resources of three sale branch companies, recruit new blood to replenish sale team and form marketing strategies embodied with products on a step-by-step basis.

2. Consolidation and Establishment of Human Resources System

Thee Company will reform and initiate the staffing mechanism to refine the criteria of deciding posts, headcount, organizational structure and job duties, to clearly define duties and responsibilities, to keep recruitment process competitive, and to practice scientific, reasonable and effective post assessment and remuneration management. The Company will also set up and optimize a new and comprehensive human resources management system that integrates recruitment, performance assessment, remuneration, career development and training, fully motivating the initiatives and creativity of all staff.

3. Promotion of New Products at full gear

Tongrentang has always enjoyed cutting advantages in terms of brand name and reputation, supported by a sound combination of high-quality medicinal materials, state-of-arts techniques and remarkable medicinal effects. New product series and minor product ranges with good market potentials will be explored to seize market demands. Series of safe and effective Chinese medicine products with broad and strong applicability will be launched and nurtured for further promoting the brand name and market share of the Company's products. Our reliance upon mainstream products will thus be progressively reduced.

Report of the Directors

The directors of Tong Ren Tang Technologies Co. Ltd. (the "Directors") have pleasure in presenting their annual report together with the audited financial statements of the Group for the year ended 31 December 2006.

PRINCIPAL ACTIVITIES

The Group is principally engaged in the manufacturing and sales of Chinese Patent Medicine.

An analysis of the Group's revenue is as follows:

	2006 RMB'000	2005 RMB'000
Sales of medicine:		
Domestic	**985,792**	1,090,910
Overseas	**48,976**	44,768
	1,034,768	1,135,678

MAJOR CUSTOMERS AND SUPPLIERS

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

	2006	2005
The largest customer	**9%**	8%
Five largest customers combined	**34%**	30%

During the year under review, the Group's purchases from the five largest suppliers accounted for less than 30% (2005: less than 30%) of the Group's purchases.

Save as disclosed herein, none of the Directors, their associates, or any shareholders, which to the knowledge of the Directors owned more than 5% of the Company's share capital, had a beneficial interest in the Group five largest customers and five largest suppliers.

Report of the Directors

RESULTS

The results and the financial position of the Group for the year ended 31 December 2006 are set out on page 44 to 102 of the annual report.

DIVIDENDS

The Directors recommend the payment of a final dividend of RMB0.40 (including tax) per share in respect of the year, to shareholders whose names appear on the register of shareholders of the Company on 16 May 2007. Dividend payable to the shareholders of H shares ("H Shareholders") will be paid in Hong Kong Dollars ("HKD"). The exchange rate between RMB and HKD shall be ascertained on the basis of the average of the middle exchange rates for RMB to HKD as published by the People's Bank of China for the five trading days prior to the date of the coming annual general meeting.

CLOSURE OF REGISTER OF MEMBERS

The register of Members in Hong Kong will be closed from Monday, 16 April 2007 to Wednesday, 16 May 2007, both days inclusive, during which period no transfer of H shares of the Company will be effected. For the identification of Members who are qualified to attend and vote at the annual general meeting and to be entitled to the proposed final dividend for the year ended 31 December 2006, all transfer document accompanied by the relevant share certificates must be lodged with the Company's transfer office in Hong Kong, not later than 4:30 p.m. on Friday, 13 April 2007.

SHARE CAPITAL

Details of movement in share capital of the Company for the year are set out in note 11 to the financial statements.

RESERVES

Details of movement in reserves of the Group for the year are set out in the Consolidated Statement of Changes in Equity. As at 31 December 2006, the Group's retained profits of approximately RMB395,295,000 (2005: RMB343,427,000) were available for distribution to its shareholders.

PROPERTY, PLANT AND EQUIPMENT

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

STAFF RETIREMENT SCHEME

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

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2006, the Company had 1,890 employees (2005: 1,851 employees). Remuneration is determined by reference to market terms and the performance, qualifications and experience of individual employee. Discretionary bonuses based on individual performance will be paid to employees as recognition of and reward for their contribution. Other benefits include contributions to pension scheme, medical insurance scheme, unemployment insurance scheme, industrial accident insurance scheme, female worker insurance scheme and housing fund.

STAFF QUARTERS

During the reporting period,

1. the Group did not provide any staff quarters to its staff (2005: Nil);

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

3. the Group also provides housing subsidies to staff at an average of approximately RMB90 per person per month (2005: RMB90 per person per month).

Report of the Directors

DIRECTORS AND SUPERVISORS

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

Executive Directors

Yin Shun Hai *(Chairman)*

Mei Qun *(Vice-chairman)*

Zhang Sheng Yu *(Vice-chairman)* (appointed on 18 May 2006)

Wang Quan (appointed on 18 May 2006)

Ding Yong Ling

Kuang Gui Shen (appointed on 18 May 2006)

Bi Jie Ping (resigned on 18 May 2006)

Non-Executive Directors

Zhao Bing Xian (resigned on 18 May 2006)

Independent Non-Executive Directors

Tam Wai Chu, Maria

Ting Leung Huel, Stephen

Jin Shi Yuan

Supervisors

Zhang Xi Jie *(Chief Supervisor)* (appointed on 18 May 2006)

Tian Da Fang (resigned on 18 May 2006)

Wu Yi Gang

Liu Gui Rong

Report of the Directors

DIRECTORS' AND SUPERVISORS' SERVICE CONTRACTS

Each of Mr. Yin Shun Hai and Mr. Mei Qun has entered into a service contract with the Company for a term of three years commencing on 9 March 2000. Upon the reappointment at the annual general meeting in 2003 and 2006, the term of the original service contracts continue until the conclusion of the annual general meeting in 2009. Each of other directors has entered into a service contract with the Company for a term commencing on their respective appointment dates to the conclusion of the annual general meeting in 2009.

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

DIRECTORS' INTERESTS IN CONTRACTS

There was no contract of significance to which the Company was a party and in which a Director had a material interest, whether directly and indirectly, subsisted at the end of the year or at any time during the year.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Profiles of Directors, Supervisors and Senior Management are set out on pages 37 to 41.

EMOLUMENTS OF DIRECTORS, SUPERVISORS AND THE FIVE HIGHEST PAID INDIVIDUALS

Details of the emoluments of Directors, Supervisors and the five highest paid individuals in the Company are set out in note 23 to the financial statements.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS

As at 31 December 2006, the interests and short positions of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the minimum standards of dealing by directors as referred to in Rule 5.46 of the Rules Governing the Listing of Securities on the GEM (the "GEM Listing Rules"), were as follows:

Long positions in shares

The Company

Name	Type of interest	Capacity	Number of shares (Note)	Percentage of domestic shares	Percentage of total registered share capital
Mr. Yin Shun Hai	Personal	Beneficial owner	500,000	0.455%	0.274%
Mr. Mei Qun	Personal	Beneficial owner	500,000	0.455%	0.274%

Note: All represented domestic shares.

Tongrentang Ltd.

Name	Type of interest	Capacity	Percentage of shares (Note)	Percentage of total registered share capital
Mr. Yin Shun Hai	Personal	Beneficial owner	38,850	0.009%
Mr. Mei Qun	Personal	Beneficial owner	31,081	0.007%
Mr. Kuang Gui Shen	Personal	Beneficial owner	22,700	0.005%

Note: All represented A shares.

Report of the Directors

Beijing Tong Ren Tang International Co., Limited

Name	Type of interest	Capacity	Percentage of shares	Percentage of total registered share capital
Mr. Yin Shun Hai	Personal	Beneficial owner	39,000	0.500%
Mr. Mei Qun	Personal	Beneficial owner	78,000	1.000%
Ms. Ding Yong Ling	Personal	Beneficial owner	39,000	0.500%

Beijing Tong Ren Tang Nature-Pharm Co. Ltd.

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

Save as disclosed above, as at 31 December 2006, none of the Directors and chief executives of the Company has any interests and short positions in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the standards of dealing by directors as referred to in Rule 5.46 of the GEM Listing Rules.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2006, the following persons (other than the Directors and chief executives 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:

Long positions in shares

Name of shareholder	Capacity	Number of shares	Percentage of domestic shares	Percentage of H shares	Percentage of total registered shares
Tongrentang Ltd.	Beneficial owner	100,000,000	90.909%	–	54.705%
Tongrentang Holdings (Note 1)	Interest in a controlled corporation	100,000,000	90.909%	–	54.705%
	Beneficial owner	2,900,000	2.636%	–	1.586%
First State Investments (Hong Kong) Limited	Investment manager	10,933,000	–	15.018%	5.981%
First State (Hong Kong) LLC (Note 2)	Interest in a controlled corporation	10,933,000	–	15.018%	5.981%
First State Investments (Bermuda) Ltd (Note 2)	Interest in a controlled corporation	10,933,000	–	15.018%	5.981%
First State Investment Managers (Asia) Ltd (Note 2)	Interest in a controlled corporation	10,933,000	–	15.018%	5.981%
Colonial First State Group Ltd (Note 2)	Interest in a controlled corporation	10,933,000	–	15.018%	5.981%
Commonwealth Insurance Holdings Ltd (Note 2)	Interest in a controlled corporation	10,933,000	–	15.018%	5.981%
Colonial Holding Company Ltd (Note 2)	Interest in a controlled corporation	10,933,000	–	15.018%	5.981%
Commonwealth Bank of Australia (Note 2)	Interest in a controlled corporation	10,933,000	–	15.018%	5.981%
Capital Research and Management Company (Note 3)	Investment manager	5,824,000	–	8.000%	3.186%
Capital International, Inc. (Note 3)	Investment manager	2,556,000	–	3.511%	1.398%
Capital Group International. Inc. (Note 3)	Interest of a controlled corporation	2,556,000	–	3.511%	1.398%
The Capital Group Companies, Inc. (Note 3)	Interest of a controlled corporation	8,380,000	–	11.511%	4.584%
Fidelity International Limited	Investment manager	6,528,000	–	8.967%	3.571%
Templeton Asset Management Limited	Investment manager	3,658,000	–	5.025%	2.001%

Report of the Directors

Notes:

(1) Such shares were held through Tongrentang Ltd. As at 31 December 2006, Tongrentang Ltd. was owned as to 55.24% by Tongrentang Holdings. According to Part XV of the SFO, Tongrentang Holdings is deemed to be interested in the 100,000,000 shares held by Tongrentang Ltd.

(2) Commonwealth Bank of Australia owns 100% of Colonial Holding Company Ltd. Colonial Holding Company Ltd. owns 100% of Commonwealth Insurance Holdings Ltd. Commonwealth Insurance Holdings Ltd owns 100% of Colonial First State Group Ltd. Colonial First State Group Ltd owns 100% of First State Investment Managers (Asia) Ltd. First State Investment Managers (Asia) Ltd owns 100% of First State Investments (Bermuda) Ltd. First State Investments (Bermuda) Ltd owns 100% of First State (Hong Kong) LLC. First State (Hong Kong) LLC owns 100% of First State Investments (Hong Kong) Limited.

Accordingly, Commonwealth Bank of Australia, Colonial Holding Company Ltd., Commonwealth Insurance Holdings Ltd., Colonial First State Group Ltd, First State Investment Managers (Asia) Ltd, First State Investments (Bermuda) Ltd and First State (Hong Kong) LLC are deemed by Part XV of the SFO to be interested in the 10,933,000 shares held by First State Investments (Hong Kong) Limited.

(3) The Capital Group Companies, Inc. owns 100% of Capital Group International, Inc. Capital Group International, Inc. owns 100% of Capital International, Inc.. The Capital Group Companies, Inc. owns 100% of Capital Research and Management Company.

Accordingly, under Part XV of the SFO, The Capital Group Companies, Inc. and Capital Group International, Inc are deemed to be interested in the 2,556,000 shares held by Capital International, Inc., The Capital Group Companies, Inc. is deemed to be interested in the 5,824,000 shares held by Capital Research and Management Company.

Save as disclosed above, as at 31 December 2006, the Directors were not aware of any other person (other than the Directors and chief executives of the Company) who 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.

