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## THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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If you are in any doubt about this circular or as to the action to be taken, you should consult a stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in **Tong Ren Tang Technologies Co. Ltd.**, you should at once hand this circular with the accompanying reply slip and form of proxy to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

The Stock Exchange of Hong Kong Limited takes no responsibility for the contents of this circular, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this circular.

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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 company incorporated in the People's Republic of China with limited liability)*

### **ONGOING CONNECTED TRANSACTIONS AND APPOINTMENT OF NEW AUDITORS**

**Financial adviser to Tong Ren Tang Technologies Co. Ltd.**



**Independent financial adviser to the independent board committee  
of Tong Ren Tang Technologies Co. Ltd.**



**Core Pacific – Yamaichi Capital Limited**

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A letter from the Independent Board Committee of the Company is set out on pages 23 to 24 of this circular.

A letter from Core Pacific – Yamaichi Capital Limited containing its advice to the Independent Board Committee of the Company is set out on pages 25 to 37 of this circular.

A notice convening the special general meeting (“SGM”) of the Company to be held at Jia 20, Nansanhuan Zhonglu, Fengtai District, Beijing, the PRC on 25 July 2002 at 2:00 p.m. is set out on pages 46 to 48 of this circular. A reply slip and a form of proxy are also enclosed. Whether or not you are intending to attend and vote at the SGM, you are requested to complete and return the enclosed reply slip and proxy form in accordance with the instructions printed thereon to the Company’s share registrars, Hong Kong Registrars Limited, Rooms 1901-1905, 19th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong as soon as possible but in any event for reply slip, on or before 5 July 2002 and for proxy form, not less than 24 hours before the time appointed for the holding of the SGM or any adjournment thereof. Completion and return of the proxy form will not preclude you from subsequently attending and voting at the SGM.

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## CHARACTERISTIC OF GEM

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**GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.**

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

**The principal means of information dissemination on GEM is publication on the internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website at *www.hkgem.com* in order to obtain up-to-date information on GEM-listed issuers.**

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## CONTENTS

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	<i>Page</i>
<b>Definitions</b> .....	1
<b>Letter from the Board</b> .....	6
<b>Letter from the Independent Board Committee</b> .....	23
<b>Letter of advice from Core Pacific – Yamaichi</b> .....	25
<b>Appendix - General information</b> .....	38
<b>Notice of Special General Meeting</b> .....	46

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## DEFINITIONS

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*In this circular, the following expressions shall have the meanings set out below unless the context requires otherwise:*

“Advertising Agency Agreement”	an advertising agency agreement dated 6 October 2000 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
“Agreement Supplemental to the Building Leasing Agreement”	an agreement dated 6 October 2000 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 Tongrentang 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 adjustment each year at market rate. The term of the lease is 10 years from 1 January 1997 to 31 December 2006
“Board”	the board of Directors
“cap”	the maximum annual aggregate value of a transaction
“Chinese Patent Medicine”	readily processed Chinese medicine in various intake forms (such as pills, granules and soft capsules) based on the prescription, nature and functions of Chinese medicine
“Company”	Tong Ren Tang Technologies Co. Ltd. (北京同仁堂科技發展股份有限公司)
“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

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## DEFINITIONS

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“Core Pacific – Yamaichi”	Core Pacific – Yamaichi Capital Limited, the independent financial adviser to the Independent Board Committee in relation to the Ongoing Connected Transactions
“Director(s)”	the director(s) of the Company
“GEM”	the Growth Enterprise Market of the Stock Exchange
“GEM Listing Rules”	the 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 Board Committee”	the independent board committee comprising the independent non-executive Directors, being Ting Leung Huel, Stephen, Tam Wai Chu, Maria, and Jin Shi Yuan, appointed to advise the Independent Shareholders in relation to the Ongoing Connected Transactions and the Supplemental Agreements
“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 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.

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## DEFINITIONS

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“Latest Practicable Date”	5 June 2002, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained in this circular
“Ongoing Connected Transactions”	the 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 circular
“Overseas Distribution Agency Agreement”	a distribution agency agreement dated 6 October 2000 entered into between the Company and 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
“PRC”	The People’s Republic of China, excluding Hong Kong, Macau and Taiwan
“Prospectus”	the prospectus of the Company dated 24 October 2000
“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 to extend the term of the Raw Material Supply Agreement, subject to the approval by the Independent Shareholders, until 31 December 2004
“SGM”	the special general meeting of the Company to be held on 25 July 2002, the notice of which is set out on pages 46 to 48 of this circular
“Shareholders”	the shareholders of the Company
“sq.m.”	square metre(s)

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## DEFINITIONS

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“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Supervisor(s)”	member(s) of the supervisory committee of the Company
“Supplemental Advertising Agency Agreement”	a supplemental agreement entered into between the Company and Tongrentang Advertising dated 17 May 2002 to extend the term of the Advertising Agency Agreement, subject to the approval by the Independent Shareholders, until 31 December 2004
“Supplemental Agreements”	the Raw Material Supply Agreement, the Supplemental Contract for Storage and Custody, the Supplemental Trademark Licence Agreement, the Supplemental Overseas Distribution Agency Agreement and the Supplemental Advertising Agency Agreement
“Supplemental Contract for Storage and Custody”	a supplemental agreement entered into between the Company and Tongrentang Holdings dated 17 May 2002 to extend the term of the Contract for Storage and Custody, subject to the approval by the Independent Shareholders, until 31 December 2004
“Supplemental Overseas Distribution Agency Agreement”	A supplemental agreement entered into between the Company and Tongrentang Ltd. dated 17 May 2002 to extend the term of the Overseas Distribution Agency 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 to extend the term 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

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## DEFINITIONS

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“Tongrentang Holdings”	China Beijing Tong Ren Tang Group Co. Ltd. (中國北京同仁堂(集團)有限責任公司), formerly named China Beijing Tong Ren Tang Holdings Corp. (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 owned by 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 6 October 2000 whereby the Company was allowed to use the Trademarks of Tongrentang Holdings
“Undertaking”	an undertaking dated 28 February 2000 as supplemented by an undertaking dated 17 October 2000 issued by Tongrentang Holdings in favour of the Company whereby the Company was 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 for the three financial years ending 31 December 2002
“RMB”	Renminbi Yuan, the lawful currency of the PRC



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## LETTER FROM THE BOARD

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### Tong Ren Tang Technologies Co. Ltd. \* 北京同仁堂科技发展股份有限公司

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

*Executive Directors:*

Yin Shun Hai  
Wang Zhao Qi  
Mei Qun

*Registered Office and principal place  
of business in the PRC:*

No. 10 Hong Da Bei Road  
Beijing Economic and Technology  
Development Zone  
Yi Zhuang  
Beijing, the PRC

*Non-executive Directors:*

Tian Rui Hua  
Zhao Bing Xian

*Principal Place of Business in  
Hong Kong:*

Rm 1802, 18th Floor  
Workington Tower  
78 Bonham Strand  
Sheung Wan  
Hong Kong

*Independent non-executive Directors:*

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

7 June 2002

*To the Shareholders*

Dear Sir or Madam,

### **ONGOING CONNECTED TRANSACTIONS AND APPOINTMENT OF NEW AUDITORS**

#### **INTRODUCTION**

On 17 May 2002, the Company announced that it had conditionally entered into the Supplemental Agreements to extend the terms of agreements in relation to various connected transactions until 31 December 2004. Given the entering into the Supplemental Agreements, and as the Company expects that some of the caps regarding the above transactions may be

\* For identification purpose only

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## LETTER FROM THE BOARD

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exceeded in the forthcoming quarter or during their respective 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.

