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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 your licensed securities dealer, 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 and 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.

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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)*

**(Stock code: 8069)**

**DISCLOSEABLE AND CONNECTED TRANSACTION IN RESPECT OF  
FORMATION OF THE JOINT VENTURE  
AND  
PROPOSED AMENDMENTS TO ARTICLES OF ASSOCIATION**

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



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A letter from the Board is set out on pages 3 to 8 of this circular. A letter from the Independent Board Committee is set out on pages 9 of this circular. A letter from Tai Fook containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 10 to 16 of this circular.

A notice convening the special general meeting (“SGM”) of the Company to be held at Jia 20, Nanshuan Zhonglu, Fengtai District, Beijing, the PRC on 8 September 2004 at 9:30 a.m. is set out on pages 27 to 32 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 branch share registrar and transfer office in Hong Kong, 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 the reply slip, on or before 18 August 2004, and for the 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 if you so wish.

24 July 2004

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## CHARACTERISTICS 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](http://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> .....	3
<b>Letter from the Independent Board Committee</b> .....	9
<b>Letter from Tai Fook</b> .....	10
<b>Appendix – General information</b> .....	17
<b>Notice of Special General Meeting</b> .....	27

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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:*

“associate”	has the meaning ascribed to it under the GEM Listing Rules
“Board”	the board of Directors
“Company”	Tong Ren Tang Technologies Co. Ltd. (北京同仁堂科技发展股份有限公司)
“Director(s)”	the director(s) of the Company
“Existing Articles”	the existing articles of association of the Company adopted at the annual general meeting of the Company held on 16 May 2001
“GEM”	the Growth Enterprise Market of the Stock Exchange
“GEM Listing Rules”	Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange (as amended from time to time)
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	the independent board committee comprising the independent non-executive Directors, being Tam Wai Chu, Maria, Ting Leung Huel, Stephen and Jin Shi Yuan, appointed to advise the Independent Shareholders in relation to the terms of the Joint Venture Agreement
“Independent Shareholders”	shareholders of the Company, other than Tongrentang Holdings, Tongrentang Limited and its associates, Mr. Yin Shun Hai and Mr. Mei Qun
“Joint Venture”	the joint venture to be formed by the Company and Tongrentang Limited in Hong Kong pursuant to the Joint Venture Agreement
“Joint Venture Agreement”	an agreement dated 9 July 2004 entered into between the Company and Tongrentang Limited in relation to the formation of the Joint Venture

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## DEFINITIONS

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“Latest Practicable Date”	22 July 2004, being the latest practicable date prior to the printing of this circular for ascertaining certain information herein
“PRC”	the People’s Republic of China which, for the purpose of this circular, excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“SFO”	the Securities and Future Ordinance (Chapter 571 of the Laws of Hong Kong)
“SGM”	the special general meeting of the Company to be held on 8 September 2004
“SGM Notice”	the notice convening the SGM as set out on pages 27 to 32 of this circular
“Shareholders”	the shareholders of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Supervisor(s)”	member(s) of the supervisory committee of the Company
“Tai Fook”	Tai Fook Capital Limited, a licensed corporation under the transitional arrangement to carry Type 6 (advising on corporate finance) regulated activity for the purposes of the SFO, being the independent financial adviser to the Independent Board Committee and the Independent Shareholders in relation to the formation of the Joint Venture and the Joint Venture Agreement
“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), a state-owned enterprise established in the PRC under the laws of the PRC and the ultimate holding company of the Company and Tongrentang Limited
“Tongrentang Group”	Tongrentang Limited and its subsidiaries (excluding the Group)
“Tongrentang Limited”	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 the holding company of the Company
“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. 北京同仁堂科技發展股份有限公司

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

*Executive Directors:*

Yin Shun Hai  
Mei Qun  
Li Lian Ying

*Non-executive Directors:*

Bi Jie Ping  
Zhao Bing Xian  
Tam Wai Chu, Maria<sup>#</sup>  
Ting Leung Huel, Stephen<sup>#</sup>  
Jin Shi Yuan<sup>#</sup>

<sup>#</sup> *Independent non-executive Directors*

*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:*

20th Floor  
Park Avenue Tower  
No. 5 Moreton Terrace  
Causeway Bay  
Hong Kong

24 July 2004

*To the Shareholders*

Dear Sir or Madam,

**DISCLOSEABLE AND CONNECTED TRANSACTION IN RESPECT OF  
FORMATION OF THE JOINT VENTURE  
AND  
PROPOSED AMENDMENTS TO ARTICLES OF ASSOCIATION**

### INTRODUCTION

On 9 July 2004, the Company announced that it had entered into the Joint Venture Agreement with Tongrentang Limited whereby the parties agreed to establish a joint venture in Hong Kong, which will be owned as to 51% by the Company and as to 49% by Tongrentang Limited.

The formation of the Joint Venture and the transactions contemplated under the Joint Venture Agreement constitute connected transactions of the Company under the GEM Listing Rules and will be subject to the approval of the Independent Shareholders at the SGM. The Independent Board Committee has been formed to advise the Independent Shareholders in relation to the terms of the Joint Venture Agreement. Tai Fook has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders.

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## LETTER FROM THE BOARD

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A special resolution in relation to the amendments to the Existing Articles will be proposed at the SGM.

The purpose of this circular is to provide you with information regarding (i) the establishment of the Joint Venture and the terms of the Joint Venture Agreement, (ii) the opinions and recommendations of the Independent Board Committee and Tai Fook in relation to the terms of the Joint Venture Agreement, and (iii) the amendments to the Existing Articles.

### FORMATION OF THE JOINT VENTURE

#### Background

On 9 July 2004, the Company entered into the Joint Venture Agreement with Tongrentang Limited whereby the parties agreed to form a joint venture in Hong Kong to engage in the business of manufacturing and distribution of Chinese patent medicines and healthcare products.

#### The Joint Venture Agreement

##### *Date*

9 July 2004

##### *Parties*

- (i) The Company
- (ii) Tongrentang Limited

##### *Formation*

The Company and Tongrentang Limited will set up the Joint Venture in Hong Kong. It is proposed that the name of the Joint Venture be Beijing Tong Ren Tang Chinese Medicine Co., Ltd. (北京同仁堂國藥有限公司).

##### *Conditions precedent*

The obligations of the parties under the Joint Venture Agreement are conditional upon:

- (i) the Company having obtained the approval of the Independent Shareholders at the SGM; and
- (ii) the obtaining of all necessary consents and/or approvals in the PRC with regard to the formation of the Joint Venture.

If the above conditions are not fulfilled, the Joint Venture Agreement will, upon mutual agreement between the parties, lapse, and no party shall have any liability to the other arising out of the Joint Venture Agreement.

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## LETTER FROM THE BOARD

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### *Capital injection and shareholding structure*

The investment to be injected in the Joint Venture upon its establishment will be HK\$150 million in cash which is determined by reference to the initial capital requirement of the Joint Venture. The investment of HK\$150 million will be contributed as to HK\$76.5 million by the Company and as to the remaining HK\$73.5 million by Tongrentang Limited payable within 30 days after the date on which the Joint Venture Agreement shall become unconditional. The cash of HK\$76.5 million to be injected by the Company will be funded by the Group's internal resources.

