



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)



First Quarterly Report 2002

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

HIGHLIGHTS

- Turnover increased by approximately 57.61% for the three months ended 31 March 2002 as compared with the corresponding period in 2001.
- Net profit increased by approximately 27.08% for the three months ended 31 March 2002 as compared with the corresponding period in 2001.
- Earnings per share for the three months ended 31 March 2002 was RMB0.19.

QUARTERLY RESULTS (UNAUDITED)

The Board of Directors (the “Board”) of Tong Ren Tang Technologies Co. Ltd. (the “Company”) is pleased to announce the unaudited results of the Company and its subsidiaries and its joint venture (hereafter collectively referred to as the “Group”) for the three months ended 31 March 2002 together with the unaudited comparative figures for the corresponding period in 2001, as follows:

	<i>Notes</i>	For the three months ended 31 March	
		2002	2001
		<i>RMB'000</i>	<i>RMB'000</i>
Turnover	2	193,802	122,962
Cost of sales		(104,567)	(63,244)
Gross profit		89,235	59,718
Selling and distribution costs		(35,134)	(14,867)
Administrative expenses		(18,895)	(19,608)
Profit from operations		35,206	25,243
Finance income, net		739	2,807
Profit before taxation		35,945	28,050
Taxation	3	(228)	–
Income before minority interests		35,717	28,050
Minority interests		(72)	–
Net profit		35,645	28,050
Earnings per share – Basic and diluted	4	RMB0.19	RMB0.15



Notes:

1. Basis of presentation

The Company was incorporated as a joint stock company with limited liability in the People's Republic of China (the "PRC") on 22 March 2000 and, upon the placing of its H shares, were listed on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited ("GEM") on 31 October 2000. In preparing for the listing of the Company's H shares on the GEM, Beijing Tongrentang Company Limited ("Tongrentang Ltd.") underwent a restructuring, details of which are set out in the prospectus of the Company dated 24 October 2000 (the "Prospectus") issued in respect of the Company's H shares listed on the GEM.

The accompanying unaudited results are prepared in accordance with International Financial Reporting Standards as published by the International Accounting Standards Board.

2. Turnover

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

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

	For the three months ended 31 March	
	2002	2001
	RMB'000	RMB'000
Sales of medicine:		
Domestic	183,525	117,017
Overseas	7,301	2,291
Agency fee income – domestic	2,976	3,654
	193,802	122,962

3. Taxation

Pursuant to the relevant income taxation 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 the HTE certification granted by Zhongguancun Hi-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 to enjoy an EIT exemption for three years commencing from 2000 and a 50% reduction in EIT for the three years thereafter.

For the period ended 31 March 2002, an amount equal to the 15% EIT exempted amounting to approximately RMB5,420,000 (2001: RMB4,207,000) was transferred to the tax reserve.

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

	For the three months ended 31 March			
	2002		2001	
	RMB'000		RMB'000	
Accounting profit	<u>35,945</u>	<u>100.0%</u>	<u>28,050</u>	<u>100.0%</u>
Tax at the statutory tax rate	<u>5,648</u>	<u>15.7%</u>	<u>4,207</u>	<u>15.0%</u>
Effect of tax benefit of being a HTE	<u>(5,420)</u>	<u>(15.1%)</u>	<u>(4,207)</u>	<u>(15.0%)</u>
Tax expense	<u>228</u>	<u>0.6%</u>	<u>-</u>	<u>0%</u>

For the period ended 31 March 2002, the tax expense of the Group represented the EIT payable by a subsidiary of the Company at a rate of 33% on the taxable income. Other than this, the Company's other subsidiaries and joint venture had no material operating activities nor taxable profits for the period and therefore no EIT provision was made.

4. Earnings per share

The calculation of the basic earnings per share for the three months ended 31 March 2002 was based on the net profit of approximately RMB35,645,000 (2001: RMB28,050,000) divided by the weighted average number of shares issued during the period of 182,800,000 shares (2001: 182,800,000 shares).