COMPETING INTERESTS

Direct competition with Tongrentang Ltd. and Tongrentang Holdings

The curative effects of Chinese medicine are brought about by not only treating the symptoms of the disease, but also treating and regulating other implicit problems of the body which may have a direct or indirect influence on the explicit symptoms. As such, the curative effects of Chinese medicine are usually very broad. The proper medicine is selected with reference to a number of variables such as the patient's state of illness, gender, age and constitution, the occurring season of the disease and its curative effects on the implicit problems of the patient. As such, any particular type of Chinese medicine usually has several curative effects, some of which may be in common with those of other products under different names. Given this nature of Chinese medicine, there may exist direct competition between the products of the Company and those of Tongrentang Holdings and Tongrentang Ltd.

The Company, Tongrentang Ltd. and Tongrentang Holdings are all engaged in the manufacturing of Chinese Patent Medicine. Their businesses are delineated in accordance with their differences in focus on the forms of medicine they produce. Tongrentang Ltd. mainly produces Chinese Patent Medicine in traditional form such as large pill, powder, ointment, pellet and medicinal wine. It also has some minor production lines for the production of granules and pills. On the other hand, the Company focuses on manufacturing products in forms of granules, pills, tablets and soft capsules. Tongrentang Ltd.'s main products include Angong Niuhuang Pills (安宮牛黃丸), Tongren Wuji Baifen Pills (同仁烏雞白鳳丸), Tongren Dahuolo Pills (同仁大活絡丸) and Guogong Wine (國公酒).

In order to ensure that the business delineation between the Company and Tongrentang Holdings and Tongrentang Ltd. are properly documented and formalized, pursuant to an undertaking dated 19 October 2000 given by Tongrentang Holdings and Tongrentang Ltd. in favor of the Company ("October Undertaking"), Tongrentang Holdings and Tongrentang Ltd. undertook that, except for Angong Niuhuang Pills (安宮牛黃丸), Tongrentang Holdings, Tongrentang Ltd. and their respective subsidiaries would not produce any common products of the same names or under the same names with different forms that may compete directly with those of the Company in the future. Only one of them, Angong Niuhuang Pills (安宮牛黃丸), would be manufactured by both the Company and Tongrentang Ltd. in the future.

Both the Company and Tongrentang Ltd. produce Angong Niuhuang Pills (安宮牛黃丸). The Directors consider that, except for Angong Niuhuang Pills (安宮牛黃丸) produced by the Company and Tongrentang Ltd., there is no other direct competition among the Company, Tongrentang Ltd. and Tongrentang Holdings. The Directors consider that as Angong Niuhuang Pills (安宮牛黃丸) only represents a small percentage of Company's turnover and is not one of the major forms of medicine for development after the listing of the Company, the Company will continue to manufacture and sell Angong Niuhuang Pills (安宮牛黃丸). Save as mentioned herein, the Directors confirm that no other products of the Company have any competition with Tongrentang Ltd. or Tongrentang Holdings.

FIRST RIGHT OF REFUSAL

Although the Company, Tongrentang Ltd. and Tongrentang Holdings all engage in the business of production, manufacturing and sale of Chinese medicine, the principal products by each of these companies are different. It had been decided that the Company would concentrate on new forms of products which were believed to be more competitive against western pharmaceutical products while Tongrentang Ltd. and Tongrentang Holdings would continue to focus on developing existing traditional forms of products.

To provide for the Company's focus on developing the four major forms of products (namely, granules, pills, tablets and soft capsules), pursuant to the October Undertaking, Tongrentang Holdings and Tongrentang Ltd. have granted to the Company a first right of refusal to manufacture and sell any of the new products developed by Tongrentang Holdings, Tongrentang Ltd. or any of their respective subsidiaries and which belong to one of the four main forms of the Company. Once the first right of refusal is exercised, both Tongrentang Ltd. and Tongrentang 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 Tongrentang Holdings, Tongrentang Ltd. or their respective subsidiaries, and such new product falls into one of the major forms of the Company, the Company will be entitled to manufacture such new product and Tongrentang Holdings, Tongrentang 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 Tongrentang Ltd. and Tongrentang Holdings would support the Company in its development of the four major forms of products in the future.

In order for the Company to have an independent review in deciding whether to proceed with the research and development of new products, the Company confirms that one of the independent non-executive Directors is a reputable person in the Chinese medicine industry and will determine whether to exercise the first right of refusal granted by Tongrentang Holdings or Tongrentang Ltd. to develop any proposed new products which belong to one of the major forms (namely, granules, pills, tablets and soft capsules) of the Company. In the event that the Company refuses the first right of refusal offered by Tongrentang Ltd. and/or Tongrentang Holdings, terms of the option to be offered to independent third party should not be more favourable than that originally offered to the Company. Otherwise, the Company should be given the 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 Tongrentang Holdings or Tongrentang Ltd. in the Company falls below 30%.

CONNECTED TRANSACTIONS

During the year ended 31 December 2006, the Group entered into continuing connected transactions, particulars of the transactions pursuant to Rules 20.45 and 20.46 of the GEM Listing Rules are included in note 27 (a), (b) and (c) to the financial statements.

The Directors (including the independent non-executive directors of the Company), upon receiving a letter from the Company's auditors in respect of the factual findings on the continuing connected transactions, have examined and confirmed that:

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

(ii) these transactions were executed on normal commercial terms or on terms no less favorable to the Group than those available to or from (as applicable) independent third parties;

(iii) these transactions were executed in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the Company's shareholders as a whole; and

(iv) the aggregate amount of each of these transactions has not exceeded the cap amount as agreed with the Stock Exchange in this regard.

Report of the Directors

PURCHASE, SALE OR REDEMPTION OF SECURITIES

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

AUDITORS

The financial statements have been audited by PricewaterhouseCoopers. A resolution for the reappointment of PricewaterhouseCoopers as auditors of the Company for the year 2007 is to be proposed at the forthcoming annual general meeting.

By the Order of the Board
Yin Shun Hai
Chairman

Beijing, the PRC
19 March 2007

Report of the Supervisory Committee

To the Shareholders:

The Supervisory Committee of Tong Ren Tang Technologies Co. Ltd. (the "Supervisory Committee"), in compliance with the provisions of the Company Law of the People's Republic of China (the "PRC Company Law"), the relevant laws and regulations of Hong Kong and the Articles of Association of the Company, under their fiduciary duty, took up an active role to work reasonably and cautiously with diligence to protect the interests of the Company and its shareholders.

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

We have reviewed and agreed to the report of the Directors, audited financial statements and the dividend to be proposed by the Board of Directors for presentation at the forthcoming annual general meeting. We are of the opinion that the Directors, the general manager and other senior management of the Company were able to strictly observe their fiduciary duty, to act diligently and to exercise their authority faithfully in the best interests of the Company. The transactions between the Company and connected parties are in the interests of the shareholders as a whole and under fair and reasonable price. Up till now, none of the Directors, general manager and senior management staff had been found abusing their authority, damaging the interests of the Company and infringing upon the interests of its shareholders and employees. And none of them were found to be in breach of any laws and regulations or the Articles of Association of the Company.

The Supervisory Committee is satisfied with the achievement and cost-effectiveness of the Company in 2006 and has great confidence in the future of the Company.

By Order of the Supervisory Committee
Zhang Xi Jie
Chairman

Beijing, the PRC
19 March 2007

Corporate Governance Report

For the year ended 31 December 2006, the Company complied with all the code provisions set out in Appendix 15 of the Code on Corporate Governance Practices of the GEM Listing Rules.

DIRECTORS' DEALING IN SECURITIES

The Company has formulated and implemented its Code on Dealing in Securities pursuant to the required standard of dealings set out in Rule 5.48 to Rule 5.67 of the GEM Listing Rules to regulate the directors' dealing in securities. The Code on Dealing in Securities of the Company are no less exacting terms than the required standard of dealings and these requirements are also applicable to specific persons such as the senior management.

After enquiry by the Company to all the Directors, all the Directors have confirmed that they have been complying with the required standard of dealings set out the GEM Listing Rules and the Code on Dealing in Securities of the Company.

BOARD OF DIRECTORS

The third session of the board of directors of the Company is currently comprised of nine directors and their term of office will end upon the conclusion of the general meeting in 2009. The board of directors comprises three influential independent non-executive directors. Independent non-executive directors are independent of the management and in possession of solid experience in business and finance. They provide significant contribution to the development of the Company.

As at 31 December 2006 and at any time, the board of directors fulfilled the minimum requirement of appointing at least three independent non-executive directors as required by the GEM Listing Rules and the number of independent non-executive directors being at least one-third of the members of the board of directors, and it also met the requirement of having one independent non-executive director qualified as a professional or having the professional accounting and financial management expertise.

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

The Board conducts meetings at least at each quarter or in case there is important decision to make. The Board conducted five meetings in 2006 to discuss and decide development strategies, important operational issues, financial issues and other important issues under the Company's memorandum and articles of association. The following table sets out the attendance of Directors' meeting in 2006:

Directors	**Attendance/Number of meetings**	**Note**
Executive directors		
Yin Shun Hai	5/5	
Mei Qun	5/5	
Wang Quan	3/5	Appointed on 18 May 2006
Ding Yong Ling	5/5	
Kuang Gui Shen	3/5	Appointed on 18 May 2006
Zhang Sheng Yu	3/5	Appointed on 18 May 2006
Independent non-executive directors		
Tam Wai Chu, Maria	5/5	
Ting Leung Huel, Stephen	5/5	
Jin Shi Yuan	5/5	

Directors conduct a review of the effectiveness of the system of internal control and consider the internal control systems effective and carried out continuously.

CHAIRMAN OF THE BOARD AND GENERAL MANAGER

Mr. Yin Shun Hai and Mr. Kuang Gui Shen are chairman of the Board and general manager respectively, which are two clearly defined positions. The chairman is responsible for the operation of the Board while the general manager is in charge of ordinary business management. The Articles of Association of the Company set out the respective functions of the chairman and the general manager in detail.

Corporate Governance Report

DIRECTORS' REMUNERATION

Mr. Yin Shun Hai, Mr. Mei Qun, Mr. Wang Quan, Ms. Ding Yong Ling and Mr. Zhang Sheng Yu (executive directors), in their capacities as Directors, did not receive Directors' remuneration, of which Mr. Yin Shun Hai and Mr. Mei Qun received bonus in 2006. Mr. Kuang Gui Shen (executive director), in his capacity as the general manager of the Company, received remuneration that is composed of three parts; basic salary (including subsidies), bonus and contributions to retirement scheme Ms. Tam Wai Chu, Maria, Mr. Ting Leung Huel, Stephen and Mr. Jin Shi Yuan (independent non-executive directors), in their capacities as Directors, received Directors' fee. Details of directors' remuneration are set out in note 23 to the financial statements.

APPOINTMENT OF DIRECTORS

Directors of the Company were elected at general meetings with a term of three years for each session. Directors can be re-elected upon expiration of the term. All nine Directors currently in office were elected or re-elected at the annual general meeting. In 2006, the third session of the board of directors of the Company was elected with proper approval at the annual general meeting. Other than those re-elected, Mr. Wang Quan, Mr. Kuang Gui Shen and Mr. Zhang Sheng Yu were newly elected as executive directors of the Company and Mr. Bi Jie Ping and Mr. Zhao Bing Xian resigned from the directorship of the Company on 18 May 2006.

AUDIT COMMITTEE

Pursuant to Rule 5.28 of the GEM Listing Rules, the Company has set up an audit committee according to "A Guide For The Formation of An Audit Committee" compiled by the Hong Kong Institute of Certified Public Accountants. In compliance with Rule of 5.29 of the GEM Listing Rules, the authority and responsibility of the audit committee have been properly written out. The primary duties of the audit committee are to review and monitor the Company's financial reporting process and internal control system. The committee comprises of Ms. Tam Wai Chu, Maria, Mr. Ting Leung Huel, Stephen and Mr. Jin Shi Yuan, who are independent non-executive Directors. Mr. Ting Leung Huel, Stephen, the Chairman of the Committee, possesses appropriate professional qualification and financial experience.