The issued share capital of the Joint Venture will be the same as the investment amount and will be held as to 51% by the Company and as to 49% by Tongrentang Limited.

### *Composition of the board*

The board of directors of the Joint Venture shall comprise five members, of which three will be nominated by the Company and two will be nominated by Tongrentang Limited.

### *Scope of business*

The Joint Venture will be principally engaged in the manufacture and distribution of Chinese patent medicines and healthcare products.

### *Disposal of shares and pre-emptive right*

Pursuant to the terms of the Joint Venture Agreement, no disposal of shares in the Joint Venture to a third party may be effected unless with the approval of its shareholders holding more than 50% interests in the Joint Venture. If any shareholder shall object to the disposal of shares in the Joint Venture to the third party, it shall take up the shares to be disposed of, failing which it will be treated as having agreed to the disposal of such shares.

If either party wishes to dispose of its interests (whether in whole or in part) in the Joint Venture to any third party, the other party shall be entitled to a right of pre-emption to acquire such interests on the same terms as those offered to the third party. The pre-emptive right is exercisable under the following circumstances:

- (i) any transfer between the Company and Tongrentang Limited;
- (ii) any transfer by a party to its subsidiary which is 51% (or above) owned by such party; and
- (iii) any transfer by a party to the senior management of the Joint Venture provided that such transfer has been duly approved by the shareholders of the Joint Venture by way of shareholders' resolutions.



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## LETTER FROM THE BOARD

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### *Term*

The Joint Venture will have a term of 30 years and is extendable by mutual agreement between the shareholders of the Joint Venture.

### *Termination*

Any party may terminate the Joint Venture Agreement upon occurrence of the following events:

- (i) any party failing to contribute its investment to the Joint Venture within 30 days after the expiry of the payment period required under the Joint Venture Agreement;
- (ii) any party failing to perform its obligation under the Joint Venture Agreement resulting in the Joint Venture being unable to carry on its operation;
- (iii) force majeure resulting in the Joint Venture being unable to operate for a period of 12 months;
- (iv) a winding-up order being made against any party;
- (v) severe operating loss suffered by the Joint Venture, where the accumulated loss has reached 60% of the investment in the Joint Venture and the parties cannot reach an agreement to the injection of further capital;
- (vi) the Joint Venture failing to achieve its business objectives; or
- (vii) the parties having mutually agreed to terminate the Joint Venture Agreement.

If the Joint Venture Agreement is so terminated, no party shall have any liability to the other arising out of the Joint Venture Agreement, save for any antecedent breach thereof.

### **Reasons for and benefits of setting up the Joint Venture**

As disclosed in the prospectus of the Company dated 24 October 2000 and confirmed by the Directors, the Group and Tongrentang Limited are both engaged in the business of manufacturing and distribution of patented Chinese medicine. Pursuant to an undertaking dated 19 October 2000 given by Tongrentang Limited and Tongrentang Holdings in favour of the Company, their businesses are delineated in accordance with their differences in focus on the forms of medicine they produce. The Group focuses on manufacturing products in new forms of granules, pills, tablets and soft capsules. On the other hand, Tongrentang Limited mainly produces Chinese patent medicine in traditional forms such as large pill, powder, ointment, pellet and medicinal wine. It also has some minor production lines for the production of granules and pills.

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## LETTER FROM THE BOARD

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The Joint Venture will, upon its establishment, set up a manufacturing plant in Hong Kong as its production base. The manufacturing plant will be engaged in the production of pharmaceutical and healthcare products. The Directors believe that the presence of a manufacturing arm in Hong Kong will enable the Company to expose itself more extensively to the market outside the PRC, in particular, the Taiwan market. The Directors also expect that the Joint Venture may capture the sophisticated management expertise available in Hong Kong which, coupled with the application of the Company's existing production technology, may expedite the modernisation of Chinese medicines and facilitate the promotion of modern Chinese medical products into the mainstream international pharmaceutical market.

The Directors currently expect that the research and development (“R&D”) team of the Joint Venture may comprise existing R&D personnel from the Company and Tongrentang Limited and/or new R&D personnel to be appointed by the Joint Venture in Hong Kong or in the PRC.

The terms of the Joint Venture Agreement have been determined after arm's length negotiations between the Company and Tongrentang Limited. The Directors (including the independent non-executive Directors) consider that the terms of the Joint Venture Agreement are on normal commercial terms and are fair and reasonable and in the interest of the Company and its Shareholders as a whole.

### **Connected transaction**

As at the Latest Practicable Date, Tongrentang Limited was entitled to exercise approximately 54.705% of the voting power at the general meeting of the Company and is therefore a substantial shareholder of the Company within the meaning of the GEM Listing Rules. Accordingly, the formation of the Joint Venture and the transactions contemplated by the Joint Venture Agreement constitute connected transactions of the Company under Chapter 20 of the GEM Listing Rules and will be subject to the approval of the Independent Shareholders at the SGM.

### **PROPOSED AMENDMENTS TO ARTICLES OF ASSOCIATION**

The Stock Exchange has recently made certain amendments to the GEM Listing Rules. All companies listed on GEM are required to amend their constitutional documents in accordance with the amended provisions of the GEM Listing Rules. The amended GEM Listing Rules became effective on 31 March 2004. Accordingly, the Company proposes to amend the Existing Articles pursuant to the amended GEM Listing Rules. The amendments to the Existing Articles include, among other things, the minimum seven-day period for lodgment by a shareholder of the notice to nominate a director for election at a general meeting, the time of lodgment of such notice and the voting of directors at the board meeting on any matter in which their respective associates have a material interest.

A full text of the proposed amendments to the Existing Articles is set out in the SGM Notice.

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## LETTER FROM THE BOARD

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### THE SGM

The SGM Notice convening the SGM to be held at Jia 20, Nansanhuan Zhonglu, Fengtai District, Beijing, the PRC on 8 September 2004 at 9:30 a.m. is set out on pages 27 to 32 of this circular. At the SGM, an ordinary resolution will be proposed to approve the formation of the Joint Venture and a special resolution will be proposed to approve the amendments to the Existing Articles.

In accordance with the GEM Listing Rules, Tongrentang Limited and its associates will abstain from voting on the resolution to approve the Joint Venture Agreement at the SGM. Tongrentang Holdings, Mr. Yin Shun Hai and Mr. Mei Qun (both being the executive Directors of the Company and the directors of Tongrentang Limited) are interested in the share capital of the Company and Tongrentang Limited, details of which are set out in the paragraph headed "Disclosure of interests" in the appendix to this circular. Accordingly, they will also abstain from voting on the resolution in respect of the Joint Venture Agreement at the SGM.

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 reply slip and the proxy form to the Company's branch share registrar and transfer office in Hong Kong, 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 the reply slip, on or before Wednesday, 18 August 2004, and for the 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 Independent Shareholders, based on the advice of Tai Fook, the Independent Board Committee is of the view that the formation of the Joint Venture and the terms of the Joint Venture Agreement are fair and reasonable so far as the Independent Shareholders are concerned. The recommendations and advice from the Independent Board Committee and Tai Fook are set out on page 9 and pages 10 to 16 of this circular respectively.

The Directors consider that the amendments to the Existing Articles are in the best interests of the Company and the Shareholders as a whole, and accordingly, recommend all Shareholders to vote in favour of the special resolution to be proposed at the SGM.

