



Tong Ren Tang Technologies Co. Ltd.

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

First Quarterly Report 2001

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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.

HIGHLIGHTS

- Turnover increased by approximately 33.06% for the three months ended 31 March 2001 compared with the corresponding period in 2000.
- Net profit increased by approximately 54.92% for the three months ended 31 March 2001 compared with the corresponding period in 2000.
- Earnings per share for the three months ended 31 March 2001 are RMB0.15.

QUARTERLY RESULTS (UNAUDITED)

The board of directors (the “Board”) of Tong Ren Tang Technologies Co. Ltd. (“the Company”) is pleased to announce the unaudited results of the Company for the three months ended 31 March 2001 together with the unaudited comparative figures for the corresponding period in 2000, as follows:

		For the three months ended 31 March	
		2001	2000
	Notes	RMB'000	RMB'000
Turnover	2	122,962	92,414
Cost of sales		(63,244)	(46,697)
Gross profit		59,718	45,717
Selling and distribution costs		(14,867)	(7,646)
Administrative expenses		(19,608)	(10,417)
Profit from operations		25,423	27,654
Finance income (cost)		2,807	(631)
Profit before taxation		28,050	27,023
Taxation	3	–	(8,917)
Net profit		28,050	18,106
Earnings per share – Basic	4	RMB0.15	RMB0.16

Notes:

1. Restructuring and basis of presentation

The Company was incorporated as a joint stock company with limited liability in the People’s Republic of China (the “PRC”) on 22 March 2000 and its placing of H shares were listed on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited (“GEM”) on 31 October 2000. In preparing for the listing of the Company’s H shares on the GEM, Beijing Tongrentang Company Limited (“Tongrentang Ltd.”) has underwent a restructuring (“the Restructuring”), details of which are set out in the prospectus of the Company dated 24 October 2000 (the “Prospectus”) issued in respect of the Company’s H Shares listed on the GEM.

The above results were prepared on the basis that the existing Company structure had been in place throughout the period from 1 January 2000 to 31 December 2000. The figures for the corresponding period in prior year are solely for comparative purposes. The principal accounting policies adopted in preparing the audited results conform with the International Accounting Standards.

2. Turnover

The Company's turnover is derived principally from the sales of Chinese Patent Medicine.

An analysis of the Company's turnover by geographical regions is as follows:

	For the three months ended 31 March	
	2001	2000
	<i>RMB'000</i>	<i>RMB'000</i>
Sales of Medicine		
Domestic	117,017	90,295
Overseas	2,291	2,119
Agency fee income – domestic	3,654	–
	<u>122,962</u>	<u>92,414</u>

3. Taxation

Pursuant to the relevant income tax laws of the PRC, the Company is subject to Enterprise Income Tax ("EIT") at a rate of 15%. Moreover, according to the Notice for Explanation of the Execution of Enterprise Income Tax Policy (1995) No. 573 issued by Beijing Local Tax Bureau, enterprises that are qualified as high-technology enterprises are entitled to further tax holiday on EIT. The Company obtained the approval as a high-technology enterprise on 29 August 2000 and would be exempted from EIT for three years starting from the first year of the profitable operations and a 50% reduction in the next three years. However, an amount equal to the exempted EIT has to be appropriated to reserves as tax reserve and is not distributable to shareholders of the Company. The year 2000 was the first profitable year of the Company for EIT purposes. According to the approval from Beijing High-Tech Industrial Development District Tax Bureau, the Company is entitled to full exemption from EIT for the year of 2001. For the period ended 31 March 2001, the EIT exempted amounting to approximately RMB4,207,000 was transferred to tax reserve.

The reconciliation of the statutory tax rate to the effective tax rate is as follows:

	For the three months ended 31 March			
	2001		2000	
	<i>RMB'000</i>		<i>RMB'000</i>	
Accounting profit	<u>28,050</u>	<u>100%</u>	<u>27,023</u>	<u>100%</u>
Tax as statutory tax rate of the Company	4,207	15%	8,917	33%
Effect on tax benefit of being a high-technology enterprise	<u>(4,207)</u>	<u>(15%)</u>	<u>–</u>	<u>–</u>
Tax expense	<u>–</u>	<u>0%</u>	<u>8,917</u>	<u>33%</u>

During the corresponding period in 2000, the Company was in the early stage of incorporation and has not obtained the profit tax registration certificate, the EIT of the Company for the corresponding period in 2000 was paid through the Company's parent company, Tongrentang Ltd, subject to a tax rate of 33%.

