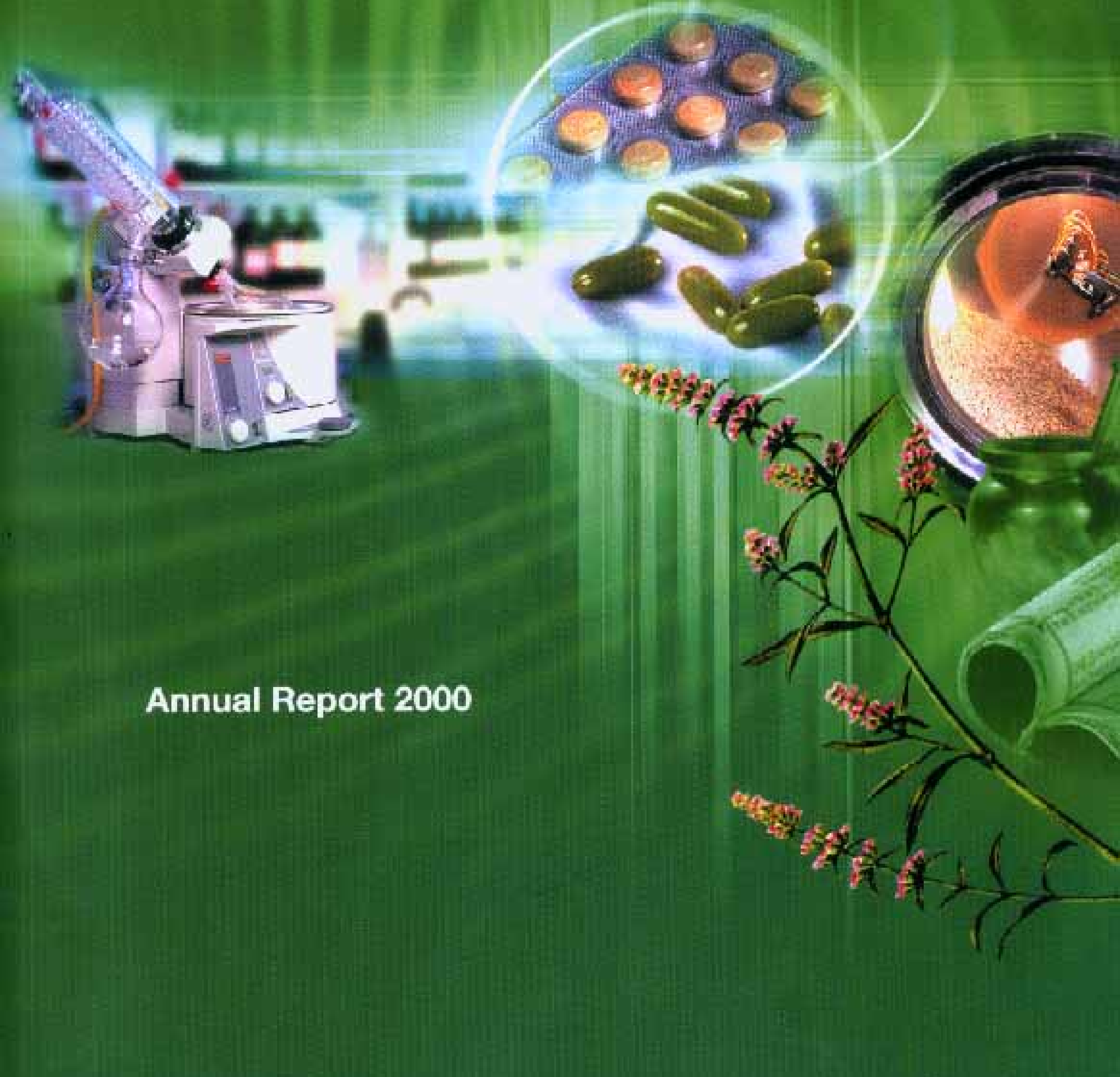
北京同仁堂

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)



Annual Report 2000

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET ("GEM") OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM. The principal means of information dissemination on GEM is publication on the Internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid reports in gazette newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed issuers.

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.

Contents

BOARD OF DIRECTORS

EXECUTIVE DIRECTORS

Yin Shun Hai *(Chairman)*
Wang Zhao Qi *(Vice-chairman)*
Mei Qun *(Vice-chairman)*

NON-EXECUTIVE DIRECTORS

Tian Rui Hua
Zhao Bing Xian

INDEPENDENT NON-EXECUTIVE DIRECTORS

Tam Wai Chu, Maria
Ting Leung Huel, Stephen
Jin Shi Yuan

SUPERVISORS

Tian Da Fang
Yang Liang
Sun Feng Sheng

SENIOR MANAGEMENT

Kuang Gui Shen
Ding Yong Ling
Li Zheng Hua
Liu Shi Yi
Zhang Sheng Yu

QUALIFIED ACCOUNTANT

So Yuen Bing, Maggie, AHKSA, FCCA, MBA

COMPANY SECRETARY

So Yuen Bing, Maggie, AHKSA, FCCA, MBA

AUDIT COMMITTEE

Tam Wai Chu, Maria
Ting Leung Huel, Stephen

COMPLIANCE OFFICER

Wang Zhao Qi

AUTHORIZED REPRESENTATIVES

Wang Zhao Qi
So Yuen Bing, Maggie, AHKSA, FCCA, MBA

AUTHORIZED PERSON TO ACCEPT SERVICE OF PROCESS AND NOTICE

Yang Qiong

AUDITORS

Arthur Andersen & Co

SPONSOR

BOCI Asia Limited

LEGAL ADVISORS

Kwok & Yih
(in association with
Blake Dawson Waldron)

PRINCIPAL BANKERS

Industrial and Commercial Bank of China, Beijing Branch
Bank of China, Beijing Branch and Hong Kong Branch
Hua Xia Bank, Beijing Branch

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Hong Kong Registrars Limited
2nd Floor
Vicwood Plaza
199 Des Voeux Road Central
Hong Kong

REGISTERED OFFICE

No. 10 Hong Da Bei Road
Beijing Economic and Technology
Development Zone
Yi Zhuang
Beijing, the PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Rm 1802, 18th Floor
Workington Tower
78 Bonham Strand
Sheung Wan
Hong Kong

GEM STOCK CODE

8069

I am pleased to present to our shareholders the annual report of Tong Ren Tang Technologies Co. Ltd. ("Tong Ren Tang Technologies" or "the Company") for the year ended 31 December 2000.

Tong Ren Tang Technologies is a joint stock limited company incorporated on 22 March 2000 with the approval of the People's Government of Beijing Municipality. An enterprise specializing in Chinese medicine technology, Tong Ren Tang Technologies was jointly established by Beijing Tongrentang Company Limited ("Tongrentang Ltd.") as the primary promoter through contributing its operations of Factory No. 2, Chinese Medicine Refinery, Import & Export Department and Research & Development Centre, in conjunction with China Beijing Tong Ren Tang Holdings Corp. ("Tongrentang Holdings") and six other natural persons. Tong Ren Tang Technologies strives for the gradual modernization and internationalization of traditional Chinese medicine by improving the existing Chinese medicinal products and developing natural pharmaceutical products, while expanding the sales network and integrating modern Chinese medicine into the mainstream international pharmaceutical market. Tong Ren Tang Technologies is engaged in the development of pharmaceutical technologies, technical consultation as well as manufacture and sale of Chinese Patent Medicine and research of bio-pharmaceutical products. Tong Ren Tang Technologies will also develop e-business in the aspect of Chinese medicine and pharmacy. Its major products mainly fall into four forms, i.e. granules(沖劑), pills(水蜜丸劑), tablets(片劑) and soft capsules(軟膠囊劑). Main products include Ganmao Qingre Granule(感冒清熱沖劑), Liuwei Dihuang Pill(六味地黃丸), Niuhuang Jiedu Tablet(牛黃解毒片) and Ganmao Soft Capsule(感冒軟膠囊).

On 31 October 2000, the Company's H shares were listed on the Growth Enterprise Market ("GEM") of the Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The share offer through placing in Hong Kong in October 2000 received a good response from the investment community; the placing of 72,800,000 H shares at the price of HK$3.28 each was oversubscribed by more than 20 times. Proceeds from the placement amounted to over HK$200 million.

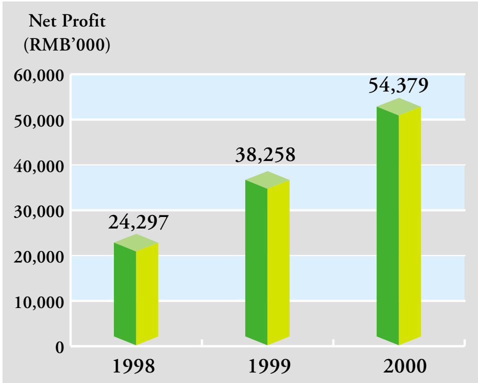
DIVIDENDS

Directors of the Company recommend the payment of a final dividend for the year of RMB0.21 per share to shareholders whose names appear on the register of shareholders of the Company at 4:00 p.m. on 12 April 2001.

BUSINESS REVIEW

During 2000, Tong Ren Tang Technologies has outperformed the profit forecast as disclosed in the prospectus of the Company dated 24 October 2000 ("Prospectus"), attributable to the tireless efforts of its workforce. Progress was noted in every business segment of Tong Ren Tang Technologies, which is particularly impressive in a year witnessed by changes in the pharmaceutical market of the PRC under the influence of a multitude of factors, such as the tightening of the regulations over the pharmaceutical market and manufacturers as well as the introduction of the Measures on the Administration and Classification of Pharmaceutical products.

Turnover for the year ended 31 December 2000 amounted to approximately RMB338,699,000, representing an increase of approximately 9.94% compared with the previous year. Net profit amounted to approximately RMB54,379,000, representing an increase of approximately 42.14%.



Production

Tong Ren Tang Technologies has strengthened the management of production to ensure that orders are met on schedule. The two factories have been operated to complement each other by utilizing their respective strengths in human resources and equipment. Technological innovation is enhanced with more value added to the products. Internal cost control is strengthened to achieve higher efficiency by identifying potential cost savings. Internal systems are strictly enforced. More emphasis is put on performance appraisal through the establishment of an innovative and highly efficient incentive system and check-and-balance mechanism. Each production department is market-oriented as supported by stronger departmental management, and reflected in the timely adjustment in production plans and careful production scheduling to accomplish each production assignment. Overall, the management is upgraded and modernized. With all these efforts, we have achieved a satisfactory result for production in 2000 with industrial production value amounting to value over RMB 286,000,000.

Sales

A. Domestic sale is mainly undertaken by Tongrentang Ltd. on our behalf. Through the concerted efforts of the Company and Tongrentang Ltd. after mutual consultation, Tongrentang Ltd. has expanded the scale of the Company's product sale. In order to accomplish the Company's sales plan, a branch company of Tongrentang Ltd. has been actively boosting sale of the Company's products and constantly modifying its selling method through market segmentation, establishment of responsibilities, enhancement of customer relations, all helped in the building of a flexible marketing mechanism, and motivation of sales personnel has been raised by linking performance targets to cost, reward and appraisal. The stress of individual accountability has led to the accomplishment of the Company's domestic sales targets.

