北京同仁堂

創建於一六六九年

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 2001

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

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

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
Choi Wai Lung, Edward, AHKSA, FCCA

QUALIFIED ACCOUNTANT

Choi Wai Lung, Edward, AHKSA, FCCA

COMPANY SECRETARY

Choi Wai Lung, Edward, AHKSA, FCCA,

AUDIT COMMITTEE

Tam Wai Chu, Maria
Ting Leung Huel, Stephen

COMPLIANCE OFFICER

Wang Zhao Qi

AUTHORIZED REPRESENTATIVES

Wang Zhao Qi
Choi Wai Lung, Edward, AHKSA, FCCA

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 Andersen Legal)

PRINCIPAL BANKERS

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

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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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") and its subsidiaries and its joint venture (hereafter collectively referred to as the "Group") for the year ended 31 December 2001.

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 interests in Factory No. 2, Chinese Medicine Refinery, Import & Export Department and Research & Development Centre, in conjunction with China Beijing Tong Ren Tang Group Co. Ltd., which was previously named as 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 (顆粒), pills (水蜜丸劑), tablets (片劑) and soft capsules (軟膠囊劑). Main products include Ganmao Qingre Granule (感冒清熱顆粒), 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).

DIVIDENDS

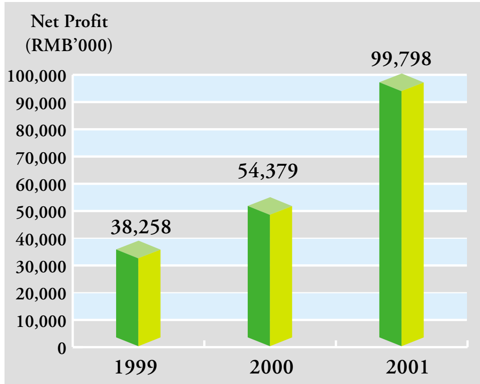
The Board of Directors of the Company recommend the payment of a final dividend for the year of RMB0.30 per share to shareholders whose names appear on the register of shareholders of the Company at 4:00 p.m. on 19 April 2002.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

In 2001, the Company followed the year plan of "Insisting in market orientation, achieving early break-even conditions in sales and production", by which the Company enhanced its competitive power, put emphasis on innovation and management, strengthened internal quality control, placed more emphasis on performance appraisal and upgraded the Company's competitiveness. The company has introduced operation and management models that suit its strategic goals. Core competitive powers were raised in respect of marketing, human resources, financial management, innovation and branding. As a result of our efforts, the objectives of the year plan was reached and exceeded, sales of main products were buoyant and sales revenue and net profits increased significantly.

Turnover for the year ended 31 December 2001 amounted to RMB497,373,000, representing an increase of approximately 46.85% compared with the previous year. Net profit amounted to approximately RMB99,798,000, representing an increase of approximately 83.52%. No segment information is presented as the Company operates in one industry and geographical segment.



Production

With the development of market economy, commercial production depends on market demand and the market leads the direction of production. The two production plants of the Company underwent an integration on the basis of united management, united control and balance production, in which the various production, testing and backup departments of the two plants were combined and became one unit for each respective function, excess personnel was transferred to the production line and sales force while administrative costs were lowered and internal production management was harmonized without affecting the quality of products. The Company has also taken some strict measures to assure the quality of products. The Company has implemented a policy of "production according to order". To ensure meeting market demand in a timely manner, the Company strictly followed the the direction of "Market-oriented and innovation as main part to enhance Company's competitive capability". Production structure was adjusted according to orders to meet the market demands and priorities were given to the exporting products and new products with a view to satisfying market demands.

Good Manufacturing Practice (「GMP」)

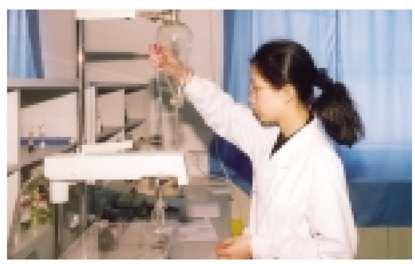
GMP standard certification is crucial to the existence and development of the Company and is significant as to the dominance of the Company's products in the domestic market as well as gaining entry to the international markets. The Company has done a great deal to accomplish the gradual compliance of its production lines with the GMP standards such as formulating the relevant documentation for SMP and SOP as well as various rules and quality standards for various packaging materials, creating original record from the existing basis, conducting staff training, strictly formulating all sorts of record in accordance with the GMP standards and segmenting the management system. With respect to hardware, the Company has adopted sophisticated technologies and facilities and GMP improvement of production lines was of high level, high standard and high quality. As a result, the workshop now attained class 100,000 (a higher standard) which is above the GMP requirements of class

300,000. Four production lines of pills and granules (comprising the two production lines of pre-processing and extracting) have successfully passed the GMP standard certification, attributable to the tireless efforts of the entire workforce of the Company. In addition, the Company has accomplished on-site examination for the production lines of soft capsules. Compliance with the GMP standards has enhanced the quality of the Company as a whole. At present, the technological and equipment standards of the Company is amongst the highest in the country. The compliance of several production lines with the GMP standards is beneficial to increasing the Company’s competitiveness in increasing its share in the domestic market and gaining entry to the international market.

Sale

A. Most of the domestic sale is undertaken through Tongrentang Ltd. and the Company assisted Tongrentang Ltd. to conduct market research, screening for nurturing products with strong market potential and increased promotional activities so as to improve thier sales scale. With active planning and extensive promotion, the sales have reached the Company’ s sales targets. In the year 2001 the Company established its own branch companies and branch companies for new products with “Training its sales team and creating the sales network” as its objectives. Under gradual transition, domestic sales are being undertaken by the branch companies and branch companies for new products. Branch companies and branch companies for new products are actively cultivating high calibre sales personnel and provide training to them on the following aspects: Chinese Medicine knowledge, medicine regulation, sales knowledge and technique, corporate culture, the knowledge of GMP standards as well as financial knowledge. The Company has also established a set of documentations for SOP and SMP which include rules for marketing plans, classification of customers, selection of agents and management of sales contracts. Domestic sales of the Company in the year 2001 represented an increase of 44.23% over the previous year.

B. Active expansion of overseas markets is part of the Company’s sales strategy. Due to the slowdown of the global economy in 2001, the continuous downslide of the economy of the United States of America, the recession of the Japan economy as well as the weakening of the European economy, the import and export arm of the Company adhered to the objectives of “Come first in customers, quality, credibility and service” and promoted the concept of “Obeying and serving the market” and actively studied the expansion of overseas markets in response to the demand of market and customers. It also made proper adjustments in the marketing strategies in accordance with the trend of international pharmaceutical market for market expansion and boosting of sales by actively implementing brandname strategy and promoting the trademark of Tongrentang, its corporate culture as well as brand products. Various sales techniques



have been adopted and the boosting of sales of existing products was combined with the presentation of new products. The Company has insisted to be market-oriented and based on the comprehensive implementation of a policy of "production according to order" and worked closely with the commercial and industrial sectors in order to ensure market demand. Overseas sales of the Company in the year 2001 represented an increase of 71.64% over the previous year.

There has been a substantial increase in turnover for 2001 as compared with last year. The sales of Liuwei Dihuang Pill (六味地黃丸), Ganmao Qingre Granule (感冒清熱顆粒), Niuhuang Jiedu Tablet (牛黃解毒片) in the year 2001 represented an increase of 101.83%, 16.46% and 31.21% respectively over 2000. The total annual revenue for 2001 amounted to RMB497,373,000, representing an increase of 46.85% over 2000.

Research and development of products

A. To develop new product actively:

With respect to the development of new products in the year 2001, the research of three new products mentioned in the Prospectus has been further finalized. The New Medicine Certificate for anti-influenza drug – anti-influenza effervescent tablet (抗感泡騰片) has been obtained after tremendous efforts in which the study of the technique has been commenced while the laboratory testing has been completed. We have obtained the patent for the design of the products' packaging from the People's Republic of China, Hong Kong Special Administrative Region, England and Germany. For the anti-cardiovascular system diseases drug, we have drawn up the conclusion on clinical testing, completed supplemental testing as well as the modification of data and the relevant data have been forwarded to the assessment centre of relevant government department for approval. The above drug will go through the preliminary stage of new medicine assessment after quality checking of the municipal standard has been completed. For anti-menopause syndrome drug, clinical testing is still underway. Meanwhile, the Company has focused on the screening of key new medicine, so that new products will go through an invention, production, trial production process on a generation-to-generation basis.

B. To launch the secondary stage of research and development actively:

The secondary stage of research and development is the key area of the research and development in the year. Tremendous laboratory work has been done for over 20 kinds of OTC products to further improve the production process. The research for quality standard, efficacy and toxicity and clinical trials of preserved products has also commenced.

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 proceeding systematically for gradual expansion to achieve economies of scale. " Beijing Tong Ren Tang WM Dianorm Biotech Co., Limited has completed the layout of development program and the draft of regulations and system, the establishment of its organization structure and recruitment of the relevant personnel. The joint venture company is now working on the training of staff and the establishment of production lines so that the production of new products can be commenced as soon as possible. The Company has completed the design of the layout of the workshop after fully digesting and absorbing the relevant technical data. It has also formulated the production technology and SOP of the liposome products. With regard to the complexity of applying the liposome technique to the research and development of pharmaceutical products, the development cycle of new products is relatively long. In order to achieve cost-effectiveness in a short period of time, the Company has started the study of the application of the liposome technology to cosmetics and health products while it continued on the study of application of the liposome technology to pharmaceutical products simultaneously. The study has achieved progress substantially. Two kinds of cosmetics have already completed the laboratory research stage.

