



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

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



Interim Report 2002



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HIGHLIGHTS

- Turnover increased by approximately 56.9% for the six months ended 30 June 2002 as compared with the corresponding period in 2001.
- Net profit increased by approximately 68.56% for the six months ended 30 June 2002 as compared with the corresponding period in 2001.
- Earnings per share for the six months ended 30 June 2002 was RMB0.419.



HALF-YEARLY RESULTS (UNAUDITED)

The Board of Directors (the “Board”) of Tong Ren Tang Technologies Co. Ltd. (the “Company”) is pleased to announce the unaudited results of the Company and its subsidiaries and its joint venture (hereafter collectively referred to as the “Group”) for the six months ended 30 June 2002, as follows:

Condensed Consolidated Statement of Income

		For the six months ended 30 June		For the three months ended 30 June	
		2002 <i>(Unaudited)</i> RMB'000	2001 <i>(Unaudited)</i> RMB'000	2002 <i>(Unaudited)</i> RMB'000	2001 <i>(Unaudited)</i> RMB'000
Turnover	3	395,525	252,090	201,723	129,128
Cost of sales		(188,079)	(126,394)	(83,512)	(63,150)
Gross profit		207,446	125,696	118,211	65,978
Selling and distribution costs		(54,637)	(34,006)	(19,503)	(19,139)
Administrative expenses		(75,673)	(50,534)	(56,778)	(30,926)
Profit from operations		77,136	41,156	41,930	15,913
Finance income, net	4	1,365	4,241	626	1,434
Profit before taxation	5	78,501	45,397	42,556	17,347
Taxation	6	(595)	–	(367)	–
Income before minority interests		77,906	45,397	42,189	17,347
Minority interests		(1,385)	–	(1,313)	–
Net profit		76,521	45,397	40,876	17,347
Earnings per share – Basic and diluted	7	RMB0.419	RMB0.248	RMB0.224	RMB0.095

Condensed Consolidated Balance Sheet

		30 June 2002 (Unaudited) RMB'000	31 December 2001 (Audited) RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment, net	8	121,313	95,423
Land use rights, net		17,629	17,652
Investments in associated company		12,913	6,194
Deferred tax assets		230	230
Other long-term assets		4,044	8,102
		<u>156,129</u>	<u>127,601</u>
Current assets			
Cash and cash equivalents		212,774	178,565
Short-term bank deposits		190,620	208,939
Accounts receivable, net	9	10,277	7,992
Inventories		121,486	83,711
Due from related parties		-	855
Prepayment and other current assets		13,996	10,198
		<u>549,153</u>	<u>490,260</u>
Total assets		<u>705,282</u>	<u>617,861</u>
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	10	182,800	182,800
Reserves	11	295,395	273,714
		<u>478,195</u>	<u>456,514</u>
Minority interests		<u>13,515</u>	<u>12,130</u>
Current liabilities			
Short-term borrowings		15,000	30,000
Accounts payable	12	39,727	28,069
Salary and welfare payable		27,611	10,094
Advance from customers		13,899	47,697
Due to related parties		-	9,337
Accrued expenses and other payables		117,335	24,020
		<u>213,572</u>	<u>149,217</u>
Total equity and liabilities		<u>705,282</u>	<u>617,861</u>



Condensed Consolidated Statement of Cash Flows

	For the six months ended ended 30 June	
	2002 <i>(Unaudited)</i> RMB'000	2001 <i>(Unaudited)</i> RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash generated from operations	99,147	90,886
Interest paid	(672)	(1,965)
Income taxes refunded	2,049	1,044
	100,524	89,965
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property, plant and equipment	(32,630)	(8,884)
Acquisition of land use rights	-	(9,173)
Proceeds from disposal of property, plant and equipment	678	-
Investments in associated company	(6,719)	-
Decrease (Increase) in short-term bank deposits	18,319	(5,257)
Interest received	2,037	6,206
	(18,315)	(17,108)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from short-term borrowings	-	40,000
Repayment of short-term borrowings	(15,000)	(45,400)
Dividends paid	(33,000)	(38,388)
	(48,000)	(43,788)
NET INCREASE IN CASH AND CASH EQUIVALENTS	34,209	29,069
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	178,565	310,958
CASH AND CASH EQUIVALENTS AT END OF PERIOD	212,774	340,027

Notes:

1. Basis of presentation

The Group has prepared the condensed consolidated financial statements in accordance with the International Accounting Standard 34 "Interim Financial Reporting".