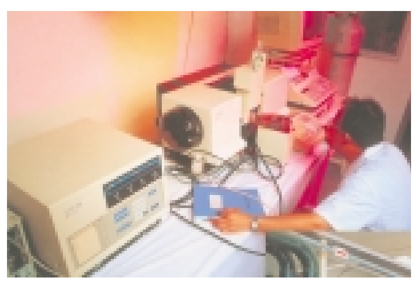
While achieving the sales targets, Tongrentang Ltd. also assisted the Company in the implementation of the brand marketing strategy. We are actively building our flagship and major brands with the support of an effective marketing plan which has broadened the market awareness of our products. Product presentations were organized in a number of major cities focusing on products such as Ganmao Qingre Granule (感冒清熱沖劑), Liuwei Dihuang Pill (六味地黃丸) and so on. This has further shaped up and reinforced the competitive brand portfolio of the Company which is evolving into a segmented structure.

B. Active expansion of overseas markets is part of the Company's sales strategy. The import and export arm of the Company has been aggressively capturing the key overseas markets. Research and updating of market information provide us with an insight into the trend of the dynamic of the pharmaceutical market and accordingly, enabling us to make proper adjustment in our marketing strategy for market expansion and boosting of sales. Various measures are adopted in the selection of marketable product categories to cater to market demand. We seek to increase our market share by scientifically organizing the sale of new products with strong market potential. In building key product categories and flagship brands, we make use of 同仁堂 (Tong Ren Tang) as the household brandname for quality and effective medicines as well as sales promotion means of all sorts. Products such as Liuwei Dihuang Pill (六味地黃丸), Niuhuang Jiedu Tablet (牛黃解毒片) and Zhibai Dihuang Pill (知柏地黃丸) have recorded substantial increases in sales. In addition to ordinary sales activities, we have also relied on trade fairs and exhibitions to promote our products. These efforts have proved to be highly effective and are well received by our customers. With on-going efforts in identifying new customers and new markets while strengthening our existing markets and customer base, we aim at further consolidating our presence in the Southeast Asian markets, while at the same time develop the markets in Europe and America, with Canada, Holland and the Czech Republic as entry points and penetrate into the mainstream pharmaceutical markets in both continents.

The annual sales revenue for 2000 from Liuwei Dihuang Pill (六味地黃丸), Niuhuang Jiedu Tablet (牛黃解毒片) and Ganmao Soft Capsule (感冒軟膠囊) represent an increase of 29.96%, 37.50% and 12.23% respectively over 1999. The total annual revenue for 2000 has increased 9.94% compared with 1999.

Progress of the Research Centre

The operation of the Research Centre has been improved in accordance with the corporate development strategy with the objectives of: development of a technological innovation mechanism; enhancement of technological inputs; constant upgrade of the Company's core competitiveness; acceleration in the recruitment and training of hi-tech talents; stepping up of new technology development and approval process; change in product mix; and development of new products with earning potential. The Research Centre is market-driven with the practical function of providing strong technical and market support. Currently, the Research Centre has completed part of the project screening process and has embarked on the secondary stage of research and development for more than 10 projects, including the quality issue, applications of new technologies; improvement in production process based on the Statutory Standard of the PRC Pharmacopeia; and undertaking of fundamental research work. Project managers and members have been identified for most of the projects, and research of which have already begun or in preparation.



New Product Development

The development of new products based on market demand and technological inputs on research work are enhanced. On the scientific research and development front, we seek to further unleash the potential of the Company and strengthening of technology and system innovation. In keeping with our enhancement of technological inputs, we also work to optimize the project-based accountability system and progressively apply for approval of new drugs. With the Research Centre as backup, we also turn to colleges and universities as well as research and development institutes for support in stepping up the implementation of major innovative projects and efforts in new product development.

New products undergoing development by the Company include new anti-influenza drug (抗感冒新藥), anti-cardiovascular system disease drug (心血管疾病新藥) and anti-menopause syndrome drug (更年期綜合症新藥).

A. The new anti-influenza drug (抗感冒新藥) has initially passed the expert assessment of the State Pharmaceutical Supervision and Administration. Supplementary information with regard to testing is being prepared based on expert opinion while patent application is in process. It is expected that the New Medicine Certificate will be obtained within this year. Considerable benefit is anticipated for the Company when the drug is produced and introduced to the market.

B. Vigorous clinical testing has been done on the new anti-cardiovascular system disease drug (心血管疾病新藥) and we have begun drawing up conclusion on the clinical testing.

C. An agreement has been signed with a hospital for the provision of new anti-menopause syndrome drug (更年期綜合症新藥) for clinical testing purpose. Clinical testing is now underway.

Development of Bio-pharmaceutical Technologies

Our project on bio-pharmaceutical technologies follows the principle of "active involvement and progress steadily, picking the right project and proceed systematically for gradual expansion to achieve economies of scale". Our approach is to start with liposome technology as a breaking point leading to the technological upgrading of Chinese medicine, i.e. from absorption of and experience from such technology and related products to exploration of applying the technology in developing new products of Chinese medicine. Approval certificate was granted in 2000 to the joint venture contract and articles of association in relation to Beijing Tong Ren Tang WM Dianorm Biotech Co., Limited. Presently we are in the process of obtaining the business licence and tax registration for the new company. It is expected that phase-one capital contributions from the two joint venture partners will take place in the first half of 2001 and research and development work will begin at the same time.

Business Strategy

The Company aims to modernize and internationalize traditional Chinese medicines with consistent improvement in technology to preserve the characteristics of natural Chinese medicinal raw materials and maintain the special production features of the Chinese medicine. The Company plans to make use of advanced technology and research results to improve the quality of its existing products and upgrade its production efficiency to achieve economies of scale. The Company endeavors to develop new scientific and effective products of international standard in respect of which it will enjoy intellectual property rights and to introduce bio-pharmaceutical products into the healthcare products market. At the same time, the Company plans to venture into the e-commerce business to further expand the Company's market share and enhance its international competitiveness.

Designation as a High Technology Enterprise

The Company was registered in the Beijing Economic and Technology Development Zone and was designated as a high technology enterprise according to the relevant stipulations. Pursuant to the relevant PRC policy, the Company will be entitled to certain preferential treatment.

PROSPECTS

Technical Modification on Production Lines in accordance with Good Manufacturing Practice ("GMP") requirements

In 2001, in line with the changes in the Chinese medication industry, the Company will upgrade its existing production lines in accordance with the GMP requirements. The hardware and software of the production lines for granules, pills, tablets and soft capsules will be modified to comply with the requirements of the State Pharmaceutical Supervision and Administration and the GMP standards. Through such a project and by strictly enforcing GMP, the Company intends to further improve its corporate management to step up the technical improvement of our key products and to modify its production process. It will enable the Company to further increase its product quality and reduce production costs, with the ultimate objective of satisfying the requirements of its domestic and overseas customers.

Optimizing Research and Development Capability for Setting Up of an Integrated Technological Innovation System

With the support of the Research Centre, the Company will vigorously initiate new medicine researches and subsequent scientific studies, complete clinical testing of the new anti-influenza drug, apply for the relevant patent and seek to obtain the New Medicine Certificate with an aim to commencing trial production within the year of 2001. On the other hand, the Company will speed up the research on other new medicines. During the year of 2001, the Company will strive to establish one to two projects for developing new medicines of Category 3 or above. The Research Centre will develop a strategy for the integration of various segments of the industry with each specializing in different core competence, step up new medicine development and provide technical services in support of the Company's development of a product mix comprised of best-selling, enduring and profitable brands.

Application of New Production Process and Technologies

The Company endeavors to promote the membrane filtration technology for extensive application in tablet production. We will also utilize the resin suction technology (大孔樹脂吸附技術) to develop more products of new formulations for the market. Efforts will be made to bring about the practical application of the spray dehydration technology (噴霧乾燥技術). The Company will also work out a solution to the issue that heavy metal contents in some products exceed the international standard.

Expanding the Company's Sales Network through Increased Sales Efforts

To achieve an economy of scale in sales; the sales turnover for 2001 shall need a breakthrough from that of 2000, which underlies our drive to build up products that can generate sales of over RMB100 million individually. We plan to set up our own sales company in the PRC for aggressively exploring new markets, while adopting new sales pattern and screening for nurturing new products with strong market potential. Initially two to three key products will be launched. Focus of our sales efforts will be put on fostering markets and product categories. In addition, we will strengthen the buildup of overseas sale points: in Southeast Asia. More drug stores will continue to open through joint venture in Japan, the Company will set up footholds in the market by means of multi-forms and types of joint ventures and cooperation in Europe and America, by leveraging on the strength of our overseas companies. New products will be actively promoted in a step-by-step approach to gain entry into the mainstream pharmaceutical market.

PRC Accession to WTO

The imminent entry of the PRC into the WTO undoubtedly represents a good opportunity for the development of an enterprise in the long run, especially for the Chinese medicine industry in the PRC where most of the proprietary intellectual property rights of Chinese medicines are owned. In meeting the challenges presented by the accession to WTO, the Company will open up new sources of profit growth, by capitalizing on the traditional strength of the Chinese medicine industry, timely readjusting its business development strategy so as to compete more effectively and extensively in the international arena.

The Company will continue to advocate the application of advanced technology for the development of natural herbal medicines. On the basis of preserving the characteristics of Chinese medicinal raw materials and the medication characteristic of Tong Ren Tang, the Company aims to achieve modernization and internationalization of Chinese medicine. We will make our best efforts in developing our businesses to produce good results and better returns for our shareholders.

Yin Shun Hai
Chairman

Beijing, the PRC
15 March 2001

COMPARISON OF THE BUSINESS PLANS AND ACTUAL PROGRESS

From November to December 2000

Expansion of production capability and establishment of production base

The Company will produce the relevant products at the existing production plants and at those to be established in Beijing in future. Timetable for the expansion of production bases are as follows:

Expected project progress	Actual project progress
Conducting feasibility studies	The Company has completed the preliminary feasibility studies. It is expected to complete the GMP improvements on four production lines by the year 2001.

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

Investment in the Research Centre

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

Expected project progress	Actual project progress
Preparation and Design	Currently, the Research Centre has completed part of the project screening process and has embarked on the secondary stage of research and development for more than 10 projects, including the quality issue, applications of new technologies; improvement in production process based on the Statutory Standard of the PRC Pharmacopeia; and undertaking of fundamental research work. Project managers and members have been identified for most of the projects, and research of which have already begun or in preparation.
The anticipated investment would be HK$1 million.	Actual investment amounted to RMB1.1 million, approximate to HK$1.03 million.

Development of new medicine

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

A. Research on new anti-influenza drug

The Company is conducting research on the production of new anti-influenza medicine in the form of effervescent tablet to tailor for the intake habit of the western people. This medicine is developed in accordance with international technical and quality standards, and therefore is expected to become a competitive product in the international market.

Expected project progress	Actual project progress
Clinical trial	The drug has initially passed the expert assessment of the State Pharmaceutical Supervision and Administration. Supplementary information with regard to testing is being prepared based on expert opinion while patent application is in process.

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

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

Expected project progress	Actual project progress
Clinical trial	As scheduled, vigorous clinical trial testing has been done and is about to draw up conclusion on the clinical testing.

