



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

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



3rd Quarterly Report 2002



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This report, for which the directors of Tong Ren Tang Technologies Co. Ltd. collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited for the purpose of giving information with regard to Tong Ren Tang Technologies Co. Ltd. The directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (1) the information contained in this report is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this report misleading; and (3) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

HIGHLIGHTS

- Turnover increased by approximately 51.50% for the nine months ended 30 September 2002 as compared with the corresponding period in 2001.
- Net profit increased by approximately 67.03% for the nine months ended 30 September 2002 as compared with the corresponding period in 2001.
- Earnings per share for the nine months ended 30 September 2002 was RMB0.599.



QUARTERLY RESULTS (UNAUDITED)

The board of the 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 nine months ended 30 September 2002 together with the unaudited comparative figures for the corresponding period in 2001, as follows:

	<i>Notes</i>	For the nine months ended 30 September		For the three months ended 30 September	
		2002 <i>RMB'000</i>	2001 <i>RMB'000</i>	2002 <i>RMB'000</i>	2001 <i>RMB'000</i>
Turnover	2	551,480	364,021	155,955	111,931
Cost of sales		(257,306)	(173,064)	(69,227)	(46,670)
Gross profit		294,174	190,957	86,728	65,261
Selling and distribution costs		(72,012)	(59,608)	(17,375)	(25,602)
Administrative expenses		(111,583)	(71,250)	(35,910)	(20,716)
Profit from operations		110,579	60,099	33,443	18,943
Finance income, net	3	2,659	5,472	1,294	1,231
Profit before taxation	4	113,238	65,571	34,737	20,174
Taxation	5	(1,729)	–	(1,134)	–
Income before minority interests		111,509	65,571	33,603	20,174
Minority interests		(1,989)	–	(604)	–
Net profit		109,520	65,571	32,999	20,174
Earnings per share – Basic and diluted	6	RMB0.599	RMB0.359	RMB0.181	RMB0.11

Notes:

1. Basis of presentation

The accompanying unaudited results 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.

2. 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 nine months ended 30 September		For the three months ended 30 September	
	2002	2001	2002	2001
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Sales of medicine:				
Domestic	526,774	340,760	147,897	105,586
Overseas	18,043	15,493	6,108	3,802
Agency fee income - domestic	6,663	7,768	1,950	2,543
	<u>551,480</u>	<u>364,021</u>	<u>155,955</u>	<u>111,931</u>

3. Finance income, net

	For the nine months ended 30 September		For the three months ended 30 September	
	2002	2001	2002	2001
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Interest expenses on bank loans				
repayable within 5 years	(870)	(1,721)	(224)	(528)
Interest income	3,426	8,215	1,389	2,009
Others	103	(1,022)	129	(250)
	<u>2,659</u>	<u>5,472</u>	<u>1,294</u>	<u>1,231</u>



4. Profit before taxation

Profit before taxation was determined after charging the following:

	For the nine months ended 30 September		For the three months ended 30 September	
	2002	2001	2002	2001
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Depreciation of property, plant and equipment	9,590	7,450	3,244	2,605
Provision for doubtful debts	<u>—</u>	<u>1,289</u>	<u>—</u>	<u>—</u>

5. 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 September 2002, an amount equal to the 15% EIT exempted amounting to approximately RMB16,320,000 (2001: RMB12,388,000) was transferred to the tax reserve.

The reconciliation of the tax expense of the Group is as follows:

	For the nine months ended 30 September		For the three months ended 30 September	
	2002 <i>RMB'000</i>	2001 <i>RMB'000</i>	2002 <i>RMB'000</i>	2001 <i>RMB'000</i>
Accounting profit	<u>113,238</u>	<u>65,571</u>	<u>34,737</u>	<u>20,174</u>
Tax rate	15.9%	15.0%	17.4%	15.0%
EIT at tax rate	18,049	9,836	6,061	3,026
Adjustment on EIT	-	2,552	-	-
Effect on tax benefit of being a HTE	<u>(16,320)</u>	<u>(12,388)</u>	<u>(4,927)</u>	<u>(3,026)</u>
Tax expense	<u>1,729</u>	<u>-</u>	<u>1,134</u>	<u>-</u>

For the period ended 30 September 2002, the tax expense of the Group represented the EIT payable by two subsidiaries of the Company. 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.