2. Principal accounting policies

The accompanying condensed consolidated financial statements are prepared in accordance with the International Financial Reporting Standards as published by the International Accounting Standards Board. The accounting policies adopted are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2001.

3. Turnover

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

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

	For the six months ended 30 June		For the three months ended 30 June	
	2002 RMB'000	2001 RMB'000	2002 RMB'000	2001 RMB'000
Sales of medicine:				
Domestic	378,877	235,174	195,352	118,157
Overseas	11,935	11,691	4,634	9,400
Agency fee income - domestic	4,713	5,225	1,737	1,571
	<u>395,525</u>	<u>252,090</u>	<u>201,723</u>	<u>129,128</u>

4. Finance income, net

	For the six months ended 30 June		For the three months ended 30 June	
	2002 RMB'000	2001 RMB'000	2002 RMB'000	2001 RMB'000
Interest expenses on bank loans repayable within 5 years	(646)	(1,193)	(224)	(584)
Interest income	2,037	6,206	941	2,729
Others	(26)	(772)	(91)	(711)
	<u>1,365</u>	<u>4,241</u>	<u>626</u>	<u>1,434</u>



5. Profit before taxation

	For the six months ended 30 June		For the three months ended 30 June	
	2002 RMB'000	2001 RMB'000	2002 RMB'000	2001 RMB'000
Depreciation of property, plant and equipment	6,346	4,845	3,342	2,404
Provision for doubtful debts	—	1,289	—	1,289

6. Taxation

Pursuant to the relevant income taxation regulations of the People's Republic of China (the "PRC"), a high-technology enterprise ("HTE") located in a designated area of Beijing Economic and Technological Development Zone ("BETDZ") is subject to Enterprise Income Tax ("EIT") at a rate of 15%. Moreover, upon approval by the relevant local tax bureau, such a HTE is entitled to an exemption from EIT for the first three years from its commencement of operations and a 50% reduction for the three years thereafter. The certification as a HTE is subject to an annual review by the relevant government bodies. In addition, an amount equal to the EIT exemption or reduction from 15% has to be appropriated to a non-distributable tax reserve.

In August 2001, the Company renewed the HTE certification granted by Zhongguancun Hi-Tech District Committee for the year of 2001. The Company was registered in the BETDZ and has obtained an approval from the BETDZ Local Tax Bureau to enjoy an EIT exemption for three years commencing from 2000 and a 50% reduction in EIT for the three years thereafter.

For the period ended 30 June 2002, an amount equal to the 15% EIT exempted amounting to approximately RMB11,393,000 (2001: RMB9,362,000) was transferred to the tax reserve.

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

	For the six months ended 30 June		For the three months ended 30 June	
	2002 RMB'000	2001 RMB'000	2002 RMB'000	2001 RMB'000
Accounting profit	78,501	45,397	42,556	17,347
The statutory tax rate	15%	15%	15%	15%
Tax at the statutory tax rate	11,988	6,810	6,340	2,603
Adjustment on EIT	—	2,552	—	2,552
Effect on tax benefit of being a HTE	(11,393)	(9,362)	(5,973)	(5,155)
Tax expense	595	—	367	—

For the period ended 30 June 2002, the tax expense of the Group represented the EIT payable by a subsidiary of the Company. Although another subsidiary of the Company has profit during the period, the subsidiary has not yet completed the tax registration procedures and therefore no EIT has been paid during the period. Both subsidiaries are subject to EIT at a rate of 33%. Other than these, the Company's other subsidiaries and joint venture had no material operating activities nor taxable profits for the period and therefore no EIT provision was made.

7. Earnings per share

The calculation of the basic earnings per share for the six months ended 30 June 2002 was based on the net profit of approximately RMB76,521,000 (2001: RMB45,397,000) divided by the weighted average number of shares issued during the period of 182,800,000 shares (2001: 182,800,000 shares).

Diluted earnings per share equal basic earnings per share because there were no potential dilutive ordinary shares outstanding during the period.

8. Additions to property, plant and equipment

During the period, the Group spent approximately RMB32,630,000 (31 December 2001: RMB24,712,000) on the acquisition of property, plant and equipment.

9. Accounts receivable, net

The majority of the Group's accounts receivable relate to sales of goods from third party customers. The Group performs ongoing credit evaluations of its customers' financial condition and generally does not require collateral on accounts receivable.

