



Tong Ren Tang Technologies Co. Ltd.

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

Half-Year 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 44.07% for the six months ended 30 June 2001 compared with the corresponding period in 2000.
- Net profit increased by approximately 69.39% for the six months ended 30 June 2001 compared with the corresponding period in 2000.
- Earnings per share for the six months ended 30 June 2001 are RMB0.248.

HALF-YEAR 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 six months and three months ended 30 June 2001 together with the unaudited comparative figures for the corresponding periods in 2000, as follows:

	<i>Notes</i>	For the six months ended 30th June		For the three months ended 30th June	
		2001 <i>RMB'000</i>	2000 <i>RMB'000</i>	2001 <i>RMB'000</i>	2000 <i>RMB'000</i>
Turnover	2	252,090	174,974	129,128	82,560
Cost of sales		(126,394)	(94,713)	(63,150)	(48,016)
Gross profit		125,696	80,261	65,978	34,544
Selling and distribution costs		(34,006)	(14,143)	(19,139)	(6,497)
Administrative expenses		(50,534)	(24,969)	(30,926)	(14,552)
Profit from operations		41,156	41,149	15,913	13,495
Finance income (cost)		4,241	(1,149)	1,434	(518)
Profit before taxation		45,397	40,000	17,347	12,977
Taxation	3	–	(13,200)	–	(4,283)
Net profit		45,397	26,800	17,347	8,694
Earnings per share-Basic	4	RMB0.248	RMB0.243	RMB0.095	RMB0.079

Notes:

1. 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.”) 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 periods in prior year are solely for comparative purposes. The principal accounting policies adopted in preparing the unaudited results conform with 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 six months ended 30th June		For the three months ended 30th June	
	2001 <i>RMB'000</i>	2000 <i>RMB'000</i>	2001 <i>RMB'000</i>	2000 <i>RMB'000</i>
Sales of Medicine				
Domestic	235,174	170,967	118,157	80,672
Overseas	11,691	3,926	9,400	1,807
Agency fee income-domestic	5,225	81	1,571	81
	<u>252,090</u>	<u>174,974</u>	<u>129,128</u>	<u>82,560</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 approval as a high-technology enterprise on 29 August 2000 and therefore will be exempted from EIT for three years starting from the first profitable year and a 50% reduction in the following three years. However, an amount equal to the exempted EIT has to be appropriated to reserves as tax reserve and is not distributable by the Company. The year 2000 was the first profitable year of the Company for EIT purposes. According to the approval from Beijing High-Technology Industrial Development District Tax Bureau, the Company is entitled to a full exemption from EIT for the period from June to December 2000 and for the year of 2001. For the period ended 30 June 2001, the EIT exempted amounting to approximately RMB9,362,000 has been transferred to the tax reserve.

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

	For the six months ended 30th June		For the three months ended 30th June	
	2001 RMB'000	2000 RMB'000	2001 RMB'000	2000 RMB'000
Accounting profit	<u>45,397</u>	<u>40,000</u>	<u>17,347</u>	<u>12,977</u>
The statutory tax rate	15%	33%	15%	33%
Tax at the statutory rate	6,810	13,200	2,603	4,283
Adjustment on EIT	2,552	–	2,552	–
Effect on tax benefit of being a high-technology enterprise	<u>(9,362)</u>	<u>–</u>	<u>(5,155)</u>	<u>–</u>
Tax expenses	<u>–</u>	<u>13,200</u>	<u>–</u>	<u>4,283</u>

During January to May of 2000, the Company was in the early stage of incorporation and has not obtained the tax registration certificate, the EIT of the Company during that period in 2000 was paid through the Company's parent company, Tongrentang Ltd., subject to a tax rate of 33%. The Company obtained the tax registration certificate in June 2000, the applicable EIT rate for June 2000 was 33%. The tax paid for June 2000 has been refunded.