Establishment of production bases for Chinese medicinal raw materials

In order to fully take advantage of the brandname of Tongrentang, ensure the quality of Chinese medicinal herbs, reduce the cost of purchase and enhance technological level, the Company has established its own plantation base for Chinese medicine herbs so as to solve the fundamental problem regarding the stability and homogeneity of the Chinese medicinal raw materials. The Company has carried out studies on different species of Chinese medicinal herbs, the herb quality, the soil and environmental condition and has conducted analysis as to the demand for raw materials of the Company over the next five years. Taking into consideration of the opinion from experts, the Company has carefully selected the land for plantation in order to ensure that the quality of the Chinese medicinal herbs meets the standards of Chinese medicinal herbs of Tongrentang. After case studies and consultation with experts, the Company has determined to adopt the pattern of joint ventures-farmers-research institutes or expert teams for the establishment of the plantation base. The Company has invested RMB 12.85 million in the establishment of four subsidiaries for the plantation of raw materials in four places, namely Hangzhou of Zhejiang province, Nanyang of Henan province, Wuhan of Hubei province and Yutian of Hebei province. The registration procedures were completed before the end of 2001 and the work for plantation and processing is being finalized for the time being.

Establishment of production bases

In order to expand the production base, the Company has acquired two pieces of land in the Beijing Economic and Technological Development Zone in 2001 with a total area of approximately 30,618m^2. The Company has finished the work regarding design and planning, land surveying, approval of information and tendering in respect of the first phase.

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 traditional Chinese medicine. The Company plans to make use of advanced technologies 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 further expand the Company's market share and enhance its international competitiveness.

Liquidity and Financial Resources

The Group has maintained a sound financial position in this year. During the year, the Group's primary source of funds was cash provided by operating activities and the balance of cash proceeds from the issue of new shares pursuant to a placing exercise of the Company in October 2000. As at 31 December 2001, the Group had bank and cash balances amounted to RMB387,504,000 (2000: RMB310,958,000) and short-term borrowings of RMB30,000,000 (2000: RMB45,400,000). These borrowings are denominated in Renminbi and provided by various banks in the PRC and bear fixed interest ranging from 5.58% to 5.85% (2000: 5.58% to 6.44%) per annum. As at 31 December 2001, the Group had total assets of RMB617,861,000 (2000: RMB517,603,000) which were financed by current liabilities of RMB149,217,000 (2000: RMB122,499,000), shareholders' equity of RMB456,514,000 (2000: RMB395,104,000) and minority interests of RMB12,130,000 (2000: Nil).

The Group's gearing ratio, defined as the ratio between total borrowings and shareholders' equity, was 0.07 (2000: 0.11). The liquidity ratio of the Group, represented by a ratio between current assets over current liabilities, was 3.29 (2000: 3.55), reflecting the abundance of financial resources.

PROSPECTS

Technical modification of production lines in accordance with GMP requirements; Implementing the production order system

The Company will actively continue to pursue GMP certification and consolidating the achievement of GMP certification. After obtaining the GMP certification of production lines of pills and granules, the Company target to obtain GMP certification of production lines of soft capsules, tablets, liquids (oral liquid, aerosol, etc) in 2002. It is intended that the GMP certification process would gradually upgrade the management standard and improve the technical standard and quality of the existing products, enable technology upgrade and reduction of production costs so as to satisfy the demand of domestic and overseas customers. The Company will further focus on the market, fine tune its production structures, keep informed of recent market trends and follow the production order system. Efforts will be made to improve the production management by forecasting demand for seasonal products and having due preparation for it. In particular, appropriate inventories are being maintained so as to increase the working capital of the Company whilst meeting market demand. The Company will also improve its logistics, computerize the materials management and seek to respond swiftly to market changes by applying modern management skills.

Take full advantage of the R&D Center to speed up the technology innovation

Resources will be deployed from the Research Centre to the development of new medicines and secondary stage of research and development. The target is to obtain one to two new approvals for new medicines in 2002. One to two new projects for new medicines will be established as reserves. As new medicine approvals have been granted for anti influenza effervescent tablet, we will speed up the completion of technical tests and commence trial production as soon as possible. For the new anti-cardiovascular disease drug, two levels of approvals are to be obtained from Beijing Pharmaceutical Supervision and Administration and State Pharmaceutical Supervision and Administration and the related technical data supplementation will be completed in order to get the New Medicine Certificate. For the anti-menopause syndrome drug, we will complete all the clinical tests and start the new medicine application work as well as technical data supplementation work. We will continue our selection work on the critical new items and strive to increase the high technology components of existing products. We will make full use of the scientific research advantage in Beijing and speed up the establishment of the technological development system which involves a combination of our R&D Center and scientific research institutions. The Company will focus on launching new products with high potency, high technology, high efficiency and which carry proprietary intellectual property rights. We will continue to conduct the secondary stage of research and development work of other products. The Company will arrange for the new medicines which have obtained approvals and expected to have good demand to be launched to the market. Furthermore, additional fundamental studies will be conducted on such issues as pharmacodynamics, toxicology and clinical tests and efforts will be made on new technology applications such as the resin suction technology (大孔樹脂吸附技術), the membrane filtration technology (薄膜包衣技術) and ultra-micro crashing technology (超微粉碎技術).

Focusing on the market, strengthening the marketing efforts

The operational branch companies, together with its branch companies for new products and import and export companies have formed a new marketing and sales structure. All staff must bear in mind that they must face the challenge of increasing competition and adapt to market demand by supplying marketable products at reasonable prices and quality services. At the same time, they must use timely and accurate information and take to account effective promotional initiatives and good credit to expand the domestic and overseas market share so as to achieve high economic returns. We will try our utmost to foster such kind of product which can reach annual sales of over RMB100 million and implement brand strategy. We aim to increase the sales of products by maintaining the reputation of Tong Ren Tang and .enhancing customer loyalty, to develop markets throughout the country by establishing key customers and to increase competitive power by adopting scientific management according to GSP standard and strengthening after-sale services. We will abide by the cash policy and credit policy and classify different customers into different credit categories Internal financial management will be consolidated so that cash and material flows will be well under control. Selection and supervision of agents will be managed. At the same time we will continue to exploit overseas markets. Major sales and sourcing channels and old customers will be maintained. We will take various modes of development from joint ventures to acting as processing agent to expand exporting sales.

Continuing to construct Chinese medicinal herbs production base

In order to guarantee the quality of medicinal herbs to reach the Green Standard and maintain its advanced characteristics, technical quality systems are being established in each production base. Technological testing plans are being formulated in accordance with GAP requirements and the SOP for each medicinal herb is being studied. At the same time, we will construct new plantation sites of Chinese medicinal herbs according to our actual requirements.

Charges on group assets

As at 31 December 2001, none of the Group's assets was pledged as security for liabilities (2000: Nil).

Foreign currency risk

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

Capital commitments

As at 31 December 2001, the Group had the following capital commitments which were not provided for in the consolidated financial statements of the Group:

(i) Authorised and contracted for:

Commitments relating to the construction of production facilities amounted to RMB13,510,000 (2000: Nil).

Commitments relating to capital contributions to investee entities amounted to RMB88,417,000 (2000: RMB109,986,000). Out of these commitments, the timing of contributions amounting to RMB78,484,000 is subject to further negotiations with the co-investors in these entities, progress of the investment projects and the approval from the government authorities.

(ii) Authorised but not contracted for:

Commitments relating to the construction of production facilities amounted to RMB15,490,000 (2000: Nil).

Employees and Remuneration Policies

As at 31 December 2001, the Group had 1,306 employees (2000: 1,315 employees). Remuneration is determined in accordance with government policies and by reference to market terms and the performance, qualifications and experience of individual employees. Discretionary bonuses on individual performance will be paid to employees as recognition of and reward for their contribution. Other benefits include contributions to retirement scheme, medical scheme, unemployment insurance scheme and housing fund.

Rules 5.28 to 5.39 to the GEM Listing Rules

The Group has complied with rules 5.28 to 5.39 concerning board practices and procedures throughout the financial year.

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 medicine, the Company aims to achieve modernization and internationalization of Chinese medicine. We will made out best efforts in developing our businesses to produce good economic results and better returns for our shareholders.

Yin Shun Hai
Chairman

Beijing, the PRC
15 March 2002

COMPARISON OF THE BUSINESS PLANS AND ACTUAL PROGRESS

From 1 January 2001 to 31 December 2001

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.

Expected project progress	Actual project progress
Conducting feasibility studies and preparatory work. Confirmation of implementation plan and commencement of construction.	The Company has finished the GMP improvement work on four production lines of pills and granules (comprising two production lines of pre-processing and extracting) which have successfully passed the GMP standard certification. The on-site examination for GMP certification regarding the production line of soft capsules has been completed. In order to expand its production base, the Company acquired two pieces of land in the Beijing Economic and Technological Development Zone with a total area of approximately 30,618m^2. The Company has finished work regarding design and planning, land surveying, approval of information and tendering in respect of the first phase.
The anticipated investment would be HK$20 million.	The actual investment amounted to RMB 37,970,000 equivalent to approximately HK$ 35,800,000. The capital paid excessing its anticipated investment is mainly due to the earlier acquisition of land for the establishment of production base and the speed up of the implementation of GMP improvements in accordance with the government policies.

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 Beijing to develop new drugs. The Research Centre will also be responsible for applying approval from the relevant PRC authorities for the Company's new pharmaceutical products.