	30 June 2002 <i>(Unaudited)</i> RMB'000	31 December 2001 <i>(Audited)</i> RMB'000
Accounts receivable	17,229	14,944
Provision for doubtful accounts	(6,952)	(6,952)
Accounts receivable, net	<u>10,277</u>	<u>7,992</u>

The aging analysis of accounts receivable was as follows:

	30 June 2002 <i>(Unaudited)</i> RMB'000	31 December 2001 <i>(Audited)</i> RMB'000
Within 4 months	4,375	5,550
Over 4 months but within 1 year	4,459	3,689
Over 1 year but within 2 years	2,690	4,630
Over 2 years but within 3 years	4,630	-
Over 3 years	1,075	1,075
	<u>17,229</u>	<u>14,944</u>



10. Share capital

	30 June 2002		31 December 2001	
	Number of shares	Nominal value RMB'000	Number of shares	Nominal value RMB'000
Registered	<u>182,800,000</u>	<u>182,800</u>	<u>182,800,000</u>	<u>182,800</u>
Issued and fully paid				
Domestic shares of RMB 1 each	<u>110,000,000</u>	<u>110,000</u>	<u>110,000,000</u>	<u>110,000</u>
H shares of RMB 1 each	<u>72,800,000</u>	<u>72,800</u>	<u>72,800,000</u>	<u>72,800</u>
	<u>182,800,000</u>	<u>182,800</u>	<u>182,800,000</u>	<u>182,800</u>

11. Reserves

	Share premium RMB'000	Statutory surplus reserve fund RMB'000	Statutory public welfare fund RMB'000	Tax reserve RMB'000	Retained profits RMB'000	Total RMB'000
Balances as of 1 January 2001	157,925	5,438	2,719	4,427	41,795	212,304
Net profit for the year	-	-	-	-	99,798	99,798
Final dividend declared	-	-	-	-	(38,388)	(38,388)
Appropriation from retained profits	-	10,452	5,226	18,766	(34,444)	-
Balances as of 31 December 2001 (Audited)	<u>157,925</u>	<u>15,890</u>	<u>7,945</u>	<u>23,193</u>	<u>68,761</u>	<u>273,714</u>
Final dividend declared	-	-	-	-	(54,840)	(54,840)
	<u>157,925</u>	<u>15,890</u>	<u>7,945</u>	<u>23,193</u>	<u>13,921</u>	<u>218,874</u>
Net profit for the three months ended 31 March 2002	-	-	-	-	35,645	35,645
Appropriation from retained profits (See Note 6 above)	-	-	-	5,420	(5,420)	-
Balances as of 31 March 2002 (Unaudited)	<u>157,925</u>	<u>15,890</u>	<u>7,945</u>	<u>28,613</u>	<u>44,146</u>	<u>254,519</u>
Net profit for the three months ended 30 June 2002	-	-	-	-	40,876	40,876
Appropriation from retained profits (See Note 6 above)	-	-	-	5,973	(5,973)	-
Balances as of 30 June 2002 (Unaudited)	<u>157,925</u>	<u>15,890</u>	<u>7,945</u>	<u>34,586</u>	<u>79,049</u>	<u>295,395</u>

12. Accounts payable

The aging analysis of accounts payable was as follows:

	30 June 2002 <i>(Unaudited)</i> RMB'000	31 December 2001 <i>(Audited)</i> RMB'000
Within 4 months	11,658	25,676
Over 4 months but within 1 year	26,034	846
Over 1 year but within 2 years	734	1,091
Over 2 years but within 3 years	896	–
Over 3 years	405	456
	<u>39,727</u>	<u>28,069</u>

13. Charges on group assets

As at 30 June 2002, none of the Group's assets was pledged as security for liabilities (2001: Nil).

14. Foreign currency risk

The Group has foreign currency risk as certain of its payables to equipment suppliers and certain accounts receivable arising from export sales are denominated in foreign currencies, principally U.S. dollars. Fluctuation of the exchange rates of Renminbi against foreign currencies could affect the Group's results of operations.

15. Capital commitments

As of 30 June 2002, the Group had the following capital commitments which were not provided for in the condensed consolidated financial statements of the Group:

Commitments relating to investment contributions to investee entities, which have been authorized and contracted for, amounted to RMB78,484,000 (31 December 2001: RMB88,417,000). Out of these commitments, the timing of contributions amounting to RMB78,484,000 is subject to further negotiations with the co-investors in these entities, progress of the investment projects and the approval from the government authorities.



