Tong Ren Tang Technologies Co. Ltd.
北京同仁堂科技發展股份有限公司

*(a joint stock limited company incorporated in the People's Republic of China with limited liability)*
**(Stock Code: 8069)**

# ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2009

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

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

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This announcement, 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 announcement 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 announcement misleading; and (3) all opinions expressed in this announcement have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

## CHAIRMAN'S STATEMENT

I am pleased to present the annual results of Tong Ren Tang Technologies Co., Ltd. (the "Company") and its subsidiaries and joint ventures (hereafter collectively referred to as the "Group") for the year ended 31 December 2009 for shareholders' review.

### RESULTS OF THE YEAR

For the year ended 31 December 2009, the Group's revenue amounted to RMB1,307,897,000, representing an increase of 7.96% over last year; profit attributable to the equity shareholders of the Company amounted to RMB173,027,000, representing an increase of 7.79% over last year.

### REVIEW OF THE YEAR

In 2009, both China's and global economies endeavored to maintain stability in turbulent conditions. Having been struck hard by the global financial turmoil, China was the first in the world to successfully suppress its economic deterioration and achieve a rebound at a steady pace. The global economy also showed signs of recovery in the second half of the year. During the year, the state government strengthened its efforts in promoting medical protection and public health by implementing the relevant policies with regard to deepening the healthcare reform and supporting the development of the Chinese pharmaceutical industry, which in turn stimulated the demand of the pharmaceutical market, accelerated its standardization progress and drove the Chinese pharmaceutical industry forward to enter into a new stage of sustainable and healthy development. Despite the promulgation of the list of basic medicines and the announcement of their prices, which exposed the profitability of our products to challenges, the development prospects of the Chinese pharmaceutical industry create a larger room for the growth of the Company.

The Company strived to maintain stability in turbulent conditions in 2009. During the year, Tong Ren Tang celebrated its 340th anniversary. From the very beginning to date, the Company has always adhered to the strategy of healthy, stable and sustainable development. In response to the "Year of Fundamental Management", the Company was dedicated to fulfill the relevant requirements to ensure the processes are standardized, streamlined and compatible with information technology. By strengthening its supervisory efforts, the Company adopted a standardized and scientific approach in respect of its day-to-day management. Embracing the motifs of "Brand, Talents and Development", the Company was engaged in scientific planning for effective implementation. Looking back over the year, there was a substantial increase in the product categories while the build-up of its product portfolios attained remarkable result. Physical assets management proved to be solid and sound and the "Top Five" cost-saving scheme was re-launched. With enhanced cohesion and performance of its working teams, the Company has made great strides in every aspect of its operation. In addition to development, the Company is also concerned about the performance of its social responsibility. In the process of decision making and execution, the Company's impacts on the society and the environment will be given full consideration with a view to maintain the development of the Company, the human welfare and the protection of resources and ecological environment in harmony. Looking back over the year, with the quality of the fundamental management significantly upgraded and the market image continuously improved, the overall development of the Company continued at a steady pace.

## OUTLOOK AND PROSPECTS

One year following the outburst of the financial turmoil, the global economy has begun to recover gradually. In 2010, China's economy will maintain its momentum of stable growth while facing the challenges of the widening gap in domestic income, weakened domestic consumption and demand and rising inflation. The PRC government will continue to expedite the implementation of the national basic medicine system and the pilot reform of public hospitals, and gradually improve the basic medicine and health system. The influence of the healthcare reform on the pharmaceutical industry is deep and far. The expansion of the public hospitals' capacity is undoubtedly necessary. Though optimistic on the development of China's economy and pharmaceutical industry in 2010, the Company also remains concerned about the adverse effects subsequent to the global financial crisis and the lingering economic doldrums. Under the influence of the policy on the new health reform, the consolidation and fragmentation of the pharmaceutical industry will intensify. In the future, the conglomeration of the industry will be aggregated with more fierce competition among pharmaceutical enterprises.

Looking ahead to 2010, the Company will strive to make progress at a steady pace. I, together with all the staff of the Company, will closely monitor the changes of the domestic and international economic policies, and turn pressure into motivation and challenges into opportunities. We will secure the healthy, sustainable and stable development of the Company on one hand and endeavor to complete the positive adjustments of the strategy for economic growth and the product mix on the other with a view to enhance the Company's strength for a greater leap forward in the future.

I hereby would like to express my sincere gratitude to the Board and all the staff of the Company for their tireless efforts and excellent performance, with my sincere respect to all the shareholders for their constant shepherding as well as their support and understanding. Just as in the past, we will continue to aim for good performance and creating value to our shareholders.

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

Beijing, the PRC
18 March 2010

## ANNUAL RESULTS

The Board of Directors of the Company is pleased to announce the audited consolidated income statement, consolidated statement of comprehensive income and consolidated balance sheet of the Group, for the year ended 31 December 2009, together with the comparative figures of 2008, as follows:

### CONSOLIDATED INCOME STATEMENT

| | Note | 2009<br>RMB'000 | 2008<br>RMB'000 |
|---|---|---|---|
| Revenue | *d* | **1,307,897** | 1,211,455 |
| Cost of sales | | **(696,121)** | (670,225) |
| **Gross profit** | | **611,776** | 541,230 |
| Distribution costs | | **(269,076)** | (225,672) |
| Administrative expenses | | **(125,999)** | (116,668) |
| **Operating profit** | | **216,701** | 198,890 |
| Finance income/(costs) - net | *e* | **3,490** | (1,642) |
| **Profit before income tax** | *f* | **220,191** | 197,248 |
| Income tax expense | *g* | **(36,268)** | (30,509) |
| **Profit for the year** | | **183,923** | 166,739 |
| Profit attributable to: | | | |
| Equity holders of the Company | | **173,027** | 160,528 |
| Minority interest | | **10,896** | 6,211 |
| | | **183,923** | 166,739 |
| Earnings per share for profit attributable to equity holders of the Company during the year | *i* | | |
| - Basic | | **RMB 0.88** | RMB 0.82 |
| - Diluted | | **RMB 0.88** | RMB 0.82 |

| | Note | 2009<br>RMB'000 | 2008<br>RMB'000 |
|---|---|---|---|
| Dividends | *h* | **88,200** | 78,400 |

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| | Note | **2009** **RMB'000** | 2008 RMB'000 |
|---|---|---|---|
| **Profit for the year** | | **183,923** | 166,739 |
| **Other comprehensive income/(expense):** | | | |
| Foreign currency translation differences | | **379** | (10,577) |
| **Other comprehensive income/(expense) for the year, net of tax** | | **379** | (10,577) |
| **Total comprehensive income for the year** | | **184,302** | 156,162 |
| Attributable to: | | | |
| Equity holders of the Company | | **173,581** | 154,329 |
| Minority interest | | **10,721** | 1,833 |
| **Total comprehensive income for the year** | | **184,302** | 156,162 |