C. Development of new anti-menopause syndrome drug

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

Expected project progress	Actual project progress
Clinical trial	To continue the clinical trial as scheduled.
HK$500,000 would be invested in the three medicines by December 2000.	Actual investment amounted to RMB 960,000, approximate to HK$900,000.

Developing bio-pharmaceutical technologies

The Company entered into an agreement with WM Dianorm Co., Limited ("Dianorm") in May 2000 for the establishment of a joint venture, Beijing Tong Ren Tang WM Dianorm Biotech Co., Limited. By utilizing Dianorm's advanced technologies in liposome and other bio-pharmaceutical areas, the Company will be able to promote the technological level of Chinese medicine and will be able to develop other new bio-pharmaceutical products.

Expected project progress	Actual project progress
Preparing the formation of joint venture	The approval of the joint venture contract and articles of association has been obtained in 2000. The early stage of preparation for the joint venture has been completed and the registration procedures are under process.

Establishing sales network and e-commerce

Establishing sales network

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

Expected project progress	Actual project progress
No plan during the year	No arrangement has been made according to the Prospectus.

E-commerce

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

Expected project progress	Actual project progress
No plan during the year	The PRC government has issued documents stipulated that approvals are required for internet related medical and healthcare activities and only limited scope of business will be permitted. The Company is studying such policy.

Production base for Chinese medicinal raw materials

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

Expected project progress	**Actual project progress**
Conducting feasibility study	The feasibility study has been completed and site inspection and study are being processed.
HK$100,000 would be invested.	Actual investment amounted to RMB 110,000, approximate to HK$103,000.

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

The Company entered into an agreement on 7 October 2000 with Hutchison Chinese Medicine, an indirect wholly owned subsidiary of Hutchison Whampoa Limited, and Beijing Holdings Limited, the majority shareholder of Beijing Enterprises Holdings Limited, to form a joint venture company, proposed to be named Tong Ren Tang Hutchison Pharmaceutical Development in Hong Kong. This agreement will take effect upon all requisite PRC governmental or other approvals for the consummation of the transaction contemplated thereby being obtained. The joint venture will be held as to 40% by the Company. The authorized share capital of the joint venture company is HK$15 million. The total investment proposed to be made by the shareholders in the joint venture company is HK$200 million. The Company will contribute HK$40 million to the joint venture within one year after its establishment upon all requisite regulatory and other approvals being obtained, with the remaining HK$40 million to be invested by the Company within 3-4 years after the incorporation of the joint venture company.

Expected project progress	**Actual project progress**
Preparing for the establishment of the joint venture company.	Since the relevant authority of the PRC government has not yet issued any approval, no investment has been made. Currently the main task is obtaining the approval.
HK$6 million would be invested .	No investment has been made up till now.

The directors (the "Directors") of Tong Ren Tang Technologies Co. Ltd. (the "Company") have pleasure in presenting their first annual report together with the audited financial statements of the Company for the year ended 31 December 2000.

CORPORATE RESTRUCTURING

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 its placing of H shares were listed on GEM on 31 October 2000. In preparing for the listing of the Company's H shares on GEM, Beijing Tongrentang Company Limited ("Tongrentang Ltd.") has underwent a restructuring, details of which are set out in the prospectus of the Company dated 24 October 2000 (the "Prospectus").

PRINCIPAL ACTIVITIES

The Company is principally engaged in the manufacturing and sales of Chinese Patent Medicine.

An analysis of the Company's revenue by geographical regions is as follows:

	2000	1999
	RMB'000	*RMB'000*
Sales of medicine:		
Domestic	**327,486**	302,502
Overseas	**9,734**	5,566
Agency fee income – domestic	**1,479**	–
	338,699	308,068

MAJOR CUSTOMERS AND SUPPLIERS

During the year under review, the Company's sales to the five largest customers accounted for less than 30% of the Company's turnover.

The percentage of purchases for the year attributable to the Company's major suppliers are as follows:

The largest supplier – China Beijing Tong Ren Tang Holdings Corp. ("Tongrentong Holdings")	45%
Five largest suppliers combined	61%

Save as disclosed herein, none of the Directors, their associates, or any shareholders, which to the knowledge of the Directors owned more than 5% of the Company's share capital, had a beneficial interest in the Company's five largest customers and five largest suppliers.

RESULTS

The results and the statement of affairs of the Company for the year ended 31 December 2000 are set out on page 26 to 29 of the annual report.

DIVIDENDS

The Directors recommend the payment of a final dividend of RMB0.21 per share in respect of the year, to shareholders whose names appear on the register of shareholders of the Company at 4:00 p.m. on 12 April 2001.

SHARE CAPITAL

Details of movement in share capital of the Company for the year are set out in note 7 to the financial statements.

RESERVES

Details of movement in reserves of the Company for the year are set out in the Statement of Changes in Equity and note 8 to the financial statements.

As of 31 December 2000, the Company's retained profits of approximately RMB41,795,000 were available for distribution to its shareholders.

PROPERTY, PLANT AND EQUIPMENT

Details of movement in property, plant and equipment of the Company for the year are set out in note 3 to the financial statements.

STAFF RETIREMENT SCHEME

Details of staff retirement scheme of the Company are set out in notes 2(m) and 12 to the financial statements.

STAFF QUARTERS

During the year, the Company did not provide any staff quarters to its staff. The Company neither maintains housing reserves fund nor housing rotary fund. Alternatively, the Company provides housing subsidies to staff approximate to an average of RMB 90 per person per month. The housing subsidies provided for the year amounting to approximately RMB 1,350,000 was included in the administrative expenses as shown in the statement of income.

According to the <Notice on Certain Accounting Issues on the Reform of Enterprise Housing System> of Cai Zheng Bu Cai Qi [2000] No. 295 issued by the Ministry of Finance on 6 September 2000, other than those disclosed above, the Reform of the Enterprise Housing System did not have any material impacts on the financial statements of the Company.

SHORT-TERM BORROWINGS GUARANTEED BY THE ULTIMATE HOLDING COMPANY

As set out in notes 9, 18(e) and 24 to the financial statements, the guarantee of short-term borrowings of RMB 45,400,000 originally granted by Tongrentang Holdings was completely released in January 2001, within three months from the date of listing as committed in the Prospectus.

DIRECTORS AND SUPERVISORS

The Directors and supervisors of the Company who held office during the year and up to the date of this report were:

Executive Directors:

Yin Shun Hai *(Chairman)*	(Appointed on 9 March 2000)
Wang Zhao Qi *(Vice-chairman)*	(Appointed on 9 March 2000)
Mei Qun *(Vice-chairman)*	(Appointed on 9 March 2000)

Non-Executive Directors:

Tian Rui Hua	(Appointed on 9 March 2000)
Zhao Bing Xian	(Appointed on 9 March 2000)

Independent Non-Executive Directors:

Tam Wai Chu, Maria	(Appointed on 11 October 2000)
Ting Leung Huel, Stephen	(Appointed on 11 October 2000)
Jin Shi Yuan	(Appointed on 16 October 2000)

Supervisors

Tian Da Fang	(Appointed on 9 March 2000)
Yang Liang	(Appointed on 9 March 2000)
Sun Feng Sheng	(Appointed on 9 March 2000)

DIRECTORS' AND SUPERVISORS' SERVICE CONTRACTS

Each of the executive Directors and Supervisors has entered into a service contract with the Company for a period of three years commencing on 9 March 2000 which shall continue until the conclusion of the annual general meeting of the Company on 2003 and thereafter subject to the approval of the shareholders in annual general meeting of the Company, each service contract may be renewed each time for three years.

PROFILES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Profiles of Directors, Supervisors and senior management are set out on pages 20 to 22.

EMOLUMENTS OF DIRECTORS AND THE FIVE HIGHEST PAID INDIVIDUALS

Details of the Directors' emoluments and of the five highest paid individuals in the Company are set out in note 16 to the financial statements.

DIRECTORS' AND SUPERVISORS' INTERESTS

As of 31 December 2000, the interests of the Directors and Supervisors and their respective associates in the Company and its associated corporations (within the meaning of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance")) as recorded in the register required to be kept by the Company under Section 29 of the SDI Ordinance, or required pursuant to Rules 5.40 to 5.59 of the Rules Governing the Listing of Securities on the GEM ("GEM Listing Rules"), to be notified to the Company and the Stock Exchange, were as follows:

Name	**Personal Interest Number of shares**	**Family Interest Number of shares**	**Corporate Interest Number of shares**	**Other Interest Number of shares**
Yin Shun Hai	500,000 *(Note)*	–	–	–
Wang Zhao Qi	500,000 *(Note)*	–	–	–
Mei Qun	500,000 *(Note)*	–	–	–
Tian Rui Hua	100,000 *(Note)*	–	–	–
Zhao Bing Xian	5,000,000 *(Note)*	–	–	–
Tian Da Fang	500,000 *(Note)*	–	–	–

Note: All represented domestic shares.

Save as disclosed above, as of 31 December 2000, none of the Directors or the Supervisors or their associates had any interests in any securities in the Company, as defined in the SDI Ordinance. None of the Directors or the Supervisors, nor their spouses or children under 18 years of age were granted or had exercised any rights to subscribe for the securities in the Company during the year ended 31 December 2000.

SUBSTANTIAL SHAREHOLDER

As of 31 December 2000, according to the register required to be kept under Section 16(1) of the SDI Ordinance, the only shareholder with an interest of 10% or more of the issued shared capital of the Company was as follows:

Name	**Number of shares**	**Shareholding percentage as of 31 December 2000**
Tongrentang Ltd. *(Note 1)*	100,000,000 *(Note 2)*	54.705%

Notes:

1. As of 31 December 2000, Tongrentang Ltd. is owned as to 75% by Tongrentang Holdings.
2. All represented domestic shares.

SUBSTANTIAL SHAREHOLDER (CONT'D)

As set out in the Prospectus, each of the promoters, Directors and initial management shareholders has undertaken with the Company and the Stock Exchange that they would not, for a period of two years from the date on which dealings on H Shares were first commenced on GEM save as provided in rule 13.17 of the GEM Listing Rules, sell, transfer or dispose of any shares. Upon listing until the date of this report there was no change in the shareholding of the Directors and initial management shareholders.

DIRECTORS' INTERESTS IN CONTRACTS

There was no contract of significance to which the Company was a party and in which a Director had a material interest, whether directly and indirectly, subsisted at the end of the year or at any time during the year.

USE OF PROCEEDS

The proceeds from the issue of new shares pursuant to a placing exercise of the Company in October 2000, after deduction of related expenses, amounted to approximately RMB230 million, of which approximately RMB2.17 million was used for investment in the Research Centre, development of new medicine and establishment of production base for Chinese medicinal raw materials. Details of the spending and progress of the investment projects are set out in the Review of Business Objectives.

The balance of the proceeds raised will continue to be used in the projects disclosed in the Prospectus and is currently deposited in banks.

SPONSOR'S INTERESTS

As of 31 December 2000, the following two associated companies of BOCI Asia Limited had interests in the Company's shares:

Name	**No. of H Shares**
BOC China Fund Limited	1,000,000
BOC Securities (S) Pte Ltd.	150,000

Save as above, as of 31 December 2000, BOCI Asia Limited, its directors employees or associates (as referred to in Note 3 to rule 6.35 of the GEM Listing Rules) did not have any interests in the shares of the Company or any rights to subscribe for or to nominate persons to subscribe for the shares of the Company.

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

YEAR 2000 COMPLIANCE

The Company has reviewed its computers and software to ensure that they are year 2000 compliant. The Board believe that they have taken all necessary steps to ensure the computer systems of the Company are year 2000 compliant but the Company is aware that many issues are beyond the Company's control and may continue to pose a threat to its business. The Company has not encountered any material difficulties in all functional areas arising from the year 2000 compliance issue since 1 January 2000.

CONNECTED TRANSACTIONS

The connected transactions undertaken by the Company are set out in note 18 to the financial statements.

The independent non-executive Directors have examined and confirmed that :

(i) these transactions were executed in the ordinary and usual course of business of the Company;

(ii) these transactions were executed on normal commercial terms or on terms not less favorable than those given to (or obtained from, wherever applicable) independent third parties (if no comparable transaction can be referred to judge whether the transaction was executed on normal commercial terms);

(iii) these transactions were executed in accordance with the relevant agreement governing them on terms that are fair and reasonable and in the interest of the Company's shareholders as a whole; and

(iv) the aggregate amount of each of these transactions has not exceeded the cap amount set out in the waiver letter granted by the Stock Exchange in this regard.

AUDIT COMMITTEE

The Company has set up an audit committee according to "Guideline to set up an audit committee" compiled by the Hong Kong Society of Accountants. The primary duties of the Committee are to review and monitor the Company's financial reporting process and internal control system. The committee comprises Ms. Tam Wai Chu, Maria and Mr. Ting Leung Huel, Stephen, independent non-executive directors of the Company. The audit committee has met twice since its establishment.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

During the year, the Company has not purchased, sold or redeemed any of the Company's listed shares.

AUDITORS

The accompanying financial statements were audited by Arthur Andersen & Co. A resolution for the re-appointment as auditors for the ensuing year is to be proposed at the forthcoming annual general meeting which will be held on 16 May 2001.

On Behalf of the Board of Directors

Yin Shun Hai
Chairman

Beijing, the PRC
15 March 2001

To the Shareholders:

The Supervisory Committee of Tong Ren Tang Technologies Co. Ltd. (the "Supervisory Committee"), in compliance with the provisions of the Company Law of the People's Republic of China (the "PRC Company Law"), the relevant laws and regulations of Hong Kong and the Articles of Association of the Company, under their fiduciary duty, took up an active role to work reasonably and cautiously with diligence to protect the interests of the Company and its shareholders.

During the year, Supervisory Committee had reviewed cautiously the use of proceeds of the issue of shares in accordance with the Prospectus of the Company. It provided reasonable suggestions and opinions to the Board of Directors in respect of the operation and development plans of the Company. It also strictly and effectively monitored and supervised the Company's management in making significant policies and decisions to ensure that they are in compliance with the laws and regulations of the PRC and the Articles of Association of the Company, and in the interests of its shareholders.

We have reviewed and agreed to the report of the Directors, audited financial statements and the dividend to be proposed by the Board of Directors for presentation at the forthcoming annual general meeting. We are of the opinion that the Directors, the general manager and other senior management of the Company were able to strictly observe their fiduciary duty, to act diligently and to exercise their authority faithfully in the best interests of the Company. Up till now, none of the Directors, general manager and senior management staff had been found abusing their authority, damaging the interests of the Company and infringing upon the interests of its shareholders and employees. And none of them were found to be in breach of any laws and regulations or the Articles of Association of the Company.

The Supervisory Committee is satisfied with the achievement and cost-effectiveness of the Company in 2000 and has great confidence in the future of the Company.

By Order of the Supervisory Committee

Tian Da Fang
Chairman

Beijing, the PRC
15 March 2001

EXECUTIVE DIRECTORS

Yin Shun Hai, aged 48, chairman of the Company, is a senior economist with postgraduate qualification. He was formerly the factory manager of Factory No. 2, the deputy general manager of Tongrengtong Holdings. He is now the general manager of Tongrentang Holdings, chairman of Tongrentang Ltd., the vice president of China Chinese Medicine Research Society Councillor Committee, and the vice president of Beijing Industry and Commerce Federation. He is responsible for the overall decision making of the Company. He will tentatively spend approximately by half of his time on the business of the Company. He is one of the promoters of the Company.

Wang Zhao Qi, aged 53, vice-chairman of the Company, is a senior accountant with post-secondary qualification. He was formerly the chief of the finance and accounting section of Beijing Medicinal Materials Company, assistant to the general manager of Tongrentang Holdings. He is now the deputy general manager of Tongrentang Holdings, vice-chairman of Tongrentang Ltd., and the standing councilor of China Chinese Medicine Information Research Society. He is the compliance officer of the Company and responsible for overseeing all matters relating to the listing of the Company. He will spend approximately four-fifth of his time in the business of the Company. He is one of the promoters of the Company.

Mei Qun, aged 45, vice-chairman of the Company with postgraduate qualification. He was formerly the deputy chief of the education section of Beijing Tongrentang Pharmaceutical Factory, assistant to the manager of Beijing Medicinal Materials Company and assistant to the general manager and deputy general manager of Tongrengtang Holdings. He is a director and general manager of Tongrentang Ltd.. He is responsible for overseeing the sales and marketing operation of the Company. He will spend approximately one-fifth of his time in the business of the Company. He is one of the promoters of the Company.

NON-EXECUTIVE DIRECTORS

Tian Rui Hua, aged 41, is a Ph.D. in pharmacy of Kumamoto University in Japan. He was formerly the deputy director of the Research Laboratory of Factory No. 2 and was awarded the third prize for Beijing Excellent Scientific Workers in 1989. He went to Japan to study in the 1990's and was engaged in the research of tallow and saponin components of medicinal plants. He is now the Deputy Chief Engineer of the Company. He is one of the promoters of the Company.

Zhao Bing Xian, aged 37, is a management engineering postgraduate of Shanghai Communications University. Mr. Zhao joined the Company in 1999. He is the chairman of the board of directors and president of Beijing Zhong Zheng Wan Rong Investment Service Company Limited. He has extensive experience in corporate finance and securities investment and is a senior economic and financial financial adviser for over ten enterprises. He published a book titled "Capital operation - the role of a merchant banker in China" in January 1997. He is one of the promoters of the Company.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Tam Wai Chu, Maria, GBS, JP, LL. D (Honoris Causa), LL. B (Honoris Causa), barrister, aged 56, is a non-executive director of five listed companies, namely, Guangnan (Holdings) Limited, ONFEM Holdings Limited, Ryoden Development Limited, Sinopec Kantons Holdings Limited and Wing On Company International Limited respectively. She is also a member of the Hong Kong Airport Authority and her other public offices include being member of the Basic Law Committee of Hong Kong and a delegate to the 9th National People's Congress. She was appointed as an independent non-executive director and a member of the audit committee on 11 October 2000.

Ting Leung Huel, Stephen, FCCA, FHKSA, FTIHK, CPA, aged 47, is an accountant in public practice as Managing Partner of Ting Ho Kwan & Chan, Certified Public Accountants since 1987. He is an independent non-executive director of four listed companies namely Chow Sang Sang Holdings International Ltd., eForce Holdings Ltd., HiNet Holdings Ltd. and Tongda Group Holdings Limited respectively. He was appointed as an independent non-executive director and a member of the audit committee on 11 October 2000.

Jin Shi Yuan, aged 75, chief pharmacist, is an expert serving the investigation team for the state secret technology of the State Science Commission, and a member of the Committee for Clinical Medicine Appraisal Experts of the Chinese Medicine Society of China. He is also a consultant to the Eighth Council of the Beijing Chinese Medicine Society, visiting professor of Chinese medicine at the Chinese Medical Institute of the Beijing Union of University and consultant to the Fourth Expert Committee of the Chinese Health Food Association. He was appointed as an independent non-executive director on 16 October 2000.

SUPERVISORS

Tian Da Fang, aged 55, is a senior economist with a postgraduate qualification. He was formerly the deputy manager, secretary of the party committee of Beijing Medicinal Materials Company, the deputy secretary to the party committee, secretary to disciplinary committee of the Headquarters of Beijing Medicine Company. He is now secretary to the party committee of Tongrentang Holdings, vice-chairman of Tongrentang Ltd., the vice president of the councilor committee of Beijing Chinese Medicine Research Society. He is one of the promoters of the Company.

Yang Liang, aged 44, is an accountant with a post-secondary qualification. He assumed different positions in Tongrentang pharmaceutical manufacturing plant, including Deputy Head of Finance and Accounting Section, Deputy Section Head of Operation Section, Section Head of Finance and Accounting Section, Deputy Officer of Financial Planning Section of Tongrentang Ltd. and Deputy Project Manager (Deputy Directorate Grade) of Tong Ren Tang Development Office.

Sun Feng Sheng, aged 52, holds a post-secondary qualification. She served as Deputy Head of the Organizational Department of Factory No. 2. She is currently the Chairperson of the Labour Union of the Company.

SENIOR MANAGEMENT

Kuang Gui Shen, aged 45, is a senior economist with a postgraduate qualification. He served as Vice Factory Manager of Factory No. 5, Manager of the Operation Company of Tongrentang Holdings, Factory Manager of Chinese Pharmaceutical Factory No. 3, Factory Manager of Da Xing New Factory, Factory Manager of Chinese Pharmaceutical Factory No. 5 and is currently the General Manager of the Company.

Ding Yong Ling, aged 38, is a chief pharmacist (internal engaged) with a bachelor's degree. She served as Deputy Head of the Foreign Trade Department of Tongrentang Holdings, Manager of Import and Export Branch of Tongrentang Ltd.. She is currently the Deputy General Manager of the Company.

Li Zheng Hua, aged 47, is a Chief Pharmacist (internal appointment) with a bachelor's degree. He served as Deputy Factory Manager of Beijing Tongrentang Chinese Pharmaceutical Factory, Deputy Chief of Production Section of Factory No. 2, and Deputy Factory Manager of Factory No. 2. He is currently the Deputy General Manager of the Company.

Liu Shi Yi, aged 45, is a deputy pharmaceutical officer with a bachelor's degree. He serviced as Deputy Officer of the Technology Quality Department of Tongrentang Ltd., Officer of the Quality and Technology Development Department of Tongrentang Ltd., and Project Manager (Directorate Grade) of Tongrentang Development Office. He is currently the Deputy General Manager of the Company.

Zhang Sheng Yu, aged 32, is an economist with a bachelor's degree. He served as Deputy Department Head of Corporate Management and Deputy Department Head of Planning Department of Tongrentang Holdings, Deputy Officer of the Securities Department of Tongrentang Ltd.. He is currently the Secretary to the Company's Board of Directors.

So Yuen Bing, Maggie, aged 30, appointed on 16 October 2000, holds the posts of the Qualified Accountant and Company Secretary of the Company. Ms. So graduated from the Hong Kong University of Science and Technology with a master’s degree in business. She is also a fellow member of the Association of Chartered Certified Accountants and an associate member of the Hong Kong Society of Accountants. She has over 8 years of experience in accounting and auditing.