INTERIM DIVIDENDS

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2002 (2001: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

Consistent with the overall strategy of the year to capture opportunities and develop with innovation, the Company strove for establishing an effective market-oriented operation system, and achieved satisfactory results in the first half of the year 2002 by focusing on market trend to boost sales, on technology and innovation to strengthen research and development, and on fundamental management to ensure product and work quality.

Turnover and net profit for the six months ended 30 June 2002 amounted to RMB395,525,000 and RMB76,521,000, representing an increase of 56.9% and 68.56% respectively as compared with the corresponding period in 2001.

As the Company mainly operates in one industry and geographical segment, no segment information is presented.

Production

To meet the ever-increasing market demand, the Company's targets in the first half of the year were to enhance productivity and to guarantee market supply with existing production deployment and under the same production scale. As such, grasping the opportunity of corporate streamlining and integration, the Company further improved internal production and management systems, and made reasonable arrangements of production as well as quick and accurate response to market demand in the foreground of successful implementation of Good Manufacturing Practice ("GMP") improvements being guaranteed. As a result, the Company outperformed in production.

GMP

The Company proactively launched the GMP standard certification, and further consolidated its achievements in GMP standards. In addition to granules and pills, the production line of soft capsules has successfully passed the GMP standard certification in the first half of the year whereas software programming of the GMP standard certification for production lines of liquid dosage has basically finished. The launch and development in the GMP standard certification effectively enhanced the quality of corporate management.

Sales

In the first half of 2002, the newly established operation branch companies and new product branch companies undertook all domestic sales of the Company's products. In the light of spirits of the new company, new people and new mechanism, the two branch companies introduced new sales concepts, implemented sales strategies of "creating demand, putting emphasis on end users, initiating development and gradually dominating market shares" to fully participate in market competition, expanded domestic market share of the Company's products and accomplished good results with well-received products, reasonable price, excellent service and good reputation.

In selling products, the operation branch companies 1) persisted in implementing cash sales systems and credit sales systems; 2) stressed on establishing quality of sales teams; and 3) adopted brand name strategies to fully develop core products. Turnover of the flagship products Liuwei Dihuang Pill (六味地黄丸), Niu Huang Jiedu Tablet (牛黄解毒片) and Ganmao Qingre Granule (感冒清热颗粒) for the first half of 2002 represented an increase of 82.08%, 60.05% and 58.16% respectively over the corresponding period in 2001.

The new product branch companies mainly sold new products and certain other products, such as Ruhe Neixiao Liquor (乳核内消液), Xia'er Qingfei Zhike Tablet (小儿清肺止咳片) and Shenshao Tablet (参药片). Through launching key point product



marketing activities by stressing the features of the target products, and having direct contact with end users by various channels of conducting market research, launching talks and seminars, providing free medical consultation, coordinating academic gathering and alike, the new products were well-received by the consumers.

In the first half of the year, the Company's products were confronted with adversity in overseas markets. Amid global economic downturn and sharply decline of consumption, overseas clients and distributors became conservative towards product marketing activities. Meanwhile, major countries consuming natural medicine or herbal medicine formulated or revised related laws and regulations to tighten import standards of Chinese Patent Medicine and Chinese medicinal raw materials, which in turn increased technological barriers. Therefore, the import and export branch company made timely adjustments to sales strategies in accordance with the changing trends of international pharmaceutical market, through which the concept of "Obeying and serving the market" was emphasized, market and clients' requirements were strictly complied, technological standards of export products were more rapidly upgraded, with a view to accomplish steady growth in turnover of both new and existing products. This is evidenced by the Company's accomplishment of turnover in overseas markets in the first half of the year of RMB11,935,000, representing a slight growth over the corresponding period in 2001.

Research and development of products

A. To develop new products actively:

The research of three new products mentioned in the Prospectus has been in good progress. New Medicine Certificate has been obtained for the new anti-influenza drug – anti-influenza effervescent tablet (抗感泡騰片) and laboratory testings on production technique are in progress. After our endeavour in the first half of the year, the new anti-cardiovascular system diseases drug has passed the preliminary approval of Beijing City Pharmaceutical Supervision Bureau at the end of April 2002 and has submitted to the assessment centre of the State

Pharmaceutical Supervision and Administration of the PRC (“SPSAC”) for new drugs approval. For the new anti-menopause syndrome drug, the company has drawn up the clinical conclusion in the first half of the year. Conclusion materials have nearly finished and are ready for submission to Beijing City Pharmaceutical Supervision Bureau for new drugs approval.

B. To apply new technologies:

In the first half of the year, the Company strengthened the screening of new core products, implemented membrane filtration technology to upgrade three tablet products, and conducted application research of various new technologies such as spray drying to different products.