### ADDITIONAL INFORMATION

The Group is mainly engaged in the production and sale of Chinese patent medicines.

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



**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)*

24 July 2004

*To the Independent Shareholders*

Dear Sir or Madam,

**DISCLOSEABLE AND CONNECTED TRANSACTION IN RESPECT OF  
FORMATION OF THE JOINT VENTURE**

**INTRODUCTION**

We refer to the circular dated 24 July 2004 (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 establishment of the Joint Venture is 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 terms of the Joint Venture Agreement. The Independent Board Committee is set up to advise you as a Shareholder whether in its view the terms of the Joint Venture Agreement are fair and reasonable and in the interests of the Shareholders as a whole.

We wish to draw your attention to the letter from the Board as set out on pages 3 to 8 of the Circular and the letter from Tai Fook as set out on pages 10 to 16 of the Circular which contains, inter alia, its advice and recommendation to us and the Independent Shareholders regarding the terms of the Joint Venture Agreement with the principal factors and reasons for its advice and recommendation.

**RECOMMENDATION**

Having taken into account the advice and recommendation of Tai Fook, we consider that the establishment of the Joint Venture pursuant to the Joint Venture Agreement is in the interests of the Company and the Shareholders as a whole and the terms of the Joint Venture Agreement are fair and reasonable so far as the interests of the Independent Shareholders are concerned. Accordingly, we recommend that the Independent Shareholders should vote in favour of the resolution to be proposed to approve the Joint Venture Agreement.

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

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## LETTER FROM TAI FOOK

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25th Floor  
New World Tower  
16-18 Queen's Road Central  
Hong Kong

24 July 2004

*To the Independent Board Committee and the Independent Shareholders*

Tong Ren Tang Technologies Co. Ltd.  
20th Floor, Park Avenue Tower  
No. 5 Moreton Terrace  
Causeway Bay  
Hong Kong

Dear Sirs,

### **DISCLOSEABLE AND CONNECTED TRANSACTION IN RESPECT OF FORMATION OF THE JOINT VENTURE**

We refer to our appointment as the independent financial adviser to the independent board committee (the "Independent Board Committee") and the independent shareholders (the "Independent Shareholders") of the Company with respect to the formation of the Joint Venture pursuant to the Joint Venture Agreement, details of which are set out in the "Letter from the Board" in the circular of the Company dated 24 July 2004 (the "Circular"), of which this letter forms part. Terms used in this letter shall have the same respective meanings as defined in the Circular unless the context otherwise requires.

As stated in the "Letter from the Board" in the Circular, the Joint Venture Agreement dated 9 July 2004 was entered into between the Company and Tongrentang Limited, pursuant to which the parties to the Joint Venture Agreement have agreed to establish the Joint Venture in Hong Kong to engage in the business of manufacturing and distribution of Chinese patent medicines and healthcare products. Since Tongrentang Limited is the substantial Shareholder which is entitled to exercise approximately 54.705% of the voting rights at the general meeting of the Company as at the Latest Practicable Date, the establishment of the Joint Venture and transactions contemplated under the Joint Venture Agreement as a whole constitute a connected transaction of the Company under Chapter 20 of the GEM Listing Rules. Given the total assets attributable to the Joint Venture upon its establishment is expected to be HK\$150 million, which represents approximately 17.70% of the audited consolidated total assets of the Group as at 31 December 2003, the establishment of the Joint Venture and the transactions contemplated under the Joint Venture Agreement as a whole also constitute a discloseable transaction of the Company under Chapter 19 of the GEM Listing Rules and will be subject to the approval of the Independent Shareholders to be taken by poll at the SGM. Each of Tongrentang Limited and its associates shall abstain from voting in respect of the proposed resolution regarding the establishment of Joint Venture and the transactions contemplated under the Joint Venture Agreement at the SGM. In addition, since Tongrentang Holdings, Mr. Yin Shun Hai and Mr. Mei Qun (both being the executive Directors and the directors of Tongrentang Limited) are interested in the share capital of the Company and Tongrentang Limited, details of which are

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## LETTER FROM TAI FOOK

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set out in the paragraph headed “Disclosure of interests” in the appendix to this circular, they will also abstain from voting on the resolution to approve the Joint Venture Agreement at the SGM.

In our capacity as the independent financial adviser to the Independent Board Committee and the Independent Shareholders, our role is to provide you with an independent opinion and recommendations as to whether (i) the terms of the Joint Venture Agreement are fair and reasonable so far as the Group and the Independent Shareholders are concerned; (ii) the Joint Venture Agreement was entered into on normal commercial terms; and (iii) the entering into of the Joint Venture Agreement is in the interests of the Group and the Shareholders as a whole. The Independent Board Committee, the composition of which is set out in the “Letter from the Independent Board Committee” in the Circular, has also been established to advise the Independent Shareholders in respect of the terms of the Joint Venture Agreement.

In formulating our recommendations, we have relied on the information and facts supplied and representations expressed by the Directors and/or the management of the Group. We have been advised by the Directors and/or the management of the Group that no material facts have been omitted from the information supplied and representations expressed to us and we are not aware of any facts or circumstances which would render such information and representations untrue, inaccurate or misleading. We have assumed that the information contained and representations made or referred to in the Circular were complete, true and accurate at the time they were made and continue to be so at the date of despatch of the Circular. We have also discussed with the Directors and/or the management of the Group with respect to the terms of and reasons for the terms of the Joint Venture Agreement, and consider that we have reviewed sufficient information to reach an informed view and have no reason to doubt the completeness, truth or accuracy of the information and facts provided and representations made to us. We have not, however, conducted an independent investigation into the business and affairs of the Group.

### **PRINCIPAL FACTORS AND REASONS CONSIDERED**

In arriving at our recommendations in respect of the formation of the Joint Venture, we have considered the following principal factors and reasons:

#### **I. Background**

##### **(A) Information on the Company and Tongrentang Limited**

###### *General*

The Company is a joint stock company incorporated in the PRC with limited liability, the shares of which have been listed on GEM since October 2000. Tongrentang Limited, being the holding company of the Company, is 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 June 1997.

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## LETTER FROM TAI FOOK

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### *The October Undertaking*

As stated in the “Letter from the Board” in the Circular and disclosed in the prospectus of the Company dated 24 October 2000 (the “Prospectus”), the Group and Tongrentang Group (i.e. Tongrentang Limited and its subsidiaries but excluding its associated companies) are both engaged in the business of manufacturing and distribution of Chinese patent medicine. Pursuant to an undertaking dated 19 October 2000 (the “October Undertaking”) given by Tongrentang Limited and the ultimate holding company of the Group, namely China Beijing Tong Ren Tang Group Co. Ltd., in favour of the Company, their businesses are delineated in accordance with their differences in focus on the forms of medicine they produce. The Group focuses on manufacturing products in new forms of granules, pills, tablets and soft capsules and its main products include “Liuwei Dihuang Pill” (六味地黃丸), “Niu Huang Jiedu Tablet” (牛黃解毒片) and “Ganmao Qingre Granule” (感冒清熱顆粒). On the other hand, Tongrentang Group mainly produces Chinese patent medicine in traditional forms such as large pill, powder, ointment and medicinal wine. Tongrentang Group also has some minor production lines for the production of granules and pills. The main products of Tongrentang Group include “Tongren Niu Huang Qingxin Pills” (同仁牛黃清心丸), “Tongren Wuji Baifen Pills” (同仁烏雞白鳳丸), “Tongren Dahuolo Pills” (同仁大活絡丸) and “Guogong Wine” (國公酒).

