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 2002

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
Bai Jian
Liu Shi Yi
Li Xing Yi
Wang Yu Wei
Zhang Jing Yan
Choi Wai Lung, Edward, FHKSA, FCCA

QUALIFIED ACCOUNTANT

Choi Wai Lung, Edward, FHKSA, FCCA

COMPANY SECRETARY

Choi Wai Lung, Edward, FHKSA, 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, FHKSA, FCCA

AUTHORIZED PERSON TO ACCEPT SERVICE OF PROCESS AND NOTICE

Yang Qiong

AUDITORS

PricewaterhouseCoopers

SPONSOR

BOCI Asia Limited

LEGAL ADVISORS

Kwok & Yih

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

Hong Kong Registrars Limited
Rooms 1901-1905, 19th Floor
Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

REGISTERED OFFICE

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

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

GEM STOCK CODE

8069

I am pleased to present to our shareholders the annual report of Tong Ren Tang Technologies Co. Ltd. ("Tong Ren Tang Technologies" or the "Company") and its subsidiaries and its joint ventures (hereafter collectively referred to as the "Group") for the year ended 31 December 2002.

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. 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

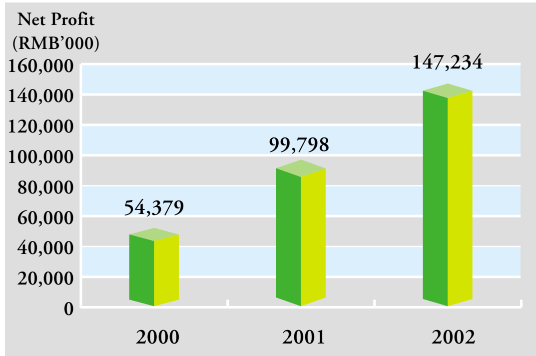
The Board of Directors (the "Board") of the Company recommend the payment of a final dividend for the year of RMB0.39 per share to shareholders whose names appear on the register of shareholders of the Company at 4:00 p.m. on 23 April 2003.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

Following the overall strategy of the year to capture opportunities and develop with innovation, the Company strove for establishing an effective market-oriented economic operation system, and has achieved satisfactory results in 2002 by focusing on market to boost sales, on technological innovation to strengthen research and development, and on fundamental management to ensure product and work quality. The operational management standard was enhanced while core competitive powers were raised in respect of marketing, innovation and branding. As a result of our efforts, the objectives of the year plan was reached and exceeded. The production and marketing of the dominant products were prosperous while sales revenue and net profits had increased significantly.

Turnover for the year ended 31 December 2002 amounted to approximately RMB662,891,000, representing an increase of approximately 33.28% as compared with previous year. Net profit amounted to approximately RMB147,234,000, representing an increase of approximately 47.53%. No segment information is presented as the Company operates in one industry and geographical segment.



Production

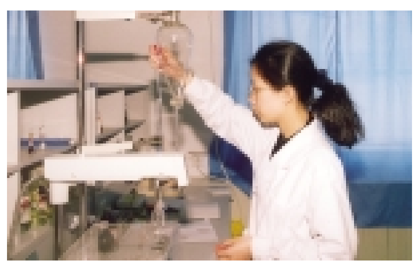
Confronted with the ever-increasing market demand, the major tasks for the company this year are to expand productive capacity and ensure market supply on the present scale of production. Therefore, the Company has improved the internal production management system. By adjusting the production structure, improving the quality of operations in the production command system, reasonably arranging production and actively carrying out the order system, the Company can respond to the market correctly and promptly, and optimize allocation of resources. In order to satisfy the ever-increasing market demand, enlarge the scale of production and speed up the modernization of traditional Chinese medicine industry, the Company has purchased a plