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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)

ONGOING CONNECTED TRANSACTIONS

Financial Adviser to the Company



SUMMARY

Prior to the listing of the shares of the Company on GEM on 31 October 2000, the Company had entered into various connected transactions which continue after the listing of the Company. These transactions include the following:

(A) As between the Company and Tongrentang Holdings, a connected party:

- (i) a contract for storage and custody;
- (ii) a raw material supply agreement; and
- (iii) permission to use tradenames and certain trademarks.

(B) As between the Company and Tongrentang Ltd., a connected party, an overseas distribution agency agreement.

(C) As between the Company, Tongrentang Holdings and Tongrentang Ltd.:

- (i) a land use right leasing agreement; and
- (ii) an agreement supplemental to the building leasing agreement.

(D) As between the Company and Tongrentang Advertising, an advertising agency agreement.

(E) As between the Company and subsidiaries and associates of Tongrentang Holdings and Tongrentang Ltd.

The Waiver granted by the Stock Exchange on 30 October 2000 from strict compliance with the connected transaction requirements under Rules 20.35 and 20.36 of the GEM Listing Rules in respect of the above transactions was subject to, inter alia, various annual caps set for the respective transactions as disclosed in the prospectus of the Company dated 24 October 2000. The Waiver will expire on 31 December 2002.

* for identification purpose only

As some of the agreements regarding the above transactions will expire in 2003, the Company has conditionally entered into respective supplemental agreements to extend the term of such agreements until 31 December 2004, subject to the approval of such supplemental agreements by the independent shareholders of the Company.

Given the entering into respective supplemental agreements, and as the Company expects that some of the caps regarding the above transactions may be exceeded in the forthcoming quarter or for the duration of their respected extended term, the Directors propose the caps/revised caps (if applicable) for such transactions for the financial years ending 31 December 2004 subject to the approval by the independent shareholders of the Company. The bases for the caps are set out below in this announcement.

The Company will issue a circular containing details of the Ongoing Connected Transactions, advice from the independent board committee and an independent financial adviser together with a notice to convene a special general meeting of the Company to approve the relevant supplemental agreements and the proposed caps for the above transactions.

ONGOING CONNECTED TRANSACTIONS

Prior to the listing of the shares of the Company on GEM on 31 October 2000, the Company had entered into various connected transactions which continue after the listing of the Company. These transactions include the following:

The Raw Material Supply Agreement

On 6 October 2000, the Company entered into the Raw Material Supply Agreement with Tongrentang Holdings, pursuant to which Tongrentang Holdings agreed to supply the Company with part of the Chinese medicinal raw materials (which include Fructus Corni, Rhizoma Dioscoreac and Poria) that are required for its production for a term of 3 years. Under the agreement, Tongrentang Holdings is obliged to ensure the quality of the raw materials by screening them before they are supplied. The price of such raw materials is to be determined by negotiation between both parties which is required to fall within the range of market price. Tongrentang Holdings shall not supply the materials to the Company at a price higher than that of the same products sold to independent third parties or the average market price, whichever is lower. The Company is entitled to give Tongrentang Holdings six months' prior notice to terminate the agreement. The term of the agreement can be extended by agreement by both parties prior to the date of the expiry. This transaction constituted a connected transaction under the GEM Listing Rules.

Pursuant to the Waiver, this connected transaction is subject to the aggregate annual value for the purchase of medicinal raw materials not exceeding RMB75,000,000.

With the Increase, the Directors (including the independent non-executive Directors) collectively or individually believe that the cap under the waiver of the Stock Exchange as set out in the preceding paragraph is likely to be exceeded in the forthcoming quarter. In addition, the Company has yet to be capable of purchasing such large bulk of raw materials directly from independent suppliers, given the competitive prices offered by independent suppliers to the Company under the present arrangement via Tongrentang Holdings. The Directors (including the independent non-executive Directors) believe that the Company would still need to rely on Tongrentang Holdings within the course of the next 3 years by reason of cost efficiency and practical necessity of the Company, notwithstanding that such reliance will be relieved gradually as result of the expected increasing supply of raw materials from the new plantation bases set up and to be set up by the subsidiaries of the Company. For information, as at 31 March 2002, the Company has set up four new plantation bases in Hangzhou of Zhejiang, Nanyang of Henan, Wuhan of

Hubei and Yutian of Hebei respectively. The Directors (including the independent non-executive Directors) further believe that this connected transaction may sustain for further years being the transitional period until the Company has the ability to purchase raw materials directly from independent suppliers or to plant the raw materials through the plantations bases of its subsidiaries.

For statistical demonstration, the Company's purchase volume of the raw materials from Tongrentang Holdings in the years 2000 and 2001 were approximately RMB63,643,000 and RMB74,968,000 respectively. The value of this transaction for the 3 months ended 31 March, 2002 was approximately RMB50,794,000.

By the Raw Material Supply Supplemental Agreement entered into between the Company and Tongrentang Holdings, the parties have mutually and conditionally agreed to extend the term of the Raw Material Supply Agreement (other terms remaining unchanged) upon expiry of its original term on 5 October 2003, subject to the approval of the Raw Material Supply Supplemental Agreement by the Independent Shareholders, until 31 December 2004. The Directors expect that purchase of raw materials from the Company for year 2002 would be approximately RMB 120,000,000.