NOTICE IS HEREBY given that the first annual general meeting of the Company will be held at Jia 20, Nansanhuan Zhonglu, Fentai District, Beijing, the PRC on 16 May 2001 at 9:00 a.m. for the following purposes:–

1. To receive and consider the audited financial statements of the Company and the Report of the Directors and the Auditors for the year ended 31 December 2000;

2. To approve the appointment of Mr. Jin Shi Yuan as the independent non-executive director;

3. To appoint auditors and to authorize the Board of Directors to fix their remuneration;

4. To empower the executive directors to exercise the authority for the determination of incentive bonus to the relevant persons of the Company as a motivation for their contribution of efforts to the development of the Company;

5. To declare and propose a final dividend of RMB0.21 per share for the year ended 31 December 2000. The proposed dividend will be payable on or before 30 June 2001 to shareholders whose names appear on the register of shareholders of the Company at 4:00 p.m. on 12 April 2001; and

6. As special business, to consider and pass the following amendments to the Articles of Association of the Company, as Special Resolutions:

   THAT:

   a) Article 87 – amend from “The Board shall consist of 7 Directors, including 1 Chairman and 2 Vice-chairmen” to “The Board shall consist of 7 to 11 Directors, including 1 Chairman and 2 Vice-chairmen”; and

   b) Article 105 – amend from “Supervisory Committee consist of 3 members, including 1 head of supervisors. The term of service of supervisors is 3 years and is subject to renewal upon election” to “Supervisory Committee consist of 3 to 5 members, including 1 head of supervisors. The term of service of supervisors is 3 years and is subject to renewal upon election”.

By Order of the Board
Tong Ren Tang Technologies Co. Ltd.

Yin Shun Hai
Chairman

Beijing, the PRC
15 March 2001

Notes:

1. Any shareholder entitled to attend and vote at the meeting mentioned above is entitled to appoint one or more proxies to attend and vote at the meeting on his or her behalf in accordance with the Articles of Association of the Company. A proxy needs not be a shareholder of the Company.

2. In order to be valid, the proxy form of holder of H shares and , if such proxy form is signed by a person under a power of attorney or other authority on behalf of the appointer, a notarially certified copy of that power of attorney or authority shall be deposited at the Hong Kong Registrars Limited on 2/F., Vicwood Plaza, 199 Des Voeux Road Central, Hong Kong ("the Company's Shares Registrar") not less than 24 hours before the time for holding the meeting or 24 hours before the time appointed for taking the poll.

3. Shareholders or their proxies shall produce their identity documents when attending the meeting.

4. The register of shareholders of the Company will be closed from 16 April 2001 to 15 May 2001 (both days inclusive), during which no transfer of shares will be registered. In order to ascertain the entitlement to attendance at the above meeting, all properly completed transfer forms accompanied by the relevant share certificate must be lodged with the Company's Shares Registrar not later than 4:00 p.m. on 12 April 2001, for registration.

5. Shareholders entitled to attend the Annual General Meeting have to notify in writing for the attendance to the Company's Shares Registrar not later than 26 April 2001.

Arthur Andersen & Co
21st Floor Edinburgh Tower
The Landmark
15 Queen's Road Central
Hong Kong

TO THE SHAREHOLDERS OF TONG REN TANG TECHNOLOGIES CO. LTD.:
(incorporated in the People's Republic of China with limited liability)

We have audited the accompanying balance sheet of Tong Ren Tang Technologies Co. Ltd. (the "Company") as of 31 December 2000; and the related statements of income, changes in equity, and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing issued by the International Federation of Accountants. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of 31 December 2000 and the results of its operations and its cash flows for the year then ended in accordance with International Accounting Standards issued by the International Accounting Standards Committee and comply with the disclosure requirements of the Hong Kong Companies Ordinance.

ARTHUR ANDERSEN & CO
Certified Public Accountants

Hong Kong,
15 March 2001

Balance Sheet

As of 31 December 2000
(Expressed in thousands of Renminbi ("RMB"))

	Notes	2000 RMB'000	1999 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment, net	3	**82,767**	65,881
Current assets			
Inventories	4	**82,066**	98,044
Trade receivables, net	5	**38,198**	17,991
Due from related parties	18	**–**	22,043
Prepayments and other current assets		**3,614**	3,664
Cash and cash equivalents	17(b)	**310,958**	15,806
		434,836	157,548
Total assets		**517,603**	223,429
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	7	**182,800**	–
Paid-in capital	7	**–**	81,724
Reserves	8	**212,304**	–
		395,104	81,724
Current liabilities			
Trade payables		**25,030**	31,924
Salary and welfare payable		**483**	736
Short-term borrowings	9	**45,400**	45,400
Advance from customers		**37,264**	10,513
Accrued expenses and other payables		**8,818**	9,490
Due to related parties	18	**5,504**	39,304
Dividend payable		**–**	4,338
		122,499	141,705
Total equity and liabilities		**517,603**	223,429

Approved by and signed on behalf of the Board of Directors on 15 March 2001.

Mr. Yin Shun Hai
Director

Mr. Wang Zhao Qi
Director

The accompanying notes are an integral part of these financial statements.

Statement of Income

For the year ended 31 December 2000
(Expressed in thousands of RMB except for earnings per share)

	Notes	**2000** **RMB'000**	1999 RMB'000
Revenue	*10*	**338,699**	308,068
Cost of sales		**(173,218)**	(167,507)
Gross profit		**165,481**	140,561
Distribution costs		**(35,424)**	(26,343)
Administrative expenses		**(62,267)**	(54,082)
Profit from operations		**67,790**	60,136
Finance cost	*11*	**(1,164)**	(3,034)
Profit before tax	*12*	**66,626**	57,102
Income tax expense	*13*	**(12,247)**	(18,844)
Net profit for the year		**54,379**	38,258
Dividends	*14*	**–**	(38,258)
Earnings per share			
– Basic	*15*	**RMB0.44**	RMB0.35
– Diluted	*15*	**N/A**	N/A

The accompanying notes are an integral part of these financial statements.

Statement of Changes in Equity

For the year ended 31 December 2000
(Expressed in thousands of RMB)

	Share capital RMB'000	Share premium RMB'000	Revaluation reserve RMB'000	Statutory surplus reserve fund RMB'000	Statutory public welfare fund RMB'000	Tax reserve RMB'000	Retained profits RMB'000	Total RMB'000
Balances as of 1 January 1999	81,724	–	–	–	–	–	–	81,724
Net profit for the year	–	–	–	–	–	–	38,258	38,258
Dividends	–	–	–	–	–	–	(38,258)	(38,258)
Balances as of 1 January 2000	81,724	–	–	–	–	–	–	81,724
Revaluation surplus	–	–	18,630	–	–	–	–	18,630
Premium from shares issued to the Parent Company and related transfer of reserves in connection with the Restructuring	18,276	354	(18,630)	–	–	–	–	–
Issue of shares to the Ultimate Holding Company and other shareholders	10,000	35	–	–	–	–	–	10,035
Issue of H shares	72,800	180,526	–	–	–	–	–	253,326
Shares issuance expenses	–	(22,990)	–	–	–	–	–	(22,990)
Net profit for the year	–	–	–	–	–	–	54,379	54,379
Appropriations from retained profits	–	–	–	5,438	2,719	4,427	(12,584)	–
Balances as of 31 December 2000	182,800	157,925	–	5,438	2,719	4,427	41,795	395,104

The accompanying notes are an integral part of these financial statements.

Cash Flow Statement

For the year ended 31 December 2000
(Expressed in thousands of RMB)

	Notes	2000 RMB'000	1999 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash generated from operations	17(a)	**81,625**	107,490
Interest paid		**(3,583)**	(3,286)
Income taxes paid		**(12,247)**	(18,844)
Net cash from operating activities		**65,795**	85,360
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchases of property, plant and equipment, net of related payable		**(9,610)**	(11,457)
Proceeds from disposal of property, plant and equipment		**515**	481
Interest received		**2,419**	252
Net cash used in investing activities		**(6,676)**	(10,724)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from short-term borrowings		**111,600**	45,400
Proceeds from issuance of share capital		**240,371**	–
Repayment of short-term borrowings		**(111,600)**	(53,700)
Dividends paid		**(4,338)**	(76,238)
Net cash from financing activities		**236,033**	(84,538)
Net increase (decrease) in cash and cash equivalents		**295,152**	(9,902)
Cash and cash equivalents at beginning of year		**15,806**	25,708
Cash and cash equivalents at end of year	17(b)	**310,958**	15,806

The accompanying notes are an integral part of these financial statements.

31 December 2000
(Amounts expressed in RMB unless otherwise stated)

1. ORGANIZATION AND OPERATIONS

Tong Ren Tang Technologies Co. Ltd. (the “Company”) was incorporated as a joint stock limited company in Beijing, the People’s Republic of China (the “PRC”) on 22 March 2000.

Pursuant to a restructuring (the “Restructuring”) of Beijing Tongrentang Company Limited (the “Parent Company”) in preparation for the listing of the shares of the Company on the Growth Enterprise Market (the “GEM”) of the Stock Exchange of Hong Kong Limited (the “Stock Exchange”), the Parent Company transferred part of its Chinese medicine production and sales business together with the related assets and liabilities (the “Relevant Business”) to the Company in exchange for 100,000,000 ordinary shares of the Company. China Beijing Tong Ren Tang Holdings Corp. (the “Ultimate Holding Company”) and six natural persons injected cash in exchange for 10,000,000 ordinary shares of the Company at par value. On 22 March 2000, the Company was incorporated as a joint stock company with registered share capital of RMB 110,000,000, comprised 110,000,000 shares (the “Domestic shares”) of RMB 1 per share.

Pursuant to a resolution passed in the Extraordinary General Meeting of the Company held on 11 October 2000, placing of the shares of the Company was approved and the Director, were authorized to allot and issue the shares pursuant thereto. On 30 October 2000, 72,800,000 new ordinary shares (the “H shares”) were issued to foreign investors at a price of approximately RMB3.48 (HK$3.28) per share. Upon the listing of the Company’s H shares on the GEM of the Stock Exchange, the registered share capital was RMB 182,800,000, which comprised 182,800,000 shares of RMB 1 per share.

The directors of the Company consider China Beijing Tong Ren Tang Holdings Corp., incorporated in Beijing, the PRC to be the ultimate holding company.

The Company is principally engaged in production and sales of Chinese medicine. The Company principally operates in the PRC and employed approximately 1,315 employees as at 31 December 2000.

31 December 2000

(Amounts expressed in RMB unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted by the Company in preparing the financial statements are as follows:

(a) Basis of presentation

The accompanying financial statements are prepared in accordance with International Accounting Standards ("IAS") issued by the International Accounting Standards Committee.

The Restructuring (see Note 1) was accounted for as a reorganization of the Company as a continuing operation and accordingly, the financial statements have been prepared as if the current structure of the Company had been in existence throughout the year ended 31 December 2000, rather than from the date on which the Restructuring was completed. The Company's directors are of the opinion that the financial statements prepared on this basis present fairly the results of operations and the state of affairs of the Company as a whole. Therefore, the net profit for the year ended 31 December 2000 includes the results of operations before the Restructuring.

As the Company was incorporated on 22 March 2000, the prior year financial statements of the Company presented are for comparative purposes only. The financial statements as of and for the year ended 31 December 1999 presented the assets and liabilities, and the results of operations and the cash flows of the Relevant Business taken over by the Company during the Restructuring as if the business activities had been conducted by the Company throughout the year.