Expected project progress	Actual project progress
Preparation, design, commencement of construction, purchase of equipment and facilities and completion of initial phase of construction of the Research Centre.	Construction, purchase and installation of equipment and facilities, development of new medicine, research of the application of new technology for production are in progress. The Company has also proceeded the testing of over-the-counter medicine products and improvement of production techniques. Studies on quality standard, efficacy and toxicity have also been commenced.
The anticipated investment would be HK$14 million.	Actual investment amounted to RMB 5,620,000, equivalent to approximately HK$ 5,300,000. The difference between the anticipated and actual investment amounts is attributable to the fact that the Company fully took advantage of the complete range of sophisticated and large scale research facilities of research institutes in Beijing, resulted in the reduction of the acquisition of some research facilities which are less frequently used and thus cost savings. On the other hand, some of the research facilities acquired which are planned to import from overseas have purchased domestically. In addition, the fund saved would be used in the study of new products as well as research and development of testing workshop construction.

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 new 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
Continuation of clinical trials.	New medicine certificate was obtained. Examination of production technique in the laboratory has been completed and the study of production technique has been commenced.

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

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

Expected project progress	Actual project progress
Continuation of clinical trials	The Company completed clinical trials, conclusion on clinical testing, supplementary testing and update of data. The relevant information has been forwarded to the assessment center of relevant government department for approval.

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.

Expected project progress	Actual project progress
Continuation of clinical trials.	The Company continued clinical trials.
HK$8.5 million would be invested in three new medicines.	Actual investment amounted to RMB 4,090,000, equivalent to approximately HK$ 3,850,000. The difference between the anticipated and actual investment amounts is attributable to the fact that the relevant clinical data being available was still subject to approval by the relevant department. Accordingly, the relevant fund has not been utilised.

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 enhance the technological level of Chinese medicine and to develop other new bio-pharmaceutical products.

Expected project progress	Actual project progress
Incorporation of joint venture company and introduction of new technology. Conducting preliminary research and application for production approval of The State Pharmaceutical Supervision and Administration of the PRC.	Business license has been obtained and the taxation registration procedures have been completed. The Company has proceeded with contribution of part of the capital, formulation of development program, establishment of the organisational structure, organisation of staff training and workshop preparation, application of the technologies in liposome in the production technique and the related SOP of cosmetics. Two cosmetics have already completed their respective laboratory research stage.
The anticipated investment would be HK$24 million.	Actual investment amounted to RMB7,450,000, equivalent to approximately to HK$ 7,000,000. The difference between the anticipated and actual investment amounts is attributable to the fact that the Company had not succeeded in applying technologies in liposome to the production of Chinese medicine. Since relatively less fund was needed, so no further amount was invested. The Company will continue to invest in the above area in 2002.

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
Select site, obtain approval from the relevant local government departments for preliminary approval and commencement of construction and decoration of properties.	The relevant government departments have approved the Company to establish an overseas business office which site is now under selection.
The anticipated investment would be HK$22 million.	Actual investment has not been made. The difference between the actual and anticipated investment amounts is attributable to the fact that the Company has adopted a prudent overseas investment policy, so as to avoid unnecessary losses. The Company will invest in this area in the year 2002.

E-commerce

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

Expected project progress	Actual project progress
System development, purchase equipment, facilities and software. Trial operation of websites and online medical business development.	Since the Internet business is not in a profitable stage, the Company has postponed the development of this project.
The anticipated investment would be HK$8 million.	No investment has been made.

Production base for Chinese medicinal raw materials

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

Expected project progress	Actual project progress
Selection of location and preparation for plantation.	The registration procedures for the establishment of four production bases for Chinese medicinal raw materials in Hangzhou of Zhejiang province, Nanyang of Henan province, Wuhan of Hubei province and Yutian of Hebei province were completed before the end of 2001 and the work for plantation and processing is being finalized for the time being.
The anticipated investment would be HK$10.9 million.	Actual investment amounted to RMB 12,850,000, equivalent to approximately HK$ 12,120,000. The difference between the actual and anticipated investment amounts is attributable to the fact that the Company has accelerated the construction of plantation bases and implementation of green medicinal measures in planting Chinese medicinal herbs.

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 an associated 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 associated company will be held as to 40% by the Company. The authorized share capital of the associated 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 associated company 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 associated company.

Expected project progress	Actual project progress
Incorporation of the associated company.	The incorporation of the associated company in Hong Kong has been completed and part of the capital contribution has been made.
The anticipated investment would be HK$34 million.	Actual investment amounted to RMB6,360,000, equivalent to approximately HK$ 6,000,000. The difference between the anticipated and actual investment amounts is attributable to the fact that given the continual downturn in the US economy and changes in the Chinese medicine market, the investing parties have slowed down the investment in order to enhance cost-effectiveness of the fund.

The directors (the "Directors") of Tong Ren Tang Technologies Co. Ltd. have pleasure in presenting their annual report together with the audited financial statements of the Group for the year ended 31 December 2001.

PRINCIPAL ACTIVITIES

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

An analysis of the Group revenue by geographical regions is as follows:

	2001	2000
	RMB'000	*RMB'000*
Sales of medicine:		
Domestic	**472,322**	327,486
Overseas	**16,707**	9,734
Agency fee income – domestic	**8,344**	1,479
	497,373	338,699

MAJOR CUSTOMERS AND SUPPLIERS

During the year under review, the Group sales to the five largest customers accounted for less than 30% of the Group turnover (2000: less than 30%).

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

	2001	2000
The largest supplier – Tongrentong Holdings *(Note)*	43%	45%
Five largest suppliers combined	53%	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 Group five largest customers and five largest suppliers.

Note: In July 2001, China Beijing Tong Ren Tang Holdings Corp. has changed its name to China Beijing Tong Ren Tang Group Co. Ltd. ("Tongrentang Holdings").

RESULTS

The results and the statement of affairs of the Group for the year ended 31 December 2001 are set out on page 31 to 69 of the annual report.

DIVIDENDS

The Directors recommend the payment of a final dividend of RMB0.30 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 19 April 2002.

SHARE CAPITAL

Details of movement in share capital of the Company for the year are set out in note 11 to the financial statements.

RESERVES

Details of movement in reserves of the Group for the year are set out in the Statement of Changes in Equity and note 12 to the financial statements.

As of 31 December 2001, the Group's retained profits of approximately RMB68,761,000 (2000: RMB41,795,000) were available for distribution to its shareholders.

PROPERTY, PLANT AND EQUIPMENT

Details of movement in property, plant and equipment of the Group for the year are set out in note 4 to the financial statements.

STAFF RETIREMENT SCHEME

Details of staff retirement scheme of the Group are set out in notes 3(p), 17 and 22 to the financial statements.

STAFF QUARTERS

During the year, the Group did not provide any staff quarters to its staff (2000: nil). The Group has provided housing fund benefits to its staff with details being set out in note 23 to the financial statements. The Group also provides housing subsidies to staff at an average of approximately RMB 90 per person per month (2000: RMB90 per person per month).

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)*
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

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 26 to 28.

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 21 to the financial statements.

DIRECTORS' AND SUPERVISORS' INTERESTS

As of 31 December 2001, 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 2001, none of the Directors or the Supervisors or their associates had any interests in any securities in the Company. 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 of the Company.

SUBSTANTIAL SHAREHOLDER

As of 31 December 2001, according to the register required to be kept under Section 16(1) of the SDI Ordinance, the only shareholder with an interest of 10% or more in the issued shared capital of the Company was as follows:

Name	Number of shares	Shareholding percentage as of 31 December 2001
Tongrentang Ltd. *(Note 1)*	100,000,000 *(Note 2)*	54.705%

Notes:

1. As of 31 December 2001, Tongrentang Ltd. is owned as to 69.98% 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, 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.

Save as disclosed above, the Company is not aware of any person with an interest of 10% or more in the issued capital of the Company as at 31 December 2001.

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. During the year ended 31 December 2001, approximately RMB74.34 million was used for the establishment of production base, Research Centre and production base for Chinese medical raw material, development of bio-pharmaceutical technologies and investment in Tong Ren Tang Hutchison Pharmaceutical Development. 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 amounted to approximately RMB153 million will continue to be used in the projects disclosed in the Prospectus and is currently deposited in banks.

SPONSOR'S INTERESTS

According to the notification from our sponsor, BOCI Asia Limited, as of 31 December 2001, BOCI Asia Limited, its directors, employees or associates (as referred to Note 3 of Rules 6.35 of the GEM Listing Rules) did not have any interests in the shares of the Company or any rights to subscribe for or to nominate persons to subscribe for the shares of the Company.

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

CONNECTED TRANSACTIONS

The connected transactions undertaken by the Group are set out in note 25 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.

SUMMARY OF FINANCIAL INFORMATION

A summary of the consolidated results of the Group for each of the four years ended 31 December 2001, as extracted from the audited financial statements of the Group, is set out below:

Results	**Year ended 31st December,**			
	2001	2000	1999	1998
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Revenue	**497,373**	338,699	308,068	248,672
Profit before tax	**92,768**	66,626	57,102	36,264
Taxation	**6,910**	(12,247)	(18,844)	(11,967)
Income before minority interests	**99,678**	54,379	38,258	24,297
Minority interests in the net loss of subsidiaries	**120**	–	–	–
Net profit for the year	**99,798**	54,379	38,258	24,297

No consolidated statement of income of the Group for the year ended 31 December 1997 was presented as there was no published statement of income prior to 1 January 1998.