There was no significant deferred taxation for the periods, as there were no significant temporary differences.

4. Earnings per share

The calculation of the basic earnings per share for the period ended 31 March 2001 was based on the net profit of approximately RMB28,050,000 (2000: RMB18,106,000) divided by the weighted average number of shares issued during the period of 182,800,000 shares (2000: 110,000,000 shares, being the number of shares issued immediately after the Restructuring).

Diluted earnings per share is not presented for the periods ended 31 March 2001 and 2000 as there were no potential dilutive potential shares in existence during the relevant periods and as at the end of relevant periods.

BUSINESS REVIEW AND PROSPECTS

Consistent with market trend, the Company continues to execute the business strategy whereby production, marketing and returns of operation are achieved in equilibrium. It enhances creativity and management, strengthens internal supervisory control, puts more emphasis on performance appraisal and upgrades the Company's core competitiveness. As a result, the operation of the Company is enhanced and a better development trend is achieved. The production and marketing of the dominant products have been prospering with sales increased steadily this year. Turnover and net profit for the three months ended 31 March 2001 amounted to approximately RMB122,962,000 and RMB28,050,000, representing an increase of 33.06% and 54.92% respectively as compared with the corresponding period in 2000.

Business Review

Production

The Company has completed the unification of the management and control as well as the balance of the production capacities of the two production factories. In the first quarter of 2001, the Company continued to adjust product structure, executed the policy of "production according to sales prospect", and strictly followed the direction of "Market-oriented and innovation as main part to enhance Company's competitive capability". In

addition, it expanded the production capacity of best-selling products, elevated the product quality standards and internal quality control requirements of production. Simultaneously, the Company strengthened the internal management and reduced cost expenses to achieve scale benefits.

Good Manufacturing Practice (“GMP”) improvements on existing production lines have been undergoing smoothly. So far the Company has completed designs for civil construction, purification system of air conditioning and water system of the existing four production lines. Preliminary design schemes have been submitted to relevant government departments for comments. Construction will be commenced once the approval on the schemes is obtained.

Operation

The Company’s standards in operation and marketing are fundamentally improved through creative ideas and system innovation, establishment of clear objectives and responsibilities. The Company adopts flexible and diverse operation strategy for different products. Domestic and overseas markets are explored by increasing in inputting and strengthening teams of marketing personnel, constantly broadening and widening market development, resulted in greater market penetration.

With the good foundation of sales trend in 2000, the Company further gained a substantial increase in the first quarter of 2001. By 31 March 2001, the Company has attained sales of RMB122,962,000 within 3 months, representing an increase by 33.06% over the corresponding period in last year. The sales revenue from Liuwei Dihuang Pill, Niu Huang Jiedu Tablet and Ganmao Qingre Granule represent an increase of 44.92%, 43.79% and 23.18% respectively over the corresponding period in 2000.

Construction of Research and Development Center

Following its development strategy, the Company continues to perfect the operation of the research and development center. The research and development center is market-driven with practical function of providing strong technical support. It will increase inputs in scientific research and development, promote development quality, increase strength in scientific research and development in combination with production and marketing, and elevate new medicine development efficiency. Besides, the Company will speed up the training of specialized technical personnel, attract talents by following the guideline of “Dispatching talent for training and introduce talent from outside”, activate enthusiasm of scientific research personnel by establishing incentive mechanism in technical innovation. Besides, the Company will construct a good atmosphere for esteeming talents and attributing the importance to scientific research to a high-level high-quality scientific research team which devote themselves to scientific research and development, speed up transformation of achievements of scientific research innovation towards their industrialization to fulfil its sustainable development.

Development of New Products

The new products which the Company are developing include new anti-influenza drug, new anti-cardiovascular disease drug, new anti-menopause syndrome medicine and so on:

- A. The new anti-influenza drug has finished supplementary test and material modification in 2001, and related materials have been submitted to the review center of the relevant government department.
- B. The new anti-cardiovascular disease drug has completed the clinical tests and will continue to perform clinical summing-up.
- C. Clinical tests for the new anti-menopause syndrome drug are continued as scheduled.