In this regard, the Company seeks the approval of the Independent Shareholders to revise the cap under the Waiver in respect of such connected transaction from not exceeding RMB75,000,000 to not exceeding RMB150,000,000 (representing approximately 32.9% of the net tangible assets of the Company as at 31 December 2001 and approximately 30.2% of the total sales of the Company in year 2001) for a 3-year period ending on 31 December 2004 on such conditions as set out under the paragraph headed "New Conditions" below. It is noted that the revised annual consideration is derived by the board of directors on the basis of the Increase and the counter-factor regarding the expected increasing supply of raw materials from the new plantation bases set up and to be set up by the subsidiaries of the Company as mentioned above.

Contract for storage and custody

The Company entered into the Contract for Storage and Custody with Tongrentang Holdings on 6 October 2000 whereby Tongrentang Holdings agreed to provide the storage and custody services to the Company for a term of 3 years. For the initial 2 years from the effective date of the contract, the storage fee was fixed at RMB252 per sq. m. per year. Adjustment to the storage fee is permitted after the initial 2-year period provided that an increase or decrease shall not exceed 10% of that of the previous year. The Company is entitled to give Tongrentang Holdings 6 months' prior notice to terminate the contract. This transaction constituted a connected transaction under the GEM Listing Rules.

Pursuant to the Waiver, this connected transaction is subject to the aggregate annual value of such transaction not exceeding RMB 3,500,000.

Owing to the Increase as explained above and the fact that the raw materials produced and supplied by the plantation bases set up by the subsidiaries of the Company, which are stored and kept by the Company for later production of its pharmaceutical products, are expected to increase in 2002, the Directors (including the independent non-executive Directors) believe that the current space for storage and custody provided by Tongrentang Holdings for both raw materials and finished products will not be sufficient in the forthcoming quarter. In this regard, it is necessary for the Company to seek more storage and custody space and more extensive storage and custody services from Tongrentang Holdings for such raw materials and finished products and as a result of which the value of the storage and custody services provided by Tongrentang Holdings will exceed the cap under the Waiver as set out in the preceding paragraph. The Directors note that in order to maintain the integrity and functional character of the Chinese medicinal raw materials and finished products, it is necessary to process and store them at the prescribed temperature and humidity. The Directors note that at present, it will take substantial time to set up the Company's own

storage and custody facilities and the Company is difficult to find suitable storage locations in Beijing with the prescribed storage equipment and facilities. In this connection, the Directors believe that the Company will need to largely rely on Tongrentang Holdings for the provision of storage and custody services within the course of the next three years by reason of cost efficiency and practical necessity.

The value of this transaction for each of the years 2000 and 2001 were approximately RMB2,268,000 and RMB2,268,000 respectively. The value of this transaction for the 3 months ended 31 March, 2002 was approximately RMB567,000. The Company currently rent 9,000 sq.m. for storage of both raw materials and finished products. With the Increase and the expected increase of storage and custody demand as mentioned above, it is expected that the Company would require at least 16,000 sq. m. as storage and custody area in late 2002 and approximately 28,000 sq. m. by the end of 2004.

By the Supplemental Contract for Storage and Custody entered into between the Company and Tongrentang Holdings, the parties have mutually and conditionally agreed to extend the term of the Contract for Storage and Custody (other terms remaining unchanged) upon expiry of its original term on 5 October 2003, subject to the approval of the Raw Material Supply Supplemental Agreement by the Independent Shareholders, until 31 December 2004.

The Company seeks the approval of the Independent Shareholders to revise the cap under the Waiver in respect of such connected transaction from not exceeding RMB3,500,000 to not exceeding RMB7,000,000 (representing approximately 1.53% of the net tangible assets of the Company as at 31 December 2001) for a 3-year period ending on 31 December 2004 on such conditions as set out under the paragraph headed "New Conditions" below. The revised annual consideration is derived from the board of Directors on the basis of the Increase and the expected increase of storage and custody demand due to the increasing amount of raw materials produced from the new plantation bases set up and to be set up by the subsidiaries of the Company, which result in an estimated total storage and custody area of approximately 28,000 sq. m. The Directors estimate the storage area based on the expertise opinion as to the conditions required for storage regarding various types of raw materials and finished goods which are traditional Chinese medicine that require specific storage conditions.

Permission to use tradenames and certain trademarks

An undertaking dated 28 February 2000 as supplemented by an undertaking dated 17 October 2000 was issued by Tongrentang Holdings in favor of the Company whereby the Company is permitted to use the words "同仁堂" as its tradename free of charge, including the usage of the names "同仁堂", "北京同仁堂", "TONG REN TANG" and "創建於一六六九年", together or separately, in the prospectus and the share certificate of the Company in whatever form, style or manner representation.

The Trademark Licence Agreement was entered into between the Company and Tongrentang Holdings on 6 October 2000 whereby the Company is allowed to use the Trademarks. Under the agreement, the Company is permitted to use the Trademarks on certain goods or services under the classes for which such Trademarks are registered. The term of the licence shall commence from the date of completion of filing the agreement by Tongrentang Holdings with the relevant authorities up to 28 February 2003. The parties are entitled to adjust the annual licence fee during the renewed term commencing on or after 28 February 2003, such annual increase or decrease shall not exceed 10% of that in the previous year.