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



BUSINESS REVIEW AND PROSPECTS

Consistent with market trend, the Company continues to execute the business strategy whereby production, marketing and returns of operation are achieved in equilibrium. The Company is enhancing creativity and management, strengthening internal supervisory control, improving products' quality, placing more emphasis on performance appraisal and upgrading the Company's competitiveness. The production and operation of the Company have been enhanced and a better development trend has been continually achieved. The production and marketing of the dominant products have been prospering with sales increasing steadily during this quarter. Turnover and net profit of the Group for the three months ended 31 March 2002 amounted to approximately RMB193,802,000 and RMB35,645,000, representing an increase of 57.61% and 27.08% respectively as compared with the corresponding period in 2001.

Business Review

Production

In 2002, the production of the Company has been focused on market-orientation with innovation as the main part to enhance the Company's competitive capability. The Company strictly followed the principle of "production according to sales prospect", expanded the production capacity of the Company's best-selling products and enhanced the quality standard of products and internal quality control requirements. The internal management of the Company has been strengthened while production cost has been reduced so as to achieve economies of scale.

Based on the achievements of Good Manufacturing Practice ("GMP") standard certification in 2001, the production line of soft capsules has successfully passed the GMP standard certification with the respective certificate obtained. The Company has also completed the design work for the construction layout of the production line of tablets, air-conditioning purification system and water purification system. The improvement work will be commenced upon the approval of the respective design.

Operation

In 2002, the Company has utilized its own branch companies and branch companies for new products to be responsible for domestic sales. The Company's standards in operation and marketing have been fundamentally improved through adoption of creative ideas and system innovation, establishment of clear objectives and a clear definition of responsibilities. The Company also adopted a flexible and diverse strategy for different products while domestic and overseas markets were being explored steadily in order to enlarge its market share.

With the efforts of all the staff of the Company, the sales for the first quarter of 2002 have been increased steadily. During the three months ended 31 March 2002, the Group has attained turnover of RMB193,802,000, representing an increase of 57.61% over the corresponding period of last year. Turnover for Liuwei Dihuang Pill, Ganmao Qingre Granule and Niu Huang Jiedu Tablet during the first quarter of 2002 represented an increase of 62.98%, 102.95% and 32.67% respectively as compared with the corresponding period in 2001.

Construction of Research and Development Centre

The Company continued to perfect the operation of its research and development centre in accordance with its development strategy. The research and development centre was market-oriented and strictly served the function of technical supporting. The Company increased the investment in scientific research and development, enhanced the development quality, strengthened the combination of production with scientific research and development and increased the efficiency of the development of the new medicines. The Company has speeded up the industrialization of the innovation results of research and development in order to support its continuing development.



Development of New Products

The new products which the Company are developing include a new anti-influenza drug, a new anti-cardiovascular system diseases drug and a new anti-menopause syndrome medicine and so on:

- A. For the new anti-influenza drug, the Company has already obtained the New Medicine Certificate in December 2001.
- B. For the new anti-cardiovascular system diseases drug, the Company has completed the clinical assessment and technical review of The State Pharmaceutical Supervision and Administration of the PRC (“SPSAC”) and is pending for the preliminary approval of SPSAC.
- C. For the new anti-menopause syndrome medicine, the Company has completed the clinical trial while the clinical conclusion is in progress.

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 obtained the public health license for the production of cosmetics and has also submitted the application for the production license of cosmetics.

Prospects

There has been a substantial increase in the production and sales of the Group for the first quarter of 2002 as compared with the corresponding period in 2001. The Company is facing continuing changes in market demand and will thoroughly utilize its own competitive advantages in technology, products and quality to establish a market-oriented operational model. The Company will increase the marketing efforts, strengthen the internal management control, implement brandname strategy and increase the staff quality. The Company will focus on scientific innovation and strengthen its research and development work.

Comparison of the business plans and actual progress

**From 1 January 2002
to 30 June 2002 ***

**From 1 January 2002
to 31 March 2002**

Expansion of production capability and establishment of production base

The Company will produce relevant products at its existing production plants and at those to be established in Beijing in the future.

Expected project progress **

Construction in progress and purchase of equipment.

The anticipated investment would be HK\$15 million.

Actual project progress

The production line of soft capsules has already successfully passed the GMP standard certification with the respective certificate obtained.

The Company has commenced the foundation work of the construction of production plant in the BETDZ.

Actual investment amounted to RMB4,302,000, equivalent to approximately HK\$4,055,000. The difference between the anticipated and actual investment amounts is due to the early acquisition of the land for the establishment of production base in last year which was actually scheduled to be acquired during the first half of 2002.



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 caliber research personnel and to capitalize on the research and development strength of universities in Beijing to develop new drugs. The Research Centre will also be responsible for applying for approval from the relevant PRC authorities for the Company's new pharmaceutical products.

Expected project progress **

Continuation of construction process and completion of construction.

The anticipated investment would be HK\$6 million.

Actual project progress

The Company has purchased and replenished part of the equipment and hardware facilities of the Research Centre, including florescence detector, micron granule granulator ("MGG"), low temperature circulator for MGG, vacuum dry oven and environmental chamber.

Actual investment amounted to RMB767,000, equivalent to approximately HK\$723,000. 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 new products:

A. Research on new anti-influenza drug

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

Expected project progress **

Completion of clinical trial and preparation of application for SPSAC approval.

Actual project progress

With the efforts and assistance of various units, the Company has obtained the New Medicine Certificate in December 2001. Examination and study of the production technique are in progress.



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

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

Expected project progress **

Completion of clinical trial and preparation of application for SPSAC approval.

Actual project progress

The Company has completed the clinical assessment and technical review of SPSAC and is pending for the preliminary approval of SPSAC.

C. Development of new anti-menopause syndrome drug

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

Expected project progress **

Completion of clinical trial and preparation of application for SPSAC approval.

Actual project progress

The Company has completed the clinical trial and clinical conclusion is in progress.

HK\$1 million would be invested in the three medicines.

Actual investment amounted to RMB923,000, equivalent to approximately HK\$870,000.

Developing bio-pharmaceutical technologies

The Company entered into an agreement with WM Dianorm Biotech Co., Limited (“Dianorm”) on 10 May 2000 for the establishment of a joint venture, Beijing Tong Ren Tang WM Dianorm Biotech Co., Limited. By utilizing Dianorm’s advanced technologies in liposome and other bio-pharmaceutical areas, the Company will be able to promote the technological level of Chinese medicine and will be able to develop other new bio-pharmaceutical products.

Expected project progress **

Production approval from SPSAC obtained and commencement of trial production.

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Actual project progress

The Company has obtained the public health license for the production of cosmetics while the application for the production license of cosmetics has been submitted.

Actual investment amounted to RMB7,450,000, equivalent to approximately HK\$7,020,000.



Establishing sales network and venturing into e-commerce business

Establishing sales network

The Company plans to establish its own domestic sales network after listing on the GEM, 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 **

Construction and decoration of properties, obtain certificate and trial run.

The anticipated investment would be HK\$10 million.

Actual project progress

The Company has made a capital contribution into Peking Tongrentang (Malaysia) Sdn. Bhd., a company incorporated in Malaysia, for a 60% equity interest in its total issued capital which will be used as an overseas sales office of the Company.

Actual investment amounted to RMB2,483,000, equivalent to approximately HK\$2,340,000, which represented 60% equity interest in the total issued capital of Peking Tongrentang (Malaysia) Sdn. Bhd.

E-commerce

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

Expected project progress **

Increment of types of information service and commencement of online medical business.