During 2006, two meetings have been conducted by the audit committee. The first meeting was held on 3 March 2006 for reviewing and discussing the operating results, statements of affairs and accounting policies with respect to the audited financial statements of the Company for the year ended 31 December 2005 and internal audit matters and listened to the advice provided by auditors. The second meeting was held on 7 August 2006 for reviewing and discussing the operating results, statements of affairs and accounting policies with respect to the unaudited interim report of the Company for the six months ended 30 June 2006 and internal audit matters.

The following table sets out the attendance of the committee's meeting in 2006:

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

The audit committee held a meeting on 2 March 2007 to review and discuss the operating results, statements of affairs, major accounting policies and internal audit issues of the Company for the year ended 31 December 2006 and to take advice from auditors.

REMUNERATION COMMITTEE

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

The Remuneration 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 GEM Listing Rules that independent non-executive Directors should form the majority of the remuneration committee.

During 2006, one meeting has been conducted by the Remuneration Committee. On 3 March 2006, the Committee reviewed and discussed the Directors' and senior executives' emoluments for the year ended 31 December 2005. All members of the Remuneration Committee attended the meeting.

On 12 March 2007, the Committee reviewed and discussed the Directors' and senior executives' emoluments for the year ended 31 December 2006.

Corporate Governance Report

NOMINATION COMMITTEE

The Company has established the Nomination Committee according to the relevant provisions of the GEM Listing Rules with written terms of reference. Its primary responsibilities include reviewing and supervising the framework, number of members and composition of the Board and making proposals to the Board in respect of any changes and identifying and nominating suitable persons for appointment of Director.

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

During 2006, one meeting has been conducted by the Nomination Committee. On 3 March 2006, the Committee reviewed and discussed the framework, number of members and composition of the Board, and identified and made proposals in respect of the appointment of third session of the board of directors. All members of the Remuneration Committee attended the meeting.

On 12 March 2007, the Committee reviewed and discussed the framework, number of members and composition of the Board.

AUDITORS' REMUNERATION

PricewaterhouseCoopers ("PwC") was the auditors of the Company for the year ended 31 December 2006. Other than annual auditing services, PwC did not provide non-auditing services to the Company or any of the Group's companies during the year.

Auditors' remuneration for year ended 31 December 2006 is set out in note 19. Besides, the Company paid for auditors' expenses of lodging, meals and traveling during the period the auditing services were provided.

Directors, Supervisors and Senior Management

EXECUTIVE DIRECTORS

Mr. Yin Shun Hai, aged 53, chairman of the Company, is a senior economist with postgraduate qualification. He was formerly the factory manager of Factory No.2, the deputy general manager and general manager of Tongrengtong Holdings. He is now the chairman of Tongrentang Holdings, chairman of Tongrentang Ltd., the vice president of China Chinese Medicine Research Society Councillor Committee, an executive member of All-China Federation of Industry and Commerce. He is responsible for the overall decision making of the Company. He will tentatively spend approximately half of his time on the business of the Company. He is one of the promoters of the Company.

Mr. Mei Qun, aged 50, vice-chairman of the Company, is a deputy pharmacist with postgraduate qualification. He was formerly the deputy chief of the education section of Beijing Tongrentang Pharmaceutical Factory, assistant to the manager of Beijing Medicinal Materials Company and assistant to the general manager and deputy general manager of Tongrengtang Holdings. He is now vice-chairman and the general manager of Tongrentang Holdings, vice-chairman of Tongrentang Ltd. and executive committee member of Beijing Trade and Industry Association. He is the compliance officer of the Company and responsible for overseeing all matters relating to the listing of the Company. He will spend approximately one-fifth of his time in the business of the Company. He is one of the promoters of the Company.

Mr. Wang Quan, aged 52, is a senior economist with a postgraduate qualification. He served as deputy head of the Beijing Medicinal Materials Company's party committee office, the supervisor of organizing department, the manager of human resource department, the deputy party secretary and the secretary to the disciplinary committee of Tongrentang Holdings. He is currently a director, deputy general manager and deputy party secretary of Tongrentang Holdings. Mr. Wang was appointed as an executive director at the annual general meeting in 2006.

Ms. Ding Yong Ling, aged 43, is a deputy pharmacist with a bachelor's degree. She served as the deputy head of the foreign trade department, the assistant to the general manager, the deputy manager, manager of the import and export branch, under Tongrentang Holdings, the manager of the import and export branch of Tongrentang Ltd., the deputy general manager of the Company and the manager of the import and export branch of the Company. She currently served as the deputy general manager of Tongrentang Holdings and the managing director of Beijing Tong Ren Tang International Co., Limited and Tong Ren Tang Chinese Medicine. Ms. Ding was appointed as an executive director on 16 May 2005 and re-appointed in the annual general meeting in 2006.

Directors, Supervisors and Senior Management

Mr. Kuang Gui Shen, aged 50, general manager of the Company, is a senior economist with a postgraduate qualification. He served as Vice Factory Manager of Factory No.2, Factory Manager of Chinese Pharmaceutical Factory No.5, Manager of the Operation Company of Tongrentang Holdings, Factory Manager of Chinese Pharmaceutical Factory No.3, Factory Manager of Da Xing New Factory, the general manager of the Company and the general manager of Tongrentang Ltd. Mr. Kuang was appointed as an executive director at the annual general meeting in 2006.

Mr. Zhang Sheng Yu, aged 37, vice-chairman of the Company, is an economist with a bachelor's degree. He served as deputy department head of corporate management, deputy department head of planning department of Tongrentang Holding, deputy officer and officer of securities department of Tongrentang Ltd., the secretary to the Company's Board of Directors. He is currently vice-chairman of Tongrentang Ltd. and the secretary to Tongrentang Ltd.'s Board of Directors. Mr. Zhang was appointed as an executive director at the annual general meeting in 2006.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Ms. Tam Wai Chu, Maria, GBS, JP, LL.D (Honoris Causa), LL.B (Honours), barrister, is a non-executive director of eight listed companies, namely, Guangnan (Holdings) Limited, ONFEM Holdings Limited, Sinopec Kantons Holdings Limited, Wing On Company International Limited, eSun Holdings Limited, Sa Sa International Holdings Limited, Titan Petrochemicals Group Limited and Nine Dragons Paper (Holdings) Limited respectively. She is also a board member of the Urban Renewal Authority, a member of the Advisory Committee on Corruption of the ICAC and a committee member of the Commission on Strategic Development. Her other public offices include being member of the Basic Law Committee of Hong Kong and a delegate to the 10th National People's Congress. She was appointed as an independent non-executive director on 11 October 2000 and was re-elected at the annual general meeting in 2003 and 2006.

Mr. Ting Leung Huel, Stephen, MH, FCCA, FCPA (Practising), ACA, FHKIoD, aged 53, is an accountant in public practice as Managing Partner of Ting Ho Kwan & Chan, Certified Public Accountants (Practising) since 1987. He is an non-executive director of Chow Sang Sang Holdings International Limited, and an independent non-executive director of six listed companies in Hong Kong namely eForce Holdings Limited, Tongda Group Holdings Limited, Minmetals Resources Limited, MACRO-LINK International Holdings Limited, Computer And Technologies Holdings Limited and Texhong Textile Group Limited respectively. He was appointed as an independent non-executive director on 11 October 2000 and was reappointed at the annual general meeting in 2003 and 2006.

Mr. Jin Shi Yuan, aged 80, chief pharmacist, is an expert serving the investigation team for the state secret technology of the State Science Commission, and a member of the Committee for Clinical Medicine Appraisal Experts of the Chinese Medicine Society of China. He is also a consultant to the Eighth Council of the Beijing Chinese Medicine Society, visiting professor of Chinese medicine at the Chinese Medical Institute of the Beijing Union of University and consultant to the Fourth Expert Committee of the Chinese Health Food Association. He was appointed as an independent non-executive director on 16 October 2000 and was re-elected at the annual general meeting in 2003 and 2006.

SUPERVISORS

Mr. Zhang Xi Jie, aged 52, chief supervisor of the Company, is a senior accountant with postgraduate qualification. He served as deputy head of finance department of Beijing Medicine Company, head of finance and pricing department, deputy manager of capital department of Beijing Medicine Group Limited, standing deputy head, head and deputy chief accountant of strategic development department of Tongrentang Holdings. He is currently a director and the chief accountant of Tongrentang Holdings and the chief supervisor of Tongrentang Ltd. Mr. Zhang was appointed as a supervisor at the annual general meeting in 2006.

Mr. Wu Yi Gang, aged 48, obtained a bachelor degree of laws at Peking University. Mr. Wu was called to the Bar in 1984 and started law practice from then on. Mr. Wu was the cofounder and has been the managing partner of Wu Luan Zhao Yan, a Beijing law firm established in 1994. Mr. Wu served as one of the arbitrators of the first session of the Beijing Arbitration Commission from 1995. At present, Mr. Wu served as the council member, director of Disciplinary Committee and deputy director of Foreign Affairs Committee of Beijing Municipal Lawyers Association. Mr. Wu was appointed as a supervisor of the Company on 22 October 2003 and re-appointed in the annual general meeting in 2006.

Ms. Liu Gui Rong, aged 52, is a senior political engineer with a bachelor's degree. Ms. Liu has been the Chairman of the labour union of Tongrentang Holdings, the secretary to the party committee of the retailing department of Northern city of Tongrentang Holdings, the deputy factory head of Beijing Tong Ren Tang Chinese Medicine Factory, the deputy factory head and the assistant secretary to the party committee of the Company. Ms. Liu is currently serving as the assistant secretary to the party committee and the secretary to the disciplinary committee of the Company. Ms. Liu was appointed as a supervisor of the Company on 22 October 2003.

Directors, Supervisors and Senior Management

SENIOR MANAGEMENT

Mr. Wang Yu Wei, aged 39, is a senior engineer with a postgraduate qualification. He formerly served as deputy officer of the new technology research and development centre of Factory No.2, deputy factory manager of Factory No.2 and assistant to the general manager of the Company. He is currently the deputy general manager of the Company.

Mr. Bai Jian, aged 47, is a deputy pharmacist with a bachelor's degree. He formerly served as section head of the foreign trade section, assistant to factory manager and deputy factory manager of Factory No.2, deputy factory manager of pharmaceutical factory of Tongrentang Ltd. and factory manager of south pharmaceutical branch factory of Tongrentang Ltd.. He is currently the deputy general manager of the Company.

Ms. Liu Zi Lu, aged 51, was an accountant with tertiary qualification. She formerly served as a deputy section head and section head of the financial department of Factory No.2 and a deputy manager and deputy chief accountant of the financial department of the Company and is currently the chief accountant of the Company.

Mr. Li Da Ming, aged 48, is a senior engineer with postgraduate qualification. Mr. Li formerly served as the factory manager of Tongrentang pharmaceutical manufacturing plant north plant, the general manager's assistant and head of assembly department, deputy general manager of Tongrentang Ltd. Mr. Li is currently a deputy general manager of the Company.

Ms. Xie Su Hua, aged 42, is a senior engineer and licensed pharmacist with a postgraduate qualification. She formerly served as the deputy section head, assistant to factory manager and deputy factory manager of Factory No.2, assistant to the general manager and deputy general manager of the Company. She is currently the chief engineer of the Company.

Mr. Deng Wen Lin, aged 52, was a deputy pharmacist with tertiary qualification. He formerly served as a deputy manager and manager of the supplies and logistics department of a Beijing Medicinal Materials Company, a manager of the supplies and logistics department of Tongrentang Group, an assistant to general manager of the Company and is currently the deputy general manager of the Company.

Mr. Chi Yu Ming, aged 43,was a deputy pharmacist with a Ph.D degree in Pharmaceutical Sciences from Kumamoto University in Japan. Mr. Chi formerly served as a professor in Beijing University of Chinese Medicine. Mr. Chi went to Japan in 1993 and then served a researcher in the School of Pharmacy of Kumamoto University, senior researcher of Seiwa Pharmaceuticals Ltd. Mr. Chi is currently deputy general manager of the Company.

Directors, Supervisors and Senior Management

Ms. Zhang Jing Yan, aged 33, is a licensed pharmacist with a bachelor's degree. She formerly served as a member of the securities department and securities representative of Tongrentang Ltd.. She is currently the secretary to the Company's Board of Directors.

Mr. Chan Ngai Chi, aged 35, is the financial controller and company secretary of the Company with postgraduate qualification. He is a fellow member of Hong Kong Institute of Certified Public Accountants and Association of Chartered Certified Accountants of the United Kingdom with over ten years of experience in accounting and auditing.

Report of the Auditors

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INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF TONG REN TANG TECHNOLOGIES CO. LTD.

(Incorporated in the People's Republic of China with limited liability)

We have audited the consolidated financial statements of Tong Ren Tang Technologies Co. Ltd. (the "Company") and its subsidiaries (together, the "Group") set out on pages 44 to 102, which comprise the consolidated and company balance sheet as at 31 December 2006, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

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

Report of the Auditors

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

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

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 December 2006 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 2007

Balancec Sheets

As of 31 December 2006

	Note	The Group 2006 RMB'000	The Group 2005 RMB'000	The Company 2006 RMB'000	The Company 2005 RMB'000
ASSETS					
Non-current assets					
Property, plant and equipment	4(a)	532,384	513,381	349,308	385,606
Leasehold land and land use rights	4(b)	53,798	55,330	24,941	25,512
Investments in subsidiaries	5	–	–	54,940	54,649
Investments in joint ventures	6	–	–	22,683	22,683
Investment in an associated company	7	4,751	4,849	4,751	4,849
Deferred income tax assets	10(a)	360	338	360	338
Other long-term assets		4,131	3,778	745	448
		595,424	577,676	457,728	494,085
Current assets					
Inventories	9	512,213	479,972	492,606	464,648
Trade and bills receivable, net	8	150,789	132,975	137,466	113,253
Due from related parties	27(e)	16,573	11,318	16,573	11,318
Due from subsidiaries		–	–	82,619	40,792
Prepayments and other current assets		11,398	14,125	5,496	5,724
Short-term bank deposits	26(b)	10,207	27,829	9,521	27,048
Cash and cash equivalents	26(b)	203,537	206,203	129,374	170,912
		904,717	872,422	873,655	833,695
Total assets		1,500,141	1,450,098	1,331,383	1,327,780

The accompanying notes on 49 to 102 are an integral part of these financial statements.

Balancec Sheets (cont'd)

As of 31 December 2006

		The Group		The Company	
		2006	2005	2006	2005
	Note	RMB'000	RMB'000	RMB'000	RMB'000
EQUITY					
Capital and reserves attributable to equity holders of the Company					
Share capital	11	182,800	182,800	182,800	182,800
Reserves	12	815,454	752,891	816,119	748,308
		998,254	935,691	998,919	931,108
Minority interests		52,968	59,645	–	–
Total equity		1,051,222	995,336	998,919	931,108
LIABILITIES					
Non-current liabilities					
Deferred income tax liabilities	10(b)	1,572	2,035	1,572	2,035
Deferred income – government grants	13	11,236	12,548	11,236	12,548
		12,808	14,583	12,808	14,583
Current liabilities					
Trade payables	15	152,408	148,630	146,899	143,349
Salary and welfare payables	16	24,531	51,198	24,065	50,863
Advances from customers		33,835	35,706	32,556	34,912
Due to related parties	27(e)	116,010	41,091	14,857	1,884
Due to subsidiaries		–	–	93	5,589
Current income tax liabilities		1,965	6,122	1,708	5,417
Accrued expenses and other current liabilities		22,362	25,384	14,478	8,027
Bank advances for discounted bills	8	–	47,048	–	47,048
Short-term borrowings	14	85,000	85,000	85,000	85,000
		436,111	440,179	319,656	382,089
Total liabilities		448,919	454,762	332,464	396,672
Total equity and liabilities		1,500,141	1,450,098	1,331,383	1,327,780

Yin Shun Hai
Director

Mei Qun
Director

The accompanying notes on pages 49 to 102 are an integral part of these financial statements.

Consolidated Statement of Income

For the year ended 31 December 2006

	Note	2006 RMB'000	2005 RMB'000
Revenue	17	1,034,768	1,135,678
Cost of sales		(577,247)	(560,887)
Gross profit		457,521	574,791
Distribution costs		(179,881)	(220,783)
Administrative expenses		(104,295)	(97,390)
Operating profit		173,345	256,618
Finance costs – net	18	(2,011)	(4,551)
Share of result of an associated company		(98)	(103)
Profit before income tax	19	171,236	251,964
Income tax expense	20	(27,780)	(19,469)
Profit for the year		143,456	232,495
Attributable to:			
Equity holders of the Company		148,327	231,186
Minority interests		(4,871)	1,309
		143,456	232,495
Dividends	21	73,120	84,088
Earnings per share for profit attributable to equity holders of the Company during the year	22		
– Basic		RMB0.81	RMB1.26
– Diluted		RMB0.81	RMB1.26

The accompanying notes on pages 49 to 102 are an integral part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2006

	Attributable to equity holders of the Company								Minority interests	Total
	Share capital RMB'000	Share premium RMB'000	Statutory surplus reserve fund RMB'000	Statutory public welfare fund RMB'000	Tax reserve RMB'000	Property, plant and equipment revaluation RMB'000	Foreign currency translation difference RMB'000	Retained earnings RMB'000	RMB'000	RMB'000
Balance as of 1 January 2005	182,800	157,925	69,923	34,962	82,487	–	(256)	250,865	38,195	816,901
Profit for the year	–	–	–	–	–	–	–	231,186	1,309	232,495
Revaluation – gross	–	–	–	–	–	13,571	–	–	–	13,571
Revaluation – tax	–	–	–	–	–	(2,035)	–	–	–	(2,035)
Capital injection from the minority shareholders of subsidiaries	–	–	–	–	–	–	–	–	20,141	20,141
Dividends paid	–	–	–	–	–	–	–	(84,088)	–	(84,088)
Foreign currency translation differences	–	–	–	–	–	–	(1,649)	–	–	(1,649)
Appropriation from retained earnings	–	–	23,320	11,660	19,556	–	–	(54,536)	–	–
Balance as of 31 December 2005	182,800	157,925	93,243	46,622	102,043	11,536	(1,905)	343,427	59,645	995,336
Balance as of 1 January 2006	182,800	157,925	93,243	46,622	102,043	11,536	(1,905)	343,427	59,645	995,336
Profit for the year	–	–	–	–	–	–	–	148,327	(4,871)	143,456
Depreciation transfer – gross	–	–	–	–	–	(3,359)	–	3,359	–	–
Depreciation transfer – tax	–	–	–	–	–	463	–	(463)	–	–
Dividends paid	–	–	–	–	–	–	–	(84,088)	(1,806)	(85,894)
Foreign currency translation differences	–	–	–	–	–	–	(1,676)	–	–	(1,676)
Appropriation from retained earnings	–	–	15,267	–	–	–	–	(15,267)	–	–
Balance as of 31 December 2006	182,800	157,925	108,510	46,622	102,043	8,640	(3,581)	395,295	52,968	1,051,222

The accompanying notes on pages 49 to 102 are an integral part of these financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 December 2006

	Note	2006 RMB'000	2005 RMB'000
Cash flows from operating activities:			
Cash generated from operations	26(a)	164,558	187,609
Interest paid		(4,745)	(5,036)
Income tax paid		(32,422)	(17,919)
Net cash generated from operating activities		127,391	164,654
Cash flows from investing activities:			
Purchase of property, plant and equipment		(68,799)	(135,163)
Purchase of leasehold land and land use rights		–	(23,993)
Proceeds from disposal of property, plant and equipment		1,462	608
Purchases of other long-term assets		(1,305)	(662)
Decrease in short-term bank deposits		17,622	63,649
Interest received		3,257	1,827
Net cash used in investing activities		(47,763)	(93,734)
Cash flows from financing activities:			
Proceeds from short-term borrowings		85,000	85,000
Repayments of short-term borrowings		(85,000)	(75,000)
Capital contributions from the minority shareholders of subsidiaries		–	20,141
Proceeds from government grants		3,600	3,300
Dividends paid		(85,894)	(84,088)
Net cash used in financing activities		(82,294)	(50,647)
Net (decrease)/increase in cash and cash equivalents		(2,666)	20,273
Cash and cash equivalents at beginning of the year		206,203	185,930
Cash and cash equivalents at end of the year	26(b)	203,537	206,203

The accompanying notes on pages 49 to 102 are an integral part of these financial statements.

Notes to the Consolidated Financial Statements

1. GENERAL INFORMATION

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

Pursuant to a restructuring (the "Restructuring") of Beijing Tongrentang Company Limited (the "Parent Company") in the preparation for the listing of the shares of the Company on the Growth Enterprise Market (the "GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Parent Company transferred part of its Chinese medicine production and distribution business together with the related assets and liabilities (the "Relevant Business") to the Company in exchange for 100,000,000 ordinary shares of the Company. China Beijing Tong Ren Tang Group Co. Ltd. (the "ultimate holding company") and six natural persons injected cash in exchange for 10,000,000 ordinary shares in the Company at par value. On 22 March 2000, the Company was incorporated as a joint stock limited company with registered share capital of RMB110,000,000, representing 110,000,000 shares (the "Domestic shares") with a par value of RMB1 per share.

Pursuant to a resolution passed in the Extraordinary General Meeting of the Company held on 11 October 2000, placing of the Company's shares was approved and the directors of the Company (the "Directors") were authorised to allot and issue the shares pursuant thereto. On 31 October 2000, 72,800,000 new ordinary shares (the "H shares") were issued to foreign investors at a price of approximately RMB3.48 (HK$3.28) per share. Upon the listing of the Company's shares on the GEM of the Stock Exchange, the registered share capital of the Company was RMB182,800,000, representing 110,000,000 Domestic shares and 72,800,000 H shares with a par value of RMB1 per share.

The Directors consider China Beijing Tong Ren Tang Group Co. Ltd., incorporated in Beijing, the PRC, as the ultimate holding company.

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

These consolidated financial statements have been approved for issue by the Board of Directors on 19 March 2007.