This transaction constituted a connected transaction under the GEM Listing Rules.

Pursuant to the Waiver, this connected transaction is subject to the aggregate annual value of such transaction not exceeding RMB 900,000.

The Directors (including independent non-executive Directors) consider that the continuation of the use of the Trademarks is conducive to the sales of the Company's products since they are well recognized and have been extensively used by the Company.

The aggregate annual value of these transactions for each of the years 2000 and 2001 were approximately RMB793,000 and RMB793,000 respectively. The value of these transactions for the 3 months ended 31 March 2002 was approximately RMB198,000.

By the Supplemental Trademark Licence Agreement entered into between the Company and Tongrentang Holdings, the parties have mutually and conditionally agreed to extend the term of the Trademark Licence Agreement (other terms remaining unchanged), subject to the successful renewal of the registrations regarding the Trademarks by Tongrentang Holdings on or before 28 February 2003 and the approval of the Supplemental Trademark Licence Agreement by the Independent Shareholders, to the effect that the term of the licence will be renewed upon expiry of its original term on 28 February 2003 and will expire on 31 December 2004.

The Company seeks the approval of the Independent Shareholders to revise the cap under the Waiver in respect of such connected transactions from not exceeding RMB900,000 to not exceeding RMB1,000,000 (representing approximately 0.22% of the net tangible assets of the Company as at 31 December 2001) for a 3-year period expiring on 31 December 2004 on such conditions as set out under the paragraph headed "New Conditions" below. It is noted that the revised annual consideration is derived by the board of directors on the basis of the maximum possible 10% yearly increment of the trademark licence fee for the period from 1 March 2003 to 31 December 2004 under the Trademark Licence Agreement as extended by the Supplemental Trademark Licence Agreement.

Overseas distribution agency agreement

The Company entered into the Overseas Distribution Agency Agreement dated 6 October 2000 with Tongrentang Ltd., pursuant to which Tongrentang Ltd. agreed to appoint the Company to handle, as its non-exclusive agent, the sale of its products outside the PRC. The prices of products to be sold shall comply with the price range determined by Tongrentang Ltd. However, Tongrentang Ltd. has warranted that the price determined shall not be higher than the price set for other third-party buyers or agents for the same product. The agency fee payable to Tongrentang Ltd. shall be 8.5% of the total turnover of the overseas sales of the year. The term of the agreement is three years, but the Company is entitled to give Tongrentang Ltd. six months' prior notice to terminate the agreement. This transaction constituted a connected transaction under the GEM Listing Rules.

Pursuant to the Waiver, this connected transaction is subject to the aggregate annual value of such transaction not exceeding RMB 10,000,000.

The agency fee income for distributing of Tongrentang Ltd's products by the Company for each of 2000, 2001 and the three months ended 31 March, 2002 were approximately RMB1,479,000, RMB8,344,000 and RMB2,721,000 respectively. Such increases in year 2001 and the first quarter of 2002 are attributable to the increase in volume of the sales of Tongrentang Ltd's products in overseas markets and the expansion of the Company's sales network in overseas markets.

As two new sales points have recently been established in Malaysia and Canada, and three sales points are planned to be set up in Indonesia, Singapore and Macau within 2002 for the sales of the products under the "Tong Ren Tang" brand, the Company as the overseas distribution agent of Tongrentang Ltd. is expecting a prominent increase of sales of such products in those sales points and hence an increase of overseas distribution agency services to be rendered by the Company for Tongrentang Ltd. As a result, the Directors

(including independent non-executive Directors) foresee that the agency fee payable to the Company will be increased accordingly and thereby exceed the original cap under the Waiver as set out in the preceding paragraph.

By the Supplemental Overseas Distribution Agency Agreement entered into between the Company and Tongrentang Ltd., the parties have mutually and conditionally agreed to extend the term of the Overseas Distribution Agency Agreement (other terms remaining unchanged) upon expiry of its original term on 5 October 2003, subject to the approval of the Supplemental Overseas Distribution Agreement by the Independent Shareholders, until 31 December 2004.

In this regard, the Company seeks the approval of the Independent Shareholders to revise the aggregate annual consideration under the Waiver in respect of this connected transaction from not exceeding RMB10,000,000 to not exceeding RMB20,000,000 (representing approximately 4.4% of the net tangible assets of the Company as at 31 December 2001) for a 3-year period expiring on 31 December 2004 on such conditions as set out under the paragraph headed “New Conditions” below.

The Directors (including independent non-executive Directors) consider that the extension of the Overseas Distribution Agency Agreement and the increase of the cap, which is based on the increase in sales points in overseas markets thereby resulting in the increase in volume of the sales of Tongrentang Ltd’s products, would be in the best interests of the Company and its shareholders as it would enable the Company to continue to make use of its overseas distribution network which covers eighteen countries and thereby helps increasing the Company’s revenue by way of agency fee.