In addition, pursuant to the October Undertaking, Tongrentang Limited has undertaken that, except for “Angong Niu Huang Pills” (安宮牛黃丸), Tongrentang Group 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 Group in the future. Upon formation of the Joint Venture, the Joint Venture will be owned as to 51% by the Company which will be treated by the Company as a non-wholly owned subsidiary and by Tongrentang Limited as an associated company. Since the Joint Venture will not become a subsidiary of Tongrentang Limited upon formation of the Joint Venture, it will not be bound by the October Undertaking. As such, the Directors consider that there is no breach of the October Undertaking in relation to the formation of the Joint Venture.

As advised by the Directors, it is intended that the Joint Venture will focus on the research, manufacturing and distribution of new Chinese patent medicine and healthcare products that can comply with the relevant pharmaceutical production requirements. Given that the aforesaid new products to be manufactured by the Joint Venture can be differentiated from the existing products manufactured and distributed by either Tongrentang Group or the Group in terms of prescriptions, specifications or ingredients, the Directors are of the view that delineation of businesses between Tongrentang Group and the Group can be maintained in terms of product differentiation.



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## LETTER FROM TAI FOOK

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### *Financial information of the Group*

As disclosed in the annual report of the Company for the year ended 31 December 2003 (the “2003 Annual Report”), the Group’s audited consolidated turnover and net profit for the year ended 31 December 2003 amounted to approximately RMB864,976,000 and RMB174,343,000 respectively, representing an increase of approximately 30.49% and 18.41% respectively as compared with those of the prior year. In addition, the Group’s consolidated turnover derived from the sales of medicine to the overseas markets for the year ended 31 December 2003 amounted to approximately RMB35,743,000, which accounted for approximately 4.13% of the Group’s consolidated turnover and represented an increase of approximately 53.25% as compared with that of the prior year.

### (B) The Joint Venture Agreement

#### *Terms of the Joint Venture Agreement*

On 9 July 2004, the Company entered into the Joint Venture Agreement with Tongrentang Limited, whereby the parties thereto agreed to establish the Joint Venture in Hong Kong to engage in the business of manufacturing and distribution of Chinese patent medicines and healthcare products. The Joint Venture, with the proposed name “Beijing Tong Ren Tang Chinese Medicine Co., Ltd.” (北京同仁堂國藥有限公司), will have a term of 30 years and is extendable by mutual agreement between the shareholders of the Joint Venture.

Pursuant to the terms of the Joint Venture Agreement, (i) the Joint Venture will be held as to 51% by the Company and as to 49% by Tongrentang Limited; (ii) the board of directors of the Joint Venture will comprise five members, of which three will be nominated by the Company and the other two will be nominated by Tongrentang Limited; (iii) the shareholders of the Joint Venture shall share the profits, risks and losses in proportion to their respective contribution to the registered capital of the Joint Venture; and (iv) the capital to be injected into the Joint Venture upon its establishment will be HK\$150 million in cash, of which HK\$76.5 million will be contributed by the Company and the remaining HK\$73.5 million will be contributed by Tongrentang Limited. The initial capital injection to the Joint Venture of HK\$150 million was determined with reference to the expected initial capital requirement for the Joint Venture and the respective contribution by each of the Company and Tongrentang Limited is proportional to the shareholding of the Company and Tongrentang Limited in the Joint Venture. Furthermore, as detailed in the “Letter from the Board” in the Circular, the Joint Venture Agreement has laid down certain restrictions in relation to the disposal of shares in the Joint Venture, the pre-emption rights and certain termination clauses to protect the interests of the shareholders of the Joint Venture.



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## LETTER FROM TAI FOOK

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### *Use of proceeds*

As advised by the Directors, the Joint Venture at present intends to use the proceeds amounting to HK\$150 million mainly for (i) leasing a land in Hong Kong; (ii) construction of the factory premises; (iii) purchasing of production facilities and equipment for the manufacture and research of Chinese medicines; and (iv) general working capital of the Joint Venture.

## **II. The Joint Venture Agreement**

### (A) Principal terms of the Joint Venture Agreement

The Directors consider that (i) the terms of the Joint Venture Agreement are fair and reasonable so far as the Group and the Independent Shareholders are concerned; and (ii) the Joint Venture Agreement was entered into on normal commercial terms. Details of the terms of the Joint Venture Agreement are stated in the “Letter from the Board” in the Circular.

Taking into account (i) the shareholding structure and board composition of the Joint Venture; (ii) the capital contribution, which was determined based on the expected initial capital requirement for the Joint Venture, to be made by the Company and Tongrentang Limited to the Joint Venture is proportional to their respective shareholdings in the Joint Venture and with same payment terms; (iii) the sharing of the Joint Venture’s profits, risks and losses is in proportion to their respective contribution to the registered capital of the Joint Venture; and (iv) the restrictions in relation to the disposal of shares in the Joint Venture, the pre-emption rights and certain termination clauses to protect the interests of the shareholders of the Joint Venture, we concur with the Directors’ view that (i) the terms of the Joint Venture Agreement are fair and reasonable so far as the Group and the Independent Shareholders are concerned; and (ii) the Joint Venture Agreement was entered into on normal commercial terms.

### (B) Reasons for and benefits of the formation of Joint Venture with Tongrentang Limited

As set out in the “Letter from the Board” in the Circular, the objectives of setting up the Joint Venture are (i) to expedite the modernisation of Chinese medicines; and (ii) to facilitate the promotion of modern Chinese medical products into the mainstream international pharmaceutical market. The Directors consider that the aforesaid objectives can be achieved through the establishment of the Joint Venture as the Group’s manufacturing arm in Hong Kong which can help expose itself more extensively to the markets outside the PRC.

### *Expedite the modernisation of Chinese medicines*

As advised by the Directors, each of the Group and Tongrentang Group has its own research and development centre located in Beijing which mainly focuses on the development of new drugs and the research on the application of new techniques according to the market demand and production requirements. As disclosed in the “Letter from the Board” in the Circular, the Directors currently expect that the research and development (“R&D”) team of the Joint Venture may comprise existing

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## LETTER FROM TAI FOOK

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R&D personnel from the Group and Tongrentang Group and/or new R&D personnel to be employed by the Joint Venture in Hong Kong or in the PRC. In addition, as disclosed in the annual report of Tongrentang Limited for the year ended 31 December 2003, the audited consolidated turnover of Tongrentang Group for the year ended 31 December 2003 amounted to approximately RMB2,169,085,000, which represents approximately 1.5 times over the turnover of the Group, and the Directors confirm that all of the products of Tongrentang Group were manufactured by itself. Taking into account the research capability on new drugs and the expertise of Tongrentang Group derived from its operations, the Directors are of the view that the formation of the Joint Venture with Tongrentang Limited can expedite the modernisation of Chinese medicines.