Bio-pharmaceutical Technologies

Our project on bio-pharmaceutical technologies continuously follows the principle of “active involvement and progress steadily, picking the right project and proceed systematically for gradual expansion to achieve economies of scale”. Temporary business license and tax registration for Beijing Tong Ren Tang WM Dianorm Biotech Co., Limited a joint venture company formed by the Company and WM Dianorm Biotech Co. Ltd, has been obtained. Investment contribution will be made and other registration will be completed soon.

Prospects

Although the Company has made good achievements in the first quarter of 2001, the Company is facing development opportunities and challenges as the competition on the domestic pharmaceutical market intensifies and the day when China acceded to World Trade Organization comes closer. The Company will thoroughly display its own competitive advantages in technology, products and quality, advocate science and technology, and promote application of advanced technology. It also increases the strengths in scientific research and development, ensure product quality, adheres to the principle of “seek to survive, promote sales and capture users by attaching importance to quality”, form two leading directions of product development in depth and new medicine research. Moreover, the Company will gradually establish its own sales network to increase its market penetration, and maintain its powerful market competitiveness by providing diverse high-quality products with good curative effect. At the same time, the Company will establish and advocate the thoughts of medication, persistently adhere to system innovation combining with technology innovation, consolidating its own competitive advantages with a aims to developing an economies of scale.

Comparison of the business plans and actual progress

**From 1 January 2001
to 30 June 2001***

**From 1 January 2001
to 31 March 2001**

Expansion of production capability and establishment of production base

The Company will produce the relevant products at the existing production plants and at those to be established in Beijing in future.

Expected project progress**

Conducting feasibility studies and preparation work

The anticipated investment would be HK\$5 million**

Actual project progress

The Company has completed designs for civil construction, purification system of air conditioning and water system of the four production lines.

Actual investment amounted to RMB450,000, approximate to HK\$425,000.

Investment in the Research Centre, new medicine development and bio-pharmaceutical technologies

Investment in the Research Centre

Capitalizing on its extensive research and development experience, the Research Centre will increase its research capability in the future by taking advantage of the investment to recruit more high calibre research personnel and to capitalize on the research and development strength of universities in Beijing to develop new drugs. The Research Centre will also be responsible for applying for approval from the relevant PRC authorities for the Company’s new pharmaceutical products.

Expected project progress**

Preparation, design, commencement of construction and purchase of equipment and facilities for Research Centre

The anticipated investment would be HK\$4 million.**

Actual project progress

Construction for the Research Centre and purchase of equipment and facilities are in progress.

Actual investment amounted to RMB610,000, approximate to HK\$580,000.

Development of new medicine

The Company is currently conducting research and development of the following products:

A. Research on new anti-influenza drug

The Company is conducting research on the production of new anti-influenza medicine in the form of effervescent tablet to tailor for the intake habit of the western people. This medicine is developed in accordance with international technical and quality standards, and therefore is expected to become a competitive product in the international market.

Expected project progress**

Clinical trial continued

Actual project progress

Testing has been completed and supplementary information with regard to testing has been amended and forwarded to assessment centre of relevant department.

B. Development of the new anti-cardiovascular system disease drug

The new anti-cardiovascular medicine is based on clinically proved prescriptions and has been developed into three types of pure Chinese medicine to cure and prevent the cardiovascular diseases.

Expected project progress**

Clinical trial continued

Actual project progress

Clinical trial testing has been done and conclusion summing up is in progress

C. Development of new anti-menopause syndrome drug

The anti-menopause syndrome medicine is based on clinically proved prescriptions and is developed into three main types of pure Chinese medicine to nourish liver and kidney, smoothing kidney and relieving “Yang” and releasing pressure. Its function is to regulate the central nervous system by a tranquillizing effect, as well as to raise oestrogen levels.

Expected project progress**

Clinical trial continued

HK\$3 million would be invested in the three medicines by June 2001.**

Actual project progress

To continue the clinical trial as scheduled.

Actual investment amounted to RMB605,000, approximate to HK\$570,000 for the period.