Land use right leasing agreement

The Land Use Right Leasing Agreement was entered into between the Company and Tongrentang Holdings on 6 October 2000 pursuant to which Tongrentang Holdings has agreed to lease to the Company two pieces of land at (i) No. 33 Yang Fang Hu Tong, Xi Cheng District, Beijing, the PRC (approximate area: 5,961.2 sq.m.); and (ii) No. 20 Nan San Huan Zhong Road, Feng Tai District, Beijing, the PRC (approximate area: 43,815.15 sq.m.) (collectively, under this paragraph referred to as the “Properties”), total area being 49,776.35 sq.m. for a term of 20 years commencing from the date thereof. The Company is entitled to give Tongrentang Holdings six months’ prior notice in writing to terminate the agreement. Tongrentang Holdings has warranted that, save as otherwise stipulated in the agreement, the Company shall enjoy full and uninterrupted land use right to the properties during the term. This transaction constituted a connected transaction under the GEM Listing Rules.

Pursuant to the Land Use Right Leasing Agreement, the annual rental of the above properties for the initial 2 years is calculated at the market rate of RMB53.95 per sq.m., i.e. RMB2,685,434 in total, which shall remain unchanged for the initial 2 years. Any adjustments to the annual rental shall be made after the initial 2-year period at the then market rent, provided that such adjustment shall in no event exceed 10% more or less than of that of the previous year.

Pursuant to the Waiver, this connected transaction is subject to the value of such transaction not exceeding RMB 3,000,000.

As the superstructures on the Properties are part of the Chinese Medicine Refinery and Factory No.2 owned by the Company, it is necessary for the Company to rent the Properties for the purpose of its operations.

The rental paid by the Company to Tongrentang Holdings during the two years ended 31 December 2001 and the three months ended 31 March 2002 were RMB2,685,000, RMB2,685,000 and RMB671,000 respectively.

Since the Land Use Right Leasing Agreement will continue until 5 October 2020, the Directors (including independent non-executive Directors) consider that it would be impractical to make disclosure and seek approval of the Independent Shareholders every year. In this regard, the Company seeks the approval of the Independent Shareholders of the cap of RMB 3,000,000 (representing approximately 0.66% of the net tangible assets of the Company as at 31 December 2001), which remains unchanged as compared to the previous cap, for a 3-year period expiring on 31 December 2004 on such conditions as set out under the paragraph headed “New Conditions” below.

Agreement Supplemental to the building leasing agreement

The Agreement Supplemental to the Building Leasing Agreement was entered into between the Company and Tongrentang Holdings and Tongrentang Ltd. on 6 October 2000 to supplement the building leasing agreement dated 15 November 1998 made between Tongrentang Holdings and Tongrentang Ltd. (under this paragraph referred to as the “Principal Agreement”) in respect of the medicine production building, office and ancillary buildings in No. 130 Xi Zhi Men Nei Da Street, Xi Cheng District, Beijing, the PRC (under this paragraph referred to as the “Properties”) with an approximate area of 6,667 sq.m.. Pursuant to the Agreement Supplemental to the Building Leasing Agreement, Tongrentang Holdings agreed to lease to the Company the Properties originally leased to Tongrentang Ltd. under the principal agreement at an annual rental of RMB3,000,000 subject to adjustment each year at market rate. The term of the lease is 10 years from 1 January 1997 to 31 December 2006. This transaction constituted a connected transaction under the GEM Listing Rules.

Tongrentang Holdings has warranted that the Company shall enjoy full and uninterrupted right of use to the Properties. Where the Company’s right of use to the Properties is affected or hindered, Tongrentang Holdings shall compensate the Company for all loss incurred therefrom.

Pursuant to the Waiver, this connected transaction is subject to the aggregate annual value of such transaction not exceeding RMB 3,600,000.

The rental paid by the Company to Tongrentang Holdings during the two years ended 31 December 2001 and the three months ended 31 March 2002 were RMB3,000,000, RMB3,000,000 and RMB750,000 respectively.

Since the Agreement Supplemental to the Building Leasing Agreement will continue until 31 December 2006, the Directors (including independent non-executive Directors) consider that it would be impractical to make disclosure and seek approval of the Independent Shareholders every year. In this regard, the Company seeks the approval of the Independent Shareholders of the cap of RMB3,600,000 (representing approximately 0.79% of the net tangible assets of the Company as at 31 December 2001), which remains unchanged as compared to the previous cap, for a 3-year period expiring on 31 December 2004 on such conditions as set out under the paragraph headed “New Conditions” below.

Advertising Agency Agreement

The Advertising Agency Agreement was entered into between the Company and Tongrentang Advertising on 6 October 2000 for a term of 3 years commencing from the date thereof, pursuant to which Tongrentang Advertising has agreed to handle, as an agent of the Company, the Company’s advertisement releases. This transaction constituted a connected transaction under the GEM Listing Rules.

The content of the advertisements and the advertising expenses shall be determined by the Company. Tongrentang Advertising is responsible for reporting to the relevant PRC authorities the content and the form of display of the advertisements to ensure that they are in compliance with the relevant laws and regulations of the PRC.