Assets and liabilities

A summary of the consolidated balance sheet of the Group as at each of the three years ended 31 December, as extracted from the audited financial statements of the Group, is set out below:

	As at 31 December		
	2001	2000	1999
	RMB'000	*RMB'000*	*RMB'000*
Non-current assets	127,601	82,767	65,881
Current assets	490,260	434,836	157,540
TOTAL ASSETS	617,861	517,603	223,429
Current liabilities	149,217	122,499	141,705
Minority interests	12,130	–	–
TOTAL LIABILITIES AND MINORITY INTERESTS	161,347	122,499	141,705
NET ASSETS	456,514	395,104	81,724

No consolidated balance sheet of the Group as at 31 December 1998 and 31 December 1997 was presented as there was no published balance sheet of the Group prior to 1 January 1999.

AUDIT COMMITTEE

Pursuant to the Rules 5.23 of the GEM Listing Rules, 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. In compliance with the Rules of 5.24 and 5.25 of the GEM Listing Rules, the authority and responsibility of the audit committee has been properly written out. The primary duties of the Committee are to review and monitor the Company's financial reporting process and internal control system. The committee comprises Mr. Ting Leung Huel, Stephen and Ms. Tam Wai Chu, Maria, independent non-executive directors of the Company.

Two meetings have been conducted by the audit committee in 2001. The first meeting was held on 28 February 2001 for discussion of the operating results, statements of affairs and accounting policies with respect to the audited report of the Company for the year ended 31 December 2000. The second meeting was held on 6 August 2001 for discussion of the operating results, statements of affairs and accounting policies with respect to the unaudited half-year report of the Company for the six months ended 30 June 2001.

The audit committee held on 27 February 2002 has discussed the operating results, statements of affairs and accounting policies with respect to the audited financial statements of the Company for the year ended 31 December 2001 and listened to the advice provided by auditors.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

During the year ended 31 December 2001, 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. In any of the preceding 3 years, there has been no change in the auditors of the Company.

On Behalf of the Board of Directors

Yin Shun Hai
Chairman

Beijing, the PRC
15 March 2002

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. The transactions between the Company and connected parties are in the interests of the shareholders as a whole and under fair and reasonable price. 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 2001 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 2002

EXECUTIVE DIRECTORS

Yin Shun Hai, aged 49, 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 and general manager of Tongrengtong Holdings. He is now the chairman 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 half of his time on the business of the Company. He is one of the promoters of the Company.

Wang Zhao Qi, aged 54, 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 and deputy general manager of Tongrentang Holdings. He is now the 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 46, vice-chairman of the Company, is a deputy pharmaceutical officer 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 now the general manager of Tongrentang Holdings and a director 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 42, 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 38, is a management engineering postgraduate of Shanghai Communications University. 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 is one of the promoters of the Company.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Tam Wai Chu, Maria, GBS, JP, LL. D (Honoris Causa), LL. B (Honours), barrister, aged 57, 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 the Urban Renewal Authority. 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 48, 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 76, 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 56, chairman of the Supervisory Committee, 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 45, is a senior 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 53, 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 46, 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 39, 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 48, 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 46, 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 33, 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.

Choi Wai Lung, Edward, aged 33, was appointed Qualified Accountant and Company Secretary of the Company on 1 June 2001. Mr. Choi is an associate member of the Hong Kong Society of Accountants and a fellow member of the Association of Chartered Certified Accountants of the United Kingdom. He has over 11 years of experience in accounting and auditing.

NOTICE IS HEREBY given that the annual general meeting of the Company will be held at Jia 20, Nansanhuan Zhonglu, Fentai District, Beijing, the PRC on 20 May 2002 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 2001; and

2. To declare and propose a final dividend of RMB0.30 per share for the year ended 31 December 2001. The proposed dividend will be payable on or before 31 August 2002 to shareholders whose names appear on the register of Shareholders of the Company at 4:00 p.m. on 19 April 2002.

By Order of the Board
Yin Shun Hai
Chairman

Beijing, the PRC
15 March 2002

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 20 April 2002 to 19 May 2002 (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 Share Registrar not later than 4:00p.m. on 19 April 2002, for registration.

5. Shareholders entitled to attend the Annual General Meeting have to notify in writing for the attendance to the Company's Share Registrar not later than 30 April 2002.

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") and consolidated balance sheet of the Company and its subsidiaries and its joint venture (hereafter collectively referred to as the "Group") as of 31 December 2001; and the related consolidated statements of income, changes in equity, and cash flows for the year then ended. These financial statements are the responsibility of the Company's and the Group'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 and the Group as of 31 December 2001 and the Group's results of operations and cash flows for the year then ended in accordance with International Financial Reporting Standards, as published by the International Accounting Standards Board and comply with the disclosure requirements of the Hong Kong Companies Ordinance.

ARTHUR ANDERSEN & CO
Certified Public Accountants

Hong Kong,
15 March 2002

As of 31 December 2001
(Expressed in thousands of Renminbi ("RMB"))

		The Group		The Company	
ASSETS	*Note*	**2001**	2000	**2001**	2000
Non-current assets					
Property, plant and equipment, net	*4(a)*	**95,423**	82,767	**94,937**	82,767
Land use rights, net	*4(b)*	**17,652**	–	**17,652**	–
Investments in subsidiaries	*5*	**–**	–	**12,625**	–
Investments in joint venture	*6*	**–**	–	**6,908**	–
Investments in associated company	*7*	**6,194**	–	**6,194**	–
Deferred tax assets	*10*	**230**	–	**230**	–
Other long-term assets		**8,102**	–	**3,636**	–
		127,601	82,767	**142,182**	82,767
Current assets					
Cash and cash equivalents	*24(b)*	**178,565**	310,958	**162,684**	310,958
Short-term bank deposits	*24(b)*	**208,939**	–	**208,939**	–
Accounts receivable, net	*8*	**7,992**	38,198	**7,992**	38,198
Inventories	*9*	**83,711**	82,066	**72,176**	82,066
Due from related parties	*25*	**855**	–	**855**	–
Prepayments and other current assets		**10,198**	3,614	**6,803**	3,614
		490,260	434,836	**459,449**	434,836
Total assets		**617,861**	517,603	**601,631**	517,603
EQUITY AND LIABILITIES					
Capital and reserves					
Share capital	*11*	**182,800**	182,800	**182,800**	182,800
Reserves	*12*	**273,714**	212,304	**273,714**	212,304
		456,514	395,104	**456,514**	395,104
Minority interests		**12,130**	–	**–**	–
Current liabilities					
Short-term borrowings	*13*	**30,000**	45,400	**30,000**	45,400
Accounts payable	*14*	**28,069**	25,030	**26,226**	25,030
Salary and welfare payable		**10,094**	483	**10,091**	483
Advance from customers		**47,697**	37,264	**47,697**	37,264
Due to related parties	*25*	**9,337**	5,504	**9,337**	5,504
Accrued expenses and other payables		**24,020**	8,818	**21,766**	8,818
		149,217	122,499	**145,117**	122,499
Total equity and liabilities		**617,861**	517,603	**601,631**	517,603

Approved by and signed on behalf of the Board of Directors on 15 March 2002.

Mr. Yin Shun Hai
Director

Mr. Wang Zhao Qi
Director

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

Consolidated Statement of Income

For the year ended 31 December 2001
(Expressed in thousands of RMB except for earnings per share)

	Note	**2001**	2000
Revenue	*15*	**497,373**	338,699
Cost of sales	*25*	**(241,049)**	(173,218)
Gross profit		**256,324**	165,481
Distribution costs	*25*	**(70,262)**	(35,424)
Administrative expenses	*25*	**(100,735)**	(62,267)
Profit from operations		**85,327**	67,790
Finance income (cost), net	*16*	**7,614**	(1,164)
Share of results from associated company		**(173)**	–
Profit before taxation	*17*	**92,768**	66,626
Taxation	*18*	**6,910**	(12,247)
Income before minority interests		**99,678**	54,379
Minority interests in the net loss of subsidiaries		**120**	–
Net profit for the year		**99,798**	54,379
Dividends declared	*19*	**(38,388)**	–
Earnings per share			
– Basic and diluted	*20*	**RMB0.55**	RMB0.44

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

Consolidated Statement of Changes in Equity

For the year ended 31 December 2001
(Expressed in thousands of RMB)

	Share capital	Share premium	Revaluation reserve	Statutory surplus reserve fund	Statutory public welfare fund	Tax reserve	Retained profits	Total
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
Appropriation 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
Net profit for the year	–	–	–	–	–	–	99,798	99,798
Dividends	–	–	–	–	–	–	(38,388)	(38,388)
Appropriation from retained profits	–	–	–	10,452	5,226	18,766	(34,444)	–
Balances as of 31 December 2001	182,800	157,925	–	15,890	7,945	23,193	68,761	456,514

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

Consolidated Statement of Cash Flows

For the year ended 31 December 2001
(Expressed in thousands of RMB)

	Note	2001	2000
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash generated from operations	*24(a)*	**159,832**	81,625
Interest paid		**(2,816)**	(3,583)
Income taxes refunded (paid)		**7,724**	(12,247)
Net cash from operating activities		**164,740**	65,795
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchases of property, plant and equipment		**(24,712)**	(9,610)
Acquisition of land use rights		**(17,652)**	–
Proceeds from disposal of property, plant and equipment		**66**	515
Investments in associated company		**(6,367)**	–
Increase in other long-term assets		**(8,421)**	–
Increase in short-term bank deposits		**(208,939)**	–
Interest received		**10,430**	2,419
Net cash used in investing activities		**(255,595)**	(6,676)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from short-term borrowings		**70,000**	111,600
Proceeds from issuance of share capital		**–**	240,371
Repayment of short-term borrowings		**(85,400)**	(111,600)
Additional contributions from minority shareholders of subsidiaries		**12,250**	–
Dividends paid		**(38,388)**	(4,338)
Net cash (used in) from financing activities		**(41,538)**	236,033
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		**(132,393)**	295,152
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		**310,958**	15,806
CASH AND CASH EQUIVALENTS AT END OF YEAR	*24(b)*	**178,565**	310,958

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

31 December 2001

(Amounts expressed in RMB unless otherwise stated)

1. ORGANISATION 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 the Beijing Tongrentang Company Limited (the "Parent Company") in preparation for the listing of the shares in 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 distribution 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 Group Co. Ltd. (the "Ultimate Holding Company", formerly named China Beijing Tong Ren Tang Holdings Corp.) and six natural persons injected cash in exchange for 10,000,000 ordinary shares in the Company at par value. On 22 March 2000, the Company was incorporated as a joint stock company with registered share capital of RMB110,000,000, representing 110,000,000 shares (the "Domestic shares") of RMB1 each.

