



# Tong Ren Tang Technologies Co. Ltd.

## 北京同仁堂科技發展股份有限公司

( a joint stock limited company incorporated in the People's Republic of China with limited liability )  
(Stock Code : 8069)



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## HIGHLIGHTS

- Revenue amounted to RMB664,051,000 for the six months ended 30 June 2007, representing an increase of approximately 5.40% as compared with that for the corresponding period in 2006.
- Net profit attributable to equity shareholders of the Company amounted to RMB124,134,000 for the six months ended 30 June 2007, representing an increase of approximately 0.45% as compared with that for the corresponding period in 2006.
- Earnings per share for profit attributable to equity shareholders of the Company amounted to RMB0.673 for the six months ended 30 June 2007.

## HALF-YEARLY RESULTS (UNAUDITED)

The Board of Directors (the “Board”) of Tong Ren Tang Technologies Co. Ltd. (the “Company”) is pleased to announce the unaudited results of the Company and its subsidiaries (hereafter collectively referred to as the “Group”) and its joint ventures for the six months ended 30 June 2007, as follows:

### Condensed Consolidated Statement of Income

	Notes	For the six months ended 30 June		For the three months ended 30 June	
		2007 (Unaudited) RMB'000	2006 (Unaudited) RMB'000	2007 (Unaudited) RMB'000	2006 (Unaudited) RMB'000
Revenue	3	664,051	630,006	351,230	317,066
Cost of sales		(387,652)	(347,148)	(207,347)	(172,711)
Gross Profit		276,399	282,858	143,883	144,355
Other gains	4	1,672	1,757	772	846
Distribution costs		(78,246)	(88,324)	(41,452)	(39,871)
Administrative expenses		(51,646)	(49,333)	(22,324)	(24,975)
Profit from operations		148,179	146,958	80,879	80,355
Financial costs	5	(3,467)	(2,280)	(2,238)	(1,141)
Profit before income tax	6	144,712	144,678	78,641	79,214
Income tax expense	7	(22,034)	(22,229)	(11,960)	(12,096)
Profit for the period		<u>122,678</u>	<u>122,449</u>	<u>66,681</u>	<u>67,118</u>
Attributable to:					
Equity holders of the Company		124,134	123,572	67,894	67,482
Minority interests		(1,456)	(1,123)	(1,213)	(364)
		<u>122,678</u>	<u>122,449</u>	<u>66,681</u>	<u>67,118</u>
Earnings per share for profit attributable to equity shareholders of the Company	8	<u>RMB0.673</u>	<u>RMB0.676</u>	<u>RMB0.365</u>	<u>RMB0.369</u>

**Condensed Consolidated Balance Sheet**

		<b>30 June 2007 (Unaudited) RMB'000</b>	31 December 2006 (Audited) RMB'000
	<i>Notes</i>		
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	9	<b>512,306</b>	532,384
Leasehold land and land use rights		<b>53,204</b>	53,798
Investment in an associated company		<b>4,751</b>	4,751
Deferred income tax assets		<b>360</b>	360
Other long-term assets		<b>3,956</b>	4,131
		<b>574,577</b>	595,424
<b>Current assets</b>			
Inventories		<b>502,282</b>	512,213
Trade and bills receivable – net	10	<b>267,712</b>	150,789
Prepayments and other current assets and amount due from related parties		<b>10,661</b>	27,971
Short-term bank deposits		<b>–</b>	10,207
Cash and cash equivalents		<b>502,925</b>	203,537
		<b>1,283,580</b>	904,717
<b>Total assets</b>		<b>1,858,157</b>	1,500,141
<b>EQUITY</b>			
Capital and reserves attributable to equity holders of the Company			
Share capital	11	<b>196,000</b>	182,800
Reserves	12	<b>1,073,038</b>	815,454
		<b>1,269,038</b>	998,254
Minority interests		<b>50,923</b>	52,968
<b>Total equity</b>		<b>1,319,961</b>	1,051,222

	<b>30 June 2007 (Unaudited) RMB'000</b>	31 December 2006 (Audited) RMB'000
<i>Notes</i>		
<b>Non-current liabilities</b>		
Deferred income tax liabilities	<b>1,572</b>	1,572
Deferred income – government grants	<b>12,312</b>	11,236
	<b>13,884</b>	12,808
<b>Current liabilities</b>		
Trade payables	<b>165,454</b>	152,408
Salary and welfare payables	<b>14,926</b>	24,531
Advances from customers	<b>43,824</b>	33,835
Current income tax liabilities	<b>12,857</b>	1,965
Accrued expenses and other current liabilities and amount due to related parties	<b>144,131</b>	138,372
Short-term borrowings	<b>70,000</b>	85,000
Dividend payable	<b>73,120</b>	–
	<b>524,312</b>	436,111
<b>Total liabilities</b>	<b>538,196</b>	448,919
<b>Total equity and liabilities</b>	<b>1,858,157</b>	1,500,141

**Condensed Consolidated Statement of Cash Flows**

	<b>For the six months ended 30 June</b>	
	<b>2007</b>	<b>2006</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
	<b>RMB'000</b>	<b>RMB'000</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Cash generated from operations	<b>80,177</b>	84,031
Interest paid	<b>(2,227)</b>	(2,388)
Income taxes refunded	<b>—</b>	275
	<hr/>	<hr/>
Net cash generated from operating activities	<b>77,950</b>	81,918
	<hr/>	<hr/>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchases of property, plant and equipment	<b>(6,398)</b>	(49,193)
Proceeds from disposals of property, plant and equipment	<b>—</b>	19
Decrease in short-term bank deposits	<b>10,207</b>	27,829
Interest received	<b>1,672</b>	1,757
	<hr/>	<hr/>
Net cash generated from/(used in) investing activities	<b>5,481</b>	(19,588)
	<hr/>	<hr/>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from issuing new H shares	<b>229,747</b>	—
Proceeds from government grants	<b>1,210</b>	800
Repayments of short-term borrowings	<b>(15,000)</b>	—
	<hr/>	<hr/>
Net cash generated from financing activities	<b>215,957</b>	800
	<hr/>	<hr/>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>299,388</b>	63,130
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD</b>	<b>203,537</b>	206,203
	<hr/>	<hr/>
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	<b>502,925</b>	269,333
	<hr/> <hr/>	<hr/> <hr/>

**Condensed Consolidated Statement of Changes in Equity**

	Attributable to equity holders of the Company			Minority interests	Total
	Share capital	Reserves	Total		
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Balance as of 1 January 2006	182,800	752,891	935,691	59,645	995,336
Net Profit for the six months ended 30 June 2006	–	123,572	123,572	(1,123)	122,449
Dividend paid	–	(84,088)	(84,088)	–	(84,088)
Foreign currency translation differences	–	(2,236)	(2,236)	–	(2,236)
Balance as of 30 June 2006 (unaudited)	<u>182,800</u>	<u>790,139</u>	<u>972,939</u>	<u>58,522</u>	<u>1,031,461</u>
Balance as of 1 January 2007	182,800	815,454	998,254	52,968	1,051,222
Net Profit for the six months ended 30 June 2007	–	124,134	124,134	(1,456)	122,678
Dividend paid	–	(73,120)	(73,120)	(589)	(73,709)
Foreign currency translation differences	–	(6,079)	(6,079)	–	(6,079)
Issuance of 13,200,000 new H shares	<u>13,200</u>	<u>212,649</u>	<u>225,849</u>	<u>–</u>	<u>225,849</u>
Balance as of 30 June 2007 (unaudited)	<u>196,000</u>	<u>1,073,038</u>	<u>1,269,038</u>	<u>50,923</u>	<u>1,319,961</u>





Notes:

### 1. BASIS OF PRESENTATION

The Company was incorporated as a joint stock company with limited liability in the People's Republic of China (the "PRC") on 22 March 2000 and upon the placing of its H shares, was listed on the GEM on 31 October 2000. Its ultimate holding company is China Beijing Tong Ren Tang Group Co. Ltd. ("Tongrentang Holdings"), incorporated in Beijing, the PRC.

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

### 2. PRINCIPAL ACCOUNTING POLICIES

The accompanying condensed consolidated financial statements are prepared in accordance with the International Financial Reporting Standards as published by the International Accounting Standards Board. The accounting policies adopted are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2006.

### 3. REVENUE

	For the six months ended 30 June		For the three months ended 30 June	
	2007	2006	2007	2006
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	RMB'000	RMB'000	RMB'000	RMB'000
Sales of medicine:				
Domestic	642,157	613,158	335,049	308,858
Overseas	21,894	16,848	16,181	8,208
	<u>664,051</u>	<u>630,006</u>	<u>351,230</u>	<u>317,066</u>

## 4. OTHER GAINS

	For the six months ended 30 June		For the three months ended 30 June	
	2007 (Unaudited) <i>RMB'000</i>	2006 (Unaudited) <i>RMB'000</i>	2007 (Unaudited) <i>RMB'000</i>	2006 (Unaudited) <i>RMB'000</i>
Interest income	<u>1,672</u>	<u>1,757</u>	<u>772</u>	<u>846</u>

## 5. FINANCE COSTS

	For the six months ended 30 June		For the three months ended 30 June	
	2007 (Unaudited) <i>RMB'000</i>	2006 (Unaudited) <i>RMB'000</i>	2007 (Unaudited) <i>RMB'000</i>	2006 (Unaudited) <i>RMB'000</i>
Interest expenses	2,227	2,388	1,079	1,321
Exchange loss/(gain)	<u>1,240</u>	<u>(108)</u>	<u>1,159</u>	<u>(180)</u>
	<u>3,467</u>	<u>2,280</u>	<u>2,238</u>	<u>1,141</u>

## 6. PROFIT BEFORE INCOME TAX

Profit before income tax was arrived at after charging the following:

	For the six months ended 30 June		For the three months ended 30 June	
	2007 (Unaudited) <i>RMB'000</i>	2006 (Unaudited) <i>RMB'000</i>	2007 (Unaudited) <i>RMB'000</i>	2006 (Unaudited) <i>RMB'000</i>
Depreciation of property, plant and equipment	<u>20,904</u>	<u>20,558</u>	<u>10,241</u>	<u>9,895</u>

## 7. INCOME TAX EXPENSE

Pursuant to the relevant regulations of the PRC, the applicable income tax rate for the Company is 15% without any tax relief for the six months ended 30 June 2007.

With the approval from the Beijing Economic and Technological Development Zone Local Tax Bureau (Document Jingdishuikaijianmianfa [2000] No. 23), the Company was entitled to an exemption from Enterprise Income Tax (“EIT”) for the first three years from its commencement of operations and a 50% reduction for the three years thereafter, on a condition that an amount equal to the EIT exemption or reduction from 15% had to be appropriated to a non-distributable tax reserve. The exemption and reduction started from 2000 and expired in 2005.

Except for the Company and Beijing Tong Ren Tang Hebei Chinese Medicinal Raw Materials Technologies Co., the provision for PRC current income tax is based on the statutory rate of 33% of the assessable income of each of the companies and enterprises now comprising the Group as determined in accordance with the relevant PRC income tax rules and regulations for the periods ended 30 June 2007.

Foreign entities are subject to income tax as required by tax laws of countries where those entities operate.

## 8. EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the following data:

	For the six months ended 30 June		For the three months ended 30 June	
	2007 (Unaudited) RMB'000	2006 (Unaudited) RMB'000	2007 (Unaudited) RMB'000	2006 (Unaudited) RMB'000
Profit attributable to equity holders of the Company	<b>124,134</b>	123,572	<b>67,894</b>	67,482
	<b>Number of shares</b>	Number of shares	<b>Number of shares</b>	Number of shares
Weighted average number of shares issued during the period	<b>184,477,348</b>	182,800,000	<b>186,136,264</b>	182,800,000
Basic earnings per share	<b>RMB0.673</b>	RMB0.676	<b>RMB0.365</b>	RMB0.369

The Company had no potential dilutive shares for the six months ended 30 June 2007 (2006: Nil).

**9. ADDITIONS TO PROPERTY, PLANT AND EQUIPMENT**

During the period, the Group spent approximately RMB6,917,000 (12 months ended 31 December 2006: RMB70,707,000) on the acquisition of property, plant and equipment.

**10. TRADE AND BILLS RECEIVABLE – NET**

	<b>30 June 2007 (Unaudited) RMB'000</b>	31 December 2006 (Audited) RMB'000
Trade and bills receivables	<b>282,433</b>	165,510
Less: provision for impairment of receivables	<b>(14,721)</b>	(14,721)
	<hr/> <b>267,712</b> <hr/>	<hr/> 150,789 <hr/>
Trade and bills receivable – net	<b>267,712</b>	150,789

The carrying amounts of trade and bills receivables approximate their fair values.

The ageing analysis of trade and bills receivables was as follows:

	<b>30 June 2007 (Unaudited) RMB'000</b>	31 December 2006 (Audited) RMB'000
Within 4 months	<b>244,126</b>	139,977
Over 4 months but within 1 year	<b>29,716</b>	16,942
Over 1 year but within 2 years	<b>3,516</b>	6,792
Over 2 years but within 3 years	<b>3,276</b>	193
Over 3 years	<b>1,799</b>	1,606
	<hr/> <b>282,433</b> <hr/>	<hr/> 165,510 <hr/>

The Group normally grants a credit period ranging from 30 days to 120 days to its trade customers.

**11. SHARE CAPITAL**

	<b>30 June 2007</b>		<b>31 December 2006</b>	
	<b>(Unaudited)</b>		<b>(Audited)</b>	
	<b>Number of shares</b>	<b>Nominal value RMB'000</b>	Number of shares	Nominal value RMB'000
Registered	<b><u>196,000,000</u></b>	<b><u>196,000</u></b>	<u>182,800,000</u>	<u>182,800,000</u>
Issued and fully paid				
– Domestic shares with a par value of RMB1 per share	<b>108,680,000</b>	<b>108,680</b>	110,000,000	110,000
– H shares with a par value of RMB1 per share	<b><u>87,320,000</u></b>	<b><u>87,320</u></b>	<u>72,800,000</u>	<u>72,800</u>
	<b><u>196,000,000</u></b>	<b><u>196,000</u></b>	<u>182,800,000</u>	<u>182,800</u>

In June 2007, the Company, at HK\$18.38 per share, launched a placing of (1) 13,200,000 new H shares with face value of RMB1.00 per share allotted and issued by the Company; and (2) 1,320,000 H shares with face value of RMB1.00 per share converted from the same number and face value of domestic shares.

The placing of H shares had been completed and confirmed to take place before 9:30 am on 8 June 2007 in accordance with the placing agreement. The net proceeds from the placing of the 13,200,000 new H shares approximately amounting to HK\$231,600,000 had been received. The capital verification and registration of the change to the State Administration for Industry and Commerce (SAIC) in the PRC are still undergoing. The Company proposes to deploy the net proceeds from the placing of new H shares for strengthening its sales and distribution networks and for general working capital purpose.

## 12. RESERVES

	Share Premium	Statutory surplus reserve fund	Statutory public welfare fund	Tax reserve	Property, plant and equipment revaluation	Foreign currency translation difference	Retained earnings	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance as of 1 January 2006	157,925	93,243	46,622	102,043	11,536	(1,905)	343,427	752,891
Profit attributable to equity holders of the Company for the six months ended 30 June 2006	-	-	-	-	-	-	123,572	123,572
Dividends paid	-	-	-	-	-	-	(84,088)	(84,088)
Foreign currency translation differences	-	-	-	-	-	(2,236)	-	(2,236)
Balance as of 30 June 2006 (unaudited)	<u>157,925</u>	<u>93,243</u>	<u>46,622</u>	<u>102,043</u>	<u>11,536</u>	<u>(4,141)</u>	<u>382,911</u>	<u>790,139</u>
Balance as of 1 January 2007	157,925	108,510	46,622	102,043	8,640	(3,581)	395,295	815,454
Profit attributable to equity holders of the Company for the six months ended 30 June 2007	-	-	-	-	-	-	124,134	124,134
Dividends paid	-	-	-	-	-	-	(73,120)	(73,120)
Foreign currency translation differences	-	-	-	-	-	(6,079)	-	(6,079)
The issuance of 13,200,000 new H shares	212,649	-	-	-	-	-	-	212,649
Balance as of 30 June 2007 (unaudited)	<u>370,574</u>	<u>108,510</u>	<u>46,622</u>	<u>102,043</u>	<u>8,640</u>	<u>(9,660)</u>	<u>446,309</u>	<u>1,073,038</u>

**13. ACCOUNTS PAYABLE**

The aging analysis of accounts payable was as follows:

	<b>30 June</b>	31 December
	<b>2007</b>	2006
	<b>(Unaudited)</b>	(Audited)
	<b>RMB'000</b>	RMB'000
Within 4 months	<b>104,086</b>	102,611
Over 4 months but within 1 year	<b>58,559</b>	46,576
Over 1 year but within 2 years	<b>2,670</b>	3,221
	<b>139</b>	-
	<b>165,454</b>	152,408

**14. SEGMENT INFORMATION**

No segment information is presented as the Group operates primarily in one industry and geographical segment.

**15. CHARGES ON GROUP ASSETS**

As at 30 June 2007, none of the Group's assets was pledged as security for liabilities (31 December 2006: Nil).

**16. FOREIGN CURRENCY RISK**

The Group has foreign currency risk as certain of its payables to equipment suppliers and certain accounts receivable arising from export sales are denominated in foreign currencies, principally U.S. dollars, but the impact is not material to the Company.

**17. CAPITAL COMMITMENTS**

As of 30 June 2007, the Group had no capital commitments which were not provided but had been authorised and contracted for in the unaudited consolidated financial statements of the Group (31 December 2006: RMB1,862,000 related to the construction of production facilities).

## INTERIM DIVIDENDS

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2007 (2006: Nil).

## MANAGEMENT DISCUSSION AND ANALYSIS

### Business Review

In line with the guiding principle of “innovation of development, mechanism and culture” set out by the Board, in 2007, the Company continues to uphold the long-term goal of stable development with the two major cornerstones of “practicality” and “effectiveness”. We are bold in innovation and aggressive in new development, aiming at further enhancing economic operations quality, the Company’s profitability and management standard. With its endeavors and the teamworks, the Company successfully achieved the designated profit target for the first half of 2007. For the half year ended 30 June 2007, revenue of the Company amounted to RMB664,051,000, representing an increase of 5.40% as compared with that for the corresponding period last year. Profit attributable to equity holders of the Company amounted to RMB124,134,000, representing an increase of 0.45% as compared with that for the corresponding period last year.

### Sales

In 2007, the Company’s marketing strategy focuses on innovating the sale mechanism, developing ultimate points of distribution, building up new product clusters, undergoing channel management, streamlining management flows and raising the overall sale capacity of the Company.

Under the fierce market competitive, the Company can better adapt to the ever-changing market economy only through innovating the mechanism. To achieve this goal, the Company established a sale branch with an entirely new mechanism. The new branch’s operations including staff recruitment and daily operations are under the new mechanism. The sale managers were recruited publicly and the salespersons were recruited locally. The market-oriented management of the branch included





establishing a sales-performance-linked appraisal and remuneration system. Furthermore, a few purposely selected products are promoted fully under the branch's marketing campaigns. The Company strives to base on the new sale branch to further develop and improve the sale management system so as to lay a solid management foundation for the future expansion of the sale network of the Company.

The Company also focuses on building ultimate points of distribution, consolidating the existing market and further exploring potential markets. During the first half of the year, the Company not only consolidated the existing sale channels, but also quickly established a system of networks in which ultimate points of distribution in various county cities entrenched a central point in a major city. We also utilized our brand advantage to strengthen our promotion in various ultimate points of distribution through various means including newspapers and magazines, handbooks and short videos. Besides, we also targeted at tenders invited by state-level and local-level medical institutions as well as from various communities. We partnered with distributors with supply license to bid for tenders, so our bids were frequently accepted. By this way, we can also guarantee that our products are on supply list of various major medical institutions.

We continue to change or renew forms, packages and packings, etc. to fulfill different demands and enlarge our product clusters. During the first half of the year, the Company has been producing and selling more than one hundred kinds of products, among them, one product reached RMB100 million of sales; one product between RMB50 million to RMB100 million; eight products between RMB10 million to RMB50 million; and nine products between RMB5 million to RMB10 million. Our mainstream products Liuwei Dihuang Pill (六味地黄丸) series and Niu Huang Jiedu Tablet (牛黄解毒片) series recorded a decrease of revenue as compared to that of the corresponding period last year, while Ganmao Qingre Granule (感冒清热颗粒) series recorded a 50% increase of revenue as compared to that of the corresponding period last year. Some of the other products recorded a strong growth. These included Niu Huang Jiangya Pill (牛黄降壓

丸) series, Fufang Danshen Tablet (複方丹參片) series, Xihuang Pill (西黃丸) series, Banlangen Granule (板藍根顆粒) series, Ganmao Soft Capsule (感冒軟膠囊), Anshen Jiannaoye (安神健腦液), etc.

## **Production**

In 2007, the Company further enhanced its production management by scientific and well-planned operations, efficient communication and problem-solving. All production bases utilized their own advantages together with advanced technology and facilities to further optimize the compatibility between skills and equipments and to optimize layout of production lines, As a result, we can guarantee product quality as well as enhance production efficiency and quality of production management.

Beijing Tong Ren Tang Chinese Medicine Company Limited which is located in Hong Kong has finished its construction of factory and installation of facilities. Almost all key positions have been filled up. During the first half of the year, we produced purposely selected items on trial run basis. With the improvements of both facilities and skills, we will further improve production quantity. We expect to launch formal production next year. Meanwhile, Beijing Tong Ren Tang Chinese Medicine Company Limited is applying for GMP certificate, and it is expected to pass the GMP certification issued by relevant institution in Hong Kong in the second half of this year.