The advertising agency fee shall be charged at the rate of 15% of the whole quantum of total advertising expenditure, payable quarterly by the Company. This agency fee is determined by the PRC authorities and applied uniformly to all advertising agencies in the PRC.

Pursuant to the Waiver, this connected transaction is subject to the aggregate annual value of such transaction not exceeding RMB30,000,000.

The advertising agency fee paid by the Company to Tongrentang Advertising during the two years ended 31 December 2001 and the three months ended 31 March 2002 were RMB2,330,000, RMB3,267,000 and RMB427,000 respectively.

By the Supplemental Advertising Agency Agreement entered into between the Company and Tongrentang Advertising, the parties have mutually and conditionally agreed to extend the term of the Advertising Agency Agreement (other terms remaining unchanged) upon expiry of its original term on 5 October 2003, subject to the approval of the Supplemental Advertising Agency Agreement by the Independent Shareholders, until 31 December 2004.

The Directors (including independent non-executive Directors) consider that as Tongrentang Advertising is experienced in advertising medicinal products and “The Advertising Administration Law” requires that advertisement release/promotion be handled by an advertising company registered in the PRC, the Supplemental Advertising Agency Agreement ensures that the Company is able to continue to use its services and rely on its experience in complying with the requirements of the relevant laws, which will be conducive to product marketing in the PRC in the coming years.

In the light of the Supplemental Advertising Agency Agreement, the Company seeks the approval of the Independent Shareholders of the cap of RMB4,500,000 (representing approximately 0.99% of the net tangible assets of the Company as at 31 December 2001), for a 3-year period expiring on 31 December 2004 on such conditions as set out under the paragraph headed “New Conditions” below.

Transactions between the Company and subsidiaries and associates of Tongrentang Ltd. and Tongrentang Holdings

Tongrentang Ltd. has formed a network of distributors and agents for the distribution of pharmaceutical products for years. Such network agents are currently made up of around 150 major distributors and second layer distributors in the PRC. Tongrentang Ltd. and Tongrentang Holdings are directly or indirectly interested in 51 of them (i.e. the Connected Network Agents) while the rest are independent. Before 2002, Tongrentang Ltd. acted as an agent of the Company to sell products of the Company to the network agents for onward sales to the ultimate customers. As from January 2002, the Company sells its products through its own sales team to such network agents for onward sales. The Company also utilizes the transportation services of two transportation agents which are subsidiaries of Tongrentang Holdings to deliver the Company’s products to the network agents. The transportation fees payable to the transportation agents for such transportation services are approximately the same as the transportation fees charged to the network agents.

In terms of sales of the Company’s products in the PRC, while the majority of the products are sold to the independent network agents for onward sale to the ultimate customers, the balance is sold to the Connected Network Agents, thereby the sales to the Connected Network Agents constituting connected transactions within the meaning of the GEM Listing Rules.

Pursuant to the Waiver, these connected transactions are subject to the aggregate annual value of the sales and related transactions not exceeding RMB 150,000,000. Since the grant of the Waiver, the volume of these connected transactions has been increasing tremendously, mainly due to the significant increase in the market demand for the pharmaceutical products of the Company as explained above and the rapid increase in the number of Connected Network Agents within the ever-growing sales network of Tongrentang Ltd. in the PRC resulting in an increase of reliance by the Company on these Connected Network Agents for the sale of the Company's products in the PRC.

The Directors (including the independent non-executive Directors) consider it to be in the best interests of the Company and its shareholders to sell its products via the Connected Network Agents in the PRC on the following bases:

1. it would be more advantageous to the Company's business to have its products sold to end customers by the Connected Network Agents being specialists which are qualified to sell pharmaceutical products in the PRC and are members of the sales network of Tongrentang Holdings operating under the valuable nationwide chain-selling licence held by Tongrentang Holdings. To the knowledge of the Directors, there are only 43 groups in the PRC approved by the relevant PRC regulatory bodies to hold the nationwide chain-selling licence which can then operate chain stores in the PRC;
2. it would be a waste of resources for not utilizing such well-established and well-developed nationwide sales network operating under the global brand of "Tong Ren Tang" which is targeted to gain dominant position in respect of sales and pharmaceutical products in the PRC; and
3. the sales and pricing policies of the Company in respect of sales to its products to the Connected Network Agents are the same as those for the independent Network Agents and hence the transactions are concluded fairly and on normal commercial terms in all respects.

The annual total transaction volume (including transportation fees) for the transactions under this category for each of the years 2000 and 2001 were approximately RMB73,030,000 and RMB131,390,000 respectively. The aggregate volume (including transportation fees) for the 3 months ended 31 March, 2002 was approximately RMB79,402,000.