Pursuant to a resolution passed in the Extraordinary General Meeting of the Company held on 11 October 2000, placing of the shares in the Company was approved and the directors of the Company (the "Directors") were authorised 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 shares on the GEM of The Stock Exchange of Hong Kong Limited, the registered share capital of the Company was RMB182,800,000, representing 110,000,000 Domestic shares and 72,800,000 H shares of RMB1 each.

The Directors consider China Beijing Tong Ren Tang Group Co. Ltd., incorporated in Beijing, the PRC, to be the ultimate holding company.

31 December 2001
(Amounts expressed in RMB unless otherwise stated)

1. ORGANISATION AND OPERATIONS (CONT'D)

As at 31 December 2001, the Company had equity interests in the following subsidiaries and joint venture:

Name	Place and date of incorporation	Percentage of equity interest held	Issued and paid capital	Principal activities
Subsidiaries:				
Beijing Tong Ren Tang Hebei Chinese Medicinal Raw Materials Technologies Co., Limited ("TRT Hebei")	Hebei, PRC 19 November 2001	51%	RMB8,000,000	Planting, purchasing, processing and selling Chinese medicinal raw materials and medicated drinks; developing and training in technologies; developing biopharmaceutical technologies.
Beijing Tong Ren Tang Nanyang Shanzhuyu Co., Limited ("TRT Nanyang")	Henan, PRC 24 October 2001	51%	RMB4,000,000	Planting, purchasing, processing and selling Chinese medicinal raw materials and medicated drinks; developing and training in technologies.
Beijing Tong Ren Tang Hubei Chinese Medicinal Raw Materials Co., Limited ("TRT Hubei")	Hubei, PRC 26 October 2001	51%	RMB3,000,000	Planting Chinese medicinal raw materials (except those restricted by the Government); purchasing and selling agricultural by-products (except the by-products that require Government approval).
Beijing Tong Ren Tang Zhejiang Chinese Medicinal Raw Materials Co., Limited ("TRT Zhejiang")	Zhejiang, PRC 31 October 2001	51%	RMB10,000,000	Planting, purchasing Chinese medicinal raw materials; developing Chinese medical technologies; selling agricultural by-products.

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(Amounts expressed in RMB unless otherwise stated)

1. ORGANISATION AND OPERATIONS (CONT'D)

Name	Place and date of incorporation	Percentage of equity interest held	Issued and paid capital	Principal activities
Joint venture:				
Beijing Tong Ren Tang WM Dianorm Biotech Co., Limited ("TRT WM")	Beijing, PRC 20 February 2001	60%	US$1,950,000	Developing technologies for the production of biological products, Chinese and western medicines, cosmetics and health food; providing technological services, consultation and training on approved technologies.

The above subsidiaries and joint venture are enterprises incorporated in the PRC.

The Company has the power to control the strategic operating, investing and financing policies of TRT Hebei, TRT Nanyang, TRT Hubei and TRT Zhejiang since these policies are decided by the board of directors of these four companies by simple majority votes and the Company can appoint 3 of the 5 board members in each of these entities. Accordingly, they are considered subsidiaries for International Financial Reporting Standards ("IFRS") reporting purposes.

TRT WM is considered a joint venture for IFRS reporting purposes because its strategic operating, investing and financing activities are jointly controlled by the Company and the joint venture partner. The Company's profit and loss sharing from the joint venture corresponds to its equity interest percentage.

As of 31 December 2001, TRT WM was still in its pre-operation stage. Accordingly, it had no material operating results for the year then ended. The aggregate amounts of assets and liabilities related to the Company's interest in TRT WM is summarised as follows:

	As of 31 December 2001
	RMB'000
Current assets	4,535
Non-current assets	4,609
Current liabilities	2,236
Non-current liabilities	–

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(Amounts expressed in RMB unless otherwise stated)

1. ORGANISATION AND OPERATIONS (CONT'D)

The Company and its subsidiaries and joint venture are hereafter collectively referred to as the "Group".

The Group is principally engaged in production and distribution of Chinese medicine and primarily operates in the PRC.

As of 31 December 2001, the Group and the Company had 1,306 and 1,279 employees, respectively (2000: 1,315 and 1,315 employees).

As of 31 December 2001, the Company and the Group also had the following interest in an associated company:

Name	Place and date of incorporation	Percentage of equity interest held	Issued and paid capital	Principal activities
Associated company:				
Tong Ren Tang Hutchison (HK) Pharmaceutical Development Co., Limited ("TRT Huthchison", formerly known as Great Forever Investment Limited)	Incorporated in Hong Kong, PRC on 10 February 1999, with its name changed to TRT Hutchison on 11 June 2001	40%	HK$15,000,000	Researching, developing, producing, processing and selling herbal medicine, Chinese medicine and healthy products.

31 December 2001

(Amounts expressed in RMB unless otherwise stated)

2. BASIS OF PRESENTATION

The Restructuring (see Note 1) was accounted for as a reorganisation 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.

Those assets, liabilities, revenues and expenses that are identifiable and related to the Relevant Business are included in the financial statements for the year ended 31 December 2000. For those expenses where 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.

3. PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted in preparing the financial statements of the Company and the Group are as follows:

(a) General

The accompanying financial statements are prepared in accordance with IFRS as published by the International Accounting Standards Board ("IASB").

31 December 2001

(Amounts expressed in RMB unless otherwise stated)

3. PRINCIPAL ACCOUNTING POLICIES (CONT'D)

(b) Principles of consolidation

The consolidated financial statements of the Group include those of the Company and its subsidiaries and also incorporate the Group's interests in joint venture on the basis as set out in Note 3(e) below.

All intra-group accounts and transactions among the Company, its subsidiaries and joint venture have been eliminated on consolidation. The equity and results attributable to minority shareholders' interests are shown separately in the consolidated balance sheet and consolidated statement of income. Consolidated financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances.

(c) Property, plant and equipment and depreciation

Property, plant and equipment are stated at revalued amounts 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 recognised 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 capitalised 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.

31 December 2001

(Amounts expressed in RMB unless otherwise stated)

3. PRINCIPAL ACCOUNTING POLICIES (CONT'D)

(c) Property, plant and equipment and depreciation (cont'd)

Construction-in-progress represents plant and properties under construction and is stated at cost. This includes cost of construction, plant and equipment, interest and other direct cost plus borrowing costs which include interest charges and other costs incurred in connection with the borrowing of funds, including amortisation of discounts or premiums relating to borrowings, amortisation 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.

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

(d) Land use rights

All land in the PRC is state-owned and no individual land ownership right exists. However, the Company has acquired the rights to use certain land for its operations (see Note 4(b)). Land use rights are stated at cost less accumulated amortisation and accumulated impairment loss. Amortisation of land use right is calculated on a straight-line basis over the duration of the land use rights of fifty years.

(e) Investments in subsidiaries, joint venture and associated company

A subsidiary is an enterprise in which the Company has the power to control the financial and operating policies of the enterprise so as to obtain benefits from its activities. This is normally the case, if the Company holds, directly or indirectly, more than 50% of the equity interest as a long-term investment.

A joint venture is a venture undertaken by two or more parties whose rights and obligations with respect to the venture are specified in a joint venture agreement. No single venturer is in a position to control unilaterally the activity of the venture.

In the consolidated financial statements, investments in joint venture are accounted for using proportionate consolidation whereby the Company's share of each of the assets, liabilities, income and expenses of a joint venture is consolidated on a line-by-line basis with similar items in the consolidated balance sheet and statement of income. An assessment of the underlying assets of interests in joint ventures is made when there are indications that the assets have been impaired or impairment losses recognised in prior years no longer exist.

31 December 2001

(Amounts expressed in RMB unless otherwise stated)

3. PRINCIPAL ACCOUNTING POLICIES (CONT'D)

(e) Investments in subsidiaries, joint venture and associated company (cont'd)

In the Company's financial statements, investments in subsidiaries and joint venture are accounted for using the equity method. An assessment of investments in subsidiaries and joint venture is performed when there is an indication that the asset has been impaired or impairment losses recognised in prior years no longer exist.

An associated company is an enterprise, in which the Group has significant influence and which is neither a subsidiary nor a joint venture of the investor. Significant influence exists when the Group has the power to participate in, but not control, the financial and operating decisions of the associated company.

Investments in associated company are accounted for using the equity method. An assessment of investment in associated company is performed when there is an indication that the asset has been impaired or the impairment losses recognised in prior years no longer exist.