## CONSOLIDATED BALANCE SHEET

| | Note | As at 31 December<br>**2009**<br>**RMB'000** | <br>2008<br>RMB'000 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | | **409,470** | 447,217 |
| Leasehold land and land use rights | | **47,537** | 48,755 |
| Deferred income tax assets | | **3,751** | 2,640 |
| Other long-term assets | | **839** | 1,548 |
| | | **461,597** | 500,160 |
| **Current assets** | | | |
| Inventories | | **827,643** | 798,226 |
| Trade and bills receivables, net | *k* | **145,510** | 181,555 |
| Amounts due from related parties | | **29,446** | 31,885 |
| Prepayments and other current assets | | **15,766** | 7,695 |
| Current income tax assets | | **-** | 12,371 |
| Short-term bank deposits | | **48,351** | 5,196 |
| Cash and cash equivalents | | **360,669** | 258,094 |
| | | **1,427,385** | 1,295,022 |
| **Total assets** | | **1,888,982** | 1,795,182 |

## CONSOLIDATED BALANCE SHEET (CONT'D)

| | Note | As at 31 December<br>**2009**<br>**RMB'000** | <br>2008<br>RMB'000 |
|---|---|---|---|
| **EQUITY** | | | |
| **Equity attributable to owners of the parent** | | | |
| Share capital | | **196,000** | 196,000 |
| Reserves | | **1,259,573** | 1,164,392 |
| | | **1,455,573** | 1,360,392 |
| **Minority interest** | | **134,467** | 124,513 |
| **Total equity** | | **1,590,040** | 1,484,905 |
| **LIABILITIES** | | | |
| **Non-current liabilities** | | | |
| Deferred income tax liabilities | | **5,483** | 1,984 |
| Deferred income – government grants | | **10,610** | 11,266 |
| | | **16,093** | 13,250 |
| **Current liabilities** | | | |
| Trade payables | *l* | **173,530** | 226,201 |
| Salary and welfare payables | | **5,237** | 10,689 |
| Advances from customers | | **15,383** | 8,506 |
| Amounts due to related parties | | **13,919** | 2,217 |
| Current income tax liabilities | | **8,105** | 315 |
| Accrued expenses and other current liabilities | | **51,675** | 34,099 |
| Short-term borrowings | | **15,000** | 15,000 |
| | | **282,849** | 297,027 |
| **Total liabilities** | | **298,942** | 310,277 |
| **Total equity and liabilities** | | **1,888,982** | 1,795,182 |
| Net current assets | | **1,144,536** | 997,995 |
| Total assets less current liabilities | | **1,606,133** | 1,498,155 |

*Notes:*

**a. GENERAL INFORMATION**

The Company was incorporated as a joint stock company with limited liability in the PRC on 22 March 2000 and, upon the placing of its H shares, was listed on the GEM on 31 October 2000. Its ultimate holding company is China Beijing Tong Ren Tang Group Co., Ltd. ("Tong Ren Tang Holdings"), incorporated in Beijing, the PRC.

**b. BASIS OF PREPARATION**

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

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its 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 c.

i) Standards, amendments and interpretations effective in 2009

- IFRS 1 and IAS 27 (Amendment), 'Cost of an investment in a subsidiary, jointly controlled entity or associate'
- IFRS 2 (Amendment), 'Share-based payment - Vesting conditions and cancellations'
- IAS 23 (Revised), 'Borrowing costs'
- IAS 32 and IAS 1 (Amendment), 'Puttable financial instruments and obligations arising on liquidation'
- Amendment to IFRIC-Int 9 and IAS 39, 'Reassessment of embedded derivatives'
- IFRIC-Int 13, 'Customer loyalty programmes'
- IFRIC-Int 15, 'Agreements for the construction of real estate'
- IFRIC-Int 16, 'Hedges of a net investment in a foreign operation'
- IASB's annual improvements project published in May 2008
  - IAS 1 (Amendment), 'Presentation of financial statements'
  - IAS 16 (Amendment), 'Property, plant and equipment' and consequential amendment IAS 7, 'Statement of cash flows'
  - IAS 19 (Amendment), 'Employee benefits'
  - IAS 20 (Amendment), 'Accounting for government grants and disclosure of government assistance'
  - IAS 23 (Amendment), 'Borrowing costs'

**b. BASIS OF PREPARATION (Cont'd)**

i) Standards, amendments and interpretations effective in 2009 (Cont'd)

- IASB's annual improvements project published in May 2008(Cont'd)
  - IAS 27 (Amendment), 'Consolidated and separate financial statements'
  - IAS 28 (Amendment), 'Investments in associates' and consequential amendments to IAS 32, 'Financial instruments: Presentation' and IFRS 7, 'Financial instruments: Disclosures'
  - IAS 29 (Amendment), 'Financial reporting in hyperinflationary economies'
  - IAS 31 (Amendment), 'Interests in joint ventures' and consequential amendments to IAS 32 and IFRS 7
  - IAS 36 (Amendment), 'Impairment of assets'
  - IAS 38 (Amendment), 'Intangible assets'
  - IAS 39 (Amendment), 'Financial instruments: Recognition and measurement'
  - IAS 40 (Amendment), 'Investment property' and consequential amendments to IAS 16
  - IAS 41 (Amendment), 'Agriculture'

Required by IAS 1 (Revised), 'Presentation of financial statements', the Group presents in the consolidated statement of changes in equity all owner changes in equity, whereas all non-owner changes in equity are presented in the consolidated statement of comprehensive income. Comparative information has been re-presented so that it also is in conformity with the revised standard. It is only a change in accounting policy which impacts presentation aspects, there is no impact on earnings per share.

IFRS 7 (Amendment), 'Improving disclosures about financial instruments – Fair value measurements and liquidity risk of financial instruments', requires enhanced disclosures about fair value measurement and liquidity risk. In particular, the amendment requires disclosure of fair value measurements by level of a fair value measurement hierarchy. The change in accounting policy only results in additional disclosures, there is no impact on earnings per share.

IFRS 8, 'Operating segments', replaces IAS 14, 'Segment reporting', and aligns segment reporting with the requirements of the US standard SFAS 131, 'Disclosures about segments of an enterprise and related information'. The new standard requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes. The adoption of IFRS 8 has resulted in an increase in the number of reportable segments presented. In addition, the segments are reported in a manner that is consistent with the internal reporting provided to the chief operating decision-maker. Comparatives for 2008 in note j have been restated. However, such restatement in note disclosure does not have any impact on the balance sheets.

