



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

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



Interim Report 2004



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

HIGHLIGHTS

- Turnover increased by approximately 15.10% for the six months ended 30 June 2004 as compared with the corresponding period in 2003.
- Net profit increased by approximately 24.94% for the six months ended 30 June 2004 as compared with the corresponding period in 2003.
- Earnings per share for the six months ended 30 June 2004 was RMB0.635.



HALF-YEARLY RESULTS (UNAUDITED)

The Board of Directors (the “Board”) of Tong Ren Tang Technologies Co. Ltd. (the “Company”) is pleased to announce the unaudited results of the Company and its subsidiaries and its joint ventures (hereafter collectively referred to as the “Group”) for the six months ended 30 June 2004, as follows:

Condensed Consolidated Statement of Income

| | | For the six months ended 30 June | | For the three months ended 30 June | |
|----------------------------------|--------------|-------------------------------------|----------------------------|---------------------------------------|----------------------------|
| | | 2004 <i>(Unaudited)</i> | 2003 <i>(Unaudited)</i> | 2004 <i>(Unaudited)</i> | 2003 <i>(Unaudited)</i> |
| | <i>Notes</i> | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> |
| Turnover | 3 | 612,100 | 531,812 | 297,935 | 260,183 |
| Cost of sales | | (308,518) | (271,055) | (149,262) | (124,385) |
| Gross profit | | 303,582 | 260,757 | 148,673 | 135,798 |
| Selling and distribution costs | | (110,773) | (87,816) | (59,660) | (43,955) |
| Administrative expenses | | (64,735) | (73,314) | (26,450) | (43,009) |
| Profit from operations | | 128,074 | 99,627 | 62,563 | 48,834 |
| Finance (cost) income, net | 4 | (1,400) | 1,156 | (393) | 577 |
| Profit before taxation | 5 | 126,674 | 100,783 | 62,170 | 49,411 |
| Taxation | 6 | (9,494) | (6,662) | (4,724) | (3,750) |
| Profit before minority interests | | 117,180 | 94,121 | 57,446 | 45,661 |
| Minority interests | | (1,013) | (1,142) | (229) | (1,027) |
| Net profit | | 116,167 | 92,979 | 57,217 | 44,634 |
| Earnings per share | 7 | RMB0.635 | RMB0.509 | RMB0.313 | RMB0.244 |

Condensed Consolidated Balance Sheet

| | | 30 June | 31 December |
|--------------------------------------|--------------|-------------------------|-----------------------|
| | | 2004 | 2003 |
| | | <i>(Unaudited)</i> | <i>(Audited)</i> |
| | <i>Notes</i> | RMB'000 | RMB'000 |
| ASSETS | | | |
| Non-current assets | | | |
| Property, plant and equipment, net | 8 | 294,537 | 276,226 |
| Land use rights, net | | 30,570 | 30,570 |
| Investments in an associated company | | 5,296 | 5,296 |
| Deferred tax assets | | - | 426 |
| Other long-term assets | | 4,414 | 3,823 |
| | | <u>334,817</u> | <u>316,341</u> |
| Current assets | | | |
| Cash and cash equivalents | | 127,972 | 128,130 |
| Short-term bank deposits | | 132,613 | 133,213 |
| Trade receivables, net | 9 | 78,653 | 28,839 |
| Inventories | | 223,979 | 271,272 |
| Due from related parties | | - | 4,249 |
| Prepayments and other current assets | | 158,618 | 16,469 |
| | | <u>721,835</u> | <u>582,172</u> |
| Total assets | | <u>1,056,652</u> | <u>898,513</u> |



| | | 30 June | 31 December |
|-------------------------------|--|--------------------|------------------|
| | | 2004 | 2003 |
| | | <i>(Unaudited)</i> | <i>(Audited)</i> |
| <i>Notes</i> | | RMB'000 | RMB'000 |
| EQUITY AND LIABILITIES | | | |
| Capital and reserves | | | |
| | | 182,800 | 182,800 |
| | | 506,669 | 469,113 |
| | | 689,469 | 651,913 |
| | | 18,072 | 17,059 |
| Current liabilities | | | |
| | | 35,000 | 15,000 |
| | | 108,752 | 83,304 |
| | | 60,408 | 57,280 |
| | | 1,159 | 36,928 |
| | | – | 9,554 |
| | | 78,604 | – |
| | | 65,188 | 27,475 |
| | | 349,111 | 229,541 |
| | | 1,056,652 | 898,513 |