Bio-pharmaceutical technologies

Our project on bio-pharmaceutical technologies follows the principle of “active involvement and progress steadily, picking the right project and proceeding systematically for gradual expansion to achieve economies of scale.” Beijing Tong Ren Tang WM Dianorm Biotech Co., Limited (“Tong Ren Tang WM Dianorm Biotech”) further made clear its development strategies and plans. With regard to the complexity of applying the liposome technique to the research and development of pharmaceutical products, the development cycle of new products is relatively long. In order to achieve cost-effectiveness in a short period of time, Tong Ren Tang WM Dianorm Biotech has achieved practical progress in the application of the liposome technology to cosmetics with two cosmetic products under the production laboratory research phase while it continued on the study of application of the liposome technology to pharmaceutical products simultaneously. As such, Tong Ren Tang WM Dianorm Biotech has formulated and implemented strict management systems for production, testing, quality control and alike, successfully passed the on-site examination of Beijing City Technology Quality Supervision Bureau, and obtained production license for cosmetics, which has in turn consolidated the Company’s foundation for further development.



Establishment of production bases for Chinese medicinal raw materials

The four plantation bases of the Company for Chinese medicinal raw materials established in Hangzhou of Zhejiang province, Nanyang of Henan province, Wuhan of Hubei province and Yutian of Hebei province have operated well. In the first half of 2002, the four plantation base companies perfected their own frameworks and management systems, especially for business workflow and financial workflow. Meanwhile, the companies took full advantage of the pattern of joint ventures-farmers-research institutes or expert teams to actively initiate technological research and establishment of demonstration bases in accordance with the requirements of quality management standards in the production of Chinese medicinal raw materials. A better whole process quality guarantee mechanism was hence established, and this created conditions for resolving the fundamental problem regarding the stability and homogeneity of the Chinese medicinal raw materials.

All four plantation bases had outputs of the Chinese medicinal raw materials in the first half of the year, of which Fructus Corni (山茱萸), Poria (茯苓) and Semen Armeniacae Amarum (苦杏仁) have begun to be used by the Company for production.

Establishment of production base

In order to establish the production base, the Company has acquired two pieces of land in the BETDZ. The core infrastructure of the first phase has been completed and internal decoration is under progress whereas the construction of second phase will be commenced within this year.

Liquidity and Financial Resources

The Group has maintained a sound financial position for the six months ended 30 June 2002. During the period, the Group's primary source of funds was cash provided by operating activities and the balance of cash proceeds from the issue of new shares pursuant to a placing exercise of the Company in October 2000. As at 30 June 2002,

the Group had bank and cash balances amounted to RMB403,394,000 (31 December 2001: RMB387,504,000) and short-term borrowings of RMB15,000,000 (31 December 2001: RMB30,000,000). These borrowings are denominated in Renminbi and provided by various banks in the PRC and bear fixed interest of 5.85% (31 December 2001: 5.58% to 5.85%) per annum. As at 30 June 2002, the Group had total assets of RMB705,282,000 (31 December 2001: RMB617,861,000) which were financed by current liabilities of RMB213,572,000 (31 December 2001: RMB149,217,000), shareholders' equity of RMB478,195,000 (31 December 2001: RMB456,514,000) and minority interests of RMB13,515,000 (31 December 2001: RMB12,130,000).

The Group's gearing ratio, defined as the ratio between total borrowings and shareholders' equity, was 0.03 (31 December 2001: 0.07). The liquidity ratio of the Group, represented by a ratio between current assets over current liabilities, was 2.57 (31 December 2001: 3.29), reflecting the abundance of financial resources.

Prospects

The Company recorded encouraging results from production and sales for the first six months of 2002. However, in face of the challenges associated with the accession of the PRC to the World Trade Organization and the increasingly intense competition in the PRC pharmaceutical industry, the Company will focus its efforts on the expansion in productivity and sales and the acceleration of research and development in the future with a view to enhance its overall business performance and sustain development capability.

- A. Efforts will be made to accelerate the construction of the production base in the BETDZ. Phase one of the project, representing the construction of the tablet production workshop, will be completed within this year. The production line of the tablet production workshop is designed in compliance with the GMP certification standard. All the plant, equipment and production technologies conform to the first-rate standard in the PRC in terms of technology



modification and production automation. It is intended that the GMP certification of the production lines for tablets and liquid dosage (oral liquid and aerosol, etc) will be completed in the second half of the year. At the same time, efforts will be made to increase product quality by strengthening the technology and process renovation of the existing leading products of the Company.