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

**b. BASIS OF PREPARATION (Cont'd)**

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

- IFRS 1 (Revised), 'First-time adoption of IFRSs' (effective for annual periods beginning on or after 1 July 2009)
- IFRS 1 (Amendment), 'Additional exemptions for first-time adopters' (effective for annual periods beginning on or after 1 January 2010)
- IFRS 2 (Amendment), 'Group cash-settled share-based payment transaction' (effective for annual periods beginning on or after 1 January 2010)
- IFRS 3 (Revised), 'Business combinations' (effective for annual periods beginning on or after 1 July 2009)
- IFRS 9, 'Financial Instruments' (effective for annual periods beginning on or after 1 January 2013)
- IAS 24 (Revised), 'Related party disclosures' (effective for annual periods beginning on or after 1 January 2011)
- IAS 27(Revised), 'Consolidated and separate financial statements' (effective for annual periods beginning on or after 1 July 2009)
- IAS 32 (Amendment), 'Classification of rights issue' (effective for annual periods beginning on or after 1 February 2010)
- IAS 39 (Amendment), 'Eligible hedge items' (effective for annual periods beginning on or after 1 July 2009)
- Amendment to IFRIC-Int 14, 'Prepayments of a minimum funding requirement' (effective for annual periods beginning on or after 1 January 2011)
- IFRIC-Int 17, 'Distribution of non-cash assets to owners' (effective for annual periods beginning on or after 1 July 2009)
- IFRIC-Int 18, 'Transfer of assets from customers' (effective for annual periods beginning on or after 1 July 2009)
- IFRIC-Int 19, 'Extinguishing financial liabilities with equity instruments' (effective for annual periods beginning on or after 1 July 2010)
- IASB's annual improvements project published in May 2008
  - IFRS 5 (Amendment), 'Non-current assets held for sale and discontinued operations' and consequential amendment to IFRS 1, 'First-time adoption' (effective for annual periods beginning on or after 1 July 2009)

**b. BASIS OF PREPARATION (Cont'd)**

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

- IASB's annual improvements project published in April 2009
  - IFRS 2 (Amendment), 'Scope of IFRS 2 and IFRS 3 (revised)' (effective for annual periods beginning on or after 1 July 2009)
  - IFRS 5 (Amendment), 'Disclosures required in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations' (effective for annual periods beginning on or after 1 January 2010)
  - IFRS 8 (Amendment), 'Disclosure of information about segment assets' (effective for annual periods beginning on or after 1 January 2010)
  - IAS 1 (Amendment), 'Current/non-current classification of convertible instruments' (effective for annual periods beginning on or after 1 January 2010)
  - IAS 7 (Amendment), 'Classification of expenditures on unrecognised assets' (effective for annual periods beginning on or after 1 January 2010)
  - IAS 17 (Amendment), 'Classification of leases of land and buildings' (effective for annual periods beginning on or after 1 January 2010)
  - IAS 18 (Amendment), 'Determining whether an entity is acting as a principal or as an agent' (no transition provisions are specified)
  - IAS 36 (Amendment), 'Unit of accounting for goodwill impairment test' (effective for annual periods beginning on or after 1 January 2010)
  - IAS 38 (Amendment), 'Additional consequential amendments arising from IFRS 3 (revised) and measuring the fair value of an intangible asset acquired in business combination' (effective for annual periods beginning on or after 1 January 2010)
  - IAS 39 (Amendment), 'Treating loan prepayment penalties as closely related derivatives' (effective for annual periods beginning on or after 1 January 2010)
  - IAS 39 (Amendment), 'Cash flow hedge accounting' (effective for annual periods beginning on or after 1 July 2009)
  - IAS 39 (Amendment), 'Scope exemption for business combination contracts' (effective for annual periods beginning on or after 1 July 2009)
  - IFRIC-Int 9 and IFRS 3 (revised), (effective for annual periods beginning on or after 1 July 2009)
  - IFRIC-Int 16, 'Hedges of a net investment in a foreign operation' (effective for annual periods beginning on or after 1 July 2009)

## c. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

### (i) Net realisable value of inventories

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

### (ii) Estimated provision for impairment of receivables

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

### (iii) Income taxes

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

## d. REVENUE

| | **2009** | 2008 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| Sales of medicine | | |
| - PRC Mainland | **1,238,312** | 1,147,282 |
| - Outside PRC Mainland | **60,503** | 56,022 |
| | **1,298,815** | 1,203,304 |
| Agency fee income for distribution services | | |
| - Outside PRC Mainland | **9,082** | 8,151 |
| | **1,307,897** | 1,211,455 |

## e. FINANCE INCOME/(COSTS) - NET

| | **2009** | 2008 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| Interest income on cash at bank and short-term bank deposits | **4,301** | 4,143 |
| Interest expenses on bank borrowings repayable within one year | **(774)** | (1,032) |
| Exchange losses | **(37)** | (4,753) |
| Finance income/(costs) - net | **3,490** | (1,642) |

## f. PROFIT BEFORE INCOME TAX

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

| | **2009** | 2008 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| Raw materials and consumables used | **530,166** | 469,461 |
| Change in inventories of finished goods and work-in-progress | **(102,205)** | (45,722) |
| Employee benefit expense | | |
| - Salary and wages | **108,698** | 107,827 |
| - Staff welfare | **11,752** | 11,469 |
| - Housing fund | **10,167** | 8,559 |
| - Contributions to retirement schemes | **26,660** | 30,796 |
| Depreciation of property, plant and equipment | **45,146** | 44,658 |
| Amortisation of prepaid operating lease payments | **1,218** | 2,359 |
| Amortisation of other long-term assets | **709** | 719 |
| Provision for impairment of inventories | **7,786** | 2,620 |
| Provision/(reversal of provision) for impairment of receivables | **8,732** | (900) |
| Operating lease rental | **18,315** | 17,719 |
| Auditor's remuneration | **1,616** | 1,510 |
| Research and development costs | **3,901** | 6,838 |
| Advertising expenses | **56,790** | 46,629 |
| (Gain)/loss on disposal of property, plant and equipment | **(180)** | 87 |
| Recognition of government grants | **(2,025)** | (2,021) |

## g. INCOME TAX EXPENSE

Pursuant to the Corporate Income Tax Law of the PRC effective from 1 January 2008, enterprises with a High/New Technology Enterprise ("HNTE") status are able to enjoy a preferential tax rate of 15%. For the entities without the HNTE status, the PRC income tax rate is 25% (2008: 25%). As of 31 December 2009 and 2008, the Company has obtained the HNTE certificate. Consequently, the applicable income tax rate of the Company in 2009 is 15% (2008: 15%). Income tax on overseas profits has been calculated on the estimated assessable profit for the year at the income tax rates prevailing in the tax jurisdictions in which the Group operates.