A resolution for the appointment of PricewaterhouseCoopers as the auditors of the Company will be proposed at the SGM.

The purpose of this circular is to provide you with further information relating to each connected transaction and to seek for your approval thereof. The recommendation of the Independent Board Committee to the Independent Shareholders is set out on pages 23 to 24 of this circular.

### **ONGOING CONNECTED TRANSACTIONS**

Prior to the listing of the H shares of the Company on GEM on 31 October 2000, the Company had entered into various connected transactions which continued after the listing. 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 (such as Fructus Corni, Rhizoma Dioscoreae and Poria, etc.) 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.

As mentioned in the preceding paragraph, the price of the raw materials is required to fall within the range of market price. In ascertaining such range of market price, Tongrentang Holdings and the Company would take into account the price of the same product sold to independent third parties by Tongrentang Holdings and the market price of such raw materials with reference to the special knowledge and experience in the industry of the purchasing staff of the Company.

The Company makes full payment to Tongrentang Holdings immediately upon receipt of goods and invoices under this arrangement.

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## LETTER FROM THE BOARD

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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 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 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 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 cap of RMB150,000,000 is derived by the Board 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.

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## LETTER FROM THE BOARD

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### **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.

The Company pays the storage fees to Tongrentang Holdings half-yearly. The storage fees for the first half year are paid in arrears on or before 10 July of each year while those for the second half year are paid in arrears on or before 10 January of the next year.

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 resulting in the increase of demand for storage of the raw materials purchased from Tongrentang Holdings and the finished goods 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 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 it is difficult for the Company 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

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## LETTER FROM THE BOARD

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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, including the term regarding the price adjustment to the storage fees, remaining unchanged) upon expiry of its original term on 5 October 2003, subject to the approval of the Supplemental Contract for Storage and Custody 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 by the Board 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 (of which approximately 12,000 sq. m. is for storage of raw materials and approximately 16,000 sq. m. is for storage of finished goods). 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 favour of the Company whereby the Company was 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 was allowed to use the Trademarks. Under the agreement, the Company is permitted to use the Trademarks on certain goods or services as specified in the agreement 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 of the previous year. This transaction constituted a connected transaction under the GEM Listing Rules.

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## LETTER FROM THE BOARD

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The Company pays the trademark royalties to Tongrentang Holdings annually in arrears on or before 20 December each year during the subsistence of the term.

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

The Directors consider that the continuation of the use 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 ended 31 December 2000 and 31 December 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 extended upon expiry of its original term on 28 February 2003 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 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 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 the Company 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'

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## LETTER FROM THE BOARD

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prior notice to terminate the agreement. This transaction constituted a connected transaction under the GEM Listing Rules.

The Company receives the agency fee income from Tongrentang Ltd. in arrears on or before 20th of each month during the subsistence of the term.

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 years 2000 and 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 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 above.

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 Agency 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.

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## LETTER FROM THE BOARD

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The Directors consider that the extension of the Overseas Distribution Agency Agreement and the proposed increase of the cap as set out in the preceding paragraph, 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 fees.

### **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 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.

The Company pays the rentals to Tongrentang Holdings annually in arrears on or before 20 December each year during the subsistence of the term.

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

As the superstructures on the Properties are part of the Chinese Medicine Factory 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.



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## LETTER FROM THE BOARD

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Since the Land Use Right Leasing Agreement will continue until 5 October 2020, the 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.

The Company pays the rentals to Tongrentang Holdings annually in arrears on or before 20 December each year during the subsistence of the term.

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.

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## LETTER FROM THE BOARD

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Since the Agreement Supplemental to the Building Leasing Agreement will continue until 31 December 2006, the 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.

The Company pays the advertising agency fee to Tongrentang Advertising quarterly in arrears on 31 March, 30 June, 30 September and 31 December of each year.

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.

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## LETTER FROM THE BOARD

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The 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 in the PRC 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 Directors consider that the transportation services are part of the premium customer support services to network agents which are inseparable to its sales of finished products to the network agents. Hence, sales arrangement with the network agents and the transportation arrangement between the Company and the two transportation agents which are subsidiaries of Tongrentang Holdings inseparably fall under this category. The transportation fees payable to the transportation agents for such transportation services are approximately the same (differences resulting from rounding up or down) as the transportation fees charged to the network agents.

Currently, full payment made by subsidiaries and associates of Tongrentang Ltd. and Tongrentang Holdings to the Company are settled upon delivery and acceptance of goods.

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.

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## LETTER FROM THE BOARD

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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 from 12 as of October 2000 to 51 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 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, which have only been granted to 43 entities in the PRC, held by Tongrentang Holdings;
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. In relation to the sales and pricing policies, (i) where applicable, the Company would set the prices of its products in accordance with the "Provisional regulations of Beijing on the price management of medicine" as regulated by Beijing pricing authorities; and (ii) the prices would be determined as a result of arm's length negotiations with the independent network agents and by making reference to the relevant market price.

As mentioned above, the Company also sells its products to independent network agents in order to enhance to total turnover and the market penetration of the Company. The annual total volume for transactions with independent network agents for each of the years 2000 and 2001 and the 3 months ended 31 March 2002 were approximately RMB254,456,000, RMB340,932,000 and RMB104,123,000 respectively, representing approximately 75.1%, 68.5% and 53.7% of the total sales of the Company during the respective periods.

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## LETTER FROM THE BOARD

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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 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 circular constitute ongoing connected transactions, so that the requirements of reporting, announcement, shareholders’ approval and annual review shall apply.

The 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 believe that they are made in the ordinary and usual course of business of the Company and are fair and reasonable and in the interests 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 circular.

The Directors consider it to be in the best interests 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.

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## LETTER FROM THE BOARD

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### 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 circular 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 (as amended) does not exceed RMB150,000,000;
  - (b) the aggregate amount relating to the Contract for Storage and Custody (as amended) 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. (as amended) does not exceed RMB400,000,000;
  - (d) the aggregate amount relating to the Undertaking and Trademark Licence Agreement (as amended) does not exceed RMB1,000,000;
  - (e) the aggregate amount relating to the Overseas Distribution Agency Agreement (as amended) 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 (as amended) does not exceed RMB4,500,000.

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## LETTER FROM THE BOARD

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- (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 in respect of the following matters:
  - (a) the transactions described in the above agreements have been approved by the Board;
  - (b) these transactions have been executed according to the pricing policies of the Company and the terms of the agreements governing the same transactions;
  - (c) the transactions have not exceeded the cap agreed with the Stock Exchange;
- (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 auditors will be unable to confirm the matters set out in Rules 20.27 and 20.28 of the GEM Listing Rules; and

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## LETTER FROM THE BOARD

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(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, the sponsor (if applicable) and relevant parties in writing and seek the approval of Independent Shareholders if deemed necessary.

### **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 announcement and, where applicable, prior approval of the Independent Shareholders).

### **THE SGM**

A notice convening the SGM of the Company to be held at Jia 20, Nansanhuan Zhonglu, Fengtai District, Beijing, the PRC on 25 July 2002 at 2:00 p.m. is set out on pages 46 to 48 of this circular. Ordinary resolutions will be proposed at the meeting to approve the Ongoing Connected Transactions and the Supplemental Agreements.