Notes to the Consolidated Financial Statements

1. GENERAL INFORMATION (CONT'D)

As at 31 December 2006, the Company had equity interests in these subsidiaries:

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

Notes to the Consolidated Financial Statements

1. GENERAL INFORMATION (CONT'D)

Name	Place/date of incorporation/kind of legal entity	Percentage of directly held equity interest	Issued and paid-up capital	Principal activities/ place of operation
Subsidiaries: (CONT'D)				
Beijing Tong Ren Tang Chinese Medicine Company Limited ("TRT Chinese Medicine")	Hong Kong, PRC 18 March 2004 Limited liability company	51%	HK$60,000,000	Production and sales of Chinese Patent Medicine Hong Kong, PRC
Beijing Tong Ren Tang Nansanhuan Zhonglu Drugstore Co., Limited ("TRT Drugstore")	Beijing, PRC 28 April 2004 Limited liability company	90%	RMB500,000	Sales of medicinal products Beijing, PRC
Beijing Tong Ren Tang Yanbian Chinese Medicinal Raw Materials Co., Limited ("TRT Yanbian")	Jilin, PRC 24 September 2004 Limited liability company	51%	RMB4,000,000	Purchasing and selling of agricultural by-products Jilin, PRC
Beijing Tong Ren Tang Anhui Chinese Medicinal Raw Materials Co., Limited ("TRT Anhui")	Anhui, PRC 18 October 2004 Limited liability company	51%	RMB4,000,000	Purchasing and selling of agricultural by-products Anhui, PRC

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

Notes to the Consolidated Financial Statements

1. GENERAL INFORMATION (CONT'D)

As at 31 December 2006, the Company had equity interests in these joint ventures:

Name	Place/date of incorporation/kind of legal entity	Percentage of directly held equity interest	Issued and paid-up capital	Principal activities
Joint ventures:				
Beijing Tong Ren Tang WM Dianorm Biotech Co., Limited ("TRT WM")	Beijing, PRC 20 February 2001 Sino-foreign equity joint venture	60%	US$3,000,000	Technological development and sales of biological products, Chinese and western medicines, cosmetics and health food
Peking Tongrentang (M) SDN. BHD. ("TRT Malaysia")	Kuala Lumpur, Malaysia 19 January 2001 Limited liability company	60%	US$500,000	Sales of medicinal products
Beijing Tong Ren Tang Canada Co. Ltd. ("TRT Canada")	Vancouver, Canada 11 January 2002 Limited liability company	51%	US$1,000,000	Sales of medicinal products
Beijing Tong Ren Tang (Macau) Company Limited ("TRT Macau")	Macau, PRC 14 May 2003 Limited liability company	51%	US$500,000	Sales of medicinal products
Beijing Tong Ren Tang (Indonesia) Company Limited ("TRT Indonesia")	Jakarta, Indonesia 22 September 2003 Limited liability company	50%	US$1,000,000	Sales of medicinal products

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

1. GENERAL INFORMATION (CONT'D)

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

	As of 31 December	
	2006	2005
	RMB'000	RMB'000
Assets		
Non-current assets	5,802	6,838
Current assets	23,857	21,604
	29,659	28,442
Liabilities		
Current liabilities	2,957	2,626
Net assets	26,702	25,816

	For the year ended 31 December	
	2006	2005
	RMB'000	RMB'000
Revenues	21,841	21,955
Expenses	20,712	19,276
Profit after income tax	1,129	2,679

Notes to the Consolidated Financial Statements

1. GENERAL INFORMATION (CONT'D)

As of 31 December 2006, the Company's interest in an associated company is as follows:

Name	Place/date of incorporation/kind of legal entity	Percentage of directly held equity interest	Issued and paid-up capital	Principal activities
Associated company:				
Tong Ren Tang Hutchison (HK) Pharmaceutical Development Co., Limited ("TRT Hutchison")	Hong Kong, PRC 10 February 1999 Limited liability company	40%	HK$15,000,000	Dormant

1. GENERAL INFORMATION (CONT'D)

The operating summary of the Group's associated company is as follows:

	For the year ended 31 December	
	2006	2005
	RMB'000	RMB'000
Total assets	11,926	11,483
Total liabilities	48	88

	For the year ended 31 December	
	2006	2005
	RMB'000	RMB'000
Expenses	245	260
Loss after income tax	245	260

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

(a) General

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The consolidated financial statements have been prepared under the historical cost convention as modified by the revaluation of property, plant and equipment.

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

The following standards, amendments and interpretations are mandatory for accounting periods beginning on or after 1 January 2006, but are not relevant to the Group's operations:

- IAS 19 (Amendment), Actuarial gains and losses, group plans and disclosures;
- IAS 21 (Amendment), Net investment in a foreign operation;
- IAS 39 (Amendment), Cash flow hedge accounting of forecast intragroup Transactions;
- IAS 39 (Amendment), The fair value option;
- IAS 39 and IFRS 4 (Amendment), Financial guarantee contracts;
- IFRS1 (Amendment), First-time Adoption of International Financial Reporting Standards and IFRS 6 (Amendment), Exploration for and evaluation of mineral resources;
- IFRS 6, Exploration for and evaluation of mineral resources;
- IFRIC 4, Determining whether an arrangement contains a lease;
- IFRIC 5, Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds;
- IFRIC 6, Liabilities arising from participating in a specific market – waste electrical and electronic equipment.

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

(b) Principles of consolidation

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

All intra-group balances and transactions among the Company, its subsidiaries and joint ventures have been eliminated on consolidation. The equity and results attributable to minority shareholders are shown separately in the consolidated balance sheet and consolidated income statement.

(c) Property, plant and equipment

Property, plant and equipment are shown at fair value, based on periodic valuation by external independent valuers, less subsequent depreciation. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the assets, and the net amount is restated to the revalued amount of the asset. The initial cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditures incurred after the property, plant and equipment have been put into operation, such as repairs and maintenance, are charged to the income statement during the financial period in which they are incurred. In situations where it is probable that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of the asset beyond its originally assessed standard of performance, the expenditures are included in the asset's carrying amount or recognised as a separate asset, as appropriate.

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

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

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

Depreciation is calculated using the straight-line method to write off the carrying amount, after taking into account the estimated residual value of each asset over its expected useful life. The expected useful lives are as follows:

Buildings	8-30 years
Equipment and machinery	8-15 years
Motor vehicles	6 years
Office equipment	4-5 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

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

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in the income statement. When revalued assets are sold, the amounts included in other reserves are transferred to retained earnings.

Construction in progress ("CIP") represents property, plant and machinery in the course of construction or pending installation and is stated at cost less any recognised impairment losses. Cost includes the costs of construction of property, costs of plant and machinery, and interest charges arising from borrowings used to finance these assets during the period of construction or installation and testing. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property, plant and equipment, commences when the assets are ready for their intended use.

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

(d) Leasehold land and land use rights

The up-front prepayments made for the leasehold land and land use rights are expensed in the income statement on a straight-line basis over the period of the lease or when there is impairment, the impairment is expensed in the income statement.

(e) Investments in subsidiaries, joint ventures and associated companies

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

Joint ventures are ventures undertaken by two or more parties whose rights and obligations with respect to the venture are specified in the joint venture agreement. No single venture is in a position to control unilaterally the activity of the venture.

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

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

In the Company's balance sheet, the investments in subsidiaries, joint ventures and associated company are stated at cost less provision for impairment losses. The results of subsidiaries, joint ventures and associated company are accounted for by the Company on the basis of dividends received and receivable.

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

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

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets 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). Assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

(g) Research and development

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

(h) Cash and cash equivalents

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

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

(i) Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

(j) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using weighted average basis. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads. Net realisable value is the estimated selling price in the ordinary course of business less applicable variable selling expenses.

(k) Provisions

A provision is recognised when an enterprise has a present obligation (legal or constructive) as a result of a past event and it is probable (i.e. more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

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

(l) Revenue recognition

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

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

(i) Sales of goods

Sales of goods are recognised when a group entity has delivered products to the customer, the customer has accepted the products and collectibility of the related receivables is reasonably assured.

(ii) Interest income

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

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

(m) Foreign currency translation

(i) Functional and presentation currency

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

(ii) Transactions and balances

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

(iii) Group companies

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

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

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

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

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

(m) Foreign currency translation (CONT'D)

(iii) Group companies (CONT'D)

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

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

(n) Borrowings

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

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

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

(o) Deferred income tax

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

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

(p) Leases

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

(q) Retirement scheme

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

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

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

(r) Government grants

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

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

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

(s) Dividend distribution

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

3. CRITICAL ACCOUNTING ESTIMATES AND 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 discussed below.

(i) Net realisable value of inventories

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

(ii) Estimated provision for impairment of receivables

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

(iii) Income taxes

The Group is subject to income taxes in a number of jurisdictions. There are some transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

Notes to the Consolidated Financial Statements

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

(a) Property, plant and equipment

The Group:

	Buildings RMB'000	Equipment and machinery RMB'000	Motor vehicles RMB'000	Office equipment RMB'000	CIP RMB'000	Total RMB'000
At 1 January 2005						
Cost or valuation	178,193	202,022	13,217	12,309	142,899	548,640
Accumulated depreciation	(46,747)	(85,213)	(8,168)	(5,205)	–	(145,333)
Net book amount	131,446	116,809	5,049	7,104	142,899	403,307
Year ended 31 December 2005						
Opening net book amount	131,446	116,809	5,049	7,104	142,899	403,307
Revaluation surplus	7,933	4,579	273	786	–	13,571
Additions	5,444	3,601	2,484	423	123,211	135,163
Transferred from CIP	70,011	79,848	305	1,312	(151,476)	–
Disposals	(3,582)	(250)	(34)	(582)	–	(4,448)
Depreciation	(4,392)	(24,089)	(3,707)	(2,024)	–	(34,212)
Closing net book amount	206,860	180,498	4,370	7,019	114,634	513,381
At 31 December 2005						
Cost or valuation	206,860	180,498	4,370	7,019	114,634	513,381
Accumulated depreciation	–	–	–	–	–	–
Net book amount	206,860	180,498	4,370	7,019	114,634	513,381
Year ended 31 December 2006						
Opening net book amount	206,860	180,498	4,370	7,019	114,634	513,381
Additions	307	667	173	743	68,817	70,707
Transferred from CIP	98,564	58,001	–	622	(157,187)	–
Disposals	(148)	(17)	(35)	(1,110)	–	(1,310)
Depreciation	(14,187)	(32,533)	(1,413)	(2,261)	–	(50,394)
Closing net book amount	291,396	206,616	3,095	5,013	26,264	532,384
At 31 December 2006						
Cost or valuation	305,583	239,149	4,508	7,274	26,264	582,778
Accumulated depreciation	(14,187)	(32,533)	(1,413)	(2,261)	–	(50,394)
Net book amount	291,396	206,616	3,095	5,013	26,264	532,384

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

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

The Company:

	Buildings RMB'000	Equipment and machinery RMB'000	Motor vehicles RMB'000	Office equipment RMB'000	CIP RMB'000	Total RMB'000
At 1 January 2005						
Cost or valuation	173,898	201,479	11,900	7,232	116,761	511,270
Accumulated depreciation	(46,362)	(85,086)	(7,657)	(3,596)	–	(142,701)
Net book amount	127,536	116,393	4,243	3,636	116,761	368,569
Year ended 31 December 2005						
Opening net book amount	127,536	116,393	4,243	3,636	116,761	368,569
Revaluation surplus	7,933	4,579	273	786	–	13,571
Additions	–	3,593	2,239	81	34,715	40,628
Transferred from CIP	70,011	79,848	305	1,312	(151,476)	–
Disposals	(3,582)	(250)	(34)	(32)	–	(3,898)
Depreciation	(4,217)	(24,046)	(3,496)	(1,505)	–	(33,264)
Closing net book amount	197,681	180,117	3,530	4,278	–	385,606
At 31 December 2005						
Cost or valuation	197,681	180,117	3,530	4,278	–	385,606
Accumulated depreciation	–	–	–	–	–	–
Net book amount	197,681	180,117	3,530	4,278	–	385,606
Year ended 31 December 2006						
Opening net book amount	197,681	180,117	3,530	4,278	–	385,606
Additions	–	–	–	62	9,173	9,235
Transferred from CIP	2,273	6,351	–	549	(9,173)	–
Disposals	(148)	(17)	(35)	(3)	–	(203)
Depreciation	(13,421)	(29,045)	(1,099)	(1,765)	–	(45,330)
Closing net book amount	186,385	157,406	2,396	3,121	–	349,308
At 31 December 2006						
Cost or valuation	199,806	186,451	3,495	4,886	–	394,638
Accumulated depreciation	(13,421)	(29,045)	(1,099)	(1,765)	–	(45,330)
Net book amount	186,385	157,406	2,396	3,121	–	349,308

Notes to the Consolidated Financial Statements

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

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

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

	2006						2005
	Buildings	Equipment and machinery	Motor vehicles	Office equipment	CIP	Total	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cost	323,741	319,967	13,068	12,367	26,264	695,407	627,839
Accumulated depreciation	48,852	111,728	9,905	8,925	–	179,410	134,205
Net book amount	274,889	208,239	3,163	3,442	26,264	515,997	493,634

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

	2006					2005
	Buildings	Equipment and machinery	Motor vehicles	Office equipment	Total	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cost	217,404	267,099	11,333	8,584	504,420	496,852
Accumulated depreciation	47,525	108,071	8,873	7,030	171,499	130,994
Net book amount	169,879	159,028	2,460	1,554	332,921	365,858

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

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

(b) Leasehold land and land use rights

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

	The Group		The Company	
	2006	2005	2006	2005
	RMB'000	RMB'000	RMB'000	RMB'000
In the PRC, held on:				
Land use rights between				
10 to 50 years	31,717	31,901	24,941	25,512
In Hong Kong, held on:				
Leases of between 10 to 50 years	22,081	23,429	–	–
	53,798	55,330	24,941	25,512

	The Group		The Company	
	2006	2005	2006	2005
	RMB'000	RMB'000	RMB'000	RMB'000
Opening	55,330	32,916	25,512	25,904
Additions	533	23,993	–	–
Amortisation of prepaid operating				
lease payments	(2,065)	(1,579)	(571)	(392)
	53,798	55,330	24,941	25,512

Notes to the Consolidated Financial Statements

31 December 2006

5. INVESTMENTS IN SUBSIDIARIES

	The Company	
	2006	2005
	RMB'000	RMB'000
Unlisted shares, at cost	54,940	54,649

Details of the subsidiaries are set out in note 1.