- B. Efforts will be made to optimize the PRC and overseas marketing systems constituting the operating branch companies, branch companies of new products and the import and export branch company. The purposes are to enhance its ability to respond to market changes, to optimize the sales incentive mechanism, to augment the brand effect, to increase market share and to ensure a higher profitability of the Company. The business mindset on overseas markets has to be widened and emphasis will be placed on accelerating the construction of overseas sales points.

- C. Resources will be deployed from the Research Centre to the development of new medicines and secondary stage of research and development. The target is to obtain one new approval for new medicines within the year so as to give impetus to its further growth. One to two new projects for new medicines will be established as reserves. As New Medicine Certificate has been granted for anti-influenza effervescent tablet, the Company will speed up the completion of technical tests and trial production as soon as possible. The Company will continue the selection work on critical new items, focus on launching new products with high potency, high technology, high efficiency and which carry proprietary intellectual property rights, and strive to increase the high technology components of existing products. The Company will also continue to conduct the secondary stage of research and development work of the Company's products and will arrange for the launch schedule of new medicines which have obtained approvals and accelerate the improvement of the products with market potentials and expected to have good demand to be launched to the market.

COMPARISON OF THE BUSINESS PLANS AND ACTUAL PROGRESS

Expansion of production capability and establishment of production base

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

Expected project progress for the first half of 2002 as set out in the Prospectus

Construction in progress and purchase of equipment.

The anticipated investment would be HK\$15 million.

Actual project progress for the first six months of 2002

The GMP standard certification of the production line of soft capsules has already been finished, and software programming of the GMP standard certification of the production line of liquid dosage products has been basically completed.

The Company has completed the construction of the core infrastructure of the first phase of the production base in the BETDZ while internal decoration is under progress.

Actual investment amounted to RMB19,209,000, equivalent to approximately HK\$18,111,000. The actual investment amount exceeds the anticipated is due to the vigorous GMP renovation in line with state policies and further accelerated establishment of production base to enhance production capacity to meet the market demand.



Investment in the Research Centre, new medicine development and biopharmaceutical technologies

Investment in the Research Centre

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

Expected project progress for the first half of 2002 as set out in the Prospectus

Continuation of construction process and completion of construction.

The anticipated investment would be HK\$6 million.

Actual project progress for the first six months of 2002

The Company has purchased the equipment for the Research Centre, such as solvent extractor, spectrocomparator and spinning evaporator. The Research Centre has preliminary resources for fundamental research.

The Company has applied various new technologies such as spray drying to different products, and has commenced the second stage of research and development of some products.

Actual investment amounted to RMB3,346,000, equivalent to approximately HK\$3,155,000. The difference between the anticipated and actual investment amounts is attributable to the fact that some of the research facilities

acquired which are planned to import from overseas have been purchased domestically. In addition, the fund saved would be used in the study of new products as well as research and development of testing workshop construction.

Development of new medicine

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

A. Research on new anti-influenza drug

The new anti-influenza medicine is developed in accordance with international technical and quality standards, in the form of effervescent tablet to tailor for the intake habit of the western people. The New Medicine Certificate has been obtained in 2001.

Expected project progress

for the first half of 2002

as set out in the Prospectus

Actual project progress

for the first six months of 2002

Completion of clinical trial and preparation of application for approval of SPSAC.

Laboratory testings on production technique are in progress.

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

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



**Expected project progress
for the first half of 2002
as set out in the Prospectus**

**Actual project progress
for the first six months of 2002**

Completion of clinical trial and preparation of application for approval of SPSAC.

The Company passed preliminary approval of Beijing City Pharmaceutical Supervision Bureau in April 2002 for new drugs, and has applied for new drugs approval of the Assessment Centre of SPSAC.

C. Development of new anti-menopause syndrome drug

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

**Expected project progress
for the first half of 2002
as set out in the Prospectus**

**Actual project progress
for the first six months of 2002**

Completion of clinical trial and preparation of application for approval of SPSAC.

Clinical trial and clinical conclusion materials had nearly finished and were ready for preliminary approval of Beijing City Pharmaceutical Supervision Bureau for new drugs.

HK\$1 million would be invested in the three medicines.

Actual investment amounted to RMB1,974,000, equivalent to approximately HK\$1,861,000. The actual investment exceeds the anticipated is due to the fact that part of the previous outstanding fund were paid upon the completion of clinical data or preliminary approval has been granted.