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 six months and three months ended 30 June 2001 was based on the net profit of approximately RMB45,397,000 and RMB17,347,000 respectively (2000: RMB26,800,000 and RMB8,694,000, respectively) 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 six months and three months ended 30 June 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

The Company continues to follow its yearly plan to be consistent with market trend and execute its business strategy whereby production, marketing and returns of operation are achieved in equilibrium. The Company is enhancing creativity and management, strengthening internal supervisory control, placing more emphasis on performance appraisal with a view to improving the Company's core competitiveness. As a result, the operations of the Company have been enhanced and a better development trend is achieved. Production and marketing of the Company's major products have progressed well, resulting in a steady increase in sales. Turnover and net profit for the six months ended 30 June 2001 amounted to RMB252,090,000 and RMB45,397,000 respectively, representing an increase of 44.07% and 69.39% respectively as compared with the corresponding period in 2000.

During the first half of 2001, the Company purchased a piece of land of approximately 15,547 sq.m. in Beijing Economic and Technology Development Zone at a cost of RMB 9,130,000. The Company intends to use the land for the establishment of production base.

Business Review

Production

The Company has completed the process of unifying the management and control as well as the balancing of the production capacities of its two production factories. In the first half year of 2001, the Company continued to adjust its product structure, executed the policy of “production according to sales prospect”, and strictly followed the direction of “market-orientation and innovation as the main part to enhance the Company’s competitive capability”. In addition, the Company has strengthened its internal management, guaranteed the quality of products, reduced production cost and expanded the production capacity of the Company’s best-selling products. Simultaneously, the Company detailed the production management and adjusted the production layout to adapt to the multilateral needs of market and to achieve economies of scale.

Good Manufacturing Practice (“GMP”) improvements are now in progress. So far the Company has confirmed the improvement plans of four existing production lines and part of the improvement work is already taking place. Simultaneously, relevant documentation has already been combined in order and revised. Testing has already commenced and will continue to be further improved. The Company will utilize this opportunity to improve the management level and staff quality of the Company.

Operation

The Company’s standards in operation and marketing have been fundamentally improved through adoption of creative ideas and system innovation, establishment of clear objectives and a clear definition of responsibilities. The Company adopts a flexible and diverse strategy for different products and is exploring domestic and overseas markets by emphasizing the sales of key product categories. As a result, the Company obtained a larger scale of sales and a greater market share.

There has been a substantial increase in sales in the first half year of 2001 as compared with the corresponding period of the previous year. During the six months ended 30 June 2001, the Company has attained sales of RMB252,090,000, representing an increase of 44.07% over the corresponding period in previous year. The sales revenue from Liuwei Dihuang Pill, Niu Huang Jiedu Tablet and Ganmao Qingre Granule during the first half of 2001 represented an increase of 92.88%, 81.43% and 32.24% respectively over the corresponding period in previous year.

Construction of Research and Development Centre

Pursuant to its development strategy, the Company is continuing to improve the operation of its research and development centre. The research and development centre is market-driven with a practical function of providing strong technical support and follows the principle of “actively facing the development and the actual production and operation of the Company”, and has raised the level of efficiency in new medicine development. In addition, the Company will introduce research and development facilities and personnel, speed up the completion of development of new products and actively commence the secondary stage of research and development in order to reserve new products for the future development of the Company.

Development of New Products

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

- A. Supplementary testing and material modification on the new anti-influenza drug will be finished in 2001. Related materials have been submitted to the relevant government departments for approval.
- B. The new anti-cardiovascular disease drug will continue to undergo clinical summing-up and the supplementary technical work is in progress.
- C. Clinical tests for the new anti-menopause syndrome drug are continuing as scheduled.

Bio-pharmaceutical Technologies

The Company's project on bio-pharmaceutical technologies continues to follow the principle of "active involvement and steady progress, picking the right project and proceeding systematically for gradual expansion to achieve economies of scale". Beijing Tong Ren Tang WM Dianorm Biotech Co., Limited, a joint venture company formed by the Company and WM Dianorm Biotech Co., Ltd., has already completed the first stage of investment contribution and all registration procedures. Market research and product selection work are now actively in progress.