### *Expansion to overseas markets*

Since the main purpose of setting up the Joint Venture is that the presence of a manufacturing arm in Hong Kong will enable the Group to expose itself more extensively to the markets outside the PRC and given that the overseas sales made by both the Group and Tongrentang Group for the two years ended 31 December 2003 have been increasing, the Directors believe that the operating prospects of the Joint Venture, which is mainly targeted at overseas markets, is promising.

The Directors consider that the proven curative effects and market recognition of those Chinese patent medicines in traditional forms have helped Tongrentang Group's products increase its market penetration in overseas markets in the past, in particular the Southeast Asia market. As such, the Directors consider that the establishment of the Joint Venture in co-operation with Tongrentang Limited can help the Group to expose itself more extensively to the markets outside the PRC and facilitate the promotion of modern Chinese medical products into the mainstream international pharmaceutical market.

### *Our view*

Based on the above, we concur with the Directors' view that the entering into of Joint Venture Agreement is in the interests of the Group and the Shareholders as a whole.

### (C) Impact on the Group's cash position

We note that the immediate cash outflow in relation to the Joint Venture Agreement by the Group amounts to HK\$76.5 million, which represents (i) approximately 31.03% of the Group's audited cash, cash equivalent and short-term bank deposits as at 31 December 2003; (ii) approximately 32.9% of the Group's audited net cash position as at 31 December 2003; or (iii) approximately 9.02% of the Group's audited total assets as at 31 December 2003. In addition, as disclosed in the 2003 Annual Report and confirmed by the Directors, the Group has remained profitable since its listing on the GEM of the Stock Exchange in October 2000 and maintained a net cash inflow from operating activities in the past two financial years. The Directors are of the view that the cash outflow in relation to the Joint Venture Agreement would not have a material adverse impact on the overall working capital position of the Group. In addition, given that the contribution to the Joint

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## LETTER FROM TAI FOOK

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Venture by the Group is entirely funded by the Group's internal resources, the gearing ratio of the Group will not be affected.

### RECOMMENDATIONS

Having considered the above principal factors and reasons, we consider that (i) the terms of the Joint Venture Agreement are fair and reasonable so far as the Group and the Independent Shareholders are concerned; (ii) the Joint Venture Agreement was entered into on normal commercial terms; and (iii) the entering into the Joint Venture Agreement is in the interests of the Group and the Shareholders as a whole.

Yours faithfully,  
For and on behalf of  
**Tai Fook Capital Limited**  
**Derek C. O. Chan**                      **Marcus Ho**  
*Deputy Managing Director*                      *Director*

## 1. RESPONSIBILITY STATEMENT

This document, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the GEM Listing Rules 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

### Directors and Supervisors

As at the Latest Practicable Date, the interests and short positions of the Directors, the Supervisors and chief executives of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) as required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO) or as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the minimum standards of dealing by directors as referred to in Rules 5.46 to 5.67 of the GEM Listing Rules, were as follows:

#### (a) Long position in the Company

Name	Type of interests	Capacity	Number of shares (Note)	Percentage of domestic shares	Percentage of total registered share capital
Mr. Yin Shun Hai	Personal	Beneficial owner	500,000	0.455%	0.274%
Mr. Mei Qun	Personal	Beneficial owner	500,000	0.455%	0.274%
Mr. Zhao Bing Xian	Personal	Beneficial owner	5,000,000	4.546%	2.735%
Mr. Tian Da Fang	Personal	Beneficial Owner	500,000	0.455%	0.274%

*Note:* All represented domestic shares.

*(b) Long position in associated corporations***Tongrentang Limited**

<b>Name</b>	<b>Type of interests</b>	<b>Capacity</b>	<b>Number of shares</b> <i>(Note)</i>	<b>Percentage of total registered share capital</b>
Mr. Yin Shun Hai	Personal	Beneficial owner	19,923	0.006%
Mr. Mei Qun	Personal	Beneficial owner	15,939	0.005%
Mr. Tian Da Fang	Personal	Beneficial owner	19,923	0.006%

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

**Beijing Tong Ren Tang International Co., Limited**

<b>Name</b>	<b>Type of interests</b>	<b>Capacity</b>	<b>Number of shares</b>	<b>Percentage of total registered share capital</b>
Mr. Yin Shun Hai	Personal	Beneficial owner	39,000	0.500%
Mr. Mei Qun	Personal	Beneficial owner	78,000	1.000%

**Beijing Tongrentang Nature-Pharm Co. Ltd.**

<b>Name</b>	<b>Type of interests</b>	<b>Capacity</b>	<b>Number of shares</b>	<b>Percentage of total registered share capital</b>
Ms. Li Lian Ying	Personal	Beneficial owner	300,000	0.600%

Save as disclosed herein:

- (i) as at the Latest Practicable Date, none of the Directors, the Supervisors and chief executives of the Company had any interests and short positions in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO) or recorded in the register required to be kept under Section 352 of the SFO or otherwise notified to the Company and the Stock Exchange pursuant to the minimum standards of dealing by directors as referred to in Rules 5.46 to 5.67 of the GEM Listing Rules;

- (ii) as at the Latest Practicable Date, none of the Directors had any interest in any assets which had been, since 31 December 2003, being the date to which the latest published audited accounts of the Company were made up, acquired, disposed of by or leased to any member of the Group, or were proposed to be acquired or disposed of by or leased to any member of the Group;
- (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.

### Substantial Shareholders

As at the Latest Practicable Date, the following persons (other than the Directors, the Supervisors and chief executives of the Company) had interests and short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO and which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or were directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying voting rights to vote in all circumstances at general meetings of any other members of the Group:

#### *Long positions in shares*

Name of shareholder	Capacity	Number of shares	Percentage of domestic shares	Percentage of H shares	Percentage of total registered share capital
Tongrentang Limited	Beneficial owner	100,000,000	90.909%	–	54.705%
Tongrentang Holdings (Note 1)	Interest of a controlled corporation	100,000,000	90.909%	–	54.705%
	Beneficial owner	2,900,000	2.636%	–	1.586%
Capital International, Inc.	Investment manager	8,736,000	–	12.000%	4.779%
Capital Group International, Inc. (Note 2)	Interest of a controlled corporation	8,736,000	–	12.000%	4.779%
The Capital Group Companies, Inc. (Note 2)	Interest of a controlled corporation	8,736,000	–	12.000%	4.779%
J.P. Morgan Chase & Co. (Note 3)	Interest of a controlled corporation	4,105,000	–	5.639%	2.246%
First State Investments (Hong Kong) Limited	Investment manager	5,931,000	–	8.147%	3.245%
First State (Hong Kong) LLC (Note 4)	Interest of a controlled corporation	5,931,000	–	8.147%	3.245%