(f) Research and development costs

Expenditures for research and development are charged against income in the period incurred except for project development costs which comply strictly with all of the following criteria:

- the product of process is clearly defined and costs are separately identified and measured reliably;
- the technical feasibility of the product is demonstrated;
- the product or process will be sold or used in-house;
- the assets will generate future economic benefits (e.g. a potential market exists for the product or its usefulness in case of internal use is demonstrated); and
- adequate technical, financial and other resources required for completion of the project are available.

Capitalisation of costs starts when the above criteria are first met. Expenditure recognised as an expense in previous accounting periods is not reinstated.

Capitalised development costs are amortised on a straight-line basis over their expected useful lives. The period of amortisation does not normally exceed five years.

The recoverable amount of development costs is estimated whenever there is an indication that the asset has been impaired or that the impairment losses recognised in previous years no longer exist.

31 December 2001
(Amounts expressed in RMB unless otherwise stated)

3. PRINCIPAL ACCOUNTING POLICIES (CONT'D)

(g) 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.

(h) Receivables

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

(i) Inventories

Inventories are stated at the lower of cost and net realisable 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 realisable 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 recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised 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 realisable value, is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(j) Provisions

A provision is recognised 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.

31 December 2001

(Amounts expressed in RMB unless otherwise stated)

3. PRINCIPAL ACCOUNTING POLICIES (CONT'D)

(k) Revenue recognition

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

(i) Sales of goods

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

(ii) Agency fee income

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

(iii) Interest income

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

(l) Foreign currency translation

The Company and the Group maintain their 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 capitalised as a component of borrowing costs, are recognised in the income statement in the period in which they arise.

31 December 2001

(Amounts expressed in RMB unless otherwise stated)

3. PRINCIPAL ACCOUNTING POLICIES (CONT'D)

(m) Taxation

Taxation of the Company and the Group is based on the tax laws and regulations applicable to PRC enterprises. The Company and the Group provide for income tax on the basis of their taxable profit, which is derived from the 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 purposes. Deferred tax liabilities are recognised for all taxable temporary differences.

Deferred tax assets are recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which the deductible temporary difference can be utilised.

(n) Borrowing costs

Borrowing costs include interest charges and other costs incurred in connection with the borrowing of funds, including amortisation of discounts or premiums relating to borrowings, amortisation 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.

Borrowing costs are expensed as incurred, except when they are directly attributable to the acquisition, construction or production of a long-term construction project that necessarily takes a substantial period of time to get ready for its intended use in which case they are capitalised as part of the cost of that asset. Capitalisation 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 capitalised 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.

31 December 2001

(Amounts expressed in RMB unless otherwise stated)

3. PRINCIPAL ACCOUNTING POLICIES (CONT'D)

(o) Operating leases

Leases are classified as operating leases whenever substantially all the risks and rewards incidental to ownership of the leased assets remains with the lessor. Lease payments under operating leases are recognised as an expense in the income statement on a straight-line basis over the lease term. The aggregate benefit of incentives on operating leases is recognised as a reduction of rental expense over the lease term on a straight-line basis.

(p) Retirement scheme

The fixed contributions for retirement benefits made under defined contribution schemes are charged to expense in the year to which they relate.

(q) Financial instruments

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

Financial instruments issued by the Group 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 and the Group have a legally enforceable right to offset and intend to settle either on a net basis or to realise the asset and settle the liability simultaneously.

31 December 2001

(Amounts expressed in RMB unless otherwise stated)

3. PRINCIPAL ACCOUNTING POLICIES (CONT'D)

(r) Impairment of long-lived assets

Property, plant and equipment, land use rights and other long-term assets 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 recognised in income for items of long lived assets 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.

Reversals of impairment losses recognised in prior years are recorded if, and only if, there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised and when there is an indication that the impairment losses recognised for the asset no longer exist or have decreased. The reversal is recorded as income or as a revaluation increase (for assets carried at revalued amounts to the extent that it has not been recorded as an expense in previous periods).

(s) Contingencies

Contingent liabilities are not recognised 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 recognised in the financial statements but disclosed when an inflow of economic benefits is probable.

(t) Subsequent events

Post-year-end events that provide additional information about the Company's or the Group'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.

31 December 2001

(Amounts expressed in RMB unless otherwise stated)

4. PROPERTY, PLANT AND EQUIPMENT AND LAND USE RIGHTS

(a) Property, plant and equipment, net

Movements in property, plant and equipment of the Group were:

	2001						2000
	Buildings RMB'000	Equipment and machinery RMB'000	Motor vehicles RMB'000	Office equipment RMB'000	Construction-in-progress RMB'000	Total RMB'000	Total RMB'000
Valuation							
Beginning of year	81,978	77,736	7,235	2,415	–	169,364	124,561
Additions	–	–	112	630	23,970	24,712	9,610
Revaluation	–	–	–	–	–	–	37,508
Transfers	–	18,310	550	703	(19,563)	–	–
Disposals	(40)	(1,511)	(120)	(65)	(7)	(1,743)	(2,315)
End of year	81,938	94,535	7,777	3,683	4,400	192,333	169,364
Accumulated depreciation and impairment losses							
Beginning of year	33,159	48,233	3,917	1,288	–	86,597	58,680
Charge for the year	2,490	7,562	879	635	–	11,566	10,677
Revaluation	–	–	–	–	–	–	18,878
Disposals	(17)	(1,068)	(116)	(52)	–	(1,253)	(1,638)
End of year	35,632	54,727	4,680	1,871	–	96,910	86,597
Net book value							
End of year	46,306	39,808	3,097	1,812	4,400	95,423	82,767
Beginning of year	48,819	29,503	3,318	1,127	–	82,767	65,881

31 December 2001

(Amounts expressed in RMB unless otherwise stated)

4. PROPERTY, PLANT AND EQUIPMENT AND LAND USE RIGHTS (CONT'D)

(a) Property, plant and equipment, net (cont'd)

Movements in property, plant and equipment of the Company were:

	2001						2000
	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*
Valuation							
Beginning of year	81,978	77,736	7,235	2,415	–	169,364	124,561
Additions	–	–	–	253	23,970	24,223	9,610
Revaluation	–	–	–	–	–	–	37,508
Transfers	–	18,310	550	703	(19,563)	–	–
Disposals	(40)	(1,511)	(120)	(65)	(7)	(1,743)	(2,315)
End of year	81,938	94,535	7,665	3,306	4,400	191,844	169,364
Accumulated depreciation and impairment losses							
Beginning of year	33,159	48,233	3,917	1,288	–	86,597	58,680
Charge for the year	2,490	7,562	876	635	–	11,563	10,677
Revaluation	–	–	–	–	–	–	18,878
Disposal	(17)	(1,068)	(116)	(52)	–	(1,253)	(1,638)
End of year	35,632	54,727	4,677	1,871	–	96,907	86,597
Net book value							
End of year	46,306	39,808	2,988	1,435	4,400	94,937	82,767
Beginning of year	48,819	29,503	3,318	1,127	–	82,767	65,881

31 December 2001

(Amounts expressed in RMB unless otherwise stated)

4. PROPERTY, PLANT AND EQUIPMENT AND LAND USE RIGHTS (CONT'D)

(a) Property, plant and equipment, net (cont'd)

As of 31 December, the amounts of property, plant and equipment that would have been included in the consolidated financial statements of the Group had the assets been carried at cost less accumulated depreciation were as follows:

	2001						2000
	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	67,113	72,067	6,771	4,474	4,400	154,825	131,856
Accumulated depreciation	29,374	37,918	4,046	2,507	–	73,845	66,786
Net book value	37,739	34,149	2,725	1,967	4,400	80,980	65,070

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 asset 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 RMB18,630,000 has been incorporated in the financial statements of the Company as of 31 December 2000. An amount of approximately RMB354,000, which represents the revaluation surplus net of an amount of RMB18,276,000 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, on a depreciated replacement cost basis. The value arrived at by the valuer was not materially different from the carrying value of these assets on the date of valuation.

31 December 2001
(Amounts expressed in RMB unless otherwise stated)

4. PROPERTY, PLANT AND EQUIPMENT AND LAND USE RIGHTS (CONT'D)

(b) Land use rights, net

As at 31 December, land use rights, net comprised:

	The Group		The Company	
	2001	2000	**2001**	2000
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Cost	**17,652**	–	**17,652**	–
Accumulated amortisation	**–**	–	**–**	–
Net	**17,652**	–	**17,652**	–

5. INVESTMENTS IN SUBSIDIARIES

	The Group		The Company	
	2001	2000	**2001**	2000
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Share of net assets	**–**	–	**12,625**	–

6. INVESTMENTS IN JOINT VENTURE

	The Group		The Company	
	2001	2000	**2001**	2000
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Share of net assets	**–**	–	**6,908**	–

7. INVESTMENTS IN ASSOCIATED COMPANY

	The Group		The Company	
	2001	2000	**2001**	2000
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Share of net assets	**6,194**	–	**6,194**	–

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8. ACCOUNTS RECEIVABLE, NET

	The Group		The Company	
	2001	2000	**2001**	2000
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Accounts receivable	**14,944**	39,899	**14,944**	39,899
Provision for doubtful accounts	**(6,952)**	(1,701)	**(6,952)**	(1,701)
Accounts receivable, net	**7,992**	38,198	**7,992**	38,198

The aging analysis of accounts receivable was as follows:

	The Group		The Company	
	2001	2000	**2001**	2000
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Within 4 months	**5,550**	20,825	**5,550**	20,825
Over 4 months but within 1 year	**3,689**	11,662	**3,689**	11,662
Over 1 year but within 2 years	**4,630**	–	**4,630**	–
Over 2 years but within 3 years	**–**	1,362	**–**	1,362
Over 3 years	**1,075**	6,050	**1,075**	6,050
	14,944	39,899	**14,944**	39,899

9. INVENTORIES

	The Group		The Company	
	2001	2000	**2001**	2000
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Raw materials	**30,799**	14,254	**19,264**	14,254
Work in progress	**24,768**	18,255	**24,768**	18,255
Finished goods	**28,144**	49,557	**28,144**	49,557
	83,711	82,066	**72,176**	82,066

There were no inventories carried at net realisable value as of 31 December 2001 (2000: Nil).

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10. DEFERRED TAXATION

As of 31 December 2001, the Company recognised a deferred tax asset of RMB230,000 arising form a provision of approximately RMB4,955,000 for termination benefits to be paid to certain employees in future periods up to their normal retirement age.

11. SHARE CAPITAL

The details of share capital were as follows:

	2001		2000	
	Number of shares	**Nominal value** *RMB'000*	Number of shares	Nominal value *RMB'000*
Registered	**182,800,000**	**182,800**	182,800,000	182,800
Issued and fully paid				
Domestic shares of RMB 1 each (i)	**110,000,000**	**110,000**	110,000,000	110,000
H shares of RMB 1 each (ii)	**72,800,000**	**72,800**	72,800,000	72,800
	182,800,000	**182,800**	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 RMB110,000,000, representing 110,000,000 domestic shares of RMB1 each. The share capital was RMB110,000,000 and the share premium was approximately RMB389,000.

(ii) On 30 October 2000, 72,800,000 ordinary H shares were issued to the foreign investors at a price of RMB3.48 (HK$3.28) per share. The Company raised net proceeds of approximately RMB230,336,000, of which the paid up share capital was RMB72,800,000 and share premium net of issuance expenses was approximately RMB157,536,000. Upon the listing of the Company's shares on the GEM of the Stock Exchange, the registered share capital was RMB182,800,000, which represented 182,800,000 shares of RMB1 each. The total contributed capital was approximately RMB340,725,000, out of which share capital amounted to RMB182,800,000 and share premium amounted to approximately RMB157,925,000.

The holders of Domestic and H shares are entitled to the same economic and voting rights, with minor exceptions.

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12. RESERVES

(a) 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.

The Directors have resolved that the statutory public welfare fund is to be utilised 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 RMB10,452,000 (2000: RMB5,438,000), being 10% of net profit after tax determined under PRC accounting standards, was transferred to the statutory surplus reserve for the year ended 31 December 2001. Further, the Directors proposed an appropriation of approximately RMB5,226,000 (2000: RMB2,719,000), being 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 IFRS. As of 31 December 2001, the reserve available for distribution was approximately RMB68,761,000 (2000: RMB41,795,000), before taking into account the current year's proposed final dividend.

(b) Tax reserve

According to the enterprise income tax preferential policy for high-technology enterprises, the Company is entitled to full exemption for Enterprise Income Tax ("EIT") in 2001. However, such policy also requires the exempted tax be used for specified purposes and is not distributable to shareholders of the Company. Pursuant to this requirement, the Company appropriated approximately RMB18,766,000 (2000: RMB4,427,000) to a tax reserve, representing the EIT exempted for the year at applicable tax rate of 15%.

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13. SHORT-TERM BORROWINGS

As of 31 December 2001, the Company and the Group had short-term bank borrowings granted by various banks amounting to approximately RMB30,000,000 (2000: RMB45,400,000). These loans bear fixed interest ranging from 5.58% to 5.85% (2000: 5.58% to 6.44%) per annum.

14. ACCOUNTS PAYABLE

The aging analysis of accounts payable was as follows:

	The Group		**The Company**	
	2001	2000	**2001**	2000
	RMB'000	*RMB'000*	**RMB'000**	*RMB'000*
Within 4 months	**25,676**	17,541	**23,833**	17,541
Over 4 months but within 1 year	**846**	7,033	**846**	7,033
Over 1 year but within 2 years	**1,091**	–	**1,091**	–
Over 2 years but within 3 years	**–**	56	**–**	56
Over 3 years	**456**	400	**456**	400
	28,069	25,030	**26,226**	25,030

15. REVENUE

	2001	2000
	RMB'000	*RMB'000*
Sales of goods	**489,029**	337,220
Agency fee income	**8,344**	1,479
	497,373	338,699

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16. FINANCE COST INCOME (COST), NET

	2001 RMB'000	2000 RMB'000
Interest expenses on bank loans repayable within 5 years	**(2,148)**	(2,939)
Interest income	**10,430**	2,419
Others	**(668)**	(644)
	7,614	(1,164)

17. PROFIT BEFORE TAXATION

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

	2001 RMB'000	2000 RMB'000
Crediting:		
Interest income	**10,430**	2,419
Agency fee income	**8,344**	1,479
Selling expenses reimbursed by the Parent Company	**–**	3,296
Charging:		
Cost of inventories sold	**186,792**	145,986
Staff costs		
– Salary and wages	**44,610**	29,295
– Contribution to retirement benefits	**4,885**	3,827
Depreciation of property, plant and equipment	**11,566**	10,677
Operating lease rentals	**6,933**	6,264
Auditors' remuneration	**1,100**	700
Exchange losses, net	**622**	612
Provision for doubtful debts	**5,251**	62
Research and development expenses	**7,307**	4,578
Advertising expenses	**32,468**	17,303
Agency fee charged by the Parent Company	**14,499**	9,272
Loss on disposal of property plant and equipment	**424**	162

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18. TAXATION

(a) EIT

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

In August 2001, the Company renewed its HTE certification granted by Zhongguancun High-Tech District Committee for the year of 2001. The Company was registered in the BETDZ and has obtained an approval from the BETDZ Local Tax Bureau ("BETDZ LTB") (Document Jingdishuikaijianmianfa [2000] No. 23) to enjoy an EIT exemption for three years commencing from 2000 and a 50% reduction in EIT for the three years thereafter. BETDZ LTB has also verbally confirmed to the Company that the above EIT preferences should be available to the Company as long as the Company's registered address is in BETDZ and it remains as a HTE.

However, the preferential tax treatment the entities comprising the Group obtained, including the EIT exemption as mentioned in the preceding paragraph, may be subject to review by higher authorities. Should the EIT exemption not be available to the Company, an additional EIT liability of approximately RMB39,611,000 may arise. Management believes that the possibility of such a liability arising is unlikely.

For the year ended 31 December 2001, an amount equal to the 15% EIT exempted amounting to approximately RMB18,766,000 (2000: RMB4,427,000) was transferred to the tax reserve.

Details of taxation charged (credited) during the year are as follows:

	2001	2000
	RMB'000	*RMB'000*
Current income tax (credit) expense	**(6,680)**	12,247
Deferred tax credit	**(230)**	–
	(6,910)	12,247

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18. TAXATION (CONT'D)

(a) EIT (cont'd)

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

	2001		2000	
	RMB'000		*RMB'000*	
Accounting profit	**92,768**	**100.0%**	66,626	100.0%
Tax at the statutory tax rate of the Company of 33%	**30,613**	**33.0%**	21,987	33.0%
Non-deductible permanent differences	**8,998**	**9.7%**	–	–
Effect of different applicable EIT rates upon expected reversal of temporary difference	**531**	**0.6%**	–	–
Effect of tax benefits of being a HTE	**(40,372)**	**(43.5%)**	(16,420)	(24.6%)
Application of the Parent Company's tax rate in 2000 prior to issuance of income tax registration certificate and refund in 2001	**(6,680)**	**(7.2%)**	6,680	10.0%
Tax (credit) expense	**(6,910)**	**(7.4%)**	12,247	18.4%

Under PRC income tax law, the Company's subsidiaries and joint venture are generally subject to EIT at a rate of 33% on the taxable income. However, as these entities had no material operating activities nor taxable profits for the year, no EIT provision was made.

(b) Business Tax ("BT")

The Company is subject to BT on agency fee income at a rate of 5%.

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18. TAXATION (CONT'D)

(c) Value-Add Tax ("VAT")

Output VAT is levied at a general rate of 13% or 17% on the selling price of goods. Input VAT paid on purchase of goods can be used to offset the output VAT to determine the net VAT payable.

19. DIVIDENDS

	2001	2000
	RMB'000	*RMB'000*
Dividends declared/proposed before year end	**38,388**	–
Dividends declared/proposed after year end	**54,840**	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 IFRS. For the year ended 31 December 2001, the distributable profit under IFRS was lower than that under the PRC accounting standards by approximately RMB4,725,000 due to the provision for employment termination benefits (see Note 10) made under IFRS.

20. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the net profit for the year attributable to ordinary shareholders of approximately RMB99,798,000 (2000: RMB54,379,000) divided by the weighted average number of shares during the year of 182,800,000 shares (2000: 122,942,222 shares).

Diluted earnings per share equal basic earnings per share because there were no potential dilutive ordinary shares outstanding during the year.

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21. DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS

(a) Details of directors' emoluments are:

	2001 RMB'000	2000 RMB'000
Fees for executive directors	–	–
Fees for non-executive directors	255	159
Other emoluments for executive directors		
– Basic salaries and allowances	489	155
– Contribution to retirement scheme	–	8
Other emoluments for non-executive directors	–	–
	744	322

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:

	2001	2000
Executive directors		
– Nil to RMB1,000,000	3	3
Non-executive directors		
– Nil to RMB1,000,000	5	5
	8	8

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

	2001 RMB'000	2000 RMB'000
Basic salaries and allowance	1,131	465
Contribution to retirement scheme	6	39
Others	–	–
	1,137	504

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21. DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS (CONT'D)

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

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

	2001	2000
Nil to RMB1,000,000	**5**	5

(d) Equity compensation benefits

Pursuant to the Restructuring described in Note 1, on 22 March 2000, 7,100,000 ordinary shares in the Company were issued to directors or supervisors of the Company at par value of RMB1 each. No compensation expense was recognised for the granting of these shares. The Company does not provide any other equity compensation benefits.