Prospects

The sales of the Company during the first half of 2001 increased substantially as compared with the corresponding period in the previous year. The Company is facing development opportunities and challenges as the day when China acceded to World Trade Organization comes closer. The Company will thoroughly utilize its own competitive advantages in technology, products and quality, advocate science and technology, and promote the application of advanced technology. The Company will also increase the strengths in scientific research and development, ensure product quality, adhere to the principle of "seek to survive, promote sales and capture users by attaching importance to quality", and form two leading directions of product development in new medicine research. Moreover, the Company will gradually establish its own sales network to increase its market penetration, while maintaining its powerful market competitiveness by providing diverse high-quality products with good curative effects. At the same time, the Company will establish and emphasize the theory of medicine, persistently adhere to system innovation in combination with technology innovation, consolidate its own competitive advantages with the aim of developing economies of scale. The Company will utilize the land with an area of approximately 15,547 sq.m. situated in Beijing Economic and Technology Development Zone to construct a high quality production base and the relevant design plan will be made shortly.

Comparison of the business plans and actual progress

Expansion of production capability and establishment of production base

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

Expected project progress up to the 1st half of 2001 as disclosed in the Prospectus

Conducting feasibility studies and preparation work.

The anticipated investment would be HK\$5 million.

Actual project progress up to the 1st half of 2001

A piece of land situated in Beijing Economic and Technology Development Zone with area of approximately 15,547 sq.m. has been purchased for the construction of production plant.

GMP improvements are now in progress. So far the Company has confirmed the improvement plans of four existing production lines and part of the improvement work is already taking place.

Actual investment amounted to RMB12,630,000, equivalent to approximately HK\$11,900,000. The extra money spent mainly represents the cost of the above-mentioned land which was scheduled to be acquired during the second half of 2001.

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 caliber 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 up to the 1st half of 2001 as disclosed in the Prospectus

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 up to the 1st half of 2001

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

Actual investment amounted to RMB3,150,000, equivalent to approximately HK\$2,970,000. The actual amount spent is less than that stated in the Prospectus due to the delay in shipment of part of the equipment and facilities ordered. The relevant investment will be made in the third quarter of 2001 when the shipment arrives.

Development of new medicine

The Company is currently conducting research and development of the following new 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 markets.

Expected project progress up to the 1st half of 2001 as disclosed in the Prospectus

Clinical trial continued.

Actual project progress up to the 1st half of 2001

Information with regard to testing has been forwarded to assessment center of relevant government department for approval.

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 up to the 1st half of 2001 as disclosed in the Prospectus

Clinical trial continued.

Actual project progress up to the 1st half of 2001

Continuing to sum up the clinical trial testing and relevant techniques.

C. *Development of new anti-menopause syndrome drug*

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

Expected project progress up to the 1st half of 2001 as disclosed in the Prospectus

Clinical trial continued.

Actual project progress up to the 1st half of 2001

Continuing the clinical trial as scheduled.

HK\$3 million would be invested in the three medicines.

Actual investment amounted to RMB1.85 million, equivalent to approximately HK\$1.75 million. The actual investment is less than that stated in the Prospectus due to a postpone in the investment on the new anti-cardiovascular system disease drug because the relevant clinical test is not yet completed.

Developing bio-pharmaceutical technologies

The Company entered into an agreement with WM Dianorm Biotech Co., Limited (Dianorm”) on 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 up to the 1st half of 2001 as disclosed in the Prospectus

Joint venture company set up and new technology introduced.

The anticipated investment would be HK\$14 million.

Actual project progress up to the 1st half of 2001

The first stage of capital contribution and all registration procedures have been completed. Market research and products selection work are actively in progress.

Actual investment amounted to US\$900,000, equivalent to approximately HK\$7 million. The actual investment is less than that stated in the Prospectus due to the arrangement of investment by instalments.