Name of shareholder	Capacity	Number of shares	Percentage of domestic shares	Percentage of H shares	Percentage of total registered share capital
First State Investments (Bermuda) Ltd (Note 4)	Interest of a controlled corporation	5,931,000	–	8.147%	3.245%
First State Investment Managers (Asia) Ltd (Note 4)	Interest of a controlled corporation	5,931,000	–	8.147%	3.245%
Colonial First State Group Ltd (Notes 4 and 5)	Interest of a controlled corporation	5,931,000	–	8.147%	3.245%
The Colonial Mutual Life Assurance Society Ltd (Notes 4 and 5)	Interest of a controlled corporation	5,931,000	–	8.147%	3.245%
Colonial Holding Company (No.2) Pty Limited (Notes 4 and 5)	Interest of a controlled corporation	5,931,000	–	8.147%	3.245%
Colonial Holding Company Pty Ltd (Notes 4 and 5)	Interest of a controlled corporation	5,931,000	–	8.147%	3.245%
Colonial Ltd (Notes 4 and 5)	Interest of a controlled corporation	5,931,000	–	8.147%	3.245%
Commonwealth Bank of Australia (Notes 4 and 5)	Interest of a controlled corporation	5,931,000	–	8.147%	3.245%

## Notes:

- (1) Such shares were held through Tongrentang Limited. As at the Latest Practicable Date, Tongrentang Limited was owned as to 69.98% by Tongrentang Holdings. According to Part XV of the SFO, Tongrentang Holdings is deemed to be interested in the 100,000,000 shares held by Tongrentang Limited.
- (2) The Capital Group Companies, Inc. owns 100% of Capital Group International, Inc. while Capital Group International, Inc. owns 100% of Capital International, Inc. Accordingly, The Capital Group Companies, Inc. and Capital Group International, Inc. are deemed by Part XV of the SFO to be interested in the 8,736,000 shares held by Capital International, Inc.
- (3) J.P. Morgan Chase & Co. owns 100% of J.P. Morgan Fleming Asset Management Holdings Inc. J.P. Morgan Fleming Asset Management Holdings Inc. owns 100% of J.P. Morgan Fleming Asset Management (Asia) Inc. J.P. Morgan Fleming Asset Management (Asia) Management (Asia) Inc. owns 100% of JF International Management Inc. and 99.99% of JF Asset Management Limited respectively. Accordingly, J.P. Morgan Chase & Co., J.P. Morgan Fleming Asset Management Holdings Inc. and J.P. Morgan Fleming Asset Management (Asia) Inc. are deemed by Part XV of the SFO to be interested in the 350,000 shares and 1,278,000 shares held by JF International Management Inc. and JF Asset Management Limited respectively.

J.P. Morgan Fleming Asset Management Holdings Inc. owns 96% of Robert Fleming Holdings Ltd. Robert Fleming Holdings Ltd owns 99.96% of Robert Fleming Asset Management Ltd. Robert Fleming Asset Management Ltd owns 100% of J.P. Morgan Fleming Asset Management (UK) Limited. Accordingly, J.P. Morgan Chase & Co. and J.P. Morgan Fleming Asset Management Holdings Inc. are deemed by Part XV of the SFO to be interested in the 405,000 shares held by J.P. Morgan Fleming Asset Management (UK) Limited.

J.P. Morgan Chase & Co. owns 100% of J.P. Morgan Chase Bank. Accordingly, J.P. Morgan Chase & Co. is deemed by Part XV of the SFO to be interested in the 2,072,000 shares held by J.P. Morgan Chase Bank.

- (4) Commonwealth Bank of Australia owns 100% of Colonial Ltd. Colonial Ltd owns 100% of Colonial Holding Company Pty Ltd. Colonial Holding Company Pty Ltd owns 100% of Colonial Holding Company (No.2) Pty Limited. Colonial Holding Company (No.2) Pty Limited owns 100% of The Colonial Mutual Life Assurance Society Ltd. The Colonial Mutual Life Assurance Society Ltd owns 100% of Colonial First State Group Ltd. Colonial First State Group Ltd owns 100% of First State Investment Managers (Asia) Ltd and 100% of First State Investment (UK Holdings). First State Investment Managers (Asia) Ltd owns 100% of First State Investments (Bermuda) Ltd. First State Investments (Bermuda) Ltd owns 100% of First State (Hong Kong) LLC. First State (Hong Kong) LLC owns 100% of First State Investments (Hong Kong) Limited. Accordingly, Commonwealth Bank of Australia, Colonial Ltd, Colonial Holding Company Pty Ltd, Colonial Holding Company (No.2) Pty Limited, The Colonial Mutual Life Assurance Society Ltd, Colonial First State Group Ltd, First State Investment Managers (Asia) Ltd, First State Investments (Bermuda) Ltd and First State (Hong Kong) LLC are deemed by Part XV of the SFO to be interested in the 5,931,000 shares held by First State Investments (Hong Kong) Limited, out of which 479,000 shares are subject to delegation arrangement between First State Investments (Hong Kong) Limited and First State Investment Management (UK) Limited as mentioned in Note (7) below.
- (5) Colonial First State Group Ltd owns 100% of First State Investment (UK Holdings) Limited. First State Investment (UK Holdings) Limited owns 100% of SI Holdings Limited. SI Holdings Limited owns 100% of First State Investment Management (UK) Limited. Accordingly, Commonwealth Bank of Australia, Colonial Ltd, Colonial Holding Company Pty Ltd, Colonial Holding Company (No.2) Pty Limited, The Colonial Mutual Life Assurance Society Ltd, Colonial First State Group Ltd, First State Investment (UK Holdings) Limited and SI Holdings Limited are deemed by Part XV of the SFO to be interested in the 479,000 shares held by First State Investment Management (UK) Limited, which are subject to delegation arrangement between First State Investments (Hong Kong) Limited and First State Investment Management (UK) Limited as mentioned in Note (6) above.

Save as disclosed above, as at the Latest Practicable Date, the Directors were not aware of any other person (other than the Directors, Supervisors and chief executives of the Company) who had interests and short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO and which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or were directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying voting rights to vote in all circumstances at general meetings of any other members of the Group.

### 3. INDEPENDENT FINANCIAL ADVISER'S INTERESTS

Tai Fook 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.



#### 4. COMPETING INTEREST

##### **Direct competition with Tongrentang Limited 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 Limited.

The Company, Tongrentang Limited 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 Limited mainly produces Chinese Patent Medicine in forms such as large pill, powder, ointment 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 Limited's main products include Tongren Niu Huang Qingxin Pills (同仁牛黃清心丸), Tongren Wuji Baifen Pills (同仁烏雞白鳳丸), Tongren Dahuolo Pills (同仁大活絡丸) and Guogong Wine (國公酒).

In order to ensure that the business delineation between the Company and Tongrentang Holdings and Tongrentang Limited are properly documented and formalized, pursuant to an undertaking dated 19 October 2000 given by Tongrentang Holdings and Tongrentang Limited in favor of the Company ("October Undertaking"), Tongrentang Holdings and Tongrentang Limited undertook that, except for Angong Niu Huang Pills (安宮牛黃丸), Tongrentang Holdings, Tongrentang Limited 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 Limited 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 Limited 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 Limited 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 Limited. Currently, apart from Angong Niu Huang Pills (安宮牛黃丸), the Company manufactures 4 out of the 7 of them while Tongrentang Limited manufactures the remaining 3.

Both the Company and Tongrentang Limited 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 Limited, there is no other competition among the Company, Tongrentang Limited 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 Limited or Tongrentang Holdings.

### **First right of refusal**

Although the Company, Tongrentang Limited 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 Limited 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 Limited have granted to the Company a first right of refusal to manufacture and sell any of the new products developed by Tongrentang Holdings, Tongrentang Limited 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 Limited 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 Limited 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 Limited 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 Limited 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 Limited 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 Limited 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 Limited in the Company falls below 30%.