6. Earnings per share

The calculation of the basic earnings per share for the nine months ended 30 September 2002 was based on the net profit of approximately RMB109,520,000 (2001: RMB65,571,000) 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.

INTERIM DIVIDENDS

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



MOVEMENT OF RESERVES

There was no movement of reserves for the relevant periods in 2002 and 2001 except those disclosed as below:

	For the nine months ended 30 September			
	Tax reserve		Retained profits	
	2002	2001	2002	2001
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Balances as of 1 January	23,193	4,427	68,761	41,795
Final dividend declared	-	-	(54,840)	(38,388)
	23,193	4,427	13,921	3,407
Net profit for the three months ended 31 March	-	-	35,645	28,050
Appropriation to reserve	5,420	4,207	(5,420)	(4,207)
Balances as of 31 March	28,613	8,634	44,146	27,250
Net profit for the three months ended 30 June	-	-	40,876	17,347
Appropriation to reserve	5,973	5,155	(5,973)	(5,155)
Balances as of 30 June	34,586	13,789	79,049	39,442
Net profit for the three months ended 30 September	-	-	32,999	20,174
Appropriation to reserve (See Note 5 above)	4,927	3,026	(4,927)	(3,026)
Balances as of 30 September	39,513	16,815	107,121	56,590

Business Review

The Company continued to follow the yearly plan and the overall strategy of year 2002 established at the beginning of the year to capture opportunities, develop with innovation and strive for establishing an effective market-oriented economic operation system. The Company has increased the efforts on sales and operation, enhanced the enterprise internal management, implemented brand strategy and the operation targets for the third quarter of 2002 have been achieved. The production and operation condition of the Company are good while the production and marketing of the dominant products are prosperous. Turnover and net profit for the nine months ended 30 September 2002 amounted to approximately RMB551,480,000 and RMB109,520,000, representing an increase of 51.50% and 67.03% respectively as compared with the corresponding period of 2001.

Production

The production system of the Company has encountered severe challenge in 2002 due to the increase of market demand and turnover. As such, the Company further strengthened its adjustment to production, transferred the personnel effectively, arranged the production scientifically under reasonable layout in order to bring the productivity of the current production facilities to the full extent. In this way, the Company satisfied market demand and guaranteed market supply whilst assured the quality of products simultaneously. Good Manufacturing Practice (“GMP”) certification preparation work was proceeding actively. The production line of the tablet production workshop located in BETDZ was designed in compliance with the GMP certification standard while the compilation work of the software for GMP certification has been commenced.



Operation

The operating branch companies, branch companies of new products and the original import and export branch company have constituted a marketing system which can react quickly to market. This established a new sales pattern and unified sales policy. The Company implemented cash sales systems and credit sales systems, strengthened internal financial management so that cash and material flows would be well under control. The Company continued to implement sales strategies of “putting emphasis on end users, creating demand, initiating development and gradually denominating market shares” and adjusted the sales and operation according to the categories and markets of different products so as to emphasize the sales of core products and products with market potential. The Company has focused different markets and consumer groups as targets for promotion and has enhanced the market knowledge about the Company’s products which in turn increased the market share of the Company’s product effectively.

There has been a substantial increase in turnover during the first three quarters of 2002 as compared with the corresponding period in 2001. Turnover of the flagship products Liuwei Dihuang Pill (六味地黄丸), Ganmao Qingre Granule (感冒清热颗粒) and Niuhuang Jiedu Tablet (牛黄解毒片) for the nine months ended 30 September 2002 represented an increase of 48.10%, 49.35% and 79.51% respectively over the corresponding period in 2001.