Developing bio-pharmaceutical technologies

The Company entered into an agreement with WM Dianorm Co., Limited (“Dianorm”) in 10 May 2000 for the establishment of a joint venture, Beijing Tong Ren Tang WM Dianorm Biotech Co., Limited. By utilizing Dianorm’s advanced technologies in liposome and other bio-pharmaceutical areas, the Company will be able to promote the technological level of Chinese medicine and will be able to develop other new bio-pharmaceutical products.

Expected project progress**

Joint venture company has been set up

Actual project progress

Temporary Business Licence has been obtained and tax registration has been completed. Capital contribution will be made in the second quarter of 2001.

Expected project progress**

The anticipated investment would be HK\$14 million.**

Actual project progress

No investment has been made.

Establishing sales network and e-commerce

Establishing sales network

The Company plans to establish its own domestic sales network after listing on the GEM, and strengthens its existing overseas sales and marketing network so as to further increase the penetration of products in the domestic market and the overseas market respectively.

Expected project progress**

Select site, discuss with the corresponding department for preliminary assessment.

Actual project progress

Preparation in progress.

The anticipated investment would be HK\$5 million.**

No investment has been made.

E-commerce

The Company plans to establish websites on Chinese medicine so as to provide online services on medical consultancy and the sale of medicine.

Expected project progress**

Develop systems, purchase equipment, facilities and software.

Actual project progress

The PRC government has issued documents stipulated that approvals are required for internet related medical and healthcare activities and only limited scope of business will be permitted. The Company is studying such policy.

The anticipated investment would be HK\$3 million.**

No investment has been made.

Production base for Chinese medicinal raw materials

The Company plans to establish a production base for Chinese medicinal raw materials at a suitable location in China so as to ensure the quality and supply of raw materials.

Expected project progress**

Select site

The anticipated investment would be HK\$2.9 million.**

Actual project progress

Site inspection around the vicinity of Sichun, Henan, Zhe Jiang province. Agricultural base has been selected but pending for the result of the feasibility study.

Actual investment amounted to RMB100,000, approximate to HK\$95,000.

Investment in Tong Ren Tang Hutchison (H.K.) Pharmaceutical Development Company Limited (“Tong Ren Tang Hutchison Pharmaceutical Development”)

The Company entered into an agreement on 7 October 2000 with Hutchison Chinese Medicine, an indirect wholly owned subsidiary of Hutchison Whampoa Limited, and Beijing Holdings Limited, the majority shareholder of Beijing Enterprises Holdings Limited, to form a joint venture company, proposed to be named Tong Ren Tang Hutchison Pharmaceutical Development in Hong Kong. This agreement will take effect upon all requisite PRC governmental or other approvals for the consummation of the transaction contemplated thereby being obtained. The joint venture will be held as to 40% by the Company. The authorized share capital of the joint venture company is HK\$15 million. The total investment proposed to be made by the shareholders in the joint venture company is HK\$200 million. The Company will contribute HK\$40 million to the joint venture within one year after its establishment upon all requisite regulatory and other approvals being obtained, with the remaining HK\$40 million to be invested by the Company within 3-4 years after the incorporation of the joint venture company.

Expected project progress**

The joint venture company has been established.

The anticipated investment would be HK\$14 million.**

Actual project progress

Since the relevant authority of the PRC government has not yet issued any approval, no investment has been made. Currently the main task is obtaining the approval.

No investment has been made up till now.

* Since the progress of the projects was set out on a half-year basis as stated in the Prospectus, the expected project progress of each business objective as disclosed in this quarterly report was reflected the plan for the first half year of 2001.

** Since the progress of the projects was set out on a half-year basis as stated in the Prospectus, the expected project progress and expected amount of investments was reflected the plan for the first half year of 2001 while the actual investment of each project as disclosed in this quarterly report was reflected the actual progress of the first quarter of 2001.

INTERIM DIVIDENDS

The Board does not recommend the payment of an interim dividend for the period ended 31 March 2001 (2000: Nil).