Condensed Consolidated Statement of Cash Flows

| | For the six months ended 30 June | |
|---|-------------------------------------|--------------------|
| | 2004 | 2003 |
| | <i>(Unaudited)</i> | <i>(Unaudited)</i> |
| | <i>RMB'000</i> | <i>RMB'000</i> |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Cash generated from operations | 37,617 | 140,674 |
| Interest paid | (1,149) | (625) |
| Income taxes (paid) refunded | (3,180) | 741 |
| | <hr/> | <hr/> |
| Net cash from operating activities | 33,288 | 140,790 |
| | <hr/> | <hr/> |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Purchases of property, plant and equipment | (54,488) | (28,937) |
| Proceeds from disposals of property, plant and equipment | 2 | - |
| Investments in an associated company | - | (1,831) |
| Decrease (increase) in short-term bank deposits | 600 | (42,135) |
| Interest received | 440 | 1,613 |
| | <hr/> | <hr/> |
| Net cash used in investing activities | (53,446) | (71,290) |
| | <hr/> | <hr/> |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Proceeds from short-term borrowings | 20,000 | - |
| Dividends paid | - | (42,900) |
| | <hr/> | <hr/> |
| Net cash from (used in) financing activities | 20,000 | (42,900) |
| | <hr/> | <hr/> |
| NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS | (158) | 26,600 |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD | 128,130 | 241,863 |
| | <hr/> | <hr/> |
| CASH AND CASH EQUIVALENTS AT END OF PERIOD | 127,972 | 268,463 |
| | <hr/> <hr/> | <hr/> <hr/> |



Condensed Consolidated Statement of Changes in Equity

| | Share capital | Share premium | Statutory surplus reserve fund | Statutory public welfare fund | Tax reserve | Retained profits | Foreign currency translation difference | Total |
|--|----------------|----------------|--------------------------------|-------------------------------|---------------|------------------|---|----------------|
| | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Balances as of 1 January 2003 | 182,800 | 157,925 | 30,677 | 15,339 | 51,583 | 110,584 | (9) | 548,899 |
| Net profit for the six months ended 30 June 2003 | - | - | - | - | - | 92,979 | - | 92,979 |
| Dividends | - | - | - | - | - | (71,292) | - | (71,292) |
| Appropriation from retained profits | - | - | - | - | 7,492 | (7,492) | - | - |
| Balances as of 30 June 2003 | 182,800 | 157,925 | 30,677 | 15,339 | 59,075 | 124,779 | (9) | 570,586 |
| Balances as of 1 January 2004 | 182,800 | 157,925 | 47,959 | 23,980 | 64,742 | 174,553 | (46) | 651,913 |
| Net profit for the six months ended 30 June 2004 | - | - | - | - | - | 116,167 | - | 116,167 |
| Dividends | - | - | - | - | - | (78,604) | - | (78,604) |
| Foreign currency translation difference | - | - | - | - | - | - | (7) | (7) |
| Appropriation from retained profits | - | - | - | - | 9,371 | (9,371) | - | - |
| Balances as of 30 June 2004 | 182,800 | 157,925 | 47,959 | 23,980 | 74,113 | 202,745 | (53) | 689,469 |

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., 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 2003.