Establishing sales network and venturing into e-commerce business

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 up to the 1st half of 2001 as disclosed in the Prospectus

Select site, liaise with the relevant local government department for preliminary approval.

The anticipated investment would be HK\$5 million.

Actual project progress up to the 1st half of 2001

A preliminary commercial site has been chosen to establish the sales network, preparation work is now in progress.

No investment has been made because preliminary approval from relevant local government department has not been granted.

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 up to the 1st half of 2001 as disclosed in the Prospectus

Systems development, purchase equipment, facilities and software.

The anticipated investment would be HK\$3 million.

Actual project progress up to the 1st half of 2001

Since the internet industry is now affected by various factors and not in a profitable stage, the Company has postponed the development of this project.

No investment has been made.

Establishing 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 up to the 1st half of 2001 as disclosed in the Prospectus

Select site.

The anticipated investment would be HK\$2.9 million.

Actual project progress up to the 1st half of 2001

The Company has preliminarily selected some agricultural bases and passed the feasibility studies. The Company is selecting the respective co-operative partner

Actual investment amounted to RMB100,000, equivalent to approximately HK\$95,000. The actual investment is less than that stated in the Prospectus due to the postpone in investment on the production base to the third quarter of 2001.

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 company 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 up to the 1st half of 2001 as disclosed in the Prospectus

The joint venture company has been established.

The anticipated investment would be HK\$14 million.

Actual project progress up to the 1st half of 2001

Approval of the relevant authority of the PRC government has been obtained. The joint venture company has been registered in Hong Kong and capital contribution will be made shortly.

No investment has been made up till now. As mentioned above, the approval from relevant PRC government department has just been obtained, and capital contribution will be made shortly.

INTERIM DIVIDENDS

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 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 six months ended 30 June			
	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)
	<u>4,427</u>	<u>—</u>	<u>3,407</u>	<u>—</u>
Net profit for the three months ended 31 March	—	—	28,050	18,106
Appropriation to reserve	<u>4,207</u>	<u>—</u>	<u>(4,207)</u>	<u>—</u>
Balances as of 31 March	8,634	—	27,250	18,106
Net profit for the three months ended 30 June	—	—	17,347	8,694
Appropriation to reserve (See Note 3 above)	<u>5,155</u>	<u>—</u>	<u>(5,155)</u>	<u>—</u>
Balances as of 30 June	<u>13,789</u>	<u>—</u>	<u>39,442</u>	<u>26,800</u>

DIRECTORS' AND SUPERVISORS' INTEREST IN SHARES

As of 30 June 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 (Disclosure 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	Family Interest	Corporate Interest	Other Interest
	Number of share (Note)	Number of share	Number of share	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 represented domestic shares.

Saved as disclosed above, as of 30 June 2001, none of the Directors or the Supervisors or their associates had any interests in any securities in the Company. 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 30 June 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 share capital of the Company was as follows:

Name	Number of shares	Shareholding percentage as of 30 June 2001
Tongrentang Ltd. (<i>Note 2</i>)	100,000,000 (<i>Note 1</i>)	54.705%

Notes: 1. All represented domestic shares
2. As of 30 June 2001, Tongrentang Ltd. is owned as to 69.28% by China Beijing Tong Ren Tang Holdings Corp.

Saved as disclosed above, the Company is not aware of any person with an interest of 10% or more of the issued capital of the Company as at 30 June 2001.

SPONSOR'S INTERESTS

According to the notification from our sponsor, BOCI Asia Limited, as of 30 June 2001, BOCI Asia Limited, its directors, employees or associates (as referred to Note 3 of 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.

Two meetings have been conducted by the audit committee in 2001 up to the date of this report. The first meeting was held 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. The second meeting was held on 6 August 2001 for discussion of the operating results, statements of affairs and accounting policies with respect to the unaudited half-year report of the Company for the six months ended 30 June 2001.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

As of 30 June 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
10 August 2001

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