## g. INCOME TAX EXPENSE (Cont'd)

Details of income tax during the year are as follows:

| | **2009** | 2008 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| Current PRC income tax expense | **31,107** | 27,847 |
| Current Overseas income tax expense | **2,773** | 382 |
| Deferred income tax expense | **2,388** | 2,280 |
| | **36,268** | 30,509 |

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

| | **2009** | 2008 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| Profit before income tax | **220,191** | 197,248 |
| Tax calculated at the PRC statutory income tax rate of 25% (2008: 25%) | **55,048** | 49,312 |
| Income not subject to tax | **(1,597)** | (2,238) |
| Expenses not deductible for tax purposes | **4,834** | 833 |
| Effect of decrease in applicable tax rate | **-** | 1,162 |
| Effect of preferential income tax treatments | **(19,079)** | (17,437) |
| Effect of different applicable tax rates for certain subsidiaries and joint ventures | **(2,938)** | (1,123) |
| Income tax expense | **36,268** | 30,509 |

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

### g. INCOME TAX EXPENSE (Cont'd)

The Company is registered in the BETDZ and obtained an approval from the BETDZ Local Tax Bureau ("BETDZ LTB") (Document Jingdishuikaijianmianfa [2000] No.23) to enjoy full exemption from EIT for years 2000 to 2002 and 50% reduction for years 2003 to 2005. The Company renewed its NTE certificate with Beijing Science-Technology Committee periodically. Moreover, the above EIT preferential income tax rate of 15% could be applied to the Company before 1 January 2008 as the Company was registered in BETDZ and kept its NTE status before 1 January 2008.

However, such preferential tax treatments could be subject to review by higher ranking tax authorities as Beijing Municipal State Tax Authority issued a circular in October 2002, namely Jingguoshuihan [2002] No.632, stating that only the NTEs whose registration and operation are both located in the designated area can enjoy the preferential income tax treatments for NTEs. If the above EIT preferential income tax treatments for the Company are withdrawn, additional EIT liability before 1 January 2008 would be approximately 2007: RMB4,388,000; 2006: RMB5,643,000; 2005: RMB63,827,000. The directors are of opinion that such additional EIT liabilities are unlikely to arise.

### h. DIVIDENDS

| | **2009** | 2008 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| Dividends proposed | **88,200** | 78,400 |

The dividends paid in 2009 and 2008 were RMB78,400,000 (RMB0.40 (including tax) per share) and RMB78,400,000 (RMB0.40 (including tax) per share) respectively. On 18 March 2010, the Board of Directors proposed a final dividend of RMB0.45 (including tax) per share (2008: RMB0.40 (including tax) per share) for the year ended 31 December 2009, totalling approximately RMB88,200,000 (2008: RMB78,400,000). The proposed dividend distribution is subject to the shareholders' approval at the Annual General Meeting in 2010. The dividend will be recorded in the Group's financial statements for the year ending 31 December 2010.

## i. EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company of approximately RMB173,027,000 (2008: RMB160,528,000) by the weighted average number of 196,000,000 shares (2008: 196,000,000 shares) in issue during the year.

The Company had no dilutive potential shares for the years ended 31 December 2009 and 2008.

| | **2009**<br>**RMB'000** | 2008<br>RMB'000 |
|---|---|---|
| Profit attributable to equity holders of the Company | **173,027** | 160,528 |
| Weighted average number of ordinary shares in issue (thousands) | **196,000** | 196,000 |
| Earnings per share | **RMB0.88** | RMB0.82 |

## j. SEGMENT INFORMATION

Management has determined the operating segments based on the reports reviewed by the executive directors that are used to make strategic decisions.

The executive directors consider the business from an operational entity perspective. Generally, the executive directors consider the performance of business of each entity within the Group separately. Thus, each entity within the Group is an operating segment.

Among all the operating segments, the Company and TRT Chinese Medicine have these similar long-term average gross margins, as they have the same production process and all produce the Chinese medicine. As a result, the executive directors consider aggregating these two segments to one reportable operating segment. The reportable operating segment derives its revenue primarily from the manufacture and sale of Chinese medicine on a wholesale basis in China.

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

The executive directors assess the performance of the operating segments based on revenue and profit after income tax of each segment.

**j. SEGMENT INFORMATION (Cont'd)**

The segment information provided to the executive directors for the reportable segments for the year ended 31 December 2009 is as follows:

| | Manufacture and sale of Chinese medicine RMB'000 | All other segments RMB'000 | Total RMB'000 |
|---|---|---|---|
| Segment revenue | 1,237,443 | 122,959 | 1,360,402 |
| Inter-segment revenue | (983) | (51,522) | (52,505) |
| Revenue from external customers | 1,236,460 | 71,437 | 1,307,897 |
| Profit after income tax | 177,467 | 6,456 | 183,923 |
| Interest income | 3,846 | 455 | 4,301 |
| Interest expenses | (774) | - | (774) |
| Depreciation of property, plant and equipment | (40,578) | (4,568) | (45,146) |
| Amortisation of prepaid operating lease payments | (1,077) | (141) | (1,218) |
| Provision for impairment of inventories | (7,786) | - | (7,786) |
| Provision for impairment of receivables | (8,732) | - | (8,732) |
| Income tax expense | (34,560) | (1,708) | (36,268) |
| Total assets | 1,730,804 | 158,178 | 1,888,982 |
| Total assets include: | | | |
| Additions to non-current assets (other than deferred tax assets) | 5,632 | 1,360 | 6,992 |
| Total liabilities | 280,026 | 18,916 | 298,942 |

**j. SEGMENT INFORMATION (Cont'd)**

The segment information for the year ended 31 December 2008 is as follows:

| | Manufacture and sale of Chinese medicine | All other segments | Total |
|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 |
| Segment revenue | 1,151,897 | 93,209 | 1,245,106 |
| Inter-segment revenue | (1,681) | (31,970) | (33,651) |
| Revenue from external customers | 1,150,216 | 61,239 | 1,211,455 |
| Profit after income tax | 163,927 | 2,812 | 166,739 |
| Interest income | 3,819 | 324 | 4,143 |
| Interest expenses | (1,032) | - | (1,032) |
| Depreciation of property, plant and equipment | (41,510) | (3,148) | (44,658) |
| Amortisation of prepaid operating lease payments | (2,218) | (141) | (2,359) |
| Provision for impairment of inventories | (2,620) | - | (2,620) |
| Reversal of provision for impairment of receivables | 900 | - | 900 |
| Income tax expense | (29,470) | (1,039) | (30,509) |
| Total assets | 1,635,774 | 159,408 | 1,795,182 |
| Total assets include: | | | |
| Additions to non-current assets (other than deferred tax assets) | 7,808 | 5,007 | 12,815 |
| Total liabilities | 291,972 | 18,305 | 310,277 |

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

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

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

The total of the non-current assets other than deferred income tax assets located in PRC Mainland is RMB343,135,000 (2008: RMB377,040,000), and the total of these non-current assets located in other countries is RMB114,711,000 (2008: RMB120,480,000).