In accordance with the GEM Listing Rules, Tongrentang Ltd., Tongretang Holdings and their respective associates will abstain from voting on the resolutions to approve the Ongoing Connected Transactions and the Supplemental Agreements at the SGM. Yin Shun Hai, Wang Zhao Qi and Mei Qun, being executive Directors, and Tian Da Fang, being a Supervisor, are interested in the shares of the Company and Tongrentang Ltd., details of which are set out



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## LETTER FROM THE BOARD

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under the paragraph headed “Disclosure of Interests” in the Appendix to this circular. Although Yin Shun Hai, Wang Zhao Qi, Mei Qun and Tian Da Fang are not connected persons or associates of any of the connected persons for the purposes of the Ongoing Connected Transactions, they will abstain from voting at the SGM to avoid conflict of interests and to ensure complete independence of the vote.

A reply slip and a form of proxy are also enclosed. Whether or not you are intending to attend and vote at the SGM, you are requested to complete and return the enclosed reply slip and proxy form in accordance with the instructions printed thereon to the Company’s share registrars, Hong Kong Registrars Limited, Rooms 1901-1905, 19th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong as soon as possible but in any event for reply slip, on or before 5 July 2002 and for proxy form not less than 24 hours before the time appointed for the holding of the SGM or any adjournment thereof. Completion and return of the proxy form will not preclude you from subsequently attending and voting at the SGM.

### RECOMMENDATION

As set out in its letter to the Shareholders, based on the advice of Core Pacific-Yamaichi, the Independent Board Committee is of the view that the terms of the Ongoing Connected Transactions and the Supplemental Agreements are fair and reasonable so far as the Shareholders are concerned. The recommendations and advice from the Independent Board Committee and Core Pacific-Yamaichi are set out on pages 23 to 24 and pages 25 to 37 of this circular respectively.

### APPOINTMENT OF NEW AUDITORS

Arthur Andersen & Co has retired as the auditors of the Company at the annual general meeting of the Company held on 20 May 2002, and did not offer themselves for re-appointment as auditors of the Company. As at 15 March 2002, being the date of the notice of annual general meeting of the Company, the appointment of PricewaterhouseCoopers as auditors of the Company had not been finalised.

A resolution for the appointment of PricewaterhouseCoopers as the auditors of the Company will be proposed at the SGM.

### ADDITIONAL INFORMATION

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

Yours faithfully,  
For and on behalf of the Board  
**Tong Ren Tang Technologies Co. Ltd.**  
**Yin Shun Hai**  
*Chairman*

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## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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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 company incorporated in the People's Republic of China with limited liability)*

7 June 2002

*To the Independent Shareholders*

Dear Sir or Madam,

### **ONGOING CONNECTED TRANSACTIONS**

#### **INTRODUCTION**

We refer to the circular dated 7 June 2002 (the “Circular”) of the Company of which this letter forms part. Terms defined in the Circular shall have the same meanings when used herein unless the context requires otherwise.

Under the GEM Listing Rules, the Ongoing Connected Transactions and the Supplemental Agreements are required to be approved by the Independent Shareholders at a general meeting of the Company. We being the independent non-executive Directors constituting the Independent Board Committee are writing to you to set out our opinion in respect of the Ongoing Connected Transactions and the Supplemental Agreements. The Independent Board Committee was set up to advise you as a shareholder whether in its view the terms of the Ongoing Connected Transactions and the Supplemental Agreements are fair and reasonable and in the interests of the shareholders of the Company as a whole.

We wish to draw your attention to the letter from the Board as set out on pages 6 to 22 of the Circular and the letter from Core Pacific-Yamaichi as set out on pages 25 to 37 of the Circular which contains, inter alia, its advice and recommendation to us regarding the terms of the Ongoing Connected Transactions and the Supplemental Agreements with the principal factors and reasons for its advice and recommendation.

\* *For identification purpose only*

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## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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### RECOMMENDATION

Having taken into account the advice and recommendation of Core Pacific-Yamaichi, we consider that the Ongoing Connected Transactions and the Supplemental Agreements are in the interests of the Company and the shareholders of the Company as a whole and the terms of the Ongoing Connected Transactions and the Supplemental Agreements are fair and reasonable as far as the interests of the Independent Shareholders are concerned. Accordingly, we recommend that the Independent Shareholders should vote in favour of the resolutions to be proposed to approval the Ongoing Connected Transactions and the Supplemental Agreements.

Yours faithfully,  
For and on behalf of  
the Independent Board Committee  
**Ting Leung Huel, Stephen**  
**Tam Wai Chu, Maria**  
**Jin Shi Yuan**  
*Independent non-executive Directors*

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## LETTER OF ADVICE FROM CORE PACIFIC – YAMAICHI

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*The following is the text of the letter from Core Pacific – Yamaichi prepared for the purpose of incorporation in this circular.*



**Core Pacific – Yamaichi Capital Limited**

36th Floor  
COSCO Tower  
Millennium Plaza  
183 Queen's Road Central  
Hong Kong

7th June, 2002

The Independent Board Committee  
Tong Ren Tang Technologies Co. Ltd.  
No. 10 Hong Da Bei Road  
Beijing Economic and Technology  
Development Zone  
Yi Zhuang  
Beijing  
The People's Republic of China

Dear Sirs,

### **ONGOING CONNECTED TRANSACTIONS**

#### **INTRODUCTION**

We, Core Pacific – Yamaichi, refer to our appointment by the Company as the independent financial adviser to the Independent Board Committee to give our recommendation as to whether the terms of the Ongoing Connected Transactions are fair and reasonable in so far as the Independent Shareholders are concerned, particulars of which have been set out in a circular to the Shareholders dated 7th June, 2002 (the “Circular”), of which this letter forms part. Unless the context requires otherwise, terms used in this letter shall have the same meanings as given to them under the section headed “Definitions” of the Circular.

In formulating our opinion and recommendation, we have relied on the statements, information, opinions, valuation reports and representations contained in the Circular which have been provided to us by the Directors and other professionals. We have also relied on the assumptions described in this Circular being materialised in deriving our opinions and recommendations. Details of the assumptions are set forth in this letter. We have assumed that

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## LETTER OF ADVICE FROM CORE PACIFIC – YAMAICHI

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all statements, information, opinions, valuation reports and representations contained or referred to in the Circular were true, complete and accurate in all aspects at the time they were made and given and continue to be so in all respects as at the date of despatch of the Circular. We have also assumed that all statements of beliefs, opinions and intentions made by the Directors in the Circular were reasonably made after due and careful enquiry and were based on honestly-held opinions. We have no reason to doubt the truth, accuracy and completeness of the information and representation provided to us by the Directors and we have been advised by the Directors that no material facts have been omitted from the information and representations provided in and referred to in the Circular.

We consider that we have been provided with sufficient information to enable us to reach an independent view to justify our reliance on the accuracy of the information and representations contained in the Circular and to provide reasonable basis for our recommendation. We have no reason to suspect that any relevant information or reports have been withheld, nor are we aware of any facts or circumstances which would render the information provided and the representations made to us to be untrue, inaccurate, or misleading.

### **BACKGROUND OF THE ONGOING CONNECTED TRANSACTIONS**

Prior to the listing of the H shares of the Company on GEM on 31st October, 2000, the Company had entered into various ongoing transactions with Tongrentang Holdings, Tongrentang Ltd. and/or Tongrentang Advertising which constitute continuing connected transactions under the GEM Listing Rules. Waivers in respect of such transactions for the three years ending 31st December, 2002 have been granted by the Stock Exchange and such transactions have continued after listing of the Company.