Those assets, liabilities, revenues and expenses that are identifiable and related to the Relevant Business are included in the financial statements for the years ended 31 December 1999 and 2000. For those expenses which the specific identification method was not practical, the following allocation bases were adopted:

	Bases
Salaries	Number of employees
Advertising expenses	Revenue
Training expenses	Number of employees
Retirement benefits	Number of employees
Rent and depreciation	Floor area
Other selling and administrative expenses	Revenue

Management believes that the above allocation bases are appropriate in estimating the expenses relating to the Relevant Business.

Prior to the Restructuring, the property, plant and equipment were stated at cost less accumulated depreciation. Upon the Restructuring, the property, plant and equipment were restated at revalued amount (Note 3). According to IAS 8 "Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies", such initial adoption of revaluation was treated as a change in accounting policy but can be dealt with in accordance with IAS 16 "Property, Plant and Equipment" instead of IAS 8. Hence, the accompanying financial statements have been prepared accordingly.

31 December 2000

(Amounts expressed in RMB unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES (CONT'D)

(b) Property, plant and equipment and depreciation

Property, plant and equipment are stated at valuation less accumulated depreciation and accumulated impairment loss. The initial cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditures incurred after the property, plant and equipment have been put into operation, such as repairs and maintenance and overhaul costs, are recognized as expense in the period in which they are incurred. In situations where it is probable that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of the asset beyond its originally assessed standard of performance, the expenditures are capitalized as an additional cost of the asset.

Valuation by independent valuer is performed periodically.

Depreciation is calculated using the straight-line method to write off the carrying amount, after taking into account the estimated residual value, of each asset over its expected useful life. The expected useful lives are as follows:

Buildings	8-30 years
Equipment and machinery	8-15 years
Motor vehicles	6 years
Office equipment	4-5 years

The useful lives of assets and depreciation method are reviewed periodically.

When assets are sold or retired, their carrying amounts and accumulated depreciation are eliminated from the accounts and any gain or loss resulting from their disposal is included in the determination of the results of operations.

Construction-in-progress represents plant and properties under construction and is stated at cost. This include cost of construction, plant and equipment, interest and other direct costs plus borrowing costs which include interest charges and exchange differences arising from foreign currency borrowings used to finance these projects during the construction period, to the extent these are regarded as an adjustment to interest costs.

Construction-in-progress is not depreciated until such time as the assets are completed and put into operational use.

31 December 2000
(Amounts expressed in RMB unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES (CONT'D)

(c) Research and development costs

Expenditures for research and development are charged against income in the period incurred.

(d) Inventories

Inventories are stated at the lower of cost and net realizable value. Cost, calculated on the weighted average basis, comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognized as an expense in the period in which the related revenue is recognized. The amount of any write-down of inventories to net realizable value and all losses of inventories are recognized as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realizable value, is recognized as a reduction in the amount of inventories recognized as an expense in the period in which the reversal occurs.

(e) Receivable

Receivables are stated at face value, after provision for doubtful accounts.

(f) Cash and cash equivalents

Cash represents cash in hand and deposits with banks or other financial institutions, which are repayable on demand.

Cash equivalents represent short-term, highly liquid investments which are readily convertible into known amounts of cash with original maturities of three months or less and that are subject to an insignificant risk of change in value.

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2. PRINCIPAL ACCOUNTING POLICIES (CONT'D)

(g) Provisions

A provision is recognized when an enterprise has a present obligation (legal or constructive) as a result of a past event and it is probable (i.e. more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

(h) Revenue recognition

Provided it is probable that the economic benefits associated with a transaction will flow to the Company and the revenue and costs, if applicable, can be measured reliably, revenue is recognized on the following bases:

(i) Sales of goods

Revenue is recognized when the significant risks and rewards of ownership of goods have been transferred to the buyer.

(ii) Agency fee income

Agency fee income is recognized when services for distribution of the Parent Company's products are rendered.

(iii) Interest income

Interest income is recognized on a time-proportion basis that takes into account applicable rate and effective yield on the assets.

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(Amounts expressed in RMB unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES (CONT'D)

(i) Foreign currency translation

The Company maintains its books and records in RMB. Transactions denominated in currencies other than RMB are translated into RMB at the applicable rates of exchange quoted by the People's Bank of China ("PBOC Rates") prevailing at the dates of the transactions. Monetary assets and liabilities denominated in other currencies are translated into RMB at the applicable PBOC Rates prevailing at the balance sheet dates. Non-monetary assets and liabilities in other currencies are translated at historical rates. Exchange differences arising from changes on the settlement of monetary items at rates different from those at which they were initially recorded during the periods other than those capitalized as a component of borrowing costs, are recognized in the income statement in the period in which they arise.

(j) Taxation

The Company provides for income tax on the basis of its profit for financial reporting purposes, adjusted for income and expense items, which are not assessable or deductible for income tax purposes.

Deferred taxation is provided under the balance sheet liability method in respect of significant taxable or deductible temporary differences between the carrying amount of assets or liabilities in the balance sheet and their respective tax bases. The tax basis of an asset or liability is the amount attributed to that asset or liability for tax purpose. Deferred tax liabilities are recognized for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which the deductible temporary difference can be utilized.

(k) Borrowing costs

Borrowing costs include interest charges and other costs incurred in connection with the borrowing of funds, including amortization of discounts or premiums relating to borrowings, amortization of ancillary costs incurred in connection with arranging borrowings and exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs.

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(Amounts expressed in RMB unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES (CONT'D)

(k) Borrowing costs (cont'd)

Borrowing costs are expensed as incurred, except when they are directly attributable to the acquisition, construction or production of the long-term construction projects that necessarily takes a substantial period of time to get ready for its intended use in which case they are capitalized as part of the cost of that asset. Capitalization of borrowing costs commences when expenditures for the asset and borrowing costs are being incurred and the activities to prepare the asset for its intended use are in progress. Borrowing costs are capitalized at the weighted average cost of the related borrowings until the asset is ready for its intended use. If the resulting carrying amount of the asset exceeds its recoverable amount, an impairment loss is recorded.

(l) Operating leases

Leases are classified as operating leases whenever substantially all the risks and rewards incidental to ownership of the leased assets remain with the lessor.

Lease payments under operating leases are recognized as an expense in the income statement on a straight-line basis over the lease term. Aggregate benefit of incentives on operating leases is recognized as a reduction of rental expense over the lease term on a straight-line basis.

(m) Retirement benefits

Pursuant to the PRC laws and regulations, contributions to the basic old age insurance for the Company's local staff are to be made monthly to a government agency based on 25% of the standard salary set by the provincial government, of which 19% is borne by the Company and the reminder is borne by the staff. The government agency is responsible for pension liabilities relating to such staff on their retirement. The Company accounts for these contributions on an accrual basis.

(n) Financial instruments

Financial assets and financial liabilities carried on the balance sheet include cash and cash equivalents, due from related parties, trade and other receivables and payables, borrowings and due to related parties. The accounting policies on recognition and measurement of these items are disclosed in the respective accounting policies.

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(Amounts expressed in RMB unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES (CONT'D)

(n) Financial instruments (cont'd)

Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual arrangement. Interest, dividends, gains, and losses relating to a financial instrument classified as a liability are reported as expense or income. Distributions to holders of financial instruments classified as equity are charged directly to equity. Financial instruments are offset when the Company has a legally enforceable right to offset and intends to settle either on a net basis or to realize the asset and settle the liability simultaneously.

(o) Impairment of assets

Property, plant and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Whenever the carrying amount of an asset exceeds its recoverable amount, an impairment loss is recognized in income for items of property, plant and equipment carried at cost and treated as a revaluation decrease for those items that are carried at revalued amount to the extent that the impairment loss does not exceed the amount held in the revaluation surplus for the same item. The recoverable amount is the higher of an asset's net selling price and value in use. The net selling price is the amount obtainable from the sale of an asset in an arm's length transaction while value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life. Recoverable amounts are estimated for individual assets or, if it is not possible, for the cash-generating unit.

Reversal of impairment losses recognized in prior years is recorded when there is an indication that the impairment losses recognized for the asset no longer exist or has decreased. The reversal is recorded as income or as a revaluation increase.

(p) Contingencies

Contingent liabilities are not recognized in the financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.

A contingent asset is not recognized in the financial statements but disclosed when an inflow of economic benefits is probable.

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(Amounts expressed in RMB unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES (CONT'D)

(q) Subsequent events

Post-year-end events that provide additional information about the Company's position at the balance sheet date or those that indicate the going concern assumption is not appropriate are reflected in the financial statements. Post-year-end events that are not adjusting events are disclosed in the notes to the financial statements when material.

3. PROPERTY, PLANT AND EQUIPMENT, NET

Movements in property, plant and equipment were:

	2000						1999
	Buildings	Equipment and machinery	Motor vehicles	Office equipment	Construction -in-progress	Total	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Cost/valuation							
Beginning of year	64,528	50,705	5,390	2,813	1,125	124,561	115,384
Additions	–	502	1,033	473	7,602	9,610	11,457
Revaluation	14,825	22,468	1,006	(791)	–	37,508	–
Transfers	2,625	6,102	–	–	(8,727)	–	–
Disposals	–	(2,041)	(194)	(80)	–	(2,315)	(2,280)
End of year	81,978	77,736	7,235	2,415	–	169,364	124,561
Accumulated depreciation and impairment losses							
Beginning of year	24,979	29,397	2,828	1,476	–	58,680	51,579
Charge for the year	2,441	7,225	709	302	–	10,677	8,900
Revaluation	5,739	13,026	528	(415)	–	18,878	–
Disposals	–	(1,415)	(148)	(75)	–	(1,638)	(1,799)
End of year	33,159	48,233	3,917	1,288	–	86,597	58,680
Net book value							
End of year	48,819	29,503	3,318	1,127	–	82,767	65,881
Beginning of year	39,549	21,308	2,562	1,337	1,125	65,881	63,805

31 December 2000
(Amounts expressed in RMB unless otherwise stated)

3. PROPERTY, PLANT AND EQUIPMENT, NET (CONT'D)

As of year end, the amounts of property, plant and equipment that would have been included in the financial statements had the assets been carried at cost less accumulated depreciation are as follows:

	2000						1999
	Buildings	Equipment and machinery	Motor vehicles	Office equipment	Construction -in-progress	Total	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Cost	67,153	55,268	6,229	3,206	–	131,856	124,561
Accumulated depreciation	(27,414)	(34,145)	(3,446)	(1,781)	–	(66,786)	(58,680)
Net book value	39,739	21,123	2,783	1,425	–	65,070	65,881

As required by the relevant PRC regulations with respect to the Restructuring, the property, plant and equipment of the Company as of 31 December 1999 were valued for each assets class by Beijing Development Evaluation Co. (the "PRC valuer"), independent valuer registered in the PRC, on a depreciated replacement cost basis. The surplus on revaluation of approximately RMB 18,630,000 has been incorporated in the financial statements of the Company as of 31 December 2000. An amount of approximately RMB 354,000, which represents the revaluation surplus net of an amount of RMB 18,276,000 transferred to the Company's share capital arising from the injection by the Parent Company, has been credited to share premium.