## k. TRADE AND BILLS RECEIVABLES, NET

| | **2009** | 2008 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| Trade and bills receivables | **175,657** | 202,970 |
| Less: provision for impairment of receivables | **(30,147)** | (21,415) |
| Trade and bills receivables, net | **145,510** | 181,555 |

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

The Group normally grants a credit period ranging from 30 days to 120 days to its trade customers. As of 31 December 2009 and 2008, the ageing analysis of trade and bills receivables based on invoice date was as follows:

| | **2009** | 2008 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| Within 4 months | **133,611** | 166,769 |
| Over 4 months but within 1 year | **32,628** | 31,819 |
| Over 1 year but within 2 years | **6,354** | 2,365 |
| Over 2 years but within 3 years | **1,180** | 1,318 |
| Over 3 years | **1,884** | 699 |
| | **175,657** | 202,970 |

As of 31 December 2009, trade and bills receivables of RMB30,147,000 (2008: RMB21,415,000) were past due and fully provided for impairment. The individually impaired receivables mainly relate to medium and smaller customers, which are expected to have no business with the Group in future or in unexpectedly difficult economic situations. The ageing analysis of these receivables is as follows:

| | **2009** | 2008 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| Within 4 months | **2,475** | 1,232 |
| Over 4 months | **27,672** | 20,183 |
| | **30,147** | 21,415 |

**k. TRADE AND BILLS RECEIVABLES, NET(Cont'd)**

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

| | **2009** | 2008 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| At 1 January | **21,415** | 22,315 |
| Provision /(reversal of provision) for impairment of receivables | **8,732** | (900) |
| At 31 December | **30,147** | 21,415 |

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

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

**l. TRADE PAYABLES**

As of 31 December 2009, the ageing analysis of trade payables based on invoice date was as follows:

| | **2009** | 2008 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| Within 4 months | **145,413** | 173,929 |
| Over 4 months but within 1 year | **23,352** | 47,977 |
| Over 1 year but within 2 years | **4,765** | 4,295 |
| | **173,530** | 226,201 |

## MOVEMENT IN RESERVES

| | The Company | | | | | |
|---|---|---|---|---|---|---|
| | Capital reserve (Note(b)) | Statutory surplus reserve fund (Note(c)) | Statutory public welfare fund (Note(c)) | Tax reserve (Note(d)) | Retained earnings | Total |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Balance as of 1 January 2008 | 355,309 | 121,275 | 45,455 | 102,043 | 466,066 | 1,090,148 |
| Profit for the year | - | - | - | - | 154,466 | 154,466 |
| Dividends paid | - | - | - | - | (78,400) | (78,400) |
| Appropriation from retained earnings | - | 15,549 | - | - | (15,549) | - |
| Balance as of 31 December 2008 | 355,309 | 136,824 | 45,455 | 102,043 | 526,583 | 1,166,214 |
| Balance as of 1 January 2009 | 355,309 | 136,824 | 45,455 | 102,043 | 526,583 | 1,166,214 |
| Profit for the year | - | - | - | - | 157,572 | 157,572 |
| Dividends paid | - | - | - | - | (78,400) | (78,400) |
| Appropriation from retained earnings | - | 16,203 | - | - | (16,203) | - |
| Balance as of 31 December 2009 | 355,309 | 153,027 | 45,455 | 102,043 | 589,552 | 1,245,386 |

### (a) Profit attributable to equity holders of the company

The profit attributable to equity holders of the company is dealt with in the financial statements of the company to the extent of RMB157,572,000 (2008: RMB154,466,000).

### (b) Capital reserve

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

### (c) Statutory reserves

The Company sets aside 10% of its net profit after income tax, before distribution of dividend to shareholders, as stated in the financial statements prepared under PRC accounting standards to the statutory surplus reserve fund. Approximately RMB16,203,000 (2008: RMB15,549,000), being 10% of the net profit after income tax as stated in the financial statements prepared under PRC accounting standards, was transferred to the statutory surplus reserve fund for the year ended 31 December 2009.

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

## MOVEMENT IN RESERVES(Cont'd)

### (d) Tax reserve

According to the preferential enterprise income tax policy for new technology enterprises under the old Enterprise Income Tax ("EIT") regulation (effective before 1 January 2008), the Company was fully exempted from EIT for the first three years from its commencement of operations and enjoyed 50% reduction for the three years thereafter. The Company commenced its operations in 2000 and enjoyed full exemption from EIT from 2000 to 2002 and 50% reduction from 2003 to 2005. However, the use of the exempted tax is restricted to specified purposes and not distributable to shareholders (Note g).

**DIVIDENDS**

The Board of Directors proposed a final dividend of RMB0.45 (including tax) per share in respect of the year ended 31 December 2009 (2008: RMB0.40 (including tax) per share), totalling approximately RMB88,200,000 (2008: RMB78,400,000). The proposed dividend distribution is subject to the approval at the annual general meeting in 2010 then it would be presented in the financial statements of the Group for the year ending 31 December 2010. Dividend payable to the shareholders of H shares will be paid in Hong Kong Dollars. The exchange rate between RMB and HKD shall be ascertained on the basis of the average of the middle exchange rates for RMB to HKD as published by the People's Bank of China for the five trading days prior to the date of the coming annual general meeting.

The record date for the proposed final dividend for the year ended 31 December 2009, the period for closure of register of members of H shares and the date of the coming annual general meeting are to be determined. Once they are confirmed, the Company will further announce in the notice of annual general meeting.

## MANAGEMENT DISCUSSION AND ANALYSIS

### BUSINESS REVIEW

In 2009, against tremendous changes in the economic environment and policies, the Company persisted in executing the strategies for sustainable development proposed by the Board of Directors. By balancing and coordinating every aspects of its operation, the Company has constantly improved its marketing capability and justified its operating structure. During the year, both our management and employees put their shoulders to the wheel for the best of the Company. We also made corresponding arrangements in response to the "Year of Fundamental Management" to solidify our foundation and standardize our management. By adhering to the principle of "Striving to Develop in Adversity and Striving for Breakthrough in Development", we ensured the continued improvement of the quality of operation and quality of assets. For the year ended 31 December 2009, revenue of the Group amounted to RMB 1,307,897,000, representing an increase of 7.96% over last year; profit attributable to the shareholders of the Company amounted to RMB 173,027,000, representing an increase of 7.79% over last year.

### SALES

In 2009, the Company endeavored to enhance the efficiency of the internal operation, aggressively seeking new growth points, solving the problems of the Company timely in the development process in order to continuously improve the capability to seize market opportunities.

In 2009, the Company aggregated channels building, end-user building and product development for integrated development. The Company commenced the "New Land Enclosure Campaign" to explore new cities, develop new products and seek new consumer groups, aggressively opening up unexplored regional markets. The Company laid emphasis on the development and establishment of major chain stores with solid capital base and broad network coverage to form new growth points. The Company focused on end-user building and the accommodation of seasonal demands to promote major products such as Jingzhi Niuhuang Jiedu tablets (京制牛黄解毒片) and to commence promotion campaigns with vivid themes, materializing the organic combination of product development and end-user building.

During the year, the Company strengthened its administration on distributors. Following the application of dynamic administration, distributors were subject to strict assessments, eliminations and continuous optimizations of distributor structure with the aim of achieving sound development as to continuously strengthen the control over the market. Meanwhile, the Company emphasized on the improvement of the quality of salespersons, gradually transforming a business-oriented sales team into a management-oriented sales team.