6. INVESTMENTS IN JOINT VENTURES

	The Company	
	2006	2005
	RMB'000	RMB'000
Unlisted shares, at cost	27,881	27,881
Less: provision for impairment losses	(5,198)	(5,198)
	22,683	22,683

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

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

7. INVESTMENT IN AN ASSOCIATED COMPANY

	The Group	
	2006	2005
	RMB'000	RMB'000
Beginning of the year	4,849	4,952
Share of result	(98)	(103)
End of the year	4,751	4,849

	The Company	
	2006	2005
	RMB'000	RMB'000
Unlisted shares, at cost	6,367	6,367
Less: provision for impairment losses	(1,616)	(1,518)
	4,751	4,849

8. TRADE AND BILLS RECEIVABLE, NET

	The Group		The Company	
	2006	2005	2006	2005
	RMB'000	RMB'000	RMB'000	RMB'000
Trade and bills receivable	165,510	144,406	152,187	124,684
Less: provision for impairment of receivable	(14,721)	(11,431)	(14,721)	(11,431)
Trade and bills receivable, net	150,789	132,975	137,466	113,253

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

The Group normally grants a credit period ranging from 30 days to 120 days to its trade customers. At 31 December 2006 and 2005, the ageing analysis of trade and bills receivable was as follows:

	The Group		The Company	
	2006	2005	2006	2005
	RMB'000	RMB'000	RMB'000	RMB'000
Within 4 months	139,977	127,426	129,084	107,910
Over 4 months but within 1 year	16,942	11,649	15,637	11,443
Over 1 year but within 2 years	6,792	1,383	5,667	1,383
Over 2 years but within 3 years	193	3,822	193	3,822
Over 3 years	1,606	126	1,606	126
	165,510	144,406	152,187	124,684

As at 31 December 2005, certain bills of exchange amounting to RMB47,048,000 were transferred to banks with recourse in exchange for cash and these transactions were accounted for as collateralised bank advances. There was no such transaction as at 31 December 2006.

9. INVENTORIES

	The Group		The Company	
	2006	2005	2006	2005
	RMB'000	RMB'000	RMB'000	RMB'000
Raw materials	237,443	195,690	228,464	188,724
Work in progress	113,663	104,029	113,663	104,029
Finished goods	161,107	180,253	150,479	171,895
	512,213	479,972	492,606	464,648

10. DEFERRED INCOME TAX

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

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

(a) Deferred income tax assets

	The Group		The Company	
	2006	2005	2006	2005
	RMB'000	RMB'000	RMB'000	RMB'000
Beginning of the year	338	299	338	299
Credited to income statement	22	39	22	39
End of the year	360	338	360	338
Provided for in respect of:				
Provision for termination benefits	72	105	72	105
Amortisation of leasehold land and land use rights	288	233	288	233
	360	338	360	338

10. DEFERRED INCOME TAX (CONT'D)

(b) Deferred income tax liabilities

	The Group		The Company	
	2006 RMB'000	2005 RMB'000	2006 RMB'000	2005 RMB'000
Beginning of the year	2,035	–	2,035	–
Charged to equity	(463)	2,035	(463)	2,035
End of the year	1,572	2,035	1,572	2,035
Provided for in respect of:				
Revaluation of property, plant and equipment	1,572	2,035	1,572	2,035

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

11. SHARE CAPITAL

	2006		2005	
	Number of shares	Nominal value RMB'000	Number of shares	Nominal value RMB'000
Registered	182,800,000	182,800	182,800,000	182,800
Issued and fully paid				
– Domestic shares with a par value of RMB1 per share	110,000,000	110,000	110,000,000	110,000
– H shares with a par value of RMB1 per share	72,800,000	72,800	72,800,000	72,800
	182,800,000	182,800	182,800,000	182,800

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

Notes to the Consolidated Financial Statements

12. RESERVES

	The Company						
	Share premium RMB'000	Statutory surplus reserve fund RMB'000	Statutory public welfare fund RMB'000	Tax reserve RMB'000	Property, plant and equipment revaluation RMB'000	Retained earnings RMB'000	Total RMB'000
Balance as of 1 January 2005	157,925	68,641	34,321	82,487	–	247,491	590,865
Profit for the year	–	–	–	–	–	229,995	229,995
Revaluation – gross	–	–	–	–	13,571	–	13,571
Revaluation – tax	–	–	–	–	(2,035)	–	(2,035)
Dividends paid	–	–	–	–	–	(84,088)	(84,088)
Appropriation from retained profits	–	23,167	11,583	19,556	–	(54,306)	–
Balance as of 31 December 2005	157,925	91,808	45,904	102,043	11,536	339,092	748,308
Balance as of 1 January 2006	157,925	91,808	45,904	102,043	11,536	339,092	748,308
Profit for the year	–	–	–	–	–	151,899	151,899
Depreciation transfer – gross	–	–	–	–	(3,359)	3,359	–
Depreciation transfer – tax	–	–	–	–	463	(463)	–
Dividends paid	–	–	–	–	–	(84,088)	(84,088)
Appropriation from retained profits	–	14,906	–	–	–	(14,906)	–
Balance as of 31 December 2006	157,925	106,714	45,904	102,043	8,640	394,893	816,119

12. RESERVES (CONT'D)

(a) Statutory reserves

The Company set aside 10% of its net profit after tax, before the distribution of dividend to shareholders, as stated in the financial statements prepared under PRC accounting standards to the statutory surplus reserve fund. Approximately RMB14,906,000 (2005: RMB23,167,000), being 10% of the net profit after tax as stated in the financial statements prepared under PRC accounting standards, was transferred to the statutory surplus reserve fund for the year ended 31 December 2006.

According to the Articles of Association of the Company, the reserves available for distribution is the lower of the amount prepared under PRC accounting standards and the amount prepared under IFRS. As at 31 December 2006, the reserve available for distribution was approximately RMB394,893,000. (2005: RMB339,092,000).

(b) Tax reserve

According to the preferential enterprise income tax policy for high-technology enterprises, the Company was fully exempted from Enterprise Income Tax ("EIT") for the first three years from its commencement of operations and enjoyed 50% reduction for the three years thereafter. The Company commenced its operations in 2000 and enjoyed full exemption from EIT from 2000 to 2002 and 50% reduction from 2003 to 2005. However, the use of the exempted tax is restricted to specified purposes and is not distributable to shareholders. Pursuant to this requirement, the Company transferred approximately RMB19,556,000 to tax reserve for the year ended 31 December 2005.

13. DEFERRED INCOME – GOVERNMENT GRANTS

	The Group		The Company	
	2006	2005	2006	2005
	RMB'000	RMB'000	RMB'000	RMB'000
Beginning of the year	12,548	10,974	12,548	10,974
Government grants received during the year	3,600	3,300	3,600	3,300
Amount recognised in the income statement	(4,412)	(1,726)	(4,412)	(1,726)
Government grants paid-back during the year	(500)	–	(500)	–
End of the year	11,236	12,548	11,236	12,548

14. SHORT-TERM BORROWINGS

As of 31 December 2006, the Company and the Group had unsecured short-term bank borrowings of RMB85,000,000 (2005: RMB85,000,000). These borrowings bear fixed interest rates ranging from 5.27% to 5.51% (2005: 5.02%) per annum.

These short-term borrowings are denominated in RMB and the carrying amounts of the short-term borrowings approximate their fair values.

15. TRADE PAYABLES

At 31 December 2006 and 2005, the ageing analysis of trade payables was as follows:

	The Group		The Company	
	2006	2005	2006	2005
	RMB'000	RMB'000	RMB'000	RMB'000
Within 4 months	102,611	102,887	97,305	98,018
Over 4 months but within 1 year	46,576	34,511	46,562	34,133
Over 1 year but within 2 years	3,221	11,232	3,032	11,198
	152,408	148,630	146,899	143,349

16. SALARY AND WELFARE PAYABLES

	The Group		The Company	
	2006	2005	2006	2005
	RMB'000	RMB'000	RMB'000	RMB'000
Salary payable	20,498	40,563	20,404	40,418
Welfare payable	4,033	10,635	3,661	10,445
	24,531	51,198	24,065	50,863

17. REVENUE

	2006 RMB'000	2005 RMB'000
Sales of medicine		
– Domestic	985,792	1,090,910
– Overseas	48,976	44,768
	1,034,768	1,135,678

18. FINANCE INCOME AND COSTS

	2006 RMB'000	2005 RMB'000
Interest income on cash at bank and short-term bank deposits	3,257	1,827
Interest expenses on bank borrowings wholly repayable within five years	(4,745)	(5,036)
Exchange loss	(523)	(1,342)
Finance costs – net	(2,011)	(4,551)

19. PROFIT BEFORE INCOME TAX

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

	2006 RMB'000	2005 RMB'000
Cost of inventories sold	340,079	347,400
Employee benefit expense		
– Salary and wages	81,521	87,697
– Staff welfare	9,464	12,552
– Contributions to retirement schemes	21,345	18,575
Depreciation of property, plant and equipment	50,394	34,212
Amortisation of prepaid operating lease payments	2,065	1,579
Amortisation of other long-term assets	952	964
Inventory provision	2,311	–
Provision for impairment of receivables	3,290	778
Operating lease rentals	17,023	15,205
Auditors' remuneration	1,368	1,100
Research and development costs	2,012	3,704
Advertising expenses	27,907	26,229
(Gain)/loss on disposal of property, plant and equipment	(152)	3,840

Notes to the Consolidated Financial Statements

20. TAXATION

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

In July 2006, the Company renewed its HTE certificate with Beijing Science-Technology Committee for the years 2006 and 2007. The Company is registered in the BETDZ and has obtained an approval from the BETDZ Local Tax Bureau ("BETDZ LTB") (Document Jingdishuikaijianmianfa [2000] No.23) to enjoy full exemption from EIT for years 2000 to 2002 and 50% reduction for years 2003 to 2005. Moreover, BETDZ LTB has verbally confirmed with the Company that the above EIT preferential income tax treatments are applicable to the Company as long as the Company's registered address is in BETDZ and it remains as a HTE.

However, such preferential tax treatments may be subject to review by higher authorities as Beijing Administration of Taxation issued a circular in October 2002, namely Jingguoshuihan [2002] No.632, stating that only the HTEs with both registration and operation in the designated area can enjoy the preferential income tax treatments. If the above EIT preferential income tax treatments are not be applicable to the Company, additional EIT liability for this year would be approximately RMB5,643,000 (2005: 63,827,000; 2004: RMB60,334,000; 2003: RMB48,622,000). The directors are of the opinion that such liabilities are unlikely to arise.