The Company's property, plant and equipment were also valued by LCH (Asia-Pacific) Surveyors Limited as of 31 July 2000, an independent qualified valuer in Hong Kong. The value arrived at by the valuer was not materially different from the carrying value of these assets on the date of valuation.

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(Amounts expressed in RMB unless otherwise stated)

4. INVENTORIES

	2000	1999
	RMB'000	*RMB'000*
Raw materials	14,254	18,134
Work in progress	18,255	37,178
Finished goods	49,557	42,732
Less: Provision for obsolescence	–	–
	82,066	98,044

5. TRADE RECEIVABLES, NET

	2000	1999
	RMB'000	*RMB'000*
Accounts receivable	39,899	19,630
Less: Provision for doubtful accounts	(1,701)	(1,639)
	38,198	17,991

6. DEFERRED TAXATION

Same as prior year, deferred taxes are not presented in the financial statements as there were no significant temporary differences between financial statements which were prepared under IAS and the tax base.

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(Amounts expressed in RMB unless otherwise stated)

7. SHARE CAPITAL

The details of share capital were as follows:

	Number of shares	Nominal value
		RMB'000
Registered:	182,800,000	182,800
Issued and fully paid		
Issue of the Domestic shares upon incorporation (i)	110,000,000	110,000
Issue of the H shares through placing (ii)	72,800,000	72,800
As of 31 December 2000	182,800,000	182,800

Notes:

(i) On 22 March 2000, the Company was incorporated as a joint stock company with registered share capital of RMB 110,000,000, which comprised 110,000,000 domestic shares of RMB 1 per share. The share capital was RMB 110,000,000 and the share premium was approximately RMB 389,000.

(ii) On 30 October 2000, 72,800,000 H shares were issued to the foreign investors at a price of approximately RMB 3.48 (HK$ 3.28) per share. The Company raised net proceeds of approximately RMB 230,336,000, of which the paid up share capital was RMB 72,800,000 and share premium net of issuance expenses was approximately RMB 157,536,000. Upon the listing of the Company's shares on the GEM of the Stock Exchang, the registered share capital was RMB 182,800,000, which comprised of 182,800,000 shares of RMB 1 per share. The total contributed capital was approximately RMB 340,725,000, out of which share capital amounted to RMB 182,800,000 and share premium amounted to approximately RMB 157,925,000.

(iii) The paid-in capital as of 31 December 1999 represented the net assets at cost that were transferred to the Company by the Parent Company.

8. RESERVES

Statutory reserves

According to the Articles of Association of the Company (the "Articles of Association"), when distributing the net profit of each year, the Company shall set aside 10% of its net profit after tax (based on the Company's PRC statutory accounts) for the statutory surplus reserve fund (except where the reserve balance has reached 50% of the Company's paid-up share capital), and for the statutory public welfare fund at a percentage from 5% to 10% determined by the directors. These reserves cannot be used for purposes other than those for which they are created and are not distributable as cash dividends.

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8. RESERVES (CONT'D)

Statutory reserves (cont'd)

The directors have resolved that the statutory public welfare fund is to be utilized to build or acquire capital items, such as dormitories and other facilities for the Company's employees, and cannot be used to pay for staff welfare expenses. Title to these capital items will remain with the Company.

According to the Articles of Association of the Company, approximately RMB 5,438,000 (1999: nil), being 10% of net profit after tax, determined under PRC accounting standards, was transferred to statutory surplus reserve for the year ended 31 December 2000. Further, the directors proposed appropriation of approximately RMB 2,719,000 (1999: nil), 5% of net profit after tax, determined under PRC accounting standards, to the statutory public welfare fund.

According to the Articles of Association of the Company, the reserve available for distribution is lower of the amount determined under the PRC accounting standards and the amount determined under IAS. As of 31 December 2000, the reserve available for distribution was approximately RMB 41,795,000 (1999: RMB 38,258,000), before taking into account the current year's proposed final dividend.

According to the enterprise income tax preferential policy for high-technology enterprise, the Company is entitled to full exemption for Enterprise Income Tax ("EIT") in 2000. However, such policy also requires the exempted tax be used for specified purposes and is not distributable to shareholders of the Company. The tax reserve of approximately RMB 4,427,000 represented EIT for period from June to December 2000 at applicable tax rate of 15%.

9. SHORT-TERM BORROWINGS

As of 31 December 2000, the Company had short-term bank borrowings granted by various banks amounting to approximately RMB 45,400,000 (1999: RMB 45,400,000), of which approximately RMB 24,600,000 was guaranteed by the Ultimate Holding Company . These loans bear interest ranging from 5.58% to 6.44% (1999: 5.58% to 6.44%) per annum.

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10. REVENUE

	2000	1999
	RMB'000	*RMB'000*
Sales of goods	**337,220**	308,068
Agency fee income	**1,479**	–
	338,699	308,068

11. FINANCE COST

	2000	1999
	RMB'000	*RMB'000*
Interest expenses on bank loans repayable within 5 years	**2,939**	3,407
Interest income	**(2,419)**	(252)
Others	**644**	(121)
Less: amount capitalized in construction-in-progress	**–**	–
	1,164	3,034

There is no interest capitalized and accordingly the capitalization rate on interest is zero (1999: nil) for the year ended 31 December 2000.

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12. PROFIT BEFORE TAX

Profit before tax was determined after crediting and charging the following:

	2000 *RMB'000*	1999 *RMB'000*
Crediting:		
Interest income	**2,419**	252
Agency fee income	**1,479**	–
Selling expenses reimbursed by the Parent Company	**3,296**	6,000
Exchange gain, net	**–**	149
Charging:		
Inventory cost	**145,986**	141,173
Staff costs		
– Salary and wages	**29,295**	25,498
– Contribution to retirement benefits	**3,827**	4,306
Depreciation of property, plant and equipment, net	**10,677**	8,900
Operating lease rentals	**6,264**	6,274
Auditors' remuneration	**700**	–
Exchange loss, net	**612**	–
Provision for (write-back of) doubtful debts	**62**	(617)
Write-off of obsolete inventory	**–**	3,951
Research and development expenses	**4,578**	4,619
Advertising expenses	**17,303**	15,572
Agency fee charged by the Parent Company	**9,272**	8,178
Loss on disposal of property, plant and equipment	**162**	–

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13. INCOME TAX EXPENSE

Pursuant to the relevant income tax laws of the PRC, the Company is subject to EIT at a rate of 15%. Moreover, according to the Notice for Explanation of the Execution of Enterprise Income Tax Policy (1995) No. 573 issued by Beijing Local Tax Bureau, enterprises that are qualified as high-technology enterprises are entitled to further tax holiday on EIT. The Company obtained the approval as a high-technology enterprise on 29 August 2000 and would, subject to the approval from the Beijing Local Tax Bureau, be exempted from EIT for three years starting from the first year of profitable operations and a 50% reduction in the next three years. However, an amount equal to the exempted EIT has to be appropriated to reserves as tax reserve and is not distributable to shareholders of the Company. According to the approval from Beijing High-Technology Industrial Development District Tax Bureau, the Company was entitled to full exemption from EIT for the period from June to December 2000. The year 2000 was the first profitable year of the Company for EIT purposes.

However, during the period from January to May 2000, the Company was in the early stage of incorporation and had not obtained the profit tax registration certificate. Hence, the Company was unable to make tax registration separately with Beijing High-Technology Industrial Development District Tax Bureau and an EIT amounting to approximately RMB 12,247,000 was paid through the Parent Company at tax rate of 33%. For the overpaid EIT of 18% amounting to approximately RMB 6,680,000 which will be returned to the Parent Company by the Beijing Finance Bureau, the Company will record tax refund as income on a cash basis. As of 31 December 2000, there was no such income recorded by the Company.

For the year ended 31 December 2000, the EIT exempted amounting to approximately RMB 4,427,000 for the period from June to December 2000, was transferred to tax reserve.

Details of taxation charged during the current year are as follows:

	2000	1999
	RMB'000	*RMB'000*
Current income tax	**12,247**	18,844

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13. INCOME TAX EXPENSE (CONT'D)

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

	2000		1999	
	RMB'000		*RMB'000*	
Accounting profit	**66,626**	**100%**	57,102	100%
Tax at the statutory tax rate of the Company of 15% (1999: 33%)	**9,994**	**15%**	18,844	33%
Effect on tax benefit of being a high-technology enterprise	**(4,427)**	**(7%)**	–	–
Effect on application of the Parent Company's tax rate prior to issuance of profit tax registration certificate	**6,680**	**10%**	–	–
Tax expense	**12,247**	**18%**	18,844	33%

Same as prior year, deferred taxes were not presented in the financial statements as there were no significant temporary differences between financial statements which was prepared under IAS and the tax bases.

14. DIVIDENDS

	2000	1999
	RMB'000	*RMB'000*
Dividends declared/proposed before year end	**–**	38,258
Dividends declared/proposed after year end (Note 24)	**38,388**	–

Profit appropriation is subject to approval of the Board of Directors and shareholders in shareholders' meeting. In accordance with the Articles of Association, the reserve available for distribution is the lower of the amount determined under the PRC accounting standards and the amount determined under IAS. For the year ended 31 December 2000, there was no material difference in the distributable profit under the PRC accounting standards and the amount determined under IAS.

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15. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the net profit for the period attributable to ordinary shareholders of approximaely RMB 54,379,000 (1999: RMB 38,258,000) divided by the weighted average number of shares issued during the year of 122,942,222 shares (1999: 110,000,000 shares, being the number of shares issued immediately after the Restructuring).

Diluted earnings per share for the years ended 31 December 1999 and 2000 is not presented because there were no dilutive potential shares in existence during the year.

16. DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS

(a) Details of directors' emoluments are:

	2000	1999
	RMB'000	*RMB'000*
Fees for executive directors	**–**	–
Fees for non-executive directors	**159**	–
Other emoluments for executive directors		
– Basic salaries and allowances	**155**	60
– Contribution to retirement scheme	**8**	–
Other emoluments for non-executive directors	**–**	–
	322	60

None of the directors waived any emoluments during the year.

(b) Analysis of directors' emoluments by number of directors and emolument ranges is as follows:

	2000	1999
Executive directors		
– Nil to RMB 1,000,000	**1**	1
Non-executive directors		
– Nil to RMB 1,000,000	**4**	–
	5	1

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16 DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS (CONT'D)

(c) Details of emoluments paid to the five highest individuals (including directors and other employees) are:

	2000	1999
	RMB'000	*RMB'000*
Basic salaries and allowance	**465**	175
Contribution to retirement scheme	**39**	–
Others	**–**	–
	504	175

The emoluments of the highest paid individuals were within the following bands:

	2000	1999
Nil to RMB 1,000,000	**5**	5

During the year ended 31 December 2000, no emoluments of the five highest paid individuals (including directors and employees) were paid by the Company as inducement to join or upon joining the Company or as compensation for loss of office.