For overseas market, under the unfavorable impacts of prolonged influence of the financial turmoil and the pressure of RMB appreciation, domestic enterprises were facing bitter challenges in terms of export. Leveraging on the golden chance of the 340th anniversary of Tong Ren Tang, the Company aggressively promoted the "Tong Ren Tang" brand as well as products under the brand, focused on key markets, key products and key clients, and selectively develop new markets in addition to the strengthening of existing markets. In 2009, twelve products of the Company passed the annual review and successfully renewed HALAL certification from the China Islamic Association and six new products obtained the said certification for the first time while four products of the Company were approved by the health department of Vietnam for registration, positioning the Company to enter the Vietnamese market and the Islamic markets. In 2009, the export sales of the Company's products amounted to US$4,450,700, representing an increase of 10.32% over last year.

In 2009, the Company set product position, formulated different marketing strategies for different products and continued to reinforce the build-up of product portfolios. During the year, the Company produced and sold more than one hundred kinds of products, of which 16 products achieved total sales of more than RMB10 million; and 19 products achieved total sales of between RMB5 million and RMB10 million. The product concentration was further increased. Among the major products of the Company, Liuwei Dihuang Pills (六味地黃丸) series maintained stable, while the sales of Niuhuang Jiedu tablets (牛黃解毒片) series grew by 4.98% over last year. Ganmao Qingre Grannule (感冒清熱顆粒) series grew by 14.68% over last year and there was a remarkable increase in some other product series including Shengmaiyin (生脈飲) series, Buzhongyiqi Pills (補中益氣丸) series, which grew by more than 20% over the corresponding period last year.

**PRODUCTION**

In 2009, the Company delivered medical products to the market in more than ten forms such as pill, tablet, granule, capsule and syrup. With respect to production, the Company analyzed the production capacity of each production base for each product form to control the production cycle based on the characteristics of the product form. The Company considered the products and product forms for future development to be a priority, and, after taking into account factors including the development trend of equipments and the optimization of industrial arrangements, continuously improved the overall production capacity. The product manufacturing department further improved its command and dispatch system. The linkage of a workflow was facilitated through the control of the production cycle of every procedure, which further utilized potential productivity effectively.

Each production base started to seek breakthroughs in terms of technology and quality, such as the development of inter-connected plastic cutting machine (聯動切膠機), for which we filed a national patent, to replace manual production in the past, and, as a result, the efficiency of the procedure was enhanced substantially. Each production base also improved the linkage between specific projects, including establishment of a secondary accounting system, improvement of product first-pass yield and input-output ratio, and attained marvelous results.

As the principal workshop for extracting traditional Chinese medicine materials, Beijing Tong Ren Tang Tongke Pharmaceutical Company Limited (北京同仁堂通科藥業有限責任公司)("Tongke"), which is located at Tongzhou District, Beijing, produces semi-finished goods for different forms of medicine of the Company. Tongke has a total investment of RMB 75 million, of which RMB 50.25 million was cumulatively contributed by the Company, representing 67% of the total investment; and RMB24.75 million was cumulatively contributed by Beijing NiuBaoTun Medicine Processing Factory ("NiuBaoTun Medicine Processing Factory"), representing 33% of the total investment. In 2009, the semi-finished goods produced by Tongke effectively satisfied the production needs of the Company.

Beijing Tong Ren Tang Chinese Medicine Company Limited (北京同仁堂國藥有限公司) ("TRT Chinese Medicine"), which is located at Hong Kong, was jointly invested and established by the Company and Beijing Tong Ren Tang Company Limited (北京同仁堂股份有限公司) ("Tong Ren Tang Ltd."). It has a cumulative total investment of HK$ 178,000,000, of which HK$ 90,780,000 was contributed by the Company, representing 51%; and HK$ 87,220,000 was contributed by Tong Ren Tang Ltd., representing 49%. Currently, TRT Chinese Medicine owns the production facilities for traditional Chinese medicinal products in Tai Po Industrial Estate, which occupies a GFA of over 10,000 square metres and produces products in various forms including capsule, pill, tablet and granule. TRT Chinese Medicine successfully passed the GMP re-test in 2009, showing the recognition of the Department of Health of Hong Kong. In addition, it was once again granted the manufacturer certificate of "Hong Kong Good Manufacturing Practice Guidelines for Proprietary Chinese Medicine". Beijing Tong Ren Tang Sporoderm-broken Ganoderma Lucidum Spores Powder Capsules (北京同仁堂破壁靈芝孢子粉膠囊), the major product of TRT Chinese Medicine, was successfully launched in overseas markets and, through CEPA, in the mainland of China and became popular among general consumers. Through stepping up its efforts in technological research and development, TRT Chinese Medicine will continue to launch new products in addition to increasing the sales of existing products so as to cater for market needs. During the year, TRT Chinese Medicine launched its new proprietary health products, namely Ginseng-Antrodia Campharata Capsule (洋參樟芝膠囊) and Schisandra-Antrodia CamharataCapsule (五味樟芝膠囊). In 2009, TRT Chinese Medicine generated a total revenue of HKD56,516,308, representing an increase of 50% over the corresponding period last year. In 2010, TRT Chinese Medicine will continue to launch new products including Collagen Peptide (膠原蛋白肽).

**MANAGEMENT AND RESEARCH AND DEVELOPMENT**

The Company further reinforced its fundamental management in all aspects in 2009. In respect of purchasing raw materials, we insisted upon choosing qualified suppliers with good reputation so as to ensure the punctuality and stability of purchasing quality raw materials.

In 2009, the Company formulated and commenced a trial on assessment policies including the "Policy of Bonus Distribution Assessment for the Management" to further improve the assessment policy. The duty execution effectiveness, job performance and cooperation awareness of the departments being assessed has been enhanced accordingly. The Company also reinforced the quality control system by amending and improving the consumption standard of 550 medicinal materials. We also participated in the standard amendments to and reexamination of 35 strains in the 2010 pharmacopoeia, laying a sound foundation for the development of the Company in terms of quality control. During the year, the Company met the requirements of the GMP and GSP certification again.

In regard to research and development, our scientific research department communicated interactively with the sales department to get hold of market demands. On one hand, the institute offered support to the Company in search of new growth points by commencing the research and development of new products. On the other hand, the institute has enhanced the production technology for Fufang Luobuma Granule(複方羅布麻顆粒) and the extraction technology for Yufeng Ningxin Tablet(愈風寧心片), while launching the second phase of scientific research for the interim test of Baihe Gengnianan Granule(百合更年安顆粒), with the aim of ensuring the stable quality of our products. We emphasized on the connection between R&D and production in order to speed up the process of transforming our research results into products by leveraging on the advantage of our test platform.

**SALES NETWORK**

As a prudent-minded enterprise seeking stable growth, the Company is expanding its sales network step by step.

Currently, the Company has made overseas investments through the establishment of four joint ventures, which are located in Malaysia, Canada, Macau Special Administrative Region and Indonesia respectively, namely Peking Tong Ren Tang (M) Sdn. Bhd., Beijing Tong Ren Tang Canada Co., Ltd., Beijing Tong Ren Tang (Macau) Company Limited and Beijing Tong Ren Tang (Indonesia) Company Limited. Each company commenced its medicine distribution operations. All joint ventures have opened local retail drugstores with good operating conditions.