In this regard, the Company seeks the approval of the Independent Shareholders to revise the cap under the Waiver in respect of such connected transactions from not exceeding RMB150,000,000 to not exceeding RMB400,000,000 (representing approximately 87.6% of the net tangible assets of the Company as at 31 December 2001, 84.7% of the sales in the PRC to all network agents for the financial year ended 31 December 2001 and 80.42% of the turnover of the Company for year 2001) for a 3-year period expiring on 31 December 2004 on such conditions as set out under the paragraph headed "New Conditions" below. The revised annual consideration is derived by the Board of Directors on the basis of the Increase, the 79.91% increase in the Company's volume of sales of its products to Connected Network Agents in 2001 (which is greater than the overall increase in the total sales volume in 2001 being 46.85%) as compared to that in 2000 and the increasing volume of transactions between the Company and the ever-increasing number of Connected Network Agents (which are expected to increase to 120 by the end of 2002) for the sales of the Company's products in the PRC. Based on the transaction volume under this category at RMB79,402,000 for the first quarter of 2002, and taking into account the percentage of these transactions for the first quarter in the past two financial years representing approximately 15% and 26% of the respective annual transaction value for the two years ended 31 December 2001, the projected annual transaction volume in year 2002 would be in the range of RMB305,000,000 to RMB530,000,000. Accordingly, the Directors consider that the cap of RMB400,000,000 is fair and reasonable.

REASONS FOR, AND BENEFITS OF, THE ONGOING CONNECTED TRANSACTIONS

According to the GEM Listing Rules, the transactions mentioned in this announcement constitute on-going connected transactions, so that the requirements of reporting, announcement, shareholders' approval and annual review shall apply.

The Directors (including the independent non-executive Directors) believe that the terms of the ongoing connected transactions are made on the arm's length basis and on normal commercial terms which are no less favourable than terms available to or from independent third parties. The Directors (including the independent non-executive Directors) believe that they are made in the ordinary and usual course of business of the Company and are fair and reasonable and in the interest of the Company's shareholders as a whole. The Company also confirms that no advance payment is made or received by the Company for all connected transactions as mentioned in this announcement.

The Directors consider it to be in the best interest of the Company to extend the terms of the relevant agreements (where appropriate) and to revise the respective caps in the above transactions as they will facilitate the smooth operations and growth of the Company's business.

NEW CONDITIONS

Under the GEM Listing Rules, the Ongoing Connected Transactions are considered to be "connected transactions" and would normally be subject to requirements of reporting, announcement, shareholders' approval and annual review under Rule 20.26 of the GEM Listing Rules. In view of (i) the possible excess of the original caps in respect of the Raw Material Supply Agreement, the Contract for Storage and Custody and the transactions between the Company and subsidiaries and associates of Tongrentang Holdings and Tongrentang Ltd. (as to be extended) in the forthcoming quarter (ii) the possible excess of the original caps in respect of the permission to use tradenames and certain trademarks and the Overseas Distribution Agency Agreement (as to be extended) in the forthcoming financial years, (iii) the expiry of the original waiver granted by the Stock Exchange on 31 December 2002, and (iv) the proposed extension of the terms of some of the transactions as set out in this announcement until 31 December 2004, the Company therefore seek the approval of the Independent Shareholders of the respective caps in relation to the above connected transactions for the 3-year period expiring on 31 December 2004 on condition that:

- (i) in any financial year
 - (a) the aggregate amount relating to the Raw Material Supply Agreement does not exceed RMB150,000,000;
 - (b) the aggregate amount relating to the Contract for storage and custody does not exceed RMB7,000,000;
 - (c) the aggregate amount relating to the transactions between the Company and subsidiaries and associates of Tongrentang Holdings and Tongrentang Ltd. does not exceed RMB400,000,000;
 - (d) the aggregate amount relating to the Undertaking and Trademark Licence Agreement does not exceed RMB1,000,000;
 - (e) the aggregate amount relating to the Overseas Distribution Agency Agreement does not exceed RMB20,000,000;

- (f) the aggregate amount relating to the Land Use Right Leasing Agreement does not exceed RMB3,000,000;
 - (g) the aggregate amount relating to the Agreement Supplemental to the Building Leasing Agreement does not exceed RMB3,600,000; and
 - (h) the aggregate amount relating to the Advertising Agency Agreement does not exceed RMB4,500,000.
- (ii) the details of the transactions described in the above agreements shall be disclosed in the Company's annual report and accounts pursuant to Rules 20.34(1) to (5) of the GEM Listing Rules;
- (iii) the Company's independent non-executive Directors shall examine the transactions described in the above agreements every year and make their confirmation in the Company's annual report and accounts that:
- (a) these transactions are executed in the ordinary and usual course of business of the Company;
 - (b) these transactions are executed on normal commercial terms or on terms not less favourable than those given to (or obtain from, wherever applicable) independent third parties (if no comparable transaction can be referred to judge whether the transaction is executed on normal commercial terms); and
 - (c) these transactions are executed in accordance with the relevant agreement governing them on terms that are fair and reasonable and in the interest of the Company's shareholders as a whole;
 - (d) these transactions have not exceeded the cap amount as set out in paragraph (i) above;
- (iv) the Company's auditors shall review these transactions every year and confirm in writing (with a copy provided to the Stock Exchange) to the Board of Directors in respect of the following matters:
- (a) the transactions described in the above agreements have been approved by the Board of Directors;
 - (b) these transactions have been executed according to the pricing policies of the Company and the terms of the agreements governing the same transactions; and
- (v) the Company and each party to the transactions described in the above agreement have undertaken to provide sufficient facility for the Company's auditors to inspect their respective accounts and records, thus enabling the auditors to assess the above connected transactions and make the relevant reports;
- (vi) the Company has undertaken to immediately notify the Stock Exchange if it comes to its knowledge or has reasons to believe that the independent non-executive Directors and/or auditor will be unable to confirm the matters set out in Rules 20.27 and 20.28 of the GEM Listing Rules; and
- (vii) where the cap in any year is to be greater than the higher of HK\$10,000,000 or 3% of the net tangible assets of the Company, the transaction(s) and the cap are subject to review and re-approval by the Independent Shareholders at the annual general meeting following the initial approval and at each subsequent annual general meeting so long as the transaction(s) continue(s). The independent non-executive Directors will be required to opine in the annual report whether or not the listed issuer should continue with the agreement(s) for the transaction(s).