## **Management and Research & Development**

To realize our philosophy of building up a cost-effective enterprise, we continue to take various measures in every aspect of operation, including raw material procurement, production, sale, transport, storage, etc. We invited for tender on procurement of raw materials, packaging materials and supplementary materials and on re-engineering projects. By this way, we can not only keep the operation well regulated but also keep the cost low.



The Company is figuring out a set of new staff management systems. During the first half of the year, we promulgated the relevant regulations for staff to leave their positions for rest. At the same time, since May, the Company officially launched the “Monthly Appraisal of Management Staff” (管理人員月評價管理制度), quantifying the performance of departments’ management staff. We assessed, on a monthly basis, their performance results by reference to which their rewards or penalties were calculated. This system is considered better formed and able to raise effectiveness of departments and management staff thereof.

The Company’s research center has taken its technological advantage in innovation. Strictly adhering to the guiding principle of “from scientific investigation to invention of new products”, we proactively progress various scientific researches. Having strived to speed up the invention of new products, to strengthen the re-development of existing products, to develop products in new forms, new packages or new packings we launched ten new products to the market in the first half of this year, all of which were well received by the customers.

### **Sales Network**

Currently, the Company is running four overseas joint ventures in order to develop distribution business and to set up dispensaries in these places.

During the first half of the year, the Peking Tongrentang (M) Sdn. Bhd. in Malaysia realized sales of approximately RMB4,818,400; the Beijing Tong Ren Tang Canada Co. Ltd in Canada approximately RMB2,826,900; the Beijing Tong Ren Tang (Macau) Company Limited in Macau approximately RMB4,905,000; and the Beijing Tong Ren Tang (Indonesia) Company Limited in Indonesia approximately RMB2,210,300.

The Company’s dispensaries in Beijing – Beijing Tong Ren Tang Nanshuan Zhonglu Drugstore Co., Limited, operated smoothly during the first half of the year and realized sales of approximately RMB8,908,300.

## **EMPLOYEES AND REMUNERATION POLICIES**

As at 30 June 2007, the Company had 1,822 employees (31 December 2006: 1,890 employees). Remuneration is determined according to the remuneration management system and the relevant policies in the PRC. Staff remuneration is linked to the economic efficiency and performance of the Company. Staff benefits include contributions to pension scheme, medical insurance scheme, unemployment insurance scheme, industrial accident insurance scheme and housing fund.

## **FINANCIAL REVIEW**

### **Liquidity and Financial Resources**

The Group has maintained a sound financial position for the six months ended 30 June 2007. During the period, the Group's primary source of funds was the net proceeds from the issuance of the new H shares, cash provided by operating activities and bank loans.

As at 30 June 2007, the Group had bank and cash balances amounted to RMB502,925,000 (31 December 2006: RMB213,744,000) and short term borrowings of RMB70,000,000 (31 December 2006: RMB85,000,000). These borrowings bear fixed interest of 5.913% (31 December 2006: 5.265%) per annum.

As at 30 June 2007, the Group had total assets of RMB1,858,157,000 (31 December 2006: RMB1,500,141,000) which were financed by non-current liabilities of RMB13,884,000 (31 December 2006: RMB12,808,000), current liabilities of RMB524,312,000 (31 December 2006: RMB436,111,000), shareholders' equity of RMB1,269,038,000 (31 December 2006: RMB998,254,000) and minority interests of RMB50,923,000 (31 December 2006: RMB52,968,000).

### **Capital Structure, gearing and liquidity ratio**

In June 2007, the net proceeds from the placing of 13,200,000 new H shares amounted to approximately HK\$231,600,000. As a result, the gearing ratio decreased and liquidity ratio increased significantly.



The Group's gearing ratio, defined as the ratio between total borrowings and shareholders' equity, was 0.05 (31 December 2006: 0.09). The liquidity ratio of the Group, represented by a ratio between current assets over current liabilities, was 2.45 (31 December 2006: 2.07), reflecting the abundance of financial resources.

### **Prospects**

In the future the pharmaceutical industry will become increasingly regulated. The market size of medicine consumption in China will continue to expand while the industry will become highly concentrated, both will be advantageous to enterprises with edges in the industry. Meanwhile, we expect that the medical reform to be launched in the second half of this year will create new development opportunities for pharmaceutical enterprises.