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Actual project progress

Since the internet industry is now affected by various factors and not in a profitable stage, the Company has postponed the development of this project.

No investment has been made during this quarter.



Establishing production base for Chinese medicinal raw materials

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

Expected project progress **

Plantation and field management.

The anticipated investment would be HK\$3 million.

Actual project progress

The work for plantation and processing of the 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 are being finalized for the time being.

No investment has been made during this quarter. 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 and has made part of the investment ahead of schedule as stated in the Prospectus in last year.

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 Investment Limited, 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 associated 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 **

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Actual project progress

The incorporation of the associated company in Hong Kong has been completed and part of the capital contribution has been made.

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No investment has been made during this quarter.

* Since the progress of the projects was set out on a half-year basis as stated in the Prospectus, the expected project progress of each business objective as disclosed in this quarterly report was reflected the plan for the first half year of 2002.

** Since the progress of the projects was set out on a half-year basis as stated in the Prospectus, the expected project progress and expected amount of investments was reflected the plan for the first half year of 2002 while the actual investment of each project as disclosed in this quarterly report was reflected the actual progress of the first quarter of 2002.



INTERIM DIVIDENDS

The Board does not recommend the payment of an interim dividend for the three months ended 31 March 2002 (2001: Nil).

MOVEMENT OF RESERVES

There was no movement of reserves for the relevant periods in 2002 and 2001 except those disclosed as below:

	For the three months ended 31 March			
	Tax reserve		Retained profits	
	2002	2001	2002	2001
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Balances as of 1 January	23,193	4,427	68,761	41,795
Final dividend declared	—	—	(54,840)	(38,388)
	23,193	4,427	13,921	3,407
Net profit for the three months ended 31 March	—	—	35,645	28,050
Appropriation to reserve	5,420	4,207	(5,420)	(4,207)
Balances as of 31 March	28,613	8,634	44,146	27,250

DIRECTORS' AND SUPERVISORS' INTERESTS IN SHARES

As of 31 March 2002, the interests of the Company's 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 which required, pursuant to Rules 5.40 to 5.59 of the Rules Governing the Listing of Securities on the GEM (the "GEM Listing Rules"), to be notified to the Company and the Stock Exchange were as follows:

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

Note: All represented domestic shares.

Saved as disclosed above, as of 31 March 2002, 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 March 2002, according to the register required to be kept under Section 16(1) of the SDI Ordinance, the only shareholder with an interest of 10% or more of the issued share capital of the Company was as follows:

Name	Number of shares	Shareholding percentage as of 31 March 2002
Tongrentang Ltd. (<i>Note 1</i>)	100,000,000 (<i>Note 2</i>)	54.705%

- Notes:*
1. As of 31 March 2002, Tongrentang Ltd. is owned as to 69.98% by China Beijing Tong Ren Tang Group Co. Ltd.
 2. All represented domestic shares.

Saved 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 March 2002.

SPONSOR'S INTERESTS

According to the notification from our sponsor, BOCI Asia Limited, as of 31 March 2002, 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.

AUDIT COMMITTEE

Pursuant to the Rules 5.23 of the GEM Listing Rules, the Company has set up an audit committee according to “A Guide For The Formation Of An Audit Committee” compiled by the Hong Kong Society of Accountants. In compliance with Rules 5.24 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 audit committee are to review and monitor the Company’s financial reporting process and internal control system. The audit committee comprises Mr. Ting Leung Huel, Stephen and Ms. Tam Wai Chu, Maria, who are independent non-executive directors of the Company.

One meeting has been conducted by the audit committee in this quarter. The meeting was held on 27 February 2002 and 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. The audit committee has reviewed the first quarterly report of 2002.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

During the period ended 31 March 2002, the Company has not purchased, sold or redeemed any of the Company’s listed shares.

By the Order of the Board

Yin Shun Hai

Chairman

Beijing, the PRC

22 April 2002