Owing to the Increase and the fact that some of the agreements in respect of the Ongoing Connected Transactions will expire in 2003, the Company, on 17th May, 2002, announced that it had conditionally entered into the Supplemental Agreements to extend the terms of the agreements in respect of the Ongoing Connected Transactions to 31st December, 2004. The Directors also expect that certain caps in relation to the Ongoing Connected Transactions may be exceeded in the forthcoming months or during their respective extended terms. Accordingly, the Directors propose the caps/revised caps (if applicable) for such transactions for each of the three years ending 31st December, 2004 subject to the approval by the Independent Shareholders.

**PRINCIPAL FACTORS AND REASONS CONSIDERED****Nature of the Ongoing Connected Transactions**

The Directors have confirmed that the Company and its subsidiaries have relied on and will continue to rely on Tongrentang Holdings for provision of raw materials, storage and custody services and use of two pieces of land and a medicine production building as well as permission to use the Trademarks. The Company also relies on the subsidiaries and associates of Tongrentang Holdings and/or Tongrentang Ltd. for provision of distribution of the Company's products and transportation services in the PRC and Tongrentang Advertising for advertising agency services. On the other hand, the Company acts as the agent of Tongrentang Ltd. to distribute the products of Tongrentang Ltd. outside the PRC.

According to the Directors, the services described above are in line with the normal businesses of the Company. Please refer to the section headed "Letter from the Board" in the Circular for details on the background, reasons and benefits of the Supplemental Agreements and the Ongoing Connected Transactions.

**REASONS FOR ENTERING INTO THE ONGOING CONNECTED TRANSACTIONS****The Raw Material Supply Supplemental Agreement**

With the Increase, the Directors believe that the cap under the Waiver is likely to be exceeded soon. We note that it would still take more time for the four new plantation bases recently set up by the subsidiaries of the Company to increasingly supply raw materials to the Company. On the other hand, the Company has yet to be capable of purchasing such large bulk of raw materials directly from independent suppliers at the competitive prices offered by independent suppliers to the Company under the present arrangement via Tongrentang Holdings. As such, we concur with the Directors' view that the Company would still need to rely on Tongrentang Holdings for the three years ending 31st December, 2004 by reason of cost efficiency and practical necessity.

**The Supplemental Contract for Storage and Custody**

Owing to the Increase 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 believe that the current space for storage and custody provided by Tongrentang Holdings for both raw materials and finished products will not be sufficient soon. As such, it is necessary for the Company to seek more storage and custody space and more extensive storage and custody services from Tongrentang Holdings. In order to maintain the integrity and functional character of the Chinese medicinal raw materials and finished products, such raw

materials and finished products are required to be processed and stored at the prescribed temperature and humidity. We note that based on the Directors' comments it will take substantial time for the Company to set up its own storage and custody facilities and it is difficult for the Company to find suitable storage locations in Beijing, the PRC with the prescribed storage equipment and facilities for the time being.

Accordingly, we concur with the Directors' view that the Company will need to largely rely on Tongrentang Holdings for the provision of storage and custody services within during the three years ending 31st December, 2004 by reason of cost efficiency and practical necessity.

#### **The Supplemental Trademark Licence Agreement**

The Company's major products are marketed and sold under the trademark of "同仁堂". It is the present intention of the Company to promote modern Chinese medicine into the mainstream international pharmaceutical market. We note that branding strategy is one of the key success factors in the international pharmaceutical market. We therefore concur with the Directors' view that continuation of using the Trademarks including "同仁堂" which is a household label with 333 years of history by entering into the Supplemental Trademark Licence Agreement is conducive to the sales of the Company's products in the international market.

#### **The Supplemental Overseas Distribution Agency Agreement**

The Company has recently established two sales points in Malaysia and Canada for sale of the products under the "Tong Ren Tang" brand. It intends to set up three additional sales points in Indonesia, Singapore and The Macau Special Administrative Region of the PRC before the end of 2002 and many more thereafter worldwide. As such, the Directors foresee that the agency fee payable to the Company will be increased and thereby exceed the original cap under the Waiver.

We note that the sales points of the Company outside the PRC sell and distribute a variety of Chinese patent medicine. We believe that by acting as a sales agent of Tongrentang Ltd., the Company is able to offer more choices of Chinese patent medicine to its customers. Accordingly, we concur with the Directors' view that the extension of the Overseas Distribution Agency Agreement would be in the interests of the Company and enable the Company to better utilise its overseas distribution network to help increasing the Company's revenue by way of agency fee.

#### **The Land Use Right Leasing Agreement**

We note that the superstructures/properties under the Land Use Right Leasing Agreement are part of the Chinese medicine factory owned by the Company. Accordingly, we concur with the Directors' view that it is necessary for the Company to rent the properties for the purpose of its operations.

**The Agreement Supplemental to the Building Leasing Agreement**

We note that the properties under the Agreement Supplemental to the Building Leasing Agreement include the medicine production building of the Company. Accordingly, we concur with the Directors' view that it is necessary for the Company to rent the properties for the purpose of its operations.

**The Supplemental Advertising Agency Agreement**

"The Advertising Administration Law" of the PRC requires that advertisement release/promotion be handled by an advertising company registered in the PRC and such agency fee is the same as that determined by the relevant authorities of the PRC for all advertising agencies in the PRC. We note that Tongrentang Advertising is experienced in advertising medicinal products and has been responsible for the Company's advertising services in the PRC for many years.

Accordingly, we concur with the Directors' view that the Supplemental Advertising Agency Agreement ensures that the Company is able to continue to use the services of Tongrentang Advertising which will be conducive to marketing of the Company's products in the PRC in the coming years.

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

We note that the Company sells its products through its own sales team to the network agents of Tongrentang Ltd. for onward sales to the ultimate customers. Given the extensive network of about 150 network agents of Tongrentang Ltd. throughout the PRC, we concur with the Directors' view that sale of the Company's products to such network agents would enable the Company to leverage on the established national distribution channels of Tongrentang Ltd. in the PRC.

The Company also utilises the transportation services of two transportation agents which are subsidiaries of Tongrentang Holdings to deliver the Company's products to such network agents. As such network agents are also the clients of Tongrentang Holdings and the two transportation agents principally serve only those network agents, we concur with the Directors' view that utilisation of the transportation services provided by such two transportation agents by Tongrentang Holdings and the Company will together ensure more efficient resources allocation and thus lower transportation costs.