If there are changes or updates in any terms of the above agreements and contracts or that the Company and any connected persons (within the definition of the existing GEM Listing Rules) reach any new arrangements, the Company undertakes to comply with the requirements in the corresponding provisions of Chapter 20 of the GEM Listing Rules, unless the Company reports to the Stock Exchange and is granted an exemption. Also, when the above limits are likely to be exceeded, the Company shall promptly notify Tongrentang Holdings, the Stock Exchange and BOCI Asia Limited in writing and seek the approval of Independent Shareholders if deemed necessary.

FURTHER INFORMATION ABOUT THE COMPANY

The group is mainly engaged in the exploration of Chinese medicine technology, technical consulting, manufacturing and sales of Chinese medicine and bio-pharmaceutical products.

CONNECTION BETWEEN THE PARTIES IN THE ONGOING CONNECTED TRANSACTIONS

Tongrentang Ltd. is the holding company, and currently holds 54.7% of the issued share capital of the Company. Tongrentang Holdings is the ultimate holding company of the Company which currently holds 69.98% of Tongrentang Ltd. Tongrentang Holdings also currently holds 100% interest in Tongrentang Advertising. As such, each of Tongrentang Holdings, Tongrentang Ltd. and Tongrentang Advertising as well as their respective associates, as defined in the GEM Listing Rules, is a connected party to the Company for the purposes of the GEM Listing Rules. Accordingly, the Ongoing Connected Transactions will constitute connected transactions for the Company under the Listing Rules (which would normally require disclosure by way of press announcement and, where applicable, prior approval of Independent Shareholders) each time any of such transactions shall occur.

SPECIAL GENERAL MEETING AND CIRCULAR TO SHAREHOLDERS

The revision of the above maximum aggregate annual amounts of the Ongoing Transactions and the extension of the terms of the above transactions will require approval by the Independent Shareholders at a special general meeting of the Company to be convened. Details of the Ongoing Transactions and the terms of the relevant supplemental agreements, a letter of recommendation from the independent board committee of the Company, and a letter of advice by an independent financial adviser to the independent board committee will be contained in a circular to be dispatched to the Shareholders within 21 days of publication of this announcement pursuant to the GEM Listing Rules. Notice of the special general meeting will be dispatched to the Shareholders with the circular. Tongrentang Advertising, Tongrentang Holdings and Tongrentang Ltd. and their respective associates, as defined in the GEM Listing Rules, will abstain from voting at the special general meeting.

DEFINITIONS

As used in this announcement, the following words and phrases shall have the following meanings.:

“Advertising Agency Agreement”	an advertising agency agreement dated 6 October 2000 was entered into between the Company and Tongrentang Advertising for a term of 3 years commencing from the date thereof, pursuant to which Tongrentang Advertising agreed to handle, as an agent of the Company, the Company’s advertisement releases
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“Agreement Supplemental to the Building Leasing Agreement”	an agreement dated 6 October 2000 was entered into between the Company and Tongrentang Holdings and Tongrentang Ltd. supplemental to the building leasing agreement dated 15 November 1998 made between Tongrentang Holdings and Tongrenang Ltd. in respect of the medicine production building, office and ancillary buildings in No.130 Xi Zhi Men Nei Da Street, Xi Cheng District, Beijing, the PRC with an approximate area of 6,667 sq.m. Pursuant to this supplemental agreement, Tongrentang Holdings agreed to lease to the Company at the said address originally leased to Tongrentang Ltd. under the principal agreement, at an annual rental of RMB3,000,000 subject to adjument each year at market rate. The term of the lease is 10 years from 1 January 1997 to 31 December 2006
“cap”	the maximum annual aggregate value of a transaction
“Company”	Tong Ren Tang Technologies Co. Ltd.
“Connected Network Agents”	distributors and second layer distributors in the PRC in which Tongrentang Ltd. and Tongrentang Holdings are directly or indirectly interested
“Contract for Storage and Custody”	a contract entered into between the Company and Tongrentang Holdings dated 6 October, 2000, pursuant to which Tongrentang Holdings agreed to provide the storage and custody services to the Company for a term of 3 years
“GEM Listing Rules”	Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange (as amended from time to time)
“Increase”	a 46.85% increase in the Company’s sales in the financial year ended 31 December 2001 as compared to that in the financial year ended 2000 and a 57.61% increase in the Company’s volume of sales for the first quarter of 2002 as compared to the corresponding period in 2001
“Independent Shareholders”	shareholders of the Company, other than Tongrentang Advertising, Tongrentang Holdings and Tongrentang Ltd., and their respective associates, as defined in the GEM Listing Rules
“Land Use Right Leasing Agreement”	a land use right leasing agreement dated 6 October 2000 was entered into between the Company and Tongrentang Holdings, pursuant to which Tongrentang Holdings agreed to lease to the Company two pieces of land at (i) No. 33 Yang Fang Hu Tong, Xi Cheng District, Beijing, the PRC (approximate area: 5,961.2 sq.m.); and (ii) No.20 Nan San Huan Zhong Road, Feng Tai District, Beijing, the PRC (approximate area: 43,815.15 sq.m.), total area being 49,776.35 sq.m. for a term of 20 years commencing from the date thereof. Pursuant to the agreement, the annual rental of the said two pieces of land for the initial 2 years is calculated at the market rate of RMB53.95 per sq.m.