Developing bio-pharmaceutical technologies

The Company entered into an agreement with WM Dianorm Biotech Co., Limited (“Dianorm”) on 10 May 2000 for the establishment of a joint venture, Beijing Tong Ren Tang WM Dianorm Biotech Co., Limited (“Tong Ren Tang WM Dianorm Biotech”). Tong Ren Tang WM Dianorm Biotech was incorporated in Beijing in 2001 with registered capital of US\$1.95 million, of which 60% of its interest was attributable to the Company. By utilizing Dianorm’s advanced technologies in liposome and other bio-pharmaceutical areas, Tong Ren Tang WM Dianorm Biotech will be able to promote the technological level of Chinese medicine and will be able to develop other new bio-pharmaceutical products.

Expected project progress for the first half of 2002 as set out in the Prospectus

Production approval from SPSAC obtained and commencement of trial production.

Actual project progress for the first six months of 2002

Tong Ren Tang WM Dianorm Biotech has passed the on-site examination of Beijing City Technology and Quality Supervision Bureau and obtained the production license of cosmetics. It has achieved practical progress in the application of the liposome technology to cosmetics with two cosmetics products under the production laboratory research phase while it continued on the study of application of the liposome technology to pharmaceutical products simultaneously.

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Actual investment amounted to RMB7,450,000, equivalent to approximately HK\$7,020,000. The actual investment is more than anticipated because part of the previous outstanding fund were paid during the period.



Establishing sales network and venturing into e-commerce business

Establishing sales network

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

Expected project progress for the first half of 2002 as set out in the Prospectus

Construction and decoration of properties, obtaining certificate and trial run.

The anticipated investment would be HK\$10 million.

Actual project progress for the first six months of 2002

One of the sales points, Peking Tongrentang (Malaysia) Sdn. Bhd., in which the Company holds a 60% equity interest, has completed the registration procedures with staff being well-positioned. Its pharmacy is under decoration and is expected to be opened for business in the second half of the year.

The Company has set up Beijing Tongrentang (Canada) Co., Ltd. in Canada as its overseas sales point, with a 51% contribution to its registered capital. The Company has currently finished registration work and prepared for the decoration work of its pharmacy.

Actual investment amounted to RMB6,714,000, equivalent to approximately HK\$6,330,000, which represented the sum of 60% equity interest in the Peking Tongrentang (Malaysia)

Sdn. Bhd. and 51% equity interest in Beijing Tongrentang (Canada) Co., Ltd. The difference between actual and anticipated investment amounts is attributable to the fact that the Company has adopted prudent policy in respect of overseas investment and some sales points are under site selection and in their early stage of preparation.

E-commerce

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

Expected project progress for the first half of 2002 as set out in the Prospectus

Increment of types of information service and commencement of online medical business.

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Actual project progress for the first six months of 2002

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

No investment has been made during the period under review.

Establishing production base for Chinese medicinal raw materials

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



**Expected project progress
for the first half of 2002
as set out in the Prospectus**

**Actual project progress
for the first six months of 2002**

Plantation and field management.

All four plantation bases for Chinese medicinal raw materials operated well and had outputs of Chinese medicinal raw materials in the first half of the year, of which Fructus Corni (山茱萸), Poria (茯苓) and Semen Armeniacae Amarum (苦杏仁) have begun to be used by the Company for production.

The anticipated investment would be HK\$3 million.

No investment has been made during the period. The difference between the actual and anticipated investment amounts is attributable to the fact that the Company has accelerated the construction of plantation bases and implementation of green medicinal measures in planting Chinese medicinal herbs and has made part of the investment ahead of schedule in last year.

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

The Company entered into an agreement on 7 October 2000 with Hutchison Chinese Medicine Investment Limited, an indirect wholly owned subsidiary of Hutchison Whampoa Limited, and Beijing Holdings Limited, the majority shareholder of Beijing Enterprises Holdings Limited, to form an associated company, proposed to be named Tong Ren Tang Hutchison Pharmaceutical Development in Hong Kong. The total investment proposed to be made by the shareholders in the associated company is HK\$200 million. The Company will contribute HK\$40 million to the associated

company within one year after its establishment upon all requisite regulatory and other approvals being obtained, with the remaining HK\$40 million to be invested by the Company within 3 to 4 years after the incorporation of the associated company.

**Expected project progress
for the first six months of 2002
as set out in the Prospectus**

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**Actual project progress
for the first six months of 2002**

Registration of the associated company has been completed in 2001, with authorized share capital amounting to HK\$15 million. The Company owns 40% equity interest of the associated company.