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## LETTER OF ADVICE FROM CORE PACIFIC – YAMAICHI

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### Basis of determining consideration

The bases of determination of the consideration for the Ongoing Connected Transactions have all remained unchanged from the original agreements of such transactions entered into in 2000. A summary of the bases of determination of the fees and the proposed caps for the Ongoing Connected Transactions is set out as follows:

<b>Transaction</b>	<b>Bases of determination of consideration</b>	<b>Previous caps</b>	<b>Proposed caps</b>
The Raw Material Supply Supplemental Agreement	Prices to be determined by negotiations between both parties and fall within the range of market price and not higher than that of the same products sold to independent third parties or the average market price, whichever is lower	RMB75,000,000	RMB150,000,000
Supplemental Contract for Storage and Custody	RMB252 per sq.m. per annum and subject to adjustment after 5th October, 2002 provided that an adjustment not exceeding 10% more or less of that of the previous year	RMB3,500,000	RMB7,000,000
Supplemental Trademark Licence Agreement	RMB793,000 per annum and subject to adjustment commencing from 1st March, 2003 provided that the annual adjustment will not exceed 10% more or less of that in the previous year	RMB900,000	RMB1,000,000
Supplemental Overseas Distribution Agency Agreement	Prices to be fallen into the price range determined by Tongrentang Ltd. and not be higher than the prices set for other independent third party buyers or agents for the same product. The agency fee payable to the Company shall be 8.5% of the total turnover of the overseas sales of the year	RMB10,000,000	RMB20,000,000

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**LETTER OF ADVICE FROM CORE PACIFIC – YAMAICHI**

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<b>Transaction</b>	<b>Bases of determination of consideration</b>	<b>Previous caps</b>	<b>Proposed caps</b>
Land Use Right Leasing Agreement	RMB53.95 per sq.m. per annum till 5th October, 2002 and be determined at the then market rent thereafter and subject to an annual adjustment of not exceeding 10% more or less of that of the previous year	RMB3,000,000	RMB3,000,000
Agreement Supplemental to the Building Leasing Agreement	RMB3,000,000 till 5th October, 2002 and subject to an adjustment each year at the then market rate	RMB3,600,000	RMB3,600,000
Advertising Agency Agreement	At the rate of 15% of the whole quantum of total advertising expenditure which is the same as that determined by the relevant authorities of the PRC for all advertising agencies in the PRC	RMB30,000,000	RMB4,500,000
Transactions between the Company and subsidiaries and associates of Tongrentang Ltd. and Tongrentang Holdings	Selling prices to the Connected Network Agents same as those for the independent network agents; and  Fees payable to the transportation agents for transportation services are approximately the same (differences being the rounding ups/downs) as those charged to the network agents	RMB150,000,000	RMB400,000,000

***The Raw Material Supply Supplemental Agreement***

Under the Raw Material Supply Supplemental 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. As the consideration for this transaction is mainly determined with reference to terms not less favorable than those obtained from independent third parties, we concur with the Directors' view that the basis of determination of the consideration for the Raw Material Supply Supplemental Agreement is fair and reasonable in so far as the Independent Shareholders are concerned.

***The Supplemental Contract for Storage and Custody***

Under the Supplemental Contract for Storage and Custody, the storage fee for the initial two years from the effective date of such contract was fixed at RMB252 per sq.m. per annum and an 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. We note that the storage fee of RMB252 per sq.m. per annum charged by Tongrentang Holdings was confirmed by LCH (Asia-Pacific) Surveyors Limited, an independent valuer, as being in line with obtainable market rent of similar properties in the same location when the H shares of the Company were listed on GEM. As such, we concur with the Directors' view that the basis of determination of the consideration for the Supplemental Contract for Storage and Custody is fair and reasonable in so far as the Independent Shareholders are concerned.

***The Supplemental Trademarks Licence Agreement***

Under the Supplemental Trademarks Licence Agreement, the annual consideration is RMB793,000 and will be subject to a maximum possible 10% yearly increment for the period from 1st March, 2003 to 31st December, 2004. We note that the annual licence fee under the Supplemental Trademarks Licence Agreement was confirmed by a professional valuer and approved by the relevant authorities of the PRC when the H shares of the Company were first listed on GEM. As such, we concur with the Directors' view that the basis of determination of the consideration for the Supplemental Trademarks Licence Agreement is fair and reasonable in so far as the Independent Shareholders are concerned.

***The Supplemental Overseas Distribution Agency Agreement***

Under the Supplemental Overseas Distribution Agency Agreement, the prices of products to be sold by the Company will be within 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. As the consideration for this transaction is mainly determined with reference to terms not less favorable than those provided to independent third parties by Tongrentang Ltd., we concur with the Directors' view that the basis of determination of the consideration for the Supplemental Overseas Distribution Agency Agreement is fair and reasonable in so far as the Independent Shareholders are concerned.

***The Land Use Right Leasing Agreement***

Pursuant to the Land Use Right Leasing Agreement, the annual rental of the properties under such agreement for the initial two years is calculated at the market rate of RMB53.95 per sq.m. and will be subject to an annual adjustment of 10% more or less than of that of the previous year with reference to the then market rent after the initial 2-year period. We note that the annual rental of RMB53.95 per sq.m. charged by Tongrentang Holdings was confirmed by LCH (Asia-Pacific) Surveyors Limited, an independent valuer, as being in line with obtainable market rent of similar properties in the same location when the H shares of the Company were first listed on GEM and any future adjustment will be determined with reference to the then market price. As such, we concur with the Directors' view that the basis of determination of the consideration for the Land Use Right Leasing Agreement is fair and reasonable in so far as the Independent Shareholders are concerned.

***The Agreement Supplemental to the Building Leasing Agreement***

Pursuant to the Agreement Supplemental to the Building Leasing Agreement, the annual rental of the properties under such agreement for the initial two years is calculated based on the market rate of RMB3,000,000 and will be subject to an annual adjustment of 10% more or less than of that of the previous year with reference to the then market rent after the initial 2-year period. We note that the annual rental of RMB3,000,000 charged by Tongrentang Holdings was confirmed by LCH (Asia-Pacific) Surveyors Limited, an independent valuer, as being in line with obtainable market rent of similar properties in the same location when the H shares of the Company were first listed on GEM and any future adjustment will be determined with reference to the then market price. As such, we concur with the Directors' view that the basis of determination of the consideration for the Agreement Supplemental to the Building Leasing Agreement is fair and reasonable in so far as the Independent Shareholders are concerned.

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## LETTER OF ADVICE FROM CORE PACIFIC – YAMAICHI

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### *The Supplemental Advertising Agency Agreement*

Pursuant to the Supplemental Advertising Agency Agreement, the consideration under such agreement will be determined at the rate of 15% of the whole quantum of total advertising expenditure which, and also confirmed by the Directors, is the same as that determined by the relevant authorities of the PRC for all advertising agencies in the PRC. As such, we concur with the Directors' view that the basis of determination of the consideration for the Supplemental Advertising Agency Agreement is fair and reasonable in so far as the Independent Shareholders are concerned.

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

Pursuant to the arrangements between the Company, Tongrentang Holdings and Tongrentang Ltd., the selling prices of the Company's products to the Connected Network Agents are same as those for the independent network agents and the fees payable to the transportation agents for transportation services are approximately the same (differences being the rounding ups/downs) as those charged to the network agents. As the consideration for such such arrangement is mainly determined with reference to terms not less favorable than those given to and obtained from independent third parties, we concur with the Directors' view that the bases of determination of the consideration for the arrangements concerned are fair and reasonable in so far as the Independent Shareholders are concerned.

### **Bases of setting the annual caps**

#### *The Raw Material Supply Supplemental Agreement*

We note that the proposed cap in respect of the Raw Material Supply Supplemental Agreement is derived by the Board 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. We consider that such proposed cap is justifiable given the amounts of approximately RMB63,643,000, RMB74,968,000 and RMB50,794,000 for each of the two years ended 31st December, 2001 and the three months ended 31st March, 2002 respectively under this connected transaction.