**5. LITIGATION**

As at the Latest Practicable Date, neither the Company nor any of its subsidiaries is engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is known to the Directors to be pending or threatened by or against the Company or any of its subsidiaries.

**6. 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 2003, the date to which the latest audited financial statements of the Company were made up.

**7. SERVICE CONTRACTS**

Each of Mr. Yin Shun Hai and Mr. Mei Qun, the executive Directors, and Mr. Tian Da Fang, the Supervisor, has entered into a service contract with the Company for a period of three years commencing from 9 March 2000 which was subsequently renewed at the annual general meeting of the Company for the financial year 2003 and shall continue until the conclusion of the annual general meeting of the Company for the financial year 2006.

Each of Ms. Li Lian Ying, the executive Director, and Mr. Wu Yi Gang and Ms. Liu Gui Rong, the Supervisors, has entered into a service contract with the Company for a period commencing from 22 October 2003, which shall continue until the conclusion of the annual general meeting of the Company for the financial year 2006.

Save as disclosed herein, none of the Directors and the Supervisors has any service contract with the Company which is not terminable by the Company within one year without payment of compensation other than statutory compensation.

**8. CONSENT**

Tai Fook, a licensed corporation under the transitional arrangement to carry on Type 6 (advisory on corporate finance) regulated activity for the purpose the SFO, 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.

**9. RIGHT TO DEMAND A POLL**

Pursuant to the GEM Listing Rules, any vote taken at a meeting held to seek approval of a connected transaction must be taken by poll. Accordingly, resolution no.1 set out in the SGM Notice shall be decided on poll. Set out below is the procedure by which the Shareholders may demand a poll pursuant to the constitutional document of the Company:

Pursuant to Article 67 of the Existing Articles, a resolution put to the vote of the meeting shall be decided on a show of hands unless (before or on the declaration of the result of the show of hands) a poll is demanded by:

- (i) the chairman of the meeting;
- (ii) at least two Shareholders present in person or by proxy for the time being entitled to vote at the meeting; or

- (iii) any Shareholder or Shareholders present in person or by proxy and representing one-tenth or more of the total voting rights of all Shareholders having the right to vote at the meeting.

Unless a poll is duly demanded and the demand is not withdrawn, a declaration by the chairman of the meeting that a resolution has been passed on a show of hands and an entry to that effect made in the minute book of the Company shall be conclusive evidence of the fact without proof of the number or proportion of the votes recorded for or against the resolution. A demand for a poll may be withdrawn by the person who makes such demand.

## 10. GENERAL

- (a) The share registrar and transfer office of the Company in Hong Kong is Hong Kong Registrars Limited, Rooms 1901-1905, 19th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.
- (b) As at the Latest Practicable Date, the Board comprised Yin Shun Hai (executive Director), Mei Qun (executive Director), Li Lian Ying (executive Director), Bi Jie Ping (non-executive Director), Zhao Bing Xian (non-executive Director), Tam Wai Chu, Maria (independent non-executive Director), Ting Leung Huel, Stephen (independent non-executive Director) and Jin Shi Yuan (independent non-executive Director).
- (c) The secretary and qualified accountant of the Company is Mr. Choi Wai Lung, Edward, who is a fellow member of the Hong Kong Society of Accountants and the Association of Chartered Certified Accountants of the United Kingdom.
- (d) The compliance officer of the Company is Ms. Li Lian Ying.
- (e) The Company has established an audit committee in accordance with the GEM Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control system of the Company. The audit committee of the Company comprises three independent non-executive Directors, namely Ms. Tam Wai Chu, Maria, Mr. Ting Leung Huel, Stephen and Mr. Jin Shi Yuan. Set out below are their background and directorships (present and past) of other companies listed on GEM, the main board of the Stock Exchange or other stock exchanges:

Ms. Tam Wai Chu, Maria, GBS, JP, LL.D (Honoris Causa), LL.B (Honours), barrister, is a non-executive director of five listed companies, namely, Guangnan (Holdings) Limited, ONFEM Holdings Limited, Sinopec Kantons Holdings Limited, Wing On Company International Limited and Sa Sa International Holdings Limited respectively. She is also a member of the Hong Kong Airport Authority, Urban Renewal Authority and Advisory Committee on Corruption of the ICAC. Her other public offices include being member of the Basic Law Committee of Hong Kong and a delegate to the 10th National People's Congress. She was appointed as an independent non-executive Director on 11 October 2000.

Mr. Ting Leung Huel, Stephen, FCCA, FHKSA, FTIHK, CPA, aged 50, is an accountant in public practice as Managing Partner of Ting Ho Kwan & Chan, Certified Public Accountants since 1987. He is an independent non-executive director of five listed companies namely Chow Sang Sang Holdings International Ltd., eForce Holdings Ltd., REXCAPITAL International Limited, Tongda Group Holdings Limited and Oriental Metals (Holdings) Co. Ltd. respectively. He was appointed as an independent non-executive Director on 11 October 2000.

Mr. Jin Shi Yuan, aged 77, chief pharmacist, is an expert serving the investigation team for the state secret technology of the State Science Commission, and a member of the Committee for Clinical Medicine Appraisal Experts of the Chinese Medicine Society of China. He is also a consultant to the Eighth Council of the Beijing Chinese Medicine Society, visiting professor of Chinese medicine at the Chinese Medical Institute of the Beijing Union of University and consultant to the Fourth Expert Committee of the Chinese Health Food Association. He was appointed as an independent non-executive Director on 16 October 2000.

- (f) The English text of this circular shall prevail over the Chinese text.

## 11. DOCUMENTS FOR INSPECTION

Copies of the following documents will be available for inspection during normal business hours at the Company's principal place of business in Hong Kong from the date of this circular up to and including 6 August 2004:

- (a) the Joint Venture Agreement;
- (b) the service contracts referred to in paragraph 7 of this appendix;
- (c) the letter from the Independent Board Committee, the text of which is set out on page 9 of this circular;
- (d) the letter from Tai Fook, the text of which is set out on pages 10 to 16 of this circular; and
- (e) the written consent of Tai Fook referred to in paragraph 8 of this appendix.

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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 8 September 2004 at 9:30 a.m. for the purposes of considering and, if thought fit, passing, with or without modification, the following resolutions:

### ORDINARY RESOLUTION

1. “**THAT** the joint venture agreement (“**Joint Venture Agreement**”) dated 9 July 2004 and entered into between the Company and Beijing Tongrentang Company Limited (北京同仁堂股份有限公司) (a copy of which has been produced to the meeting marked “A” and has been initialled by the chairman of the meeting for the purpose of identification) be and the same is hereby approved and that all the transactions contemplated therein be and the same are hereby approved and that any one director of the Company be and he/she is hereby authorised to do or execute for and on behalf of the Company all such acts and things and such other documents which in his or her opinion may be necessary, desirable or expedient to carry into effect or to give effect to the Joint Venture Agreement and all the transactions contemplated therein, including such changes and amendments thereto as any one director of the Company may consider necessary, desirable and expedient.”