In 2009, joint ventures in different locations promulgated the Tong Ren Tang culture, the Chinese herbal medicine culture as well as the traditional Chinese culture in ways that complied with local customs in order to boost local business. Our Malaysia branch maintained the reputation of our Company by stepping up the promotion of new doctors and providing the core members of the staff with regular training to enhance their professional knowledge and management skills. Our Indonesia branch offered free medical treatment to local people and organized clinic-visiting tours for students to promote the Chinese herbal medicine culture, thus extending the influence of the Company throughout the country. Our Canada branch won the accreditation of many patients through the consummation of medical skills and excellent services provided by our doctors. Our Macau branch achieved satisfactory sales performance while emphasizing the services, paying attention to service details and philosophy, and enhancing the value of our brand on an ongoing basis. In 2009, the four joint ventures, namely Peking Tong Ren Tang (M) Sdn. Bhd., Beijing Tong Ren Tang Canada Co., Ltd., Beijing Tong Ren Tang (Macau) Company Limited and Beijing Tong Ren Tang (Indonesia) Company Limited achieved a revenue of RMB11,389,300, RMB8,132,300, RMB12,748,700 and RMB5,127,500 respectively. The total revenue amounted to RMB 37,397,800, representing an increase of 13.06% over last year.

Beijing Tong Ren Tang Nansanhuan Zhonglu Drugstore Co., Limited (北京同仁堂南三環中路藥店有限公司) ("Nansanhuan Zhonglu Drugstore") is a retail drugstore located at Nansanhuan Zhonglu, Fentai District, Beijing. In 2009, the pharmacy leveraged on its predominant position in the industry, upheld the model of putting forward medication with medical treatment and the combination of medical treatment and medication, as well as the business principle of top doctors, quality medicine and illustrious brand. By strengthening the supervision over the quality of medicine and services, and pharmacy service, it accomplished a strong growth in turnover. A revenue of RMB 32,080,900 was recorded for the reporting period, representing a 31.14% increase over last year.

**CHINESE MEDICINAL RAW MATERIALS PRODUCTION BASES**

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

In 2009, all production bases of the Company actively participated in the planting, collecting and processing of Chinese medicinal raw materials. The tuckahoe spawn production technology of the Hubei production base has been registered under the "Hubei Province Regional Standard", which was enacted and implemented by Hubei Administration of Quality Supervision on 1 January 2010. The Anhui production base worked closely with the Institute of Botany of the Chinese Academy of Sciences to launch a technical cooperation project of the GAP standardized plantation and industrialized development of the root bark of tree peony. In 2009, all of these Company's production bases for traditional Chinese medicinal raw materials achieved a sale revenue of RMB 39,528,600. Theses production bases played a key role in securing the supply and quality of Chinese medicinal raw materials required for the Company's products.

## FINANCIAL REVIEW

### Liquidity and Financial Resources

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

As at 31 December 2009, the Group had cash and cash equivalents amounted to RMB360,669,000 (31 December 2008: RMB258,094,000) and short-term borrowings of RMB15,000,000 (31 December 2008: RMB15,000,000). The borrowings carried an interest rate of 4.779% (31 December 2008: 6.723%) per annum.

As at 31 December 2009, the Group had total assets amounting to RMB1,888,982,000 (31 December 2008: RMB1,795,182,000). The funds comprised of non-current liabilities of RMB16,093,000 (31 December 2008: RMB13,250,000), current liabilities of RMB282,849,000 (31 December 2008: RMB 297,027,000), shareholders' equity of RMB1,455,573,000 (31 December 2008: RMB 1,360,392,000) and minority interests of RMB134,467,000 (31 December 2008: RMB124,513,000).

### Capital Structure

There has been no material change in the capital structure of the Group as at 31 December 2009 as compared with that as at 31 December 2008.

### Gearing and liquidity ratios

As at 31 December 2009, the Group's gearing ratio, the ratio between total borrowings and shareholders' equity (excluding minority interests), was 0.01 (31 December 2008: 0.01). The Group's liquidity ratio, the ratio between current assets over current liabilities, was 5.05 (31 December 2008: 4.36), reflecting that the Group had abundant financial resources.

### Charges over Group's assets

As at 31 December 2009, none of the Group's assets was pledged as security for liabilities (31 December 2008: Nil).

**Contingent liabilities**

Other than those disclosed in the Note g, the Group had no contingent liabilities as at 31 December 2009 (31 December 2008: Nil).

**Capital commitments**

At as 31 December 2009, the Group had capital commitments related to construction of production facilities which had been contracted for but not been reflected in the consolidated financial statements of the Group of approximately RMB 237,000 (31 December 2008: RMB 480,000).

**Employees and Remuneration Policies**

As at 31 December 2009, the Company had 1,751 employees (31 December 2008: 1,740 employees). Remunerations are determined by reference to market terms and the performance, qualifications and experience of individual employee. Discretionary bonuses based on individual performance will be paid to employees as recognition of and reward for their contributions. Other benefits include Company's contributions to the pension scheme, medical insurance scheme, unemployment insurance scheme, industrial accident insurance scheme, maternity insurance scheme and housing fund.

## PROSPECTS

The Company is celebrating its 10th anniversary of foundation and listing in 2010. We have accomplished improvement by leaps and bounds over the past ten years. Not only should we inherit the age-old history of Tong Ren Tang hereafter, but we should also inherit the traditional Chinese herbal medicine culture with enhancement and glorification which we shall regard as our responsibility. With determination, the Company will keep on carrying out the strategy of sustainable development, focusing on technology, changing the mode of economic growth on an ongoing basis, enhancing the competing awareness and adopting new business style so as to get a good foothold and to make scientific plans as a leading, strong and large player in the field. In 2010, the Company will focus on the following important tasks:

### 1. Observation on the Changes of the Political Environment and Minimizing the Risk of Development

The Company will pay close attention to political changes, forecast the impact of new medical reform policies on the Company, timely follow up the regional tendering of medical services under the medication list and complete in advance the collection and compilation of information on the relevant of medicine. All sales team of different branches will take the initiative to strengthen mutual communication and cooperation to re-organize and amend the procedures and improve the database of tendering. The Company will also take heed of the trends of pharmaceutical and agricultural policies, and formulate our forecast and development plan in advance in response to the ever-changing national and global economic situations, therefore maintaining the stability of our purchasing cost.

### 2. Foreseeing Market Trend in the Industry and Building up our Development Potential

When developing new products, the Company will consider the market demands, the application of new technologies, the emergence of new diseases and the forms of medicine in the future. We will develop innovative medicine with new usage and new curative effects, especially those under our independent intellectual property rights, in order to enhance our competitive edge and to pioneer in technological advancement. The Company regards environmental protection as a self-disciplinary issue. We will take actions such as activating clean production campaign, making use of technological innovations, tackling key problems and improving production technologies to fulfill the goal of saving energy, reducing emission and lowering consumption.