20. TAXATION (CONT'D)

Details of income tax during the year are as follows:

	2006 RMB'000	2005 RMB'000
PRC enterprise income tax	27,821	19,257
Overseas income tax	445	251
Deferred income tax credit	(486)	(39)
	27,780	19,469

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

	2006 RMB'000	2005 RMB'000
Profit before income tax	171,236	251,964
Tax calculated at the PRC statutory enterprise income tax rate of 33% (2005: 33%)	56,508	83,148
Expenses not deductible for tax purposes	4,514	121
Effect of different applicable EIT rates upon expected reversal of temporary differences	583	743
Effect of preferential income tax treatments	(33,486)	(63,827)
Effect of different tax rates and tax refund for consolidated subsidiaries and joint ventures	(339)	(716)
Income tax expense	27,780	19,469

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.

21. DIVIDENDS

	2006	2005
	RMB'000	RMB'000
Dividends declared/proposed after year end	73,120	84,088

On 19 March 2007, the Board of Directors proposed a final dividend of RMB0.40 per share (2005: RMB0.46 per share) for the year ended 31 December 2006, totalling approximately RMB73,120,000 (2005: RMB84,088,000). The proposed dividend distribution is subject to the shareholders' approval at the Annual General Meeting on 16 May 2007. The dividend will be recorded in the Group's financial statements for the year ending 31 December 2007.

22. EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company of approximately RMB148,327,000 (2005: RMB231,186,000) by the weighted average number of 182,800,000 shares (2005: 182,800,000 shares) in issue during the year.

The Company had no dilutive potential shares for the years ended 31 December 2006 and 2005.

23. DIRECTORS', SUPERVISORS' AND SENIOR EXECUTIVES' EMOLUMENTS

(a) Details of directors' and supervisors' emoluments

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

	Fees	Basic salaries and allowance	Employer's contribution to pension scheme	Bonuses	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Directors:					
Mr. Yin Shun Hai	–	–	–	1,250.0	1,250.0
Mr. Mei Qun	–	–	–	500.0	500.0
Mr. Wang Quan	–	–	–	–	–
Ms. Ding Yong Ling	–	–	–	–	–
Mr. Kuang Gui Shen	–	450.0	20.0	–	470.0
Mr. Zhang Sheng Yu	–	–	–	–	–
Ms. Tam Wai Chu	121.0	–	–	–	121.0
Mr. Ting Leung Huel	121.0	–	–	–	121.0
Mr. Jin Shi Yuan	36.0	–	–	–	36.0
Mr. Bi Jie Ping	–	–	–	–	–
Mr. Zhao Bing Xian	–	–	–	–	–
Supervisors:					
Mr. Zhang Xi Jie	–	–	–	–	–
Mr. Wu Yi Gang	36.0	–	–	–	36.0
Ms. Liu Gui Rong	–	196.0	19.7	–	215.7
Mr. Tian Da Fang	–	–	–	100.0	100.0

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

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

The remuneration of every director and supervisor for the year ended 31 December 2005 is set out below:

	Fees	Basic salaries and allowance	Employer's contribution to pension scheme	Bonuses	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Directors:					
Mr. Yin Shun Hai	–	–	–	–	–
Mr. Mei Qun	–	–	–	–	–
Ms. Ding Yong Ling	–	–	–	–	–
Mr. Bi Jie Ping	–	320.0	17.0	623.6	960.6
Mr. Zhao Bing Xian	–	–	–	–	–
Ms. Tam Wai Chu	125.0	–	–	–	125.0
Mr. Ting Leung Huel	125.0	–	–	–	125.0
Mr. Jin Shi Yuan	36.0	–	–	–	36.0
Supervisors:					
Mr. Tian Da Fang	–	–	–	–	–
Mr. Wu Yi Gang	36.0	–	–	–	36.0
Ms. Liu Gui Rong	–	196.0	17.1	–	213.1

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

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

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

The five individuals whose emoluments were the highest in the Group for the year include one (2005: one) director whose emoluments are reflected in the analysis presented in note (a) above. The emoluments payable to the remaining four (2005: four) individuals during the year are as follows:

	2006 RMB'000	2005 RMB'000
Basic salaries, allowance and bonus	1,495	1,488
Contribution to pension scheme	71	64
	1,566	1,552

The emoluments fell within the following band:

	2006 RMB'000	2005 RMB'000
Nil to RMB1,005,000 (Equivalent to Hong Kong Dollar 1,000,000)	4	4

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

(c) Equity compensation benefits

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

24. RETIREMENT AND TERMINATION BENEFITS

Pursuant to the PRC laws and regulations, the Group is required to make monthly contributions to various retirement benefit schemes organised by the relevant provincial and municipal governments for the Group's employees in the PRC at rates ranging from 28% to 32% (2005: from 28% to 32%) of the employees' standard salaries, of which 20% to 24% (2005: from 20% to 24%) is borne by the Group and the remaining portion is borne by the employees. These defined contribution schemes are responsible for the pension liabilities of the employees. The Group's contributions to these defined contribution schemes are expensed as incurred.

In addition, the Company provides termination benefits to certain employees up to their normal retirement age. Termination benefits are payable when employment is terminated before the normal retirement age or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to either terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after balance sheet date are discounted to present value. Carrying amounts of the relevant provision as of 31 December 2006 and 2005, were approximately RMB482,000 and RMB700,000, respectively.

25. HOUSING FUND

The Group's full-time employees in the PRC participate in a state-sponsored housing fund. The fund can be used by the Group's employees for purchasing houses, or withdrawn upon their retirement. The Group is required to make annual contributions to housing fund based on certain percentages of the salaries. The Group's liability in respect of the fund is limited to the contributions payable in each period. For the year ended 31 December 2006, the Group contributed approximately RMB6,867,000 (2005: RMB5,900,000) to the fund.

26. CASH GENERATED FROM OPERATIONS

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

	2006 RMB'000	2005 RMB'000
Profit before income tax	171,236	251,964
Adjustments for:		
Provision for impairment of receivables	3,290	778
Depreciation of property, plant and equipment	50,394	34,212
Inventory provision	2,311	–
Amortisation of prepaid operating lease payments	2,065	1,579
Amortisation of other long-term assets	952	964
(Gain)/loss on disposal of property, plant and equipment	(152)	3,840
Share of result of an associated company	98	103
Deferred government grants recognised in the income statement	(4,412)	(1,726)
Interest income	(3,257)	(1,827)
Interest expenses	4,745	5,036
Operating profit before working capital changes	227,270	294,923
(Increase)/decrease in current assets:		
Trade and bills receivable	(21,104)	10,399
Inventories	(34,552)	(20,154)
Prepayments and other current assets	2,727	(6,794)
Due from related parties	(5,255)	(6,555)
Increase/(decrease) in current liabilities:		
Trade payables	3,778	(45,730)
Other current liabilities	(83,225)	(58,254)
Due to related parties	74,919	19,774
Cash generated from operations	164,558	187,609

26. 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	
	2006	2005	2006	2005
	RMB'000	RMB'000	RMB'000	RMB'000
Cash at bank and in hand				
RMB	132,529	159,558	117,342	150,716
Hong Kong Dollar	41,326	30,299	3,124	10,819
US Dollar	24,794	13,014	8,908	9,377
Macao Pataca	1,839	1,270	–	–
Malaysia Ringgit	1,511	528	–	–
Indonesia Rupiah	1,087	1,239	–	–
Canada Dollar	451	295	–	–
	203,537	206,203	129,374	170,912

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

	The Group		The Company	
	2006	2005	2006	2005
	RMB'000	RMB'000	RMB'000	RMB'000
RMB	5,000	–	5,000	–
Hong Kong Dollar	4,521	27,048	4,521	27,048
Malaysia Ringgit	413	781	–	–
Canada Dollar	273	–	–	–
	10,207	27,829	9,521	27,048

The weighted average effective interest rate on short-term bank deposits was 3.02% (2005: 3.03%) per annum.

27. RELATED PARTY TRANSACTIONS

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

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

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

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

27. RELATED PARTY TRANSACTIONS (CONT'D)

(a) Transactions with ultimate holding company

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

	2006 RMB'000	2005 RMB'000
Purchases of raw materials (Note (i))	50	52
Trademark licence fee (Note (ii))	850	850
Rental expense (Note (iii))	2,364	2,685
Storage fee (Note (iv))	6,804	6,804

Notes:

(i) A raw material supply agreement dated 21 February 2005 was entered into between the Company and the ultimate holding company (including subsidiaries and joint ventures of the ultimate holding company), pursuant to which the ultimate holding company has agreed to supply the Company with part of the Chinese medicinal raw materials that are required for its production up to 31 December 2007. The price of such raw materials is to be determined by negotiation between both parties and shall fall within the range of market price. The ultimate holding company shall not supply the raw materials to the Company at a price higher than the prices to independent third parties or the average market price, whichever is lower.

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

27. RELATED PARTY TRANSACTIONS (CONT'D)

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

Notes: (CONT'D)

The term of the licence shall commence from the date of the licence agreement 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 2006 is RMB850,000. The parties are entitled to adjust the annual licence fee. Such annual increase or decrease shall not exceed 10% of that of the previous year.

(iii) A land use right leasing agreement dated 6 October 2000 was entered into between the Company and the ultimate holding company, pursuant to which the ultimate holding company has agreed to lease two pieces of land in Beijing, the PRC, to the Company, with a total area of approximately 49,776.35 sq.m. for a term of 20 years commencing from the date thereof. Pursuant to the agreement, the annual rental for the initial 2 years is calculated at a rate of RMB53.95 per sq.m., which shall remain unchange for the initial 2 years. Any adjustments to the annual rental shall be made after the initial 2-year period at the then market rent, provided that such adjustment shall not exceed 10% of that of the previous year.

A land use right leasing amendment agreement dated 1 January 2006 was entered into between the Company and the ultimate holding company, pursuant to which the total area of the land lease in Beijing, the PRC has been reduced to approximately 43,815.15 sq.m. Other terms have not been changed pursuant to the agreement.

(iv) A contract for storage and custody dated 21 February 2005 was entered into between the Company and the ultimate holding company whereby the ultimate holding company agreed to provide storage and custody services to the Company up to 31 December 2007. From the effective date of the contract, the storage fee is calculated at RMB252 per sq.m. per year. Adjustment to the storage fee is permitted after one-year period provided that the annual increase or decrease shall not exceed 10% of that of the previous year.

Notes to the Consolidated Financial Statements

27. RELATED PARTY TRANSACTIONS (CONT'D)

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

	2006 RMB'000	2005 RMB'000
Sales of Chinese medicines (Note (i))	98,603	92,880
Purchase of raw materials (Note a (i))	1,843	–

Notes:

(i) The Company signed a sales agreement with the ultimate holding company on 21 February 2005. In accordance with this agreement, the Company can sell its products to the subsidiaries and joint ventures of the ultimate holding company. The agreement has been approved at the Annual General Meeting and is effective from 21 February 2005 to 31 December 2007. The selling price to the ultimate holding company's subsidiaries and joint ventures shall not be lower than the prices to independent third parties.

(c) Transactions with joint venture partners

	2006 RMB'000	2005 RMB'000
Sales of Chinese medicine	6,800	5,235

27. RELATED PARTY TRANSACTIONS (CONT'D)

(d) Transactions with other state-owned enterprises

	2006 RMB'000	2005 RMB'000
Revenue:		
Interest income from bank deposits	2,371	1,827
Expenses:		
Interest expenses on bank borrowings	4,745	5,036
Other transactions:		
Purchases of property, plant and equipment	–	8,458
Sales of Chinese medicine	117,796	139,195
Purchase of raw materials	20,205	24,100
Drawdown of bank loans	85,000	85,000
Repayments of bank loans	85,000	75,000

Notes to the Consolidated Financial Statements

27. RELATED PARTY TRANSACTIONS (CONT'D)

(e) Balances with related parties

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

	The Group		The Company	
	2006	2005	2006	2005
	RMB'000	RMB'000	RMB'000	RMB'000
Bank deposits:				
State-owned banks and other financial institutions	189,037	225,567	128,484	196,575
Due from related parties:				
Subsidiaries and associates of the ultimate holding company	6,493	3,539	6,493	3,539
Minority shareholders of subsidiaries and joint venture partners	1,020	190	1,020	190
Other state-owned enterprises	9,060	7,589	9,060	7,589
	16,573	11,318	16,573	11,318
Bank borrowings:				
State-owned banks and other financial institutions	85,000	85,000	85,000	85,000
Due to related parties:				
Subsidiaries and associates of the ultimate holding company	7,721	1,083	7,721	1,083
Minority shareholders of subsidiaries and joint venture partners	101,510	39,207	357	–
Other state-owned enterprises	6,779	801	6,779	801
	116,010	41,091	14,857	1,884

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

28. SEGMENT INFORMATION

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

29. BANKING FACILITIES

As of 31 December 2006, the Group had aggregated banking facilities of RMB100,000,000 (2005: RMB100,000,000) for loan and other trade financing. As of 31 December 2006, the unutilised banking facilities amounted to RMB15,000,000 (2005: RMB15,000,000).