### SPECIAL RESOLUTION

2. “**THAT** the articles of association of the Company be and are hereby amended in the following manner:
  - (1) By deleting the existing Article 63 in its entirety and replacing therewith the following new Article 63:

“Article 63 (1) The proxy form for the appointment of proxy to be issued to the shareholders by the board of directors of the Company shall be in such form which allows the shareholders to choose to instruct their proxies to vote for or against a resolution and to give separate instructions in respect of each matter to be voted at the meeting. The proxy form shall specify that if no instruction is given by the shareholder, the proxy may vote at his/her own discretion.

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## NOTICE OF SPECIAL GENERAL MEETING

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- (2) A shareholder of the Company may authorise such person as he/she may think fit to act as his/her proxy at any meeting of the Company or at any meeting of any class of shareholders of the Company, provided that if more than one person is so authorised, the proxy form shall specify the class and number of shares in respect of which the authorisation is granted. The above authorised person is entitled to exercise power on behalf of the shareholder.

If the shareholder is a recognised clearing house as defined in **the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)**, such shareholder may authorise one or more person as it may think fit to act as its proxy at any general meeting or any meeting of any class of shareholders, provided that if more than one person is so authorised, the proxy form shall specify the number and class of shares in respect of which the authorisation is granted to each such person. The persons so authorised may exercise the rights of the recognised clearing house on behalf of the recognised clearing house (or its agent) as if such persons were individual shareholders of the Company.”

- (2) By deleting the existing Article 69 in its entirety and replacing therewith the following new Article 69:

“Article 69 Any shareholder (including his/her proxy) entitled to two or more votes on a poll need not cast all his/her votes to vote for or against a resolution.

**If any shareholder is, under the Listing Rules, required to abstain from voting on any particular resolution or restricted to voting only for or only against any particular resolution, any votes cast by or on behalf of such shareholder in contravention of such requirement or restriction shall not be counted.”**

- (3) By deleting the existing Article 87 in its entirety and replacing therewith the following new Article 87:

“Article 87 (1) The Company shall establish a board of directors comprising seven to eleven members, of which one shall be the chairman and two shall be the vice chairmen.

- (2) Subject to the provisions of law and without prejudice to any claim made under any contract, the Company in general meeting is entitled to remove a director (including managing director or other executive directors) by special resolution before expiration of his/her term of office.



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## NOTICE OF SPECIAL GENERAL MEETING

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- (3) **The minimum period for giving notice to the Company of the intention to propose a person for election as a director and the minimum period for giving notice to the Company of the willingness of such person to be elected as director shall be at least seven days.**
- (4) **The period for lodgment of the notices referred to in paragraph (3) shall commence no earlier than the day after the despatch of the notice of meeting appointed for such election and end no later than seven days before the date of such meeting.”**
- (4) By deleting the existing Article 88 in its entirety and replacing therewith the following new Article 88:

“Article 88 Directors shall be elected at the general meeting for a term of three years and, upon expiration, may be re-elected for consecutive terms. **Any person appointed by the board of directors to fill up a casual vacancy in the board of directors or as an addition to the board of directors shall hold office only until the next annual general meeting of the Company and shall then be eligible for re-election.**

The chairman and vice chairmen of the board of directors shall be elected and removed by a majority of the directors. Both of them shall have a term of office of three years and may be re-elected for consecutive terms.

The directors are not required to hold any shares of the Company.

In a new session of the board of directors, the number of external directors shall account for more than half of the number of directors and **at least three of the directors shall be independent directors, of which at least one independent director shall have the appropriate professional qualifications required by the Listing Rules or the appropriate accounting or related financial management expertise.** Any opinion of the independent directors shall be stated in the resolution of the board of directors.”

- (5) By deleting the existing Article 121 in its entirety and replacing therewith the following new Article 121:

“Article 121 Where any director, supervisor, manager or other senior management personnel of the Company directly or indirectly has any material interest in any contract, transaction or arrangement (other than employment contracts between the Company and any director, supervisor, manager or other senior management personnel) entered into or proposed to be entered into by the Company, the nature and extent of such interest shall be disclosed to the board of directors as soon as possible, no matter whether approval of the board of directors is required under normal circumstances.



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## NOTICE OF SPECIAL GENERAL MEETING

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Unless disclosure is made to the board of directors by such interested director, supervisor, manager or other senior management personnel as required in the above paragraph, and the relevant matter is approved by the board of directors at a meeting in which such person is not counted as quorum and has abstained from voting, the Company is entitled to cancel the contract, transaction or arrangement, save as in the circumstances that the counterparty is a bona fides party who is not aware of the breach of liabilities of the relevant director, supervisor, manager and other senior management personnel.

Where any associate(s) of the directors, supervisors, managers and other senior management personnel of the Company is/are interested in a particular contract, transaction or arrangement, the relevant director, supervisor, manager and other senior management personnel shall be deemed as having interest therein.

**Subject to the exceptions specified below, a director will not vote on any contract or arrangement or any other proposal in which he or any of his associates has a material interest nor shall he be counted in the quorum present at the meeting.**

**Such exceptions shall mean:**

- (1) (a) the giving of any security or indemnity to the director or his associate(s) in respect of money lent or obligations incurred or undertaken by him or his associate(s) at the request of or for the benefit of the Company or any of its subsidiaries; or**
  - (b) the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the director or his associate(s) has/have himself/themselves assumed responsibility in whole or in part and whether alone or jointly under a guarantee or indemnity or by the giving of security;**
- (2) any proposal concerning an offer of shares or debentures or other securities of or by any other person or company which the Company may promote or be interested in for subscription or purchase where the director or his associate(s) is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;**

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## NOTICE OF SPECIAL GENERAL MEETING

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- (3) any proposal concerning any other company in which the director is interested only, whether directly or indirectly, as an officer or executive or shareholder or in which the director is beneficially interested in shares of that company, provided that he, together with any of his associates, is not beneficially interested in 5 per cent. or more of the issued shares of any class of such company (or of any third company through which his interest is derived) or of the voting rights;
- (4) any proposal or arrangement concerning the benefit of employees of the Company or its subsidiaries including:
  - (a) the adoption, modification or operation of any employees' share scheme or any share incentive or share option scheme under which a director or his associate(s) may benefit; or
  - (b) the adoption, modification or operation of a pension fund or retirement, death or disability benefits scheme which relates both director, his associate(s) and employees of the Company or any of its subsidiaries and does not provide in respect of any director (or his associate(s)) as such any privilege or advantage not generally accorded to the class of persons to which such scheme or fund relates; and
- (5) any contract or arrangement in which the director or his associate(s) is/are interested in the same manner as other holders of shares or debentures or other securities of the Company by virtue only of his interest in shares or debentures or other securities of the Company.

**For the purpose of this Clause, the definition of "associate" shall have the same meaning ascribed to it in the Listing Rules."**

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

Beijing, the PRC, 24 July 2004

*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:*  
20th Floor  
Park Avenue Tower  
No. 5 Moreton Terrace  
Causeway Bay  
Hong Kong

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## NOTICE OF SPECIAL GENERAL MEETING

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**Notes:**

- (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 branch share registrar and transfer office 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 9 August 2004 to 8 September 2004, 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 branch 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 6 August 2004.
- (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 branch 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 18 August 2004.
- (vi) It is expected that the SGM will last not more than a half day. Shareholders and their proxies attending the SGM shall bear their own costs of transportation and accommodation.