During the year ended 31 December 2001, 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. (2000: Nil).

22. RETIREMENT BENEIFTS

Pursuant to the PRC laws and regulations, contributions to the basic retirement benefit scheme for the Group's local staff are to be made monthly to a government agency based on 26% (2000: 25%) of the standard salary set by the local government, of which 19% is borne by the Group and the remainder is borne by the staff. The government agency is responsible for the pension liabilities relating to such staff on their retirement. The Group accounts for these contributions on an accrual basis.

23. HOUSING FUND

All the full-time employees of the Group are entitled to participate in a state-sponsored housing fund. The fund can be used by the Group for the construction of employee quarters, by the employees for housing purchases, or may be withdrawn upon their retirement. The Group is required to make annual contributions to a state-sponsored housing fund equivalent to a certain percentage of each employee's salary.

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24. CASH GENERATED FROM OPERATIONS

(a) Reconciliation from profit before taxation to cash generated from operations:

	2001	2000
	RMB'000	*RMB'000*
Profit before taxation	**92,768**	66,626
Adjustments for:		
Provision for doubtful accounts	**5,251**	62
Depreciation	**11,566**	10,677
Amortisation	**319**	–
Loss on disposal of property, plant and equipment, net	**424**	162
Share of results from associated company	**173**	–
Interest income	**(10,430)**	(2,419)
Interest expenses	**2,816**	3,583
Operating profit before working capital changes	**102,887**	78,691
(Increase) decrease in current assets:		
Accounts receivable	**24,955**	(20,269)
Inventories	**(1,645)**	15,978
Prepayments and other current assets	**(7,628)**	50
Due from related parties	**(855)**	22,043
Increase (decrease) in current liabilities:		
Accounts payable	**3,039**	(6,894)
Other current liabilities	**35,246**	25,826
Due to related parties	**3,833**	(33,800)
Cash generated from operations	**159,832**	81,625

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24. CASH GENERATED FROM OPERATIONS (CONT'D)

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

As of 31 December, cash and cash equivalents consisted of:

	As of 31 December			
	The Group		The Company	
	2001	2000	**2001**	2000
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Cash				
RMB	**62**	11	**50**	11
HK Dollar denominated	**1**	–	**1**	–
	63	11	**51**	11
Demand deposits				
RMB	**153,239**	45,154	**138,093**	45,154
US Dollar denominated	**17,294**	16,949	**16,571**	16,949
Deutsche Mark denominated	**–**	14,904	**–**	14,904
Euro denominated	**437**	–	**437**	–
HK Dollar denominated	**7,532**	233,940	**7,532**	233,940
	178,502	310,947	**162,633**	310,947
	178,565	310,958	**162,684**	310,958

As of 31 December 2001, bank deposits of approximately RMB208,939,000 with original maturities over three months and bearing interest at fixed rates ranging from 1.4% to 3.0% per annum were presented as short-term bank deposits.

25. 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.

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

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25. RELATED PARTY TRANSACTIONS (CONT'D)

(b) Transactions with the Parent Company

Transactions with the Parent Company during the year are summarised as follows:

	2001	2000
	RMB'000	*RMB'000*
		(Note 2)
Purchase of raw materials from the Parent Company*	–	7,390
Purchase of raw materials for the Parent Company*	–	6,889

* *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 Group's products by the Parent Company in the PRC for the year ended 31 December 2001 amounting to approximately RMB14,499,000 (2000: RMB9,272,000). In connection therewith, the Group paid transportation fee to two transportation agents which are subsidiaries of the Ultimate Holding Company amounting to approximately RMB4,573,000 for the year ended 31 December 2001 (2000: RMB1,320,000). (Note (i))

The agency fee income received from the Parent Company for distribution of the Parent Company's products by the Group for the year ended 31 December 2001 was approximately RMB8,344,000 (2000: RMB1,479,000) (Note (ii)).

(c) Transactions with the Ultimate Holding Company

Transactions with the Ultimate Holding Company during the year are summarised as follows:

	2001	2000
	RMB'000	*RMB'000*
Purchase of raw materials from the Ultimate Holding Company (Note (iii))	**74,968**	63,643
Purchase of raw materials through the Ultimate Holding Company as an agent (Note (iii))	**17,835**	–
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**	2,268

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25. RELATED PARTY TRANSACTIONS (CONT'D)

(c) Transactions with the Ultimate Holding Company (cont'd)

As of 31 December 2001, the Group had short-term bank loans amounting to nil (2000: RMB24,600,000) guaranteed by the Ultimate Holding Company.

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

During the year ended 31 December 2001, the Group sold products to the distribution agents which are related companies of the Ultimate Holding Company (Note (i)) amounting to approximately RMB126,817,000 (2000: RMB71,710,000).

During the year ended 31 December 2001, the Group paid advertising fee to an advertising agent which is a subsidiary of the Ultimate Holding Company amounting to approximately RMB3,267,000 (2000: RMB2,330,000) (Note (viii)).

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. In addition, a purchasing agency memorandum dated 25 February 2002 was entered into between the Company and the Ultimate Holding Company, pursuant to which the Ultimate Holding Company has agreed to act as the purchasing agent for the Company to procure Chinese medicinal raw materials that are required for its production without any agency fee payable by the Company to the Ultimate Holding Company.

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25. RELATED PARTY TRANSACTIONS (CONT'D)

Notes (cont'd):

(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, the PRC, with a total area of approximately 49,776.35 sq.m. 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 a 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.

(vi) A supplemental leasing agreement 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 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 total advertising expenditures, 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.

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25. RELATED PARTY TRANSACTIONS (CONT'D)

(e) Balances with related parties

The amounts due to and from related parties as of 31 December 2001 and 2000 primarily arose from the above transactions. These amounts are interest-free, unsecured and repayable or receivable within twelve months.

26. SEGMENT INFORMATION

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

27. BANKING FACILITIES

As of 31 December 2001, the Group had aggregate banking facilities of RMB100,000,000 (2000: RMB85,400,000) for loan and other trade financing. As of 31 December 2001, the unutilised facilities amounted to RMB70,000,000 (2000: RMB40,000,000).

28. FINANCIAL INSTRUMENTS

(a) Fair values

The carrying amounts of the Group's financial instruments approximated their fair values at the balance sheet date because of the short maturities of these instruments.

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

(b) Credit risk

The carrying amount of cash and cash equivalents, accounts receivable and due from related parties represented the Group'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 3.0% (2000: 1.5%).

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

31 December 2001

(Amounts expressed in RMB unless otherwise stated)

28. FINANCIAL INSTRUMENTS (CONT'D)

(c) Interest rate risk

The interest rates and terms of repayment of short-term bank loans of the Group are disclosed in Note 13.

(d) Foreign currency risk

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

29. COMMITMENTS

(a) Capital commitments

As of 31 December 2001, the Group had the following capital commitments which were not provided for in the consolidated financial statements of the Group:

(i) Authorised and contracted for:

Commitments relating to the construction of production facilities amounted to RMB13,510,000 (2000: Nil).

Commitments relating to investment contributions to investee entities amounted to RMB88,417,000 (2000: RMB109,986,000). Out of these commitments, the timing of contributions amounting to RMB78,484,000 is subject to further negotiations with the co-investors in these entities, progress of the investment projects and the approval from the government authorities.

(ii) Authorised but not contracted for:

Commitments relating to the construction of production facilities amounted to RMB15,490,000 (2000: Nil).

(b) Operating lease commitments

As of 31 December 2001, the Group had commitments in respect of leased land and buildings under various non-cancelable operating lease agreements extending to 30 May 2021 amounting to approximately RMB65,396,000 (2000: RMB72,023,000). Total future minimum lease payments under non-cancelable operating lease are as follow:

31 December 2001
(Amounts expressed in RMB unless otherwise stated)

29. COMMITMENTS (CONT'D)

(b) Operating lease commitments (cont'd)

	2001	2000
	RMB'000	*RMB'000*
Land and buildings:		
– not later than one year	**5,685**	5,685
– later than one year and not later than five years	**22,742**	22,742
– later than five years	**36,969**	43,596
	65,396	72,023

30. SUBSEQUENT EVENTS

The following significant transactions took place subsequent to 31 December 2001:

(a) On 15 March 2002, the Board of Directors proposed a final dividend of RMB0.30 per share (2000: RMB0.21 per share) for the year ended 31 December 2001, totalling approximately RMB54,840,000 (2000: RMB38,388,000). The proposed dividend distribution is subject to the shareholders' approval in their next meeting. The dividend will be recorded in the Group's financial statements for the year ending 31 December 2002.

(b) On 8 February 2002, the Company made additional capital contribution amounting to RMB7,450,000 into TRT WM. Upon completion of the contribution, equity interest of TRT WM held by the Company was 60%.

(c) On 11 February 2002, the Company made a capital contribution amounting to RMB2,483,000 into Peking Tongrentang (M) Sdn. Bhd., a company incorporated in Malaysia, for a 60% equity interest in the total issued capital of RMB4,138,000.

31. APPROVAL OF FINANCIAL STATEMENTS

The financial statements set out on pages 31 to 69 were approved by the Board of Directors on 15 March 2002.