3. Turnover

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

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

| | For the six months ended 30 June | | For the three months ended 30 June | |
|------------------------------|---------------------------------------|---------------------------------------|---------------------------------------|---------------------------------------|
| | 2004 <i>(Unaudited)</i> RMB'000 | 2003 <i>(Unaudited)</i> RMB'000 | 2004 <i>(Unaudited)</i> RMB'000 | 2003 <i>(Unaudited)</i> RMB'000 |
| Sales of medicine: | | | | |
| Domestic | 589,880 | 505,196 | 284,881 | 246,860 |
| Overseas | 22,195 | 21,829 | 13,054 | 10,853 |
| Agency fee income - domestic | 25 | 4,787 | - | 2,470 |
| | <u>612,100</u> | <u>531,812</u> | <u>297,935</u> | <u>260,183</u> |



4. Finance (cost) income, net

| | For the six months ended 30 June | | For the three months ended 30 June | |
|---|---------------------------------------|---------------------------------------|---------------------------------------|---------------------------------------|
| | 2004 <i>(Unaudited)</i> RMB'000 | 2003 <i>(Unaudited)</i> RMB'000 | 2004 <i>(Unaudited)</i> RMB'000 | 2003 <i>(Unaudited)</i> RMB'000 |
| Interest expenses on bank loans repayable within 5 years | (1,149) | (625) | (480) | (625) |
| Interest income | 440 | 1,613 | 181 | 1,026 |
| Others | (691) | 168 | (94) | 176 |
| | <u>(1,400)</u> | <u>1,156</u> | <u>(393)</u> | <u>577</u> |

5. Profit before taxation

Profit before taxation was determined after charging the following:

| | For the six months ended 30 June | | For the three months ended 30 June | |
|--|---------------------------------------|---------------------------------------|---------------------------------------|---------------------------------------|
| | 2004 <i>(Unaudited)</i> RMB'000 | 2003 <i>(Unaudited)</i> RMB'000 | 2004 <i>(Unaudited)</i> RMB'000 | 2003 <i>(Unaudited)</i> RMB'000 |
| Depreciation of property, plant and equipment | <u>16,108</u> | <u>8,546</u> | <u>10,106</u> | <u>4,272</u> |

6. Taxation

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

In June 2004, the Company renewed its HTE certification granted by Beijing Science Technology Committee for the next two years. The Company was registered in the BETDZ and has obtained an approval from the BETDZ Local Tax Bureau ("BETDZ LTB") (Document Jingdishuikajianmianfa [2000] No. 23) to enjoy an EIT exemption for three years commencing from 2000 and a 50% reduction in EIT for the three years thereafter. In October 2002, Beijing Administration of Taxation issued a circular, namely Jingguoshuihan [2002] No. 632, stating that a HTE can enjoy the preferential tax treatment only if both the registration and operation are in the designated area. However, BETDZ LTB has also verbally confirmed to the Company that the above EIT preferences should be available to the Company as long as the Company's registered address is in BETDZ and it remains as a HTE.

For the period ended 30 June 2004, an amount equal to the 7.5% EIT exempted amounting to approximately RMB9,371,000 (2003: RMB7,492,000) was transferred to the tax reserve.

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

| | For the six months ended 30 June | | For the three months ended 30 June | |
|--|---------------------------------------|---------------------------------------|---------------------------------------|---------------------------------------|
| | 2004 <i>(Unaudited)</i> RMB'000 | 2003 <i>(Unaudited)</i> RMB'000 | 2004 <i>(Unaudited)</i> RMB'000 | 2003 <i>(Unaudited)</i> RMB'000 |
| Accounting profit | <u>126,674</u> | <u>100,783</u> | <u>62,170</u> | <u>49,411</u> |
| Tax rate | 14.89% | 14.04% | 15.06% | 14.76% |
| EIT at tax rate | 18,865 | 14,154 | 9,362 | 7,293 |
| Effect of tax benefits of being a HTE | <u>(9,371)</u> | <u>(7,492)</u> | <u>(4,638)</u> | <u>(3,543)</u> |
| Tax expense | <u><u>9,494</u></u> | <u><u>6,662</u></u> | <u><u>4,742</u></u> | <u><u>3,750</u></u> |

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 2004 and 2003, except for Beijing Tong Ren Tang Hebei Chinese Medicinal Raw Materials Technologies Co., Limited which is taxed at rate of 2.31% of total revenue.

Foreign entities are subject to income tax as required by tax laws of countries where those entities operate, respectively, at rates ranging from 2.00% to 39.96%.

7. Earnings per share

The calculation of the basic earnings per share for the six months ended 30 June 2004 was based on the net profit of approximately RMB116,167,000 (2003: RMB92,979,000) divided by the weighted average number of shares issued during the period of 182,800,000 shares (2003: 182,800,000 shares).

The Company had no dilutive potential shares for the six months ended 30 June 2004 (2003: Nil).

8. Additions to property, plant and equipment

During the period, the Group spent approximately RMB54,488,000 (31 December 2003: RMB100,388,000) on the acquisition of property, plant and equipment.



9. Trade receivables, net

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

| | 30 June 2004 | 31 December 2003 |
|---------------------------------|-------------------------|---------------------|
| | <i>(Unaudited)</i> | <i>(Audited)</i> |
| | <i>RMB'000</i> | <i>RMB'000</i> |
| Trade receivables | 83,349 | 34,633 |
| Provision for doubtful accounts | (4,696) | (5,794) |
| Trade receivables, net | <u>78,653</u> | <u>28,839</u> |

The aging analysis of trade receivables was as follows:

| | 30 June 2004 | 31 December 2003 |
|---------------------------------|-------------------------|---------------------|
| | <i>(Unaudited)</i> | <i>(Audited)</i> |
| | <i>RMB'000</i> | <i>RMB'000</i> |
| Within 4 months | 71,730 | 26,984 |
| Over 4 months but within 1 year | 7,766 | 4,364 |
| Over 1 year but within 2 years | 3,227 | 1,584 |
| Over 2 years but within 3 years | – | 626 |
| Over 3 years | 626 | 1,075 |
| | <u>83,349</u> | <u>34,633</u> |

10. Share capital

| | 30 June 2004 | | 31 December 2003 | |
|------------------------|---------------------------|------------------------------------|---------------------|------------------------------------|
| | Number of shares | Nominal value <i>RMB'000</i> | Number of shares | Nominal value <i>RMB'000</i> |
| Registered | <u>182,800,000</u> | <u>182,800</u> | <u>182,800,000</u> | <u>182,800</u> |
| Issued and fully paid | | | | |
| Domestic shares of | | | | |
| RMB 1 each | 110,000,000 | 110,000 | 110,000,000 | 110,000 |
| H shares of RMB 1 each | <u>72,800,000</u> | <u>72,800</u> | <u>72,800,000</u> | <u>72,800</u> |
| | <u>182,800,000</u> | <u>182,800</u> | <u>182,800,000</u> | <u>182,800</u> |

11. Reserves

| | Share premium <i>RMB'000</i> | Statutory surplus reserve fund <i>RMB'000</i> | Statutory public welfare fund <i>RMB'000</i> | Tax reserve <i>RMB'000</i> | Retained profits <i>RMB'000</i> | Foreign currency translation difference <i>RMB'000</i> | Total <i>RMB'000</i> |
|---|------------------------------------|--|---|----------------------------------|---------------------------------------|--|-------------------------|
| Balances as of 1 January 2003 | 157,925 | 30,677 | 15,339 | 51,583 | 110,584 | (9) | 366,099 |
| Net profit for the year | - | - | - | - | 174,343 | - | 174,343 |
| Dividends | - | - | - | - | (71,292) | - | (71,292) |
| Foreign currency translation difference | - | - | - | - | - | (37) | (37) |
| Appropriation from retained profits | - | 17,282 | 8,641 | 13,159 | (39,082) | - | - |
| Balances as of 31 December 2003 (Audited) | 157,925 | 47,959 | 23,980 | 64,742 | 174,553 | (46) | 469,113 |
| Dividends | - | - | - | - | (78,604) | - | (78,604) |
| Net profit for the three months ended 31 March 2004 | - | - | - | - | 58,950 | - | 58,950 |
| Appropriation from retained profits (See Note 6 above) | - | - | - | 4,733 | (4,733) | - | - |
| Balances as of 31 March 2004 (Unaudited) | 157,925 | 47,959 | 23,980 | 69,475 | 150,166 | (46) | 449,459 |
| Net profit for the three months ended 30 June 2004 | - | - | - | - | 57,217 | - | 57,217 |
| Foreign currency translation difference | - | - | - | - | - | (7) | (7) |
| Appropriation from retained profits (See Note 6 above) | - | - | - | 4,638 | (4,638) | - | - |
| Balances as of 30 June 2004 (Unaudited) | 157,925 | 47,959 | 23,980 | 74,113 | 202,745 | (53) | 506,669 |



12. Trade payables

The aging analysis of trade payables was as follows:

| | 30 June 2004 (Unaudited) RMB'000 | 31 December 2003 (Audited) RMB'000 |
|---------------------------------|---|---|
| Within 4 months | 102,680 | 78,294 |
| Over 4 months but within 1 year | 5,576 | 4,610 |
| Over 1 year but within 2 years | 96 | – |
| Over 2 years but within 3 years | – | – |
| Over 3 years | 400 | 400 |
| | <u>108,752</u> | <u>83,304</u> |

13. Segment information

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

14. Charges on group assets

As at 30 June 2004, none of the Group's assets was pledged as security for liabilities (2003: Nil).

15. Foreign currency risk

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

16. Capital commitments

As of 30 June 2004, the Group had no capital commitments which were not provided but had been authorised and contracted for in the condensed consolidated financial statements of the Group (31 December 2003: RMB20,445,000).

INTERIM DIVIDENDS

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2004 (2003: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

The Company achieved satisfactory operating results for the first half of the year due to its adherence to the working strategy of “working hard for a year and consolidating the business foundation” and continuous implementation of the guiding principle of “focusing on market demand with profitability as its goal” as well as exercise of teamwork, working hard and flexible response to the market trend. The Company showed good operating status and maintained stable development momentum for the first half of 2004. For the six months ended 30 June 2004, the Group reported RMB612,100,000 in turnover, representing an increase of 15.10% as compared with the corresponding period of the preceding year; RMB116,167,000 in net profit, representing an increase of 24.94% as compared with the corresponding period of the preceding year.

Sales

The operating branch company and new product branch company continued to carry on a sales system based on cash sales and credit sales. Customers are managed according to their credit rating so that the operating risks are reduced while the sales are actively increased. In the first half of the year, two sales branch companies began the construction of promotion network in full scale in the major regions where products were sold, and regional distributors and contracted dealers were developed in an effort to create a good, regulated and orderly market environment. The operating branch company has established a network of distributors in Shaanxi, Sichuan, Guangxi, etc.; new product branch company was committed to increase contracted dealers in the first



half of the year. Up till now, the Company's dealing and retail network has basically covered almost 20 provinces and municipalities. During the time of establishing its network with all efforts, the Company also adjusted the composition of the marketing team in support of the construction of network by piloting the recruitment of local sales persons in certain regions, a move that effectively enhanced the overall talent resources and their adaptability to market, forming a new model of the Company's marketing team recruitment.

According to the features of its own products, the Company organized two theme activities named as "Anti-cold Campaign" and "Cooling and Refreshing Summer" in the northern and southern regions respectively during the first half of the year for the special promotion of influenza medicines and medicines for summer diseases. The theme activities were organized to fully capitalise on the distributors in each area and the end network, forming the network sales model with products as theme, activity as content and the network as support. Such activities had strong repercussions in each region, and the network has thus become the Company's marketing base as they met the demand of the market and satisfied the need of consumers.

The Company set up the goal of building a group of product lines based on the scientific analysis of the structure of its own product mix, namely, the goal of meeting market demand with the structure of rich products comprising main product lines and potential product lines by virtue of assortment goal management and the development of the group of product lines in order to capture market opportunities and increase market share as well as to create a situation of steadily rising in the sales of main products and more rapid sales growth of potential and competitive products. Apart from the products each commanding sales of over RMB100,000,000, the number of products with sales exceeding RMB10,000,000 increased to 8 in the first half of the year from 5 in the corresponding period of the preceding year. The sales of the Company's main products Liuwei Dihuang Pill (六味地黄丸) and Niu Huang Jiedu Tablet (牛黄解毒片) maintained stable growth and increasing by 22.95% and 38.32% as compared with the corresponding period of the preceding year respectively. The sales of Ganmao Qingre Granule (感冒清热颗粒) declined by 18.31% as compared with the corresponding period of the preceding year.

As for sales on overseas market, the Company adjusted its marketing strategy in a timely manner in the face of the changes in international pharmaceutical market policy and realised a stable growth in product sales. The Group recorded RMB22,195,000 in the sales in the overseas market for the first half of 2004, representing an increase of 1.68% as compared with the corresponding period of the preceding year and accounting for 3.63% of the Group's total turnover.

Production

The Company's overall production system still faced severe challenges in the first half of the year as the Company gradually improved its control in its production activities which must closely follow market demand as reflecting in the orders placed. The ever-changing market demand required the Company to have the production capacity of many product lines and in different dosage forms in order to satisfy the need of consumers of different social strata and types. Because of this, the Company took the opportunity to build a production base to accelerate the adjustment of overall production structure in order to make full use of the existing production resources, to expand production and to gradually ease the tension between the existing production capacity and market demand. The production division also made full use of production deployment system through the process of computer monitoring and management of product manufacturing to optimise production process and to enhance working efficiency as well as production capacity.

The running of tablet production workshop in Yizhuang production base was normal. The construction of the multi-purpose building was completed and was put into production after the completion of personnel training, moving in and the test running of equipments. The multi-purpose building houses part of the production line of tablet production workshop and related production support facilities. The construction of pill and granule production workshops has already started and is expected to be completed for use by next year.



Beijing Tong Ren Tang Tongke Pharmaceutical Company Limited (北京同仁堂通科藥業有限責任公司) has already started the construction of Chinese medicine pre-processing workshop in Beijing's Tongzhou district in order to further raise the Company's overall production capacity.

Research and Development

With the efforts of the research division of the Company, the new product Baihe Geng Nian An Granule (百合更年安顆粒) successfully obtained new drug certificate and approval number in the first half of the year, and is currently on the technical preparation stage of pilot production. The Company will launch it into the market as soon as possible. The success of the new product will help the Company to reserve more product lines for future development. In addition, the approved projects of new product research were conducted smoothly. In the meantime, the Company will continue the selection of new product development project in order to strengthen its development capacity.

The research and development centre completed many projects of secondary research and new technology application research according to the market demand and the need of production and operation. It continued its research on the application of membrane filtration technology on several tablet products and furthered the foundation research on part of the product lines.

Sales Network

The Company gradually developed sales network in line with the principle of being cautious and firm in operation. Currently, the Company has set up four joint ventures overseas by way of investment in the hope of developing local distribution business, setting up drug retail outlets and to increase the sales of the Company's products.

Beijing Tong Ren Tang (Macau) Company Limited and Beijing Tong Ren Tang Canada Co. Ltd. which is located in Canada were in good operating status in the first half of the year. Peking Tongrentang (M) Sdn. Bhd., located in Kuala Lumpur, Malaysia, has been in good operating status since its opening in 2002. Its retail drug store in Kuala Lumpur was formally opened in June of this year, which is another mega drug store established locally by Peking Tongrentang (M) Sdn. Bhd..

Beijing Tong Ren Tang (Indonesia) Company Limited, located in Jakarta, Indonesia, and its affiliated drug store were formally opened in end of June of this year and were warmly welcomed by local consumers. The Company contributed US\$500,000 which represented 50% of its total investment.

Chinese Medicinal Raw Materials Production Bases

The four Chinese medicinal raw materials production bases invested by the Company in major medicinal raw materials production regions were in good operating status in the first half of the year. The output of Chinese medicinal raw materials production kept on increasing along with the development of each base. For the first half of the year, the above-mentioned four bases recorded RMB30,525,000 in sales revenue in total. In addition, by way of managing each production base with effective regulations, the Company further strengthened medicinal raw materials procurement management procedure, increased effective supervision, and adjusting raw materials inventory in timely manner according to market information and arranging for strategic storage of the raw materials that are consumed in large quantity each year. These measures played an important role in ensuring the medicinal raw materials provision needed by the Company's products as well as the quality of medicinal raw materials.

Liquidity and Financial Resources

The Group has maintained a sound financial position for the six months ended 30 June 2004. During the period, the Group's primary source of funds was cash provided by operating activities. As at 30 June 2004, the Group had bank and cash balances amounted to RMB260,585,000 (31 December 2003: RMB261,343,000) and short-



term borrowings of RMB35,000,000 (31 December 2003: RMB15,000,000). These borrowings are denominated in Renminbi and provided by various banks in the PRC and bear fixed interest of 4.79% (31 December 2003: 5.31%) per annum. As at 30 June 2004, the Group had total assets of RMB1,056,652,000 (31 December 2003: RMB898,513,000) which were financed by current liabilities of RMB349,111,000 (31 December 2003: RMB229,541,000), shareholders' equity of RMB689,469,000 (31 December 2003: RMB651,913,000) and minority interests of RMB18,072,000 (31 December 2003: RMB17,059,000).

Capital Structure

There has been no change in the capital structure of the Group as at 30 June 2004 as compared with that as at 31 December 2003.

Gearing and liquidity ratio

The Group's gearing ratio, defined as the ratio between total borrowings and shareholders' equity, was 0.05 (31 December 2003: 0.02). The liquidity ratio of the Group, represented by a ratio between current assets over current liabilities, was 2.07 (31 December 2003: 2.54), reflecting the abundance of financial resources.

PROSPECTS

2004 is a crucial year for the Company's future development. In the first half of the year, the Company still obtained satisfactory achievement though the competition on the market of main products was intensified and the production capacity was insufficient. In the second half of the year, the Company will continue focusing on the following tasks in order to reach the goal of sustainable development and reach each of the economic targets under the annual plan:

To continue the structural adjustment of production and supporting facilities, to optimise the allocation of resources, to improve production layout and to enhance production provision capacity; to accelerate the construction of pill and granule production workshops of Yizhuang production base in an attempt to increase production scale.

To continue the geographical expansion of network construction in all aspects and to consolidate the extended market network with the promotion activities of various types for the purpose of fostering and developing the group of product lines. To further reinforce the marketing team, to strengthen training and performance assessment and to raise marketing level.

To continue the secondary research in greater depth by expanding the coverage of research and development according to market demand orientation in order to develop priority product lines through a change in dosage form, packaging and intake dosage; to speed up the progress of research and development of new products under research while further increasing the reserve of new product projects.

To continue the implementation of the working strategy of consolidating the foundation by strengthening basic management and optimising organizational structure so as to further enhance management; to strictly control costs and expenditure to improve the quality of operating performance.



OTHER INFORMATION

COMPETING INTERESTS

Direct competition with Beijing Tongrentang Company Limited (“Tongrentang Ltd.”) and China Beijing Tong Ren Tang Group Co. Ltd. (“Tongrentang Holdings”)

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

The Company, Tongrentang Ltd. and Tongrentang Holdings are all engaged in the manufacturing of Chinese Patent Medicine. Their businesses are delineated in accordance with their differences in focus on the forms of medicine they produce. Tongrentang Ltd. mainly produces Chinese Patent Medicine in 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 Ltd.’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 Ltd. are properly documented and formalized, pursuant to an undertaking dated 19 October 2000 given by Tongrentang Holdings and Tongrentang Ltd. in favor of the Company (“October Undertaking”), Tongrentang Holdings and Tongrentang Ltd. undertook that, except for Angong Niu Huang Pills (安宮牛黃丸), Tongrentang Holdings, Tongrentang Ltd. and their respective subsidiaries would not produce any common products of the same names or under the same names with different forms that may compete directly with those of the Company in the future. In this regard, the Company, Tongrentang Ltd. and Tongrentang Holdings agreed not to produce certain of their products so that only one of them would continue the production of each of the products with common production permits. As such, it was agreed that out of the 86 products of the Company with common production permits, 49 of them would only be manufactured by the Company in the future, while 31 and 5 of them would only be manufactured by Tongrentang Ltd. and Tongrentang Holdings respectively upon listing of the shares of the Company on GEM on 31 October 2000 and only one of them, Angong Niu Huang Pills (安宮牛黃丸), would be manufactured by both the Company and Tongrentang Ltd. in the future.

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

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



First right of refusal

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

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

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

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

DIRECTORS' INTERESTS IN SHARES

As at 30 June 2004, 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

| 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% |

Note: All represented domestic shares.



Tongrentang Ltd.

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

Note: All represented A shares of Tongrentang Ltd.

Beijing Tong Ren Tang International Co., Limited

| Name | Type of interests | Capacity | Number of shares | Percentage of total issued share capital |
|------------------|--------------------------|------------------|-------------------------|---|
| 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.

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

Save as disclosed above, as at 30 June 2004, 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 minimum standards of dealing by directors as referred to in Rule 5.46 of the GEM Listing Rules.

SUBSTANTIAL SHAREHOLDERS

As at 30 June 2004, 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 | 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% |
| 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% |



| Name of shareholder | Capacity | Number of shares | Percentage of domestic shares | Percentage of H shares | Percentage of total registered share capital |
|---|--------------------------------------|------------------|-------------------------------|------------------------|--|
| 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 Ltd. As at 30 June 2004, Tongrentang Ltd. 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 Ltd.
- (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) 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) Limited. 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 (5) 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 (4) above.

Save as disclosed above, as at 30 June 2004, 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.



AUDIT COMMITTEE

Pursuant to Rule 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 Rules 5.29 and 5.30 of the GEM Listing Rules, the authority and responsibility of the audit committee has been properly written out. The primary duties of the audit committee are to review and monitor the Company’s financial reporting process and internal control system. The audit committee members are 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 this year. The first meeting was held on 20 February 2004 for discussion of the operating results, statements of affairs and accounting policies with respect to the audited financial statements of the Company for the year ended 31 December 2003 and listened to the advice provided by auditors. The second meeting was held on 30 July 2004 for discussion of the operating results, statements of affairs and accounting policies with respect to the unaudited interim report of the Company for the six months ended 30 June 2004.

EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2004, the Group had 1,951 employees (31 December 2003: 1,899 employees). Remuneration is determined in accordance with government policies and by reference to market terms and the performance, qualifications and experience of individual employee. Discretionary bonuses on individual performance will be paid to employees as recognition of and reward for their contribution. Other benefits include contributions to retirement scheme, medical scheme, unemployment insurance scheme and housing fund.

BOARD PRACTICES AND PROCEDURES

The Group has complied with rules 5.34 to 5.45 to the GEM Listing Rules concerning board practices and procedures throughout the six months ended 30 June 2004.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

During the period ended 30 June 2004, the Company has not purchased, sold or redeemed any of the Company's listed shares.

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

Beijing, the PRC, 3 August 2004