Research and development of products

The research and development of new products is continuously the key task of the Company and is the foundation of the Company to sustain steady growth in the future. While the Company has speeded up the research and development of the existing projects, it has also made use of the geographical advantage of Beijing, cooperated with scientific research institutions widely and actively and proceeded the preliminary screening of research projects of new products simultaneously so that the research and development work of new products will go into an invention, trial production and production process on a generation-to-generation basis.

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 further studies on production technique of final product and laboratory testings on production technique are in progress. The new anti-cardiovascular system diseases drug has been submitted to the State Pharmaceutical Supervision and Administration of the PRC (“SPSAC”) for new drugs approval. For the new anti-menopause syndrome drug, clinical conclusion materials are under further modification and will be submitted to Beijing City Pharmaceutical Supervision Bureau for preliminary new drugs approval.

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”. In accordance with the development strategies and plans driven by sales, profits, research and development and brand name, Beijing Tong Ren Tang WM Dianorm Biotech Co., Limited (“Tong Ren Tang WM Dianorm”) further improved the production and quality guarantee system in the light of the high technology of liposome products and the high demand of quality which has in turn consolidated the Company’s foundation for further industrial production of the Company’s products. Whilst Tong Ren Tang WM Dianorm continued on the study of application of the liposome technology to pharmaceutical products, two liposome products which were registered as cosmetics have achieved the trial production stage and the preliminary planning work on marketing and operation have been commenced.

Establishment of production bases for Chinese medicinal raw materials

The Company has established four plantation bases for Chinese medicinal raw materials in Hangzhou of Zhejiang province, Nanyang of Henan province, Wuhan of Hubei province and Yutian of Hebei province. Four plantation bases were technically supported by research institutes or expert teams and have started the research on



standardized production of Chinese medicinal raw materials and study of the quality standard of Chinese medicinal raw materials. By the same time, the Company strengthened the control of the quantity of pesticide residue and heavy metal according to the actual environmental condition of the plantation bases so as to achieve Green Standard and create conditions for the standardization and modernization of the production of Chinese medicinal raw materials. All four plantation bases for Chinese medicinal raw materials have operated well, of which part of the outputs of the Chinese medicinal raw materials 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 internal decoration of the tablet production workshop of the first phase has been completed. The preparation work for the adjustment of equipment and trial production will be commenced after the arrival of the equipment for the workshop. The construction of the second phase has been commenced.

Prospects

There has been a substantial increase in the production and sales of the Company in the first three quarters of 2002 as compared with the corresponding period in last year. The Company will further accelerate the construction of the production base, expand the productivity and sales, perfect the sales and management system, increase the efforts on research and development and speed up the launching of new products to the market.

- (1) Efforts will be made to accelerate the construction of the production base in the BETDZ. The internal decoration of the tablet production workshop of the first phase has been completed while the purchase of equipment and training of staff are currently in progress. Trial production is expected to be commenced within this year. The construction of the second phase has been commenced and expected to be completed for operation next year.

- (2) Efforts will be made to optimize the construction of the PRC and overseas marketing system, increase the efforts on the reform of the sales system, further differentiate the market, broaden the sales channels and enhance its ability to respond to market changes.
- (3) The Company will increase its investment in scientific research and development, select and launch new products with high potency, high technological additional value, high efficiency and which carry proprietary intellectual property rights and increase the reserve of new projects.
- (4) The Company will continue to carry out the business plans stated in the Prospectus and increase the efficiency on usage of the funds raised to ensure the business plans to achieve a good return on investment.
- (5) The Company will work out the production and operation plan and the financial budget for 2003 and strengthen the control of cost and expenses so as to increase the profitability of the Company efficiently.



COMPARISON OF THE BUSINESS PLANS AND ACTUAL PROGRESS

**From 1 July 2002 to
31 December 2002 ***

**From 1 July 2002 to
30 September 2002**

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 **

Construction in progress, installation of equipment and trial production.

The anticipated investment would be HK\$10 million.

Actual project progress

The Company has completed the internal decoration of the tablet production workshop which represents the first phase of the production base in the BETDZ while the purchase of equipment and training of staff are currently in progress. The second phase of the project has been commenced.