During the first half of the year, the Company's result recorded a slight increase compared to that of the corresponding period last year. Our products' competitiveness in the market and the Company's control over its sale and marketing were obviously improved compared to last year. In the second half of the year, the Company will continue to strive according to the designated goals and work harder to increase sales. We will make full use of our brand name "Tong Ren Tang" to enlarge our market share and we believe that we will be back to the track of stable growth.

## **CORPORATE GOVERNANCE**

For the half year ended 30 June 2007, the Company complied with the provisions set out in Appendix 15 of the Code on Corporate Governance Practices of the GEM Listing Rules.

### **Directors' Dealing in Securities**

The Company has formulated and implemented its Code on Dealing in Securities, pursuant to required standard of dealings set out in Rule 5.48 to Rule 5.67 of the GEM Listing Rules to regulate the directors' dealing in securities. The Code on Dealing in Securities of the Company are no less exacting terms than the required standard of dealings and these requirements are also applicable to specific persons such as the senior management.

After the enquiry by the Company to all directors, all directors have confirmed that they have been complying with the required standard of dealings set out the GEM Listing Rules and the Code on Dealing in Securities of the Company.

### **Board of Directors**

The third session of the board of directors of the Company is currently comprised of nine directors and their term of office will end upon the conclusion of the general meeting in 2009. The board of directors comprises three influential independent non-executive directors. Independent non-executive directors are independent of the management and in possession of solid experience in business and finance. They provide significant contribution to the development of the Company.

As at 30 June 2007 and at any time, the board of directors fulfilled the minimum requirement of appointing at least three independent non-executive directors as required by the GEM Listing Rules and the number of independent non-executive directors being at least one-third of the members of the board of directors, and it also met the requirement of having one independent non-executive director qualified as a professional or having the professional accounting and financial management expertise.

### **Chairman of the Board and General Manager**

Mr. Yin Shun Hai and Mr. Kuang Gui Shen is chairman of the board of directors and general manager respectively, which are two clearly defined positions. The chairman is responsible for the operation of the board of directors while the general manager is in charge of ordinary business management. The Articles of Association of the Company sets out the respective functions of the chairman and the general manager in detail.



## **Audit Committee**

Pursuant to the Rules 5.28 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 of 5.29 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 committee comprises Ms. Tam Wai Chu, Maria, Mr. Ting Leung Huel, Stephen and Mr. Jin Shi Yuan, 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 3 March 2007 to review and discuss the operating results, statements of affairs, major accounting policies with respect to the audited financial statements of the Company for the year ended 31 December 2006 and internal audit matters and to listen to the advice provided by auditors. The Committee concluded the meeting with agreement to the contents of the annual report.

The second meeting was held on 6 August 2007 to review and discuss the operating results, statements of affairs and major accounting policies with respect to the unaudited interim report of the Company for the six months ended 30 June 2007 and internal audit matters. The Committee concluded the meeting with agreement to the contents of the interim report.

## OTHER INFORMATION

### Directors' Interests in Shares

As at 30 June 2007, the interests and short positions of the Directors 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 Securities and Futures Ordinance (the "SFO")) 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 Rule 5.46 of the Rules Governing the Listing of Securities on the GEM (the "GEM Listing Rules"), were as follows:

### Long positions in shares

#### The Company

Names	Type of interests	Capacity	Number of shares <i>(Note)</i>	Percentage of domestic shares	Percentage of total registered share capital
Mr. Yin Shun Hai	Personal	Beneficial Owner	500,000	0.460%	0.255%
Mr. Mei Qun	Personal	Beneficial Owner	500,000	0.460%	0.255%

*Note:* All represented domestic shares.

#### Beijing Tongrentang Company Limited ("Tongrentang Ltd.")

Names	Type of interests	Capacity	Number of shares <i>(Note)</i>	Percentage of total registered share capital
Mr. Yin Shun Hai	Personal	Beneficial Owner	38,850	0.009%
Mr. Mei Qun	Personal	Beneficial Owner	31,081	0.007%
Mr. Kuang Gui Shen	Personal	Beneficial Owner	22,700	0.005%

*Note:* All represented A shares.



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

<b>Names</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%
Ms. Ding Yong Ling	Personal	Beneficial Owner	39,000	0.500%

**Beijing Tong Ren Tang Nature-Pharm Co. Ltd.**

<b>Names</b>	<b>Type of interests</b>	<b>Capacity</b>	<b>Number of shares</b>	<b>Percentage of total registered share capital</b>
Mr. Wang Quan	Personal	Beneficial Owner	200,000	0.400%

Save as disclosed above, as at 30 June 2007, none of the Directors and chief executives of the Company has 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) 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 standards of dealing by directors as referred to in Rule 5.46 of the GEM Listing Rules.