MOVEMENT OF RESERVES

There was no movement of reserves for the relevant periods in 2001 and 2000 except those disclosed as below:

	For the three months ended 31 March			
	Tax reserve		Retained profits	
	2001	2000	2001	2000
	RMB'000	RMB'000	RMB'000	RMB'000
Balances as of 1 January	4,427	–	41,795	38,258
Final dividend declared	–	–	(38,388)	(38,258)
	4,427	–	3,407	–
Net profit for the three months ended 31 March	–	–	28,050	18,106
Appropriation to reserve (See Note 3 above)	4,207	–	(4,207)	–
Balances as of 31 March	8,634	–	27,250	18,106

DIRECTORS' AND SUPERVISORS' INTEREST IN SHARES

As of 31 March 2001, the interests of the Company's Directors and Supervisors and their respective associates in the Company and its associated corporations (within the meaning of the Securities (Disclosures of Interests) Ordinance (the "SDI Ordinance")) as recorded in the register required to be kept by the Company under Section 29 of the SDI Ordinance, or which required, pursuant to Rules 5.40 to 5.59 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "GEM Listing Rules"), to be notified to the Company and the Stock Exchange as follows:

Name	Personal Interest Number of share (Note)	Family Interest Number of share	Corporate Interest Number of share	Other Interest Number of share
Mr. Yin Shun Hai	500,000	–	–	–
Mr. Wang Zhao Qi	500,000	–	–	–
Mr. Mei Qun	500,000	–	–	–
Mr. Tian Rui Hua	100,000	–	–	–
Mr. Zhao Bing Xian	5,000,000	–	–	–
Mr. Tian Da Fang	500,000	–	–	–

Note: All presented domestic shares.

Save as disclosed above, as of 31 March 2001, none of the Directors or the Supervisors or their associates had any interests in any securities in the Company and none of the Directors or the Supervisors, nor their spouses or children under 18 years of age were granted or had exercised any rights to subscribe for the securities of the Company.

SUBSTANTIAL SHAREHOLDERS

As of 31 March 2001, according to the register required to be kept under Section 16(1) of the SDI Ordinance, the only shareholder with an interest of 10% or more of the issued shared capital of the Company was as follows:

Name	Number of shares	Shareholding percentage as of 31 March 2001
Tongrentang Ltd. (Note 2)	100,00,000 (Note 1)	54.705%

- Notes:
1. All represented domestic shares.
 2. As of 31 March 2001, Tongrentang Ltd. is owned as to 69.28% by China Beijing Tong Ren Tang Holdings Corp.

Save as disclosed above, the Company had no notice of any shareholder with an interest of 10% or more of the issued share capital of the Company as of 31 March 2001.

SPONSOR'S INTERESTS

According to the notification from our sponsor, BOCI Asia Limited, the following associated company of BOCI Asia Limited had interests in the Company's shares as of 31 March 2001:

Name	No. of H shares
BOC Securities (S) Pte Ltd.	20,000

Save as disclosed above, as of 31 March 2001, BOCI Asia Limited, its directors, employees or associates (as referred to in Note 3 to rules 6.35 of the GEM Listing Rules) did not have any interests in the shares of the Company or any rights to subscribe for or to nominate persons to subscribe for the shares of the Company.

By a sponsorship agreement entered between the Company and BOCI Asia Limited pursuant to which BOCI Asia Limited has been appointed as sponsor of the Company for the remainder of the year ended 31 December 2000 and for the period of two years commencing from 1 January 2001 and the Company shall pay an agreed fee to BOCI Asia Limited for its provision of services.

AUDIT COMMITTEE

Pursuant to the Rules 5.23 of the GEM Listing Rules, the Company has set up an audit committee according to "Guideline to set up an audit committee" compiled by the Hong Kong Society of Accountants. In compliance with the Rules of 5.24 and 5.25 of the GEM Listing Rules, the authority and responsibility of the audit committee has been properly written out. The primary duties of the Committee are to review and monitor the Company's financial reporting process and internal control system. The committee comprises Mr. Ting Leung Huel, Stephen and Ms. Tam Wai Chu, Maria, independent non-executive directors of the Company.

A meeting was conducted by the audit committee on 28 February 2001 for discussion of the operating results, statements of affairs and accounting policies with respect to the audited report of the Company for the year ended 31 December 2000.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

As of 31 March 2001, the Company has not purchased, sold or redeemed any of the Company's listed shares.

By the Order of the Board
Yin Shun Hai
Chairman

Beijing, the PRC
27 April 2001

This quarterly report will remain on the GEM website on the "Latest Company Announcements" page for 7 days from the day of posting.