#### *The Supplemental Contract for Storage and Custody*

We note that the storage fee of RMB252 per sq.m. per annum charged by Tongrentang Holdings was confirmed by LCH (Asia-Pacific) Surveyors Limited, an independent valuer, as being in line with obtainable market rent of similar properties in the same location when the H shares of the Company were first listed on GEM. We also note that the proposed cap was

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## LETTER OF ADVICE FROM CORE PACIFIC – YAMAICHI

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derived by the Board on the basis of the Increase and the anticipated storage areas of approximately 16,000 sq.m. and 28,000 sq.m. to be leased by Tongrentang Holdings in late 2002 and by the end of 2004 respectively. We concur with the Directors' view that the proposed cap are justifiable given the amounts of approximately RMB2,268,000, RMB2,268,000 and RMB567,000 for each of the two years ended 31st December, 2001 and the three months ended 31st March, 2002 respectively under this connected transaction.

### ***The Supplemental Trademarks Licence Agreement***

We note that the annual licence fee under the Supplemental Trademarks Licence Agreement was confirmed by a professional valuer and approved by the relevant authorities of the PRC when the H shares of the Company were listed on GEM. The Directors have confirmed that the proposed cap was derived by the Board on the basis of the maximum possible annual adjustment pursuant to such agreement. Accordingly, we concur with the Directors' view that the proposed cap is fair and reasonable in so far as the Independent Shareholders are concerned.

### ***The Supplemental Overseas Distribution Agency Agreement***

We note that the proposed cap in respect of the Supplemental Overseas Distribution Agency Agreement was derived by the Board on the basis of the increase in the Company's sales points in the overseas markets thereby resulting in the increase in volume of the sales of Tongrentang Ltd's products. We consider that such proposed cap is justifiable given the amounts of approximately RMB1,479,000, RMB8,344,000 and RMB2,721,000 for each of the two years ended 31st December, 2001 and the three months ended 31st March, 2002 respectively under this connected transaction.

### ***The Agreement Supplemental to the Building Leasing Agreement***

We note that the annual rental of RMB3,000,000 charged by Tongrentang Holdings was confirmed by LCH (Asia-Pacific) Surveyors Limited, an independent valuer, as being in line with obtainable market rent of similar properties in the same location when the H shares of the Company were first listed on GEM. We concur with the Directors' view that the proposed cap derived from the annual rental of RMB3,000,000 and the maximum allowable annual adjustment under the agreement concerned is fair and reasonable in so far as to the Independent Shareholders are concerned.

### ***The Land Use Right Leasing Agreement***

We note that the rental fee of RMB53.95 per sq.m. per annum charged by Tongrentang Holdings was confirmed by LCH (Asia-Pacific) Surveyors Limited, an independent valuer, as being in line with obtainable market rent of similar properties in the same location when the H

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## LETTER OF ADVICE FROM CORE PACIFIC – YAMAICHI

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shares of the Company were listed on GEM. We concur with the Directors' view that the proposed cap derived from the rental fee of RMB53.95 per sq.m. per annum and the maximum allowable annual adjustment under the agreement concerned is fair and reasonable in so far as to the Independent Shareholders are concerned.

### *The Supplemental Advertising Agency Agreement*

We note that the proposed cap in respect of The Supplemental Advertising Agency Agreement was derived by the Board on the basis of its anticipated advertising expenditures of the Company in the PRC. We consider that such proposed cap is justifiable given the amounts of approximately RMB2,330,000, RMB3,267,000 and RMB427,000 for each of the two years ended 31st December, 2001 and the three months ended 31st March, 2002 respectively under this connected transaction.

### *The transactions between the Company and subsidiaries and associates of Tongrentang Ltd. and Tongrentang Holdings*

The Directors have confirmed that the proposed cap in respect of the arrangements concerned is derived by the Board on the basis of the significant increase in the market demand for the pharmaceutical products of the Company and the rapid increase in the number of the network agents. We note the increasing trend of the amounts under this connected transaction from approximately RMB73,030,000 for the year ended 31st December, 2000 to approximately RMB131,390,000 for the year ended 31st December, 2001 and approximately RMB79,402,000 for the three months ended 31st March, 2002. We also note that the number of Connected Network Agents from 12 as of October 2000 to 51. Accordingly, we consider that such proposed cap is justifiable.

### **Benefits of the Ongoing Connected Transactions**

As a result of the Ongoing Connected Transactions, the Company will continue to place a strong reliance on Tongrentang Holdings, Tongrentang Ltd. and Tongrentang Advertising. However, the Directors believe that the Company can obtain more favourable and reliable products and services from connected persons than from independent third parties by entering in to the Ongoing Connected Transactions.

The Directors have confirmed that the Ongoing Connected Transactions will be conducted on normal commercial terms or on terms not less favorable 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). The Directors consider it to be in the interests of the Company to engage in the Ongoing Connected transactions as such transactions will facilitate the smooth operations and growth of the Company's business given that the Company has operated in the same manner for a number of years. Based on the

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## LETTER OF ADVICE FROM CORE PACIFIC – YAMAICHI

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nature of the Ongoing Connected Transactions, we concur with the Directors' view that these transactions are in line with the business of the Company and the entering into the Ongoing Connected Transactions are beneficial to the development of the Company.

### RECOMMENDATIONS

Having taken into account the principal factors and reasons referred to above, we consider that the terms of the Supplemental Agreements and the proposed caps for each of the Ongoing Connected Transactions are fair and reasonable in so far as the Independent Shareholders are concerned. Accordingly, we advise the Independent Board Committee to recommend the Independent Shareholders to vote in favour of the ordinary resolutions in relation to the Supplemental Agreements and the proposed caps for each of the Ongoing Connected Transactions at the SGM.

Yours faithfully,

For and on behalf of

**Core Pacific - Yamaichi Capital Limited**

**Philip Wan**

*Executive Director and Head of Corporate Finance*



## 1. RESPONSIBILITY STATEMENT

This document, for which 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 the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief:–

- (a) the information contained in this document is accurate and complete in all material respects and not misleading;
- (b) there are no other matters the omission of which would make any statement in this document misleading; and
- (c) all opinions expressed in this document have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

## 2. DISCLOSURE OF INTERESTS

As at the Latest Practicable Date, the interests of the 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 required pursuant to Rules 5.40 to 5.59 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange, were as follows:

### The Company

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

*Note:* All represented domestic shares.

**Tongrentang Ltd.**

Name	Personal Interest Number of shares	Family Interest Number of shares	Corporate Interest Number of shares	Other Interest Number of shares
Yin Shun Hai	19,923 ( <i>Note</i> )	–	–	–
Wang Zhao Qi	15,939 ( <i>Note</i> )	–	–	–
Mei Qun	15,939 ( <i>Note</i> )	–	–	–
Tian Da Fang	19,923 ( <i>Note</i> )	–	–	–

*Note:* All represented A shares of Tongrentang Ltd.

Save as disclosed above, as at the Latest Practicable Date:

- (i) none of the Directors or Supervisors had any interest in the equity or debt securities of the Company or any associated corporations (within the meaning of the SDI Ordinance) which have to be notified to the Company and the Stock Exchange pursuant to section 28 of the SDI Ordinance (including interests which they are deemed or taken to have under section 31 or Part I of the Schedule to the SDI Ordinance) or which are required, pursuant to section 29 of the SDI Ordinance, to be entered in the register referred to therein, or which are required pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, to have been notified to the Company and the Stock Exchange;
- (ii) none of the Directors or Core Pacific-Yamaichi had any direct or indirect interest in any assets which had been acquired or disposed of by or leased to any member of the Company and its subsidiaries and joint ventures (the “Group”) since 31 December 2001 (the date to which the latest published audited consolidated accounts of the Company were made up) or proposed to be so acquired, disposed of or leased;
- (iii) there is no contract or arrangement subsisting at the date of this circular in which any of the Directors is materially interested and which is significant in relation to the business of the Group;
- (iv) Core Pacific-Yamaichi does not have any shareholding in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group; and
- (v) none of the Directors or Supervisors are required, pursuant to Rules 5.40 to 5.59 of the GEM Listing Rules relating to securities transactions by Directors to be notified to the Company and the Stock Exchange.