### 3. Guaranteeing the Quality and Safety of Our Medicine to Preserve Our Foundation for Development

With great concern for the examination requirements of agricultural, residuary and heavy metal in different countries, the Company will improve the quality management mechanism, guarantee the quality of our medicine and maintain Tong Ren Tang’s 340-year-old reputation and image through administrative measures such as strengthening the quality accountability mechanism, quality veto system, quality outputting mechanism, quality supervision, one-hold-hand accountability mechanism and quality training, as well as the amendment to the regulation of species technology, and the standards of raw materials, semi-finished goods and finished goods.

# OTHER INFORMATION

## COMPETING INTERESTS

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

Traditional Chinese medicines produce a broad range of curative effects as they can be used to treat the external symptoms of a disease and regulate other functions of the body that directly or indirectly give rise to such disease. To find the specific ways to treat a disease, it is necessary to consider a number of variables such as the state of illness, gender, age and constitution of a patient, the weather and the curative effects on the implicit problems of the patient. As such, a single type of traditional Chinese medicines usually has several curative effects, some of which may be similar to those of other products with different names or types. Given this nature of traditional Chinese medicines, there may be a competition between the products of the Company and those of Tong Ren Tang Holdings and Tong Ren Tang Ltd.

The Company, Tong Ren Tang Ltd. and Tong Ren Tang Holdings are all engaged in the manufacturing of Chinese Patent Medicines. Their businesses are classified by the forms of medicine they produce. Tong Ren Tang Ltd. mainly produces Chinese Patent Medicines in traditional forms such as pills, powder, ointment and medicinal wine. It also has some minor production lines for the production of granules and pills. On the other hand, the Company focuses on manufacturing products in forms of granules, pills, tablets and soft capsules. Tong Ren Tang Ltd.'s main products include Angong Niuhuang Pills (安宮牛黃丸), Tongren Wuji Baifeng Pills (同仁烏雞白鳳丸), Tongren Dahuoluo Pills (同仁大活絡丸) and Guogong Wine (國公酒).

To ensure that the business classification between the Company and Tong Ren Tang Holdings and Tong Ren Tang Ltd. are properly documented and established, Tong Ren Tang Holdings and Tong Ren Tang Ltd. undertake, pursuant to an undertaking dated 19 October 2000 committed by Tong Ren Tang Holdings and Tong Ren Tang Ltd. in favor of the Company ("October Undertaking"), that other than Angong Niuhuang Pills (安宮牛黃丸), Tong Ren Tang Holdings, Tong Ren Tang Ltd. and their respective subsidiaries will not produce in future any products that bear the same names or bear the same names with different forms as those pharmaceutical products produced by the Company, and that may compete directly with those pharmaceutical products of the Company. Only one of the products – Angong Niuhuang Pills (安宮牛黃丸) – are manufactured by both the Company and Tong Ren Tang Ltd.

The Directors consider that other than Angong Niuhuang Pills (安宮牛黃丸) produced by the Company and Tong Ren Tang Ltd., there is no any other direct competing business among the Company, Tong Ren Tang Ltd. and Tong Ren Tang Holdings. The Directors consider that as Angong Niuhuang Pills (安宮牛黃丸) only represents a small percentage of Company's turnover and is not one of the major forms of medicine for development by the Company, the Company will continue to manufacture and sell Angong Niuhuang Pills (安宮牛黃丸). Save as mentioned herein, the Directors confirm that none of the products of the Company is in competition with Tong Ren Tang Ltd. or Tong Ren Tang Holdings.

**Right of first refusal**

Although the Company, Tong Ren Tang Ltd. and Tong Ren Tang Holdings are all engaged in the production, manufacturing and sale of traditional Chinese medicines, the principal products of each of these companies are different. The Company focuses on new forms of products which are more competitive against western pharmaceutical products, while Tong Ren Tang Ltd. and Tong Ren Tang Holdings continue to focus on the development of existing forms of traditional Chinese medicines.

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

To procure that the Company conducts an independent review of the research and development of new products and the development capability, the Company confirms that among the independent non-executive Directors, a reputable person in the traditional Chinese medicinal sector will determine whether to exercise the right of first refusal granted by Tong Ren Tang Holdings or Tong Ren Tang Ltd. to develop any proposed new products which is one of the major forms (namely granules, pills, tablets and soft capsules) of the Company. In the event that the Company refuses the right of first refusal offered by Tong Ren Tang Ltd. and/or Tong Ren Tang Holdings, the terms of the option to be offered to an independent third party should not be more favourable than those originally offered to the Company, failing which the Company should be given an opportunity to re-consider the option under the new terms. The above undertaking would no longer be valid in the event that the direct or indirect aggregate shareholdings of Tong Ren Tang Holdings or Tong Ren Tang Ltd. in the Company falls below 30%.

## CORPORATE GOVERNANCE REPORT

The Board of Directors believed that the good and steady frame of corporate governance was extremely important for development of the Company. For the year ended 31 December 2009, 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.

## AUDIT COMMITTEE

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

During the year of 2009, the audit committee has conducted two meetings in the year. The first meeting was held on 27 February 2009 to review and discuss the operating results, financial position, major accounting policies with respect to the audited financial statements of the Company for the year ended 31 December 2008 and internal audit matters and to listen to the advice provided by auditors. The Committee concluded the meeting with agreement to the contents of the annual report. The second meeting was held on 28 July 2009 to review and discuss the operating results, financial position and major accounting policies with respect to the unaudited interim report of the Company for the six months ended 30 June 2009 and internal audit matters. The Committee concluded the meeting with agreement to the contents of the interim report.

The audit committee held a meeting on 15 March 2010 to review and discuss the operating results, financial position, major accounting policies and internal audit matters of the Company for the year ended 31 December 2009 and to listen to the advice provided by auditors. The Committee concurred in the contents of the annual report.

## PURCHASE, SALE OR REDEMPTION OF SECURITIES

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

**PUBLICATION OF ANNUAL REPORT ON GEM WEBSITE AND COMPANY'S WEBSITE**

The 2009 annual report of the Group, which will contain all the information required under Chapter 18 of the GEM Listing Rules, will be published on the GEM website and the Company's website on or before 31 March 2010.

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

Beijing, the PRC,
18 March 2010

*As at the date of this announcement, the Board comprises (i) Mr. Mei Qun, Ms. Ding Yong Ling, Mr. Yin Shun Hai, Mr. Wang Yu Wei, Ms. Fang Jia Zhi and Mr. Zhang Huan Ping as executive directors; (ii) Ms. Tam Wai Chu, Maria, Mr. Ting Leung Huel, Stephen and Mr. Jin Shi Yuan as independent non-executive directors.*

*This announcement will remain on the GEM website at http://www.hkgem.com on the "Latest Company Announcements" page for at least 7 days from the date of its posting and be posted at our Company website http://www.tongrentangkj.com.*