## SUBSTANTIAL SHAREHOLDERS

As at 30 June 2007, the following persons (other than the Directors 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:

### 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 Ltd.	Beneficial owner	100,000,000	92.013%	–	51.020%
Tongrentang Holdings (Note 1)	Interest of a controlled corporation	100,000,000	92.013%	–	51.020%
Hamon Asset Management Limited (Note 2)	Beneficial owner	1,580,000	1.454%	–	0.806%
Hamon Asset Management Limited (Note 2)	Investment manager	1,197,000	–	1.371%	0.611%
Hamon U.S. Investment Advisors Limited (Note 2)	Investment manager	2,852,000	–	3.266%	1.455%
Hamon Investment Management Limited (Note 2)	Investment manager	1,000,000	–	1.145%	0.510%
The Hamon Investment Group Pte Limited (Note 2)	Interest of a controlled corporation	5,049,000	–	5.782%	2.576%
Capital Research and Management Company (Note 3)	Investment manager	4,218,000	–	4.831%	2.152%
Capital International, Inc. (Note 3)	Investment manager	2,556,000	–	2.927%	1.304%
Capital Group International, Inc. (Note 3)	Interest of a controlled corporation	2,556,000	–	2.927%	1.304%
The Capital Group Companies, Inc. (Note 3)	Interest of a controlled corporation	6,774,000	–	7.758%	3.456%
Fidelity International Limited	Investment manager	5,204,000	–	5.960%	2.655%



*Notes:*

- (1) Such shares were held through Tongrentang Ltd. As at 30 June 2007, Tongrentang Ltd. was owned as to 55.24% 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 Ltd.
- (2) The Hamon Investment Group Pte Limited owns 100% of Hamon Asset Management Limited, Hamon U.S. Investment Advisors Limited and Hamon Investment Management Limited

Accordingly, The Hamon Investment Group Pte Limited is deemed by Part XV of the SFO to be interested in the 1,197,000 shares held by Hamon Asset Management Limited, the 2,852,000 shares held by Hamon U.S. Investment Advisors Limited and the 1,000,000 shares held by Hamon Investment Management Limited.

- (3) The Capital Group Companies, Inc. owns 100% of Capital Group International, Inc. Capital Group International, Inc. owns 100% of Capital International, Inc.. The Capital Group Companies, Inc. owns 100% of Capital Research and Management Company.

Accordingly, under Part XV of the SFO, The Capital Group Companies, Inc. and Capital Group International, Inc are deemed to be interested in the 2,556,000 shares held by Capital International, Inc., The Capital Group Companies, Inc. is deemed to be interested in the 4,218,000 shares held by Capital Research and Management Company.

Save as disclosed above, as at 30 June 2007, the Directors were not aware of any other person (other than the Directors 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.

## COMPETING INTERESTS

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

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

The Company, Tongrentang Ltd. and Tongrentang Holdings are all engaged in the manufacturing of Chinese Patent Medicine. Their businesses are delineated in accordance with their differences in focus on the forms of medicine they produce. Tongrentang Ltd. mainly produces Chinese Patent Medicine in such forms 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 Baifeng 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 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. Only one of them, Angong Niu Huang Pills (安宫牛黄丸), could be manufactured by both the Company and Tongrentang Ltd. in the future.

The Directors consider that, except for Angong Niu Huang Pills (安宫牛黄丸) produced by the Company and Tongrentang Ltd., there is no other direct competition among the Company, Tongrentang Ltd. and Tongrentang Holdings. The Directors consider that as Angong Niu Huang Pills (安宫牛黄丸) 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 (安宫牛黄丸). 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 one of the independent non-executive Directors is an experienced expert in the Chinese medicine industry and 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 fall below 30%.



## **PURCHASE, SALE OR REDEMPTION OF SECURITIES**

During the six months ended 30 June 2007, the Company and its subsidiaries have not purchased, sold or redeemed any of the Company's listed shares.

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

Beijing, the PRC 10 August 2007

*As at the date of this report, the Board comprises (i) Mr. Yin Shun Hai, Mr. Mei Qun, Mr. Zhang Sheng Yu, Mr. Wang Quan, Ms. Ding Yong Ling and Mr. Kuang Gui Shen as executive directors; (ii) Ms. Tam Wai Chu, Maria, Mr. Ting Leung Huel, Stephen and Mr. Jin Shi Yuan as independent non-executive directors.*