**Substantial shareholders**

As at the Latest Practicable Date, 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 in the issued shared capital of the Company was as follows:

<b>Name</b>	<b>Number of shares</b>	<b>Shareholding percentage as at the Latest Practicable Date</b>
Tongrentang Ltd. ( <i>Note 1</i> )	100,000,000 ( <i>Note 2</i> )	54.705%

*Notes:*

1. As at the Latest Practicable Date, Tongrentang Ltd. is owned as to 69.98% by Tongrentang Holdings.
2. All represented domestic shares.

As set out in the Prospectus, each of the promoters, Directors and initial management shareholders has undertaken with the Company and the Stock Exchange that they would not, for a period of two years from the date on which dealings on H shares were first commenced on GEM, sell, transfer or dispose of any shares. Upon listing until the date of this report there was no change in the shareholding of the Directors and initial management shareholders.

Save as disclosed above, the Company is not aware of any person with an interest of 10% or more in the issued capital of the Company as at the Latest Practicable Date.

**3. SPONSOR'S INTERESTS**

BOCI Asia Limited, its directors, employees or associates (as referred to in Note 3 to the Rule 6.35 of the GEM Listing Rules) did not have any interests in any class of securities of the Company or any other company in the Group (including options or rights to subscribe for such securities) as at the Latest Practicable Date.

By a sponsorship agreement entered between the Company and BOCI Asia Limited dated 23 October 2000, BOCI Asia Limited was appointed as a sponsor of the Company for the remainder of the year ended 31 December 2000 and for a period of two years commencing on 1 January 2001 in consideration of which the Company shall pay an agreed fee to BOCI Asia Limited.

**4. LITIGATION**

From time to time the Directors expect the Group to be subject to legal proceedings and claims in the ordinary course of business of the Company. Such legal proceedings or claims,

even if not meritorious, could result in the expenditure of significant financial and managerial resources. The Directors are currently not aware of any legal proceedings or claims that the Directors believe will have, individually or in the aggregate, a material adverse effect on the Company's business, financial condition or results of operations.

#### **5. MATERIAL ADVERSE CHANGE**

The Directors are not aware of any material adverse change in the financial or trading positions of the Group since 31 December 2001, the date to which the latest audited financial statements of the Group were made up.

#### **6. SERVICE CONTRACTS**

Each of the executive Directors and Supervisors has entered into a service contract with the Company for a period of three years commencing on 9 March 2000 which shall continue until the conclusion of the annual general meeting of the Company in 2003 and thereafter subject to the approval of the shareholders in annual general meeting of the Company, each service contract may be renewed each time for three years.

#### **7. CONSENT**

Core Pacific-Yamaichi, a registered investment adviser registered under the Securities Ordinance (Cap. 333 of the Laws of Hong Kong), has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter and references to its name in the form and context in which it appears.

#### **8. COMPETING INTERESTS**

##### *Direct competition with Tongrentang Ltd. and Tongrentang Holdings*

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

The Company, Tongrentang Ltd. and Tongrentang Holdings are all engaged in the manufacturing of Chinese Patent Medicine. Their businesses are delineated in accordance with their differences in focus on the forms of medicine they produce. Tongrentang Ltd. mainly produces Chinese Patent Medicine in traditional form such as large pill, powder, ointment, pellet and medicinal wine. It also has some minor production lines for the production of granule and pills. On the other hand, the Company focuses on manufacturing products in forms of granules, pills, tablets and soft capsules. Tongrentang Ltd.'s main products include Angong Niu Huang Pills (安宮牛黃丸), Tongren Wuji Baifen Pills (同仁烏雞百鳳丸), Tongren Dahuolo Pellets (同仁大活絡丹) and Guogong Wine (國公酒). Tongrentang Holdings focuses on producing medicine in traditional forms such as honeyed pills.

In order to ensure that the business delineation between the Company and Tongrentang Holdings and Tongrentang Ltd. are properly documented and formalized, pursuant to an undertaking dated 19 October 2000 given by Tongrentang Holdings and Tongrentang Ltd. in favor of the Company ("October Undertaking"), Tongrentang Holdings and Tongrentang Ltd. undertook that, except for Angong Niu Huang Pills (安宮牛黃丸), Tongrentang Holdings, Tongrentang Ltd. and their respective subsidiaries would not produce any common products of the same names or under the same names with different forms that may compete directly with those of the Company in the future. In this regard, the Company, Tongrentang Ltd. and Tongrentang Holdings agreed not to produce certain of their products so that only one of them would continue the production of each of the products with common production permits. As such, it was agreed that out of the 86 products of the Company with common production permits, 49 of them would only be manufactured by the Company in the future, while 31 and 5 of them would only be manufactured by Tongrentang Ltd. and Tongrentang Holdings respectively upon listing of the shares of the Company on GEM on 31 October 2000 and only one of them, Angong Niu Huang Pills (安宮牛黃丸), would be manufactured by both the Company and Tongrentang Ltd. in the future.

Out of the products which are manufactured by the Company throughout the years, 8 of them are found to have common production permits with Tongrentang Ltd. Currently, apart from Angong Niu Huang Pills, the Company manufactures 4 out of the 7 of them while Tongrentang Ltd. manufactures the remaining 3.

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

*First right of refusal*

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

To provide for the Company's focus on developing the four major forms of products (namely, granules, pills, tablets and soft capsules), pursuant to the October Undertaking, Tongrentang Holdings and Tongrentang Ltd. have granted to the Company a first right of refusal to manufacture and sell any of the new products developed by Tongrentang Holdings, Tongrentang Ltd. or any of their respective subsidiaries and which belong to one of the four main forms of the Company. Once the first right of refusal is exercised, both Tongrentang Ltd. and Tongrentang Holdings or their respective subsidiaries are not allowed to manufacture any of such new products. In the event the Company develops any new product based on the existing products of Tongrentang Holdings, Tongrentang Ltd. or their respective subsidiaries, and such new product falls into one of the major forms of the Company, the Company will be entitled to manufacture such new product and Tongrentang Holdings, Tongrentang Ltd. and their respective subsidiaries will not be allowed to manufacture such new product. The Directors believe that the above undertaking would clarify that both Tongrentang Ltd. and Tongrentang Holdings would support the Company in its development of the four major forms of products in the future.

In order for the Company to have an independent review in deciding whether to proceed with the research and development of new products, the Company confirms that the independent non-executive Directors, one of whom being a reputable person in the Chinese medicine industry, will determine whether to exercise the first right of refusal granted by Tongrentang Holdings or Tongrentang Ltd. to develop any proposed new products which belong to one of the major forms (namely, granules, pills, tablets and soft capsules) of the Company.