Actual investment amounted to RMB17,627,500, equivalent to approximately HK\$16,618,700. The actual investment amount exceeds the anticipated is due to the acceleration of establishment of production base.

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

Investment in the Research Centre

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

Expected project progress **

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Actual project progress

The Company has purchased the equipment for research and development, such as Laser Particle Sizer, Karl Fischer Coulometer, HPLC Fluorescence Detector and further perfect the construction of the Research Centre.

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Actual investment amounted to RMB220,300, equivalent to approximately HK\$207,700.

Development of new medicine

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

A. Research on new anti-influenza drug

The Company is conducting research on the production of new anti-influenza medicine in the form of effervescent tablet to tailor for the intake habit of the western people. This medicine is developed in accordance with international



technical and quality standards, and therefore is expected to become a competitive product in the international markets.

Expected project progress ** Actual project progress

Apply and obtain SPSAC approval for production and trial production.

The Company has conducted further studies on production technique of final product while laboratory testings on production technique are in progress.

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

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

Expected project progress ** Actual project progress

Apply and obtain SPSAC approval for production and trial production.

The Company has submitted the relevant information to SPSAC for new drugs approval.

C. Development of new anti-menopause syndrome drug

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

Expected project progress **

Apply and obtain SPSAC approval for production and trial production.

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Actual project progress

Clinical conclusion materials were under further modification and will be submitted to Beijing City Pharmaceutical Supervision Bureau for preliminary new drugs approval .

Actual investment amounted to RMB115,600, equivalent to approximately HK\$109,000.

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, the Company will be able to promote the technological level of Chinese medicine and will be able to develop other new bio-pharmaceutical products.

Expected project progress **

Commencement of production of bio-pharmaceutical products

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Actual project progress

Two liposome products registered as cosmetics have achieved the trial production stage while it continued on the study of application of the liposome technology to pharmaceutical products simultaneously.

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Establishing sales network and venturing into e-commerce business

A. 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 **	Actual project progress
—	<p>Peking Tongrentang (Malaysia) Sdn. Bhd., an overseas sales point in which the Company holds a 60% equity interest, has been opened for business in Kuala Lumpur on 30 August 2002.</p> <p>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 pharmacy is now under decoration.</p>
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B. 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 **	Actual project progress
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|---|--|
| – | 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. |

Establishing production base for Chinese medicinal raw materials

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

Expected project progress **	Actual project progress
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- | | |
|--|--|
| Field management and partial harvest. | All four plantation bases for Chinese medicinal raw materials operated well, 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\$6 million. | No investment has been made during the period. |



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, named Tong Ren Tang Hutchison Pharmaceutical Development in Hong Kong. The total investment originally proposed to be made by the shareholders in the associated company is HK\$200 million. The registration of the associated company was completed in 2001, with authorized share capital amounting to HK\$15 million. The Company owns 40% equity interest of the associated company.

Expected project progress **

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Actual project progress

The United States had originally been the target market of the associated company. With the export of Chinese medicines to the United States being 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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- * Since the progress of the projects was set out on a half-year basis as stated in the Prospectus, the expected project progress of each business objective as disclosed in this quarterly report was reflected the plan for the second half year of 2002.
- ** Since the progress of the projects was set out on a half-year basis as stated in the Prospectus, the expected project progress and expected amount of investments was reflected the plan for the second half year of 2002 while the actual investment of each project as disclosed in this quarterly report was reflected the actual progress of the third quarter of 2002.

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 granules 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 September 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 (Note)	Number of shares	Number of shares	Number of shares
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 September 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 September 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 September 2002
Tongrentang Ltd. (Note 1)	100,000,000 (Note 2)	54.705%

Notes:

1. As of 30 September 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 September 2002.

SPONSOR'S INTERESTS

According to the notification from our sponsor, BOCI Asia Limited, as of 30 September 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. The audit committee has reviewed the third quarterly report of 2002.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

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

By the Order of the Board

Yin Shun Hai

Chairman

Beijing, the PRC

25 October 2002