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17. CASH GENERATED FROM OPERATIONS

(a) Reconciliation from profit before tax cash generated from operations:

	2000	1999
	RMB'000	*RMB'000*
CASH FLOWS FROM OPERATING ACTIVITIES:		
Profit before tax	**66,626**	57,102
Adjustments for:		
Provision for (write-back of) doubtful accounts	**62**	(617)
Depreciation	**10,677**	8,900
Loss on disposal of property, plant and equipment, net	**162**	–
Interest income	**(2,419)**	(252)
Interest expenses	**3,583**	3,286
Operating profit before working capital changes	**78,691**	68,419
(Increase) decrease in current assets:		
Trade receivables	**(20,269)**	(3,234)
Inventories	**15,978**	9,489
Prepayment and other current assets	**50**	2,135
Due from related parties	**22,043**	(22,042)
Increase (decrease) in current liabilities:		
Trade payables	**(6,894)**	3,920
Other current liabilities	**25,826**	(2,435)
Due to related parties	**(33,800)**	51,238
Cash generated from operations	**81,625**	107,490

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17. CASH GENERATED FROM OPERATIONS (CONT'D)

(b) Analysis of the balances of cash and cash equivalents

As of 31 December 2000, cash and cash equivalents of the Company consisted of:

	2000	1999
	RMB'000	*RMB'000*
Cash		
RMB	**11**	4
Demand deposits		
RMB	**45,154**	9,500
US Dollar denominated	**16,949**	6,302
Deutsche Mark denominated	**14,904**	–
HK Dollar denominated	**233,940**	–
	310,947	15,802
	310,958	15,806

18. RELATED PARTY TRANSACTIONS

(a) Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence.

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18. RELATED PARTY TRANSACTIONS (CONT'D)

During the year, the Company had the following material transactions with related parties:

(b) Transactions with the Parent Company

Transactions with the Parent Company during the years are summarized as follows:

	2000	1999
	RMB'000	*RMB'000*
Purchase of raw materials from the Parent Company *	**7,390**	4,942
Purchase of raw material for the Parent Company *	**6,889**	22,240

* *These transactions were carried out prior to the listing of the Company's shares on the GEM of the Stock Exchange.*

An agency fee was payable to the Parent Company for distribution of the Company's products by the Parent Company in the PRC for the year ended 31 December 2000 amounting to RMB 9,272,000 (1999: RMB 8,178,000) (note (i)).

Prior to the Restructuring, selling expenses of approximately RMB 3,296,000 (1999: RMB 6,000,000) were reimbursed by the Parent Company for distribution of the Parent Company's products by the Company.

The agency fee income received from the Parent Company for distribution of the Parent Company's products by the Company for the year ended 31 December 2000 was RMB 1,479,000 (1999: nil) (note (ii)).

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18. RELATED PARTY TRANSACTIONS (CONT'D)

(c) Transactions with the Ultimate Holding Company

Transactions with the Ultimate Holding Company during the years are summarized as follows:

	2000	1999
	RMB'000	*RMB'000*
Purchase of raw materials from the Ultimate Holding Company (note (iii))	**63,643**	53,423
Trademark royalty to the Ultimate Holding Company (note (iv))	**793**	793
Land use fee to the Ultimate Holding Company (note (v))	**2,685**	2,685
Operating lease rentals to the Ultimate Holding Company (note (vi))	**3,000**	3,000
Storage expenses to the Ultimate Holding Company (note (vii))	**2,268**	1,438

(d) Transactions with the subsidiaries and associates of the Parent Company

During the year ended 31 December 2000, the Company sold products to the distribution agents which are related companies of the Ultimate Holding Company (note (i)) amounting to approximately RMB71,710,000 (1999: RMB83,580,000).

During the year ended 31 December 2000, the Company paid advertising fee to an advertising agent which is a subsidiary of the Ultimate Holding Company amounting to RMB 2,330,000 (1999: nil) (note (viii)).

(e) As of 31 December 2000, the Company had short-term bank loans amounting to RMB24,600,000 guaranteed by the Ultimate Holding Company.

Balances with the Parent Company, the Ultimate Holding Company are unsecured, non-interest bearing and repayable on demand.

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(Amounts expressed in RMB unless otherwise stated)

18. RELATED PARTY TRANSACTIONS (CONT'D)

Notes:

(i) A distribution agency agreement dated 6 October 2000 with a term of 3 years was entered into between the Company and the Parent Company, pursuant to which the Company has agreed to appoint the Parent Company to handle, as its non-exclusive agent, the sale of its products in the PRC. The prices of products to be sold shall comply with the price range determined by the Company. The agency fee payable to the Parent Company shall be 3.5% on the related sales.

(ii) A distribution agency agreement dated 6 October 2000 with a term of 3 years was entered into between the Company and the Parent Company, pursuant to which the Parent Company has agreed to appoint the Company to handle, as its non-exclusive agent, the sale of its products outside the PRC. The prices of products to be sold shall comply with the price range determined by the Parent Company. The agency fees payable to the Company under the distribution agency agreement is limited to 8.5% on the related sales.

(iii) A raw material supply agreement dated 6 October 2000 was entered into between the Company and the Ultimate Holding Company, pursuant to which the Ultimate Holding Company has agreed to supply the Company with part of the Chinese medicinal raw materials that are required for its production for a term of 3 years. The price of such raw materials is to be determined by negotiation between both parties and shall fall within the range of market price. The Ultimate Holding Company shall not supply the materials to the Company at a price higher than that of the same products sold to independent third parties or the average market price, whichever is lower.

(iv) A licence agreement dated 6 October 2000 was entered into between the Company and the Ultimate Holding Company whereby the Company is allowed to use certain trademarks and trademark logos (collectively, "Trademarks") of the Ultimate Holding Company.

The term of the licence shall commence from the date of completion of filing the agreement by the Ultimate Holding Company with the relevant authorities up to 28 February 2003. Upon the expiration of the licence, if the Ultimate Holding Company successfully renews the right to use the Trademarks and if the Company fully complies with the terms and conditions of the agreement and requests to continue to use the Trademarks, the Ultimate Holding Company shall renew the agreement with the Company. Such renewal will be subject to the approval of the independent shareholders of the Company. The renewed term of the licence shall not be shorter than 5 years. The annual licence fee during the term of the agreement is RMB793,000.

The parties are entitled to adjust the annual licence fee during the renewed term commencing on or after 28 February 2003, such annual increase or decrease shall not exceed 10% of that of the previous year.

(v) A land use right leasing agreement dated 6 October 2000 was entered into between the Company and the Ultimate Holding Company, pursuant to which the Ultimate Holding Company has agreed to lease to the Company two pieces of land in Beijing, total areas being approximately 49,776, 35 sq.m. the PRC for a term of 20 years commencing from the date thereof.

Pursuant to the agreement, the annual rental for the initial 2 years is calculated at the market rate of RMB53.95 per sq.m., i.e. RMB2,685,434 in total, which shall remain unchanged for the initial 2 years. Any adjustments to the annual rental shall be made after the initial 2-year period at the then market rent, provided that such adjustment shall in no event exceed 10% more or less than of that the previous year.

31 December 2000

(Amounts expressed in RMB unless otherwise stated)

18. RELATED PARTY TRANSACTIONS (CONT'D)

Notes: (cont'd)

(vi) A leasing agreements dated 6 October 2000 was entered into between the Company and the Ultimate Holding Company and the Parent Company for the medicine production building, office and ancillary buildings ("the Properties").

Pursuant to the agreement, the Ultimate Holding Company agreed to lease to the Company the Properties originally leased to the Parent Company under the agreement, at an annual rental of RMB3,000,000 subject to adjustment each year at market rate, provided that such adjustment shall not exceed 10% more or less than that of the previous year. The term of the lease is 10 years from 1 January 1997 to 31 December 2006.

(vii) A contract for storage and custody dated 6 October 2000 was entered into between the Company and the Ultimate Holding Company whereby the Ultimate Holding Company agreed to provide storage and custody services to the Company for a term of 3 years, commencing from the date thereof. For the initial 2 years from the effective date of the contract, the storage fee shall be fixed at RMB252 per sq.m. per year. Adjustment to the storage fee is permitted after the initial 2-year period provided that the annual increase or decrease shall not exceed 10% of that of the previous year.

(viii) An advertising agency agreement dated 6 October 2000 was entered into between the Company and Tongrentang Advertising Company ("Tongrentang Advertising") for a term of 3 years commencing from the date thereof, pursuant to which Tongrentang Advertising agreed to handle, as an agent of the Company, the Company's advertisement releases.

The advertising agency fee shall be charged at the rate of 15% of the whole quantum of total advertising expenditure, payable quarterly by the Company. This advertising agency fee is determined by the PRC authorities and applied uniformly to all advertising agencies in the PRC.

19. SEGMENT INFORMATION

No segment information is presented as the Company operates in one industry and one segment.

20. BANKING FACILITIES

As of 31 December 2000, the Company had aggregate banking facilities of RMB85,400,000 (1999: RMB45,400,000) for loan and other trade financing. As of 31 December 2000, the unutilized facilities amounted to RMB40,000,000 (1999: nil).

21. CONTINGENT LIABILITIES

As of 31 December 2000, the Company had no significant contingent liabilities.

31 December 2000

(Amounts expressed in RMB unless otherwise stated)

22. FINANCIAL INSTRUMENTS

(a) Fair values

The carrying amounts of the Company's cash and cash equivalents, trade and other receivables, due from related parties, payables and borrowings and due to related parties approximated their fair values at the balance sheet date because of the short maturities of these instruments.

The Company did not enter into any foreign exchange forward contracts to hedge against fluctuations.

(b) Credit risk

The carrying amount of cash and cash equivalents, trade receivables and other current assets represented the Company's maximum exposure to credit risk in relation to financial assets.

Cash is placed with banks and the weighted average effective interest rate on deposits was from 0.99% to 5.81%.

Majority of the Company's trade receivables relate to sales of goods from third party customers. The Company performs ongoing credit evaluations of its customers' financial condition and generally does not require collateral on trade receivables. The Company maintains a provision for doubtful debts and actual losses have been within the management's expectation. No single customer accounted for greater than 10% of total revenue during the year.

No other financial assets carry a significant exposure to credit risk.

(c) Interest rate risk

The interest rates and terms of repayment of short-term bank loans of the Company are disclosed in note 9.

23. COMMITMENTS

(a) Capital commitments

As of 31 December 2000, the Company had capital commitments which were contracted but not provided for in the financial statements amounting to approximately RMB 109,986,000 (1999: nil) in respect of capital contributions to joint ventures to be established in Hong Kong and the PRC.

31 December 2000

(Amounts expressed in RMB unless otherwise stated)

23. COMMITMENTS (CONT'D)

(b) Operating lease commitments

As of 31 December 2000, the Company had commitments in respect of leased land and buildings under various non-cancelable operating lease agreements extending to 30 May 2020 amounting to approximately RMB 72,023,000. Total future minimum lease payments under non-cancelable operating leases are as follows:

	2000	1999
	RMB'000	*RMB'000*
Land and buildings:		
– not later than one year	**5,685**	–
– later than one year and not later than five years	**22,742**	–
– later than five years	**43,596**	–
	72,023	–

24. SUBSEQUENT EVENTS

On 15 March 2001, with approval of the board of Directors, the proposed cash dividend amounted to RMB 38,388,000, representing RMB 0.21 per share.

As of 19 January 2001, short term bank borrowings amounting to approximately RMB 24,600,000 were repaid, and the guarantee granted by the Ultimate Holding Company was released.

25. APPROVAL OF FINANCIAL STATEMENTS

The financial statements set out on pages 26 to 56 were approved by the Board of Directors on 15 March 2001.