In the event that the Company refuses the first right of refusal offered by Tongrentang Ltd. and/or Tongrentang Holdings, terms of the option to be offered to independent third party should not be more favourable than that originally offered to the Company. Otherwise, the Company should be given the opportunity to re-consider the option under the new terms. The above undertaking would no longer be valid in the event that the direct or indirect aggregate shareholdings of Tongrentang Holdings or Tongrentang Ltd. in the Company falls below 30%.

**9. GENERAL**

- (a) The share registrar and transfer office of the Company in Hong Kong is Hong Kong Registrars Limited, Rooms 1901-1905, 19/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.
- (b) The English text of this circular shall prevail over the Chinese text.

**10. DOCUMENTS FOR INSPECTION**

Copies of the following documents will be available for inspection during normal business hours at Rm 1802, 18th Floor, Workington Tower, 78 Bonham Strand, Sheung Wan, Hong Kong up to and including 28 June 2002:

- (a) the Raw Material Supply Agreement
- (b) the Raw Material Supply Supplemental Agreement
- (c) the Contract for Storage and Custody
- (d) the Supplemental Contract for Storage and Custody
- (e) the Undertaking
- (f) the Trademark Licence Agreement
- (g) the Supplemental Trademark Licence Agreement
- (h) the Overseas Distribution Agency Agreement
- (i) the Supplemental Overseas Distribution Agency Agreement
- (j) the Land Use Right Leasing Agreement
- (k) the Agreement Supplemental to the Building Leasing Agreement
- (l) the Advertising Agency Agreement
- (m) the Supplemental Advertising Agency Agreement
- (n) the letter from the Independent Board Committee, the text of which is set out on pages 23 to 24 in this circular

- (o) the letter from Core Pacific-Yamaichi the text of which is set out on pages 25 to 37 of this circular
- (p) the written consent of Core Pacific-Yamaichi referred to in paragraph 7 of this Appendix
- (q) all the service agreements as referred to in this appendix headed “Service Contracts”
- (r) the annual reports and accounts of the Company for the two years ended 31 December 2001, and
- (s) the articles of association of the Company



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## NOTICE OF SPECIAL GENERAL MEETING

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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 company incorporated in the People's Republic of China with limited liability)*

**NOTICE IS HEREBY GIVEN** that a special general meeting of Tong Ren Tang Technologies Co. Ltd. (“Company”) will be held at Jia 20, Nansanhuan Zhonglu, Fengtai District, Beijing, the PRC on 25 July 2002 at 2:00 p.m. for the purpose of considering and, if thought fit, passing, with or without modification, the following resolutions:–

### ORDINARY RESOLUTIONS

1. “**THAT**

- (1) the following continuing connected transactions (as defined in the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited) as more particularly described, defined or referred to in the circular to the shareholders of the Company dated 7 June 2002 be and are hereby approved subject to the annual caps as stated below for 3 years ending 31 December 2004:
  - (a) the Raw Material Supply Agreement (as amended by the Raw Material Supply Supplemental Agreement) subject to an annual cap of RMB150,000,000;
  - (b) the Contract for Storage and Custody (as amended by the Supplemental Contract for Storage and Custody) subject to an annual cap of RMB7,000,000;
  - (c) the transactions between the Company and subsidiaries and associates of China Beijing Tong Ren Tang Group Co. Ltd. and Beijing Tongrentang Company Limited, subject to an annual cap of RMB400,000,000;
  - (d) the Undertaking and Trademark Licence Agreement (as amended by the Supplemental Trademark Licence Agreement) subject to an annual cap of RMB1,000,000;
  - (e) the Overseas Distribution Agency Agreement (as amended by the Supplemental Overseas Distribution Agency Agreement) subject to an annual cap of RMB20,000,000;

\* For identification purpose only

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## NOTICE OF SPECIAL GENERAL MEETING

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- (f) the Land Use Right Leasing Agreement subject to an annual cap of RMB3,000,000;
- (g) the Agreement Supplemental to the Building Leasing Agreement subject to an annual cap of RMB3,600,000;
- (h) the Advertising Agency Agreement (as amended by the Supplemental Advertising Agency Agreement) subject to an annual cap of RMB4,500,000;

(the Raw Material Supply Supplemental Agreement, the Supplemental Contract for Storage and Custody, the Supplemental Trademark Licence Agreement, the Supplemental Overseas Agency Agreement and the Supplemental Advertising Agency Agreement collectively referred to below as the “**Supplemental Agreements**”, copies of which have been produced to the meeting marked “A”-“E” respectively and signed by the chairman of the meeting for the purpose of identification);

- (2) the entering into, execution, performance and implementation of the Supplemental Agreements by the directors of the Company (the “**Directors**”) for and on behalf of the Company be and are hereby approved, confirmed and ratified; and
  - (3) the Directors be and are hereby authorized on behalf of the Company to sign, seal, execute, perfect and deliver all such documents and do all such deeds, acts, matters and things as they may in their discretion consider necessary or desirable for the purposes of or in connection with the implementation of the Supplemental Agreements (together with the principal agreements, as amended, respectively) and all the continuing connected transactions mentioned above.”
2. “**THAT** PricewaterhouseCoopers be and are hereby appointed as the auditors of the Company in place of the retired auditors, Arthur Andersen & Co., and the Directors be and are hereby authorized to fix the remuneration for the appointed auditors.”

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

Beijing, the PRC, 7 June 2002

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## NOTICE OF SPECIAL GENERAL MEETING

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*Registered Office and principal  
place of business in the PRC:*

No. 10 Hong Da Bei Road  
Beijing Economic and Technology  
Development Zone  
Yi Zhuang  
Beijing, the PRC

*Principal place of business in  
Hong Kong:*

Rm 1802, 18th Floor  
Workington Tower  
78 Bonham Strand  
Sheung Wan  
Hong Kong

*Note:*

- (i) A member of the Company entitled to attend and vote at the meeting is entitled to appoint a proxy or proxies to attend and vote in his stead. A proxy need not be a member of the Company. A form of proxy for use at the meeting is enclosed herewith. In the case of a joint holding, the form of proxy may be signed by any joint holder, but if more than one joint holder is present at the meeting, whether in person or by proxy, that one of the joint holders whose name stands first on the register of members in respect of the relevant joint holding shall alone be entitled to vote in respect thereof.
- (ii) To be valid, the form of proxy together with any power of attorney or other authority under which it is signed or a notarially certified copy of that power of attorney or authority must be deposited with the Hong Kong H share registrar of the Company, Hong Kong Registrars Limited at Rooms 1901-1905, 19th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 24 hours before the time appointed for holding the meeting or any adjournment thereof.
- (iii) Completion and return of the accompanying form of proxy will not preclude members of the Company from attending and voting in person at the meeting or any adjournment thereof should they so wish.
- (iv) The register of members of the Company in Hong Kong will be closed from 24 June 2002 to 25 July 2002, both days inclusive, during which period no transfer of H shares of the Company will be effected. All transfer document accompanied by the relevant share certificates must be lodged with the Company's H share registrar and transfer office in Hong Kong, Hong Kong Registrars Limited at Rooms 1901-1905, 19th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:00 p.m. on 21 June 2002.
- (v) Holders of H shares of the Company who intend to attend the SGM should complete the enclosed reply slip for the meeting and return it, by hand or by post or by fax to the number: (852) 2865 0990/(852) 2529 6087, to the Company's H share registrar and transfer office in Hong Kong, Hong Kong Registrars Limited at Rooms 1901-1905, 19th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong on or before 5 July 2002.