“Ongoing Connected Transactions”	ongoing connected transactions between the Company, Tongrentang Advertising, Tongrentang Holdings, Tongrentang Ltd. and subsidiaries and associates of Tongrentang Ltd. and Tongrentang Holdings as more particularly stated in this announcement
“Overseas Distribution Agency Agreement”	a distribution agency agreement dated 6 October 2000 entered into between the Company and Tongrentang Ltd., pursuant to which Tongrentang has agreed to appoint the Company to handle, as its non-exclusive agent, the sale of its products outside the PRC
“PRC”	the People’s Republic of China, excluding Hong Kong, Macau and Taiwan
“Raw Material Supply Agreement”	an agreement entered into between the Company and Tongrentang Holdings dated 6 October 2000, pursuant to which Tongrentang Holdings agreed to supply the Company with part of the Chinese medicinal raw materials required for the Company’s production for a term of 3 years
“Raw Material Supply Supplemental Agreement”	a supplemental agreement entered into between the Company and Tongrentang Holdings dated 17 May 2002 in extension of the Raw Material Supply Agreement, subject to the approval by the Independent Shareholders, until 31 December 2004
“Shareholders”	the shareholders of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Supplemental Advertising Agency Agreement”	a supplemental agreement entered into between the Company and Tongrentang Advertising dated 17 May 2002 in extension of the Advertising Agency Agreement, subject to the approval by the Independent Shareholders, until 31 December 2004
“Supplemental Contract for Storage and Custody”	a supplemental agreement entered into between the Company and Tongrentang Holdings dated 17 May 2002 in extension of the Contract for Storage and Custody, subject to the approval by the Independent Shareholders, until 31 December 2004
“Supplemental Overseas Distribution Agreement”	A supplemental agreement entered into between the Company and Tongrentang Ltd. dated 17 May 2002 in extension of the Overseas Distribution Agreement, subject to the approval by the Independent Shareholders, until 31 December 2004
“Supplemental Trademark Licence Agreement”	a supplemental trademark licence agreement entered into between the Company and Tongrentang Holdings dated 17 May 2002 in extension of the Trademark Licence Agreement, subject to the approval by the Independent Shareholders, until 31 December 2004

“Tongrentang Advertising”	Beijing Tongrentang Advertising Company (北京同仁堂廣告公司), a state-owned enterprise established in the PRC under the laws of the PRC and a wholly owned subsidiary of Tongrentang Holdings
“Tongrentang Holdings”	China Beijing Tong Ren Tang Group Co. Ltd. (中國北京同仁堂集團公司), a state-owned enterprise established in the PRC under the laws of the PRC and the ultimate holding company of the Company and Tongrentang Ltd.
“Tongrentang Ltd.”	Beijing Tongrentang Company Limited (北京同仁堂股份有限公司), a joint stock limited company established in the PRC, the shares of which have been listed on the Shanghai Stock Exchange A Shares Market since 1997, and is the holding company of the Company
“Trademarks”	trademarks and trademark logos of Tongrentang Holdings including “同仁堂” trademark logo, “TONG REN TANG” trademark logo, “堂仁同” trademark, “京花” trademark, and “山花” trademark
“Trademark Licence Agreement”	an agreement entered into between Tongrentang Holdings and the Company dated October 6, 2000 whereby the Company is allowed to use the Trademarks of Tongrentang Holdings
“Undertaking”	an undertaking dated 28 February 2000 as supplemented by an undertaking dated 17 October 2000 was issued by Tongrentang Holdings in favour of the Company whereby the Company is permitted to use the words “同仁堂” as its tradename free of charge, including the usage of the names “同仁堂”, “北京同仁堂”, “TONG REN TANG” and “創建於一六六九年”, together or separately, in the prospectus and the share certificate of the Company in whatever form, style or manner representation
“Waiver”	a conditional waiver granted by the Stock Exchange on 30 October 2000 from strict compliance of the connected transaction requirements as set out under the section headed “Waivers from strict compliance with the GEM Listing Rules” in the prospectus of the Company dated 24 October 2000 for the three financial years ending 31 December 2002
“RMB”	Renminbi, the lawful currency of the PRC

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

Beijing, the PRC, 17 May 2002

This announcement, for which the directors of Tong Ren Tang Technologies Co. Ltd. (the “Directors”) 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.

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 day of its posting.