The United States had originally been the target market of the associated company. With the export of Chinese medicines to the United States currently affected by factors such as the existing economic fluctuation in that market, in order to utilize the funds more efficiently, it has been agreed through friendly consultation among the three shareholders of the associated company that the total investment for the associated company should be reduced to HK\$15 million, an amount of registered capital permitted by the relevant PRC authorities. Any need for additional funding by the associated company in the future shall be separately agreed among the three shareholders.

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No investment has been made during the period under review.



COMPETING INTERESTS

Direct competition with Beijing Tongrentang Company Limited (“Tongrentang Ltd.”) and China Beijing Tong Ren Tang Group Co, Ltd. (“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 (同仁烏雞白鳳丸), Tongren Dahuolo Pellets (同仁大活絡丹) and Guogong Wine (國公酒).

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 (安宮牛黃丸), 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 Pills (安宮牛黃丸). The Directors consider that, except for Angong Niu Huang Pills (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 Pills (安宮牛黃丸) only represents a small percentage of Company’s turnover and is not one of the major forms of medicine for development after the listing of the Company, the Company will continue to manufacture and sell Angong Niu Huang Pills (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%.

DIRECTORS' INTERESTS

As of 30 June 2002, the interests of the Directors of the Company 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 Rules Governing the Listing of Securities on the GEM (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
	<i>(Note)</i>			
Mr. Yin Shun Hai	500,000	–	–	–
Mr. Wang Zhao Qi	500,000	–	–	–
Mr. Mei Qun	500,000	–	–	–
Mr. Tian Rui Hua	100,000	–	–	–
Mr. Zhao Bing Xian	5,000,000	–	–	–

Note: All represented domestic shares.



Tongrentang Ltd.

Name	Personal Interest	Family Interest	Corporate Interest	Other Interest
	Number of shares (Note)	Number of shares	Number of shares	Number of shares
Mr. Yin Shun Hai	19,923	–	–	–
Mr. Wang Zhao Qi	15,939	–	–	–
Mr. Mei Qun	15,939	–	–	–

Note: All represented A Shares of Tongrentang Ltd.

Save as disclosed above, as of 30 June 2002, none of the Directors or their associates had any interests in any securities in the Company and its associated corporations. None of the Directors, nor their spouses or children under 18 years of age were granted or had exercised any rights to subscribe for the securities of the Company.

SUBSTANTIAL SHAREHOLDER

As of 30 June 2002, 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:

Name	Number of shares	Shareholding percentage as of 30 June 2002
Tongrentang Ltd. (Note 1)	100,000,000 (Note 2)	54.705%

Notes:

1. As of 30 June 2002, Tongrentang Ltd. is owned as to 69.98% by Tongrentang Holdings.
2. All represented domestic shares.

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 30 June 2002.

SPONSOR'S INTERESTS

According to the notification from our sponsor, BOCI Asia Limited, as of 30 June 2002, BOCI Asia Limited, its directors, employees or associates (as referred to Note 3 of Rules 6.35 of the GEM Listing Rules) did not have any interests in the shares of the Company or any rights to subscribe for or to nominate persons to subscribe for the shares of the Company.

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

AUDIT COMMITTEE

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



Up to the date of this announcement, two meetings have been conducted by the audit committee in the year. The first meeting was held on 27 February 2002 for discussion of the operating results, statements of affairs and accounting policies with respect to the audited financial statements of the Company for the year ended 31 December 2001 and listened to the advice provided by auditors. The second meeting was held on 26 July 2002 for discussion of the operating results, statements of affairs and accounting policies with respect to the unaudited interim report of the Company for the six months ended 30 June 2002.

EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2002, the Group had 1,331 employees (31 December 2001: 1,306 employees). Remuneration is determined in accordance with government policies and by reference to market terms and the performance, qualifications and experience of individual employee. Discretionary bonuses on individual performance will be paid to employees as recognition of and reward for their contribution. Other benefits include contributions to retirement scheme, medical scheme, unemployment insurance scheme and housing fund.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

During the period ended 30 June 2002, the Company has not purchased, sold or redeemed any of the Company's listed shares.

RULES 5.28 TO 5.39 TO THE GEM LISTING RULES

For the six months ended 30 June 2002, the Group has complied with Rules 5.28 to 5.39 concerning board practices and procedures.

By the Order of the Board

Yin Shun Hai

Chairman

Beijing, the PRC

26 July 2002