30. FINANCIAL RISK MANAGEMENT

(a) Financial risk factors

The Group's activities expose it to a variety of financial risks: foreign exchange risk, credit risk, liquidity risk and interest rate risk.

(1) Foreign exchange risk

The Group has foreign exchange risk as certain of its payables to equipment suppliers and certain trade receivables arising from export sales are denominated in foreign currencies, principally US dollar. Dividends to the shareholders of H Shares are declared in RMB and paid in Hong Kong dollar. Fluctuation of the exchange rates of RMB against foreign currencies could affect the Group's results of operations.

The Group has not used any forward contracts or foreign currency borrowings to hedge its exposure to foreign exchange risk.

(2) Credit risk

The Group has no significant concentrations of credit risk. It has policies to ensure that sales of products are made to customers with an appropriate credit history. Cash transactions are limited to high-credit-quality financial institutions.

30. FINANCIAL RISK MANAGEMENT (CONT'D)

(a) Financial risk factors (CONT'D)

(3) Liquidity risk

The Group's policy is to maintain sufficient cash and cash equivalents or have available funding through adequate amount of committed credit facilities to meet its working capital requirements. The amount of undrawn credit facilities at the balance sheet date is disclosed in Note 29.

(4) Interest rate risk

The Group's income and operating cash flows are substantially independent of changes in market interest rates. As of 31 December 2006 and 2005, all of its borrowings were at fixed rates. The interest rates and repayment terms of the Group's short-term bank loans are disclosed in Note 14. The Group has not used any interest rate swaps to hedge its exposure to interest rate risk.

(b) Fair value estimation

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

31. COMMITMENTS

(a) Capital commitments

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

	The Group		The Company	
	2006	2005	2006	2005
	RMB'000	RMB'000	RMB'000	RMB'000
Construction of production facilities	1,862	3,600	–	3,600
Investment contribution to some entities	–	28,508	–	28,508
	1,862	32,108	–	32,108

(b) Operating lease commitments

The Group leases various warehouse, offices 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	
	2006	2005	2006	2005
	RMB'000	RMB'000	RMB'000	RMB'000
Not later than one year	19,477	16,929	17,779	16,929
Later than one year and not later than five years	47,341	47,306	43,902	47,306
Later than five years	47,900	54,703	45,793	54,703
	114,718	118,938	107,474	118,938

32. EVENTS AFTER THE BALANCE SHEET DATES

Subsequent to the balance sheet date, a special resolution signed by all shareholders of TRT Hutchison, an associated company of the Company, on 6 February 2007, pursuant to which TRT Hutchison will be wound up voluntarily and liquidators were appointed for the purpose of the winding-up. Directors of the Company expect that after liquidation the remaining assets to be distributed to the Company will not be materially different from the investment set out in note 7.

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the annual general meeting of Tong Ren Tang Technologies Co. Ltd. (the "Company") will be held at No. 52 Dong Xing Long Street, Chong Wen District, Beijing, the PRC on Wednesday, 16 May 2007 at 9:30 a.m. for the purpose of considering and, if thought fit, passing, with or without modification, the following resolutions:

1. To receive and consider the audited consolidated financial statements of the Company and the Report of the Directors and the Auditors for the year ended 31 December 2006;

2. To receive and consider the Report of the Supervisory Committee of the Company for the year ended 31 December 2006;

3. To declare and propose a final dividend of RMB0.40 (including tax) per share for the year ended 31 December 2006. The proposed dividend will be payable before 31 August 2007 to shareholders whose names appear on the register of shareholders of the Company on 16 May 2007. Dividend payable to the shareholders of H shares will be paid in Hong Kong Dollars ("HKD"). The exchange rate between RMB and HKD shall be ascertained on the basis of the average of the middle exchange rates for RMB to HKD as published by the People's Bank of China for the five trading days prior to 16 May 2007;

4. To re-appoint PricewaterhouseCoopers as the auditors of the Company for the year ending 31 December 2007 and to authorize the board of directors of the Company to fix their remuneration;

SPECIAL RESOLUTIONS

5. By way of special business, to consider, and if thought fit, to pass the following amendments of Articles of Association:

   Clause 10 of the original Article:

   The scope of businesses of the Company approved by the registration authority shall prevail. The scope of the Company's businesses covers development of medical technology, technology consultancy and service; manufacture and sale of Chinese medicine, biological preparations, Chinese prepared medicinal herb (retail only); e-commerce; export of self-produced products and related technology; import and export of raw and auxiliary materials, machinery and equipment and technology that required by production; businesses of joint venture, production cooperation, processing trade with supplied materials and compensated trade;

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import and export of other commodities being approved by the Ministry of Foreign Trade and Economic Cooperation (save for items that have not obtained specific licence); operating and acting as an agent in the import and export business of various commodities and technology (excluding those commodities and technology that restricted by the state to operate or those prohibited from import and export (commodities list for import and export is not enclosed)); processing trade with imported materials and "three categories of processing and one category of compensation businesses" (processing with supplied materials, assembling parts supplied by clients, processing with customer's samples and compensatory trade); re-export trade and counter trade.

to be amended as:

The scope of businesses of the Company approved by the registration authority shall prevail. The scope of the Company's businesses covers development of medical technology, technology consultancy and service; manufacture and sale of Chinese medicine, biological preparations, Chinese herbal medicine (retail only); e-commerce; export of self-produced products and related technology; import and export of raw and auxiliary materials, machinery and equipment and technology that required by production; businesses of joint venture, production cooperation, processing trade with supplied materials and compensated trade; import and export of other commodities being approved by the Ministry of Foreign Trade and Economic Cooperation (save for items that have not obtained specific licence); operating and acting as an agent in the import and export business of various commodities and technology (excluding those commodities and technology that restricted by the state to operate or those prohibited from import and export (commodities list for import and export is not enclosed)); processing trade with imported materials and "three categories of processing and one category of compensation businesses" (processing with supplied materials, assembling parts supplied by clients, processing with customer's samples and compensatory trade); re-export trade and counter trade; sale of healthcare food and package food; transportation of ordinary goods; processing of packed tea.

6. By way of special business, to consider, and if thought fit, to pass the following resolution:

"**THAT:**

(1) there be granted to the board of directors of the Company (the "Board") an unconditional general mandate to allot, issue and deal with additional shares in the capital of the Company (the "Shares"), whether domestic shares or H shares, and to make or grant offers or agreements in respect thereof, subject to the following conditions:

(a) such mandate shall not extend beyond the Relevant Period (as defined below) save that the Board may during the Relevant Period make or grant offers or agreements which might require the exercise of such powers after the end of the Relevant Period;

(b) the aggregate nominal amount of Shares allotted or agreed conditionally or unconditionally to be allotted by the Board, otherwise than pursuant to any scrip dividends or similar arrangement providing for the allotment of such Shares in lieu of the whole or part of a dividend on such Shares in accordance with the articles of association of the Company ("Articles of Association"), shall not exceed:

(i) 20 per cent of the aggregate nominal amount of domestic shares of the Company in issue at the date of the passing of this Resolution; and

(ii) 20 per cent of the aggregate nominal amount of H shares of the Company in issue at the date of the passing of this Resolution, in each case as at the date of this Resolution; and

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(c) the Board will only exercise its power under such mandate in accordance with the relevant provisions of the Company Law of the People's Republic of China (the "PRC") (as amended from time to time) and the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (as amended from time to time) and only if all necessary approvals from the China Securities Regulatory Commission and/or other relevant PRC government authorities are obtained.

For the purposes of this Resolution:

"**Relevant Period**" means the period from the passing of this Resolution until the earliest of:

(a) the conclusion of the next annual general meeting of the Company following the passing of this Resolution; or

(b) the expiration of the 12-month period following the passing of this Resolution; or

(c) the date on which the authority set out in this Resolution is revoked or varied by a special resolution of the shareholders of the Company in a general meeting; and

(2) contingent on the Board resolving to issue Shares pursuant to sub-paragraph (1) of this Resolution, authorize the Board to:

(a) approve, execute and do or procure to be executed and done, all such documents, deeds and things as it may consider necessary in connection with the issue of such new shares including, without limitation, the time, price, quantity and place of issue, making all necessary applications to the relevant authorities, entering into an underwriting agreement (or any other agreement);

(b) determine the use of proceeds and make all necessary filing to the relevant authorities in the PRC and/or Hong Kong (if required);

(c) to increase the registered capital of the Company in accordance with the actual increase of capital by issuing shares pursuant to sub-paragraph (1) of this Resolution, to register the increased capital with the relevant authorities in the PRC; and

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(d) to make such amendments to the Articles of Association accordingly as it thinks fit so as to reflect the new capital and/or new capital structure of the Company.

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

Beijing, the PRC
19 March 2007

Notes:

(i) A member of the Company ("Member") entitled to attend and vote at the meeting is entitled to appoint a proxy or proxies to attend and vote in his stead. A proxy need not be a Member. A form of proxy for use at the meeting is enclosed herewith. In the case of a joint holding, the form of proxy may be signed by any joint holder, but if more than one joint holder is present at the meeting, whether in person or by proxy, that one of the joint holders whose name stands first on the register of Members in respect of the relevant joint holding shall alone be entitled to vote in respect thereof.

(ii) To be valid, the form of proxy together with any power of attorney or other authority (if any) under which it is signed or a notarially certified copy of that power of attorney or authority must be deposited with the H share registrar of the Company in Hong Kong, Hong Kong Registrars Limited at Rooms 1806-1807, 18th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong and in case of holders of domestic shares, to the Company's mailing address at No. 20 Nansanhuan Zhonglu, Fengtai District, Beijing, the PRC not later than 24 hours before the time appointed for holding the meeting or the time appointed for passing the resolutions. Delivery of the form of proxy shall not preclude a shareholder of the Company from attending and voting in person at the meeting and, in such event, the instrument appointing a proxy shall be deemed to be revoked.

(iii) Members and their proxies should produce identity proof (and form of proxy in case of proxies) when attending the meeting.

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(iv) The register of Members in Hong Kong will be closed from Monday, 16 April 2007 to Wednesday, 16 May 2007, both days inclusive, during which period no transfer of H shares of the Company will be effected. For the identification of Members who are qualified to attend and vote at the meeting and to be entitled to the proposed final dividend for the year ended 31 December 2006, all transfer document accompanied by the relevant share certificates must be lodged with the Company's H share registrar and transfer office in Hong Kong, Hong Kong Registrars Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on Friday, 13 April 2007.

(v) Holders of H shares of the Company who intend to attend the annual general meeting shall complete the enclosed reply slip for the meeting and return it, by hand or by post to the Company's H shares registrar and transfer office in Hong Kong, Hong Kong Registrars Limited at Rooms 1806-1807, 18th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, or by fax to (852) 2865 0990/(852) 2529 6087, on or before Wednesday, 25 April 2007.

(vi) Holders of domestic shares of the Company who intend to attend the Annual General Meeting shall complete the enclosed reply slip for the meeting and return it, by hand or by post or by fax, to the Company's mailing address on or before Wednesday, 25 April 2007.

(vii) It is expect that the annual general meeting will last not more than half day. Shareholders and their proxies attending the annual general meeting shall bear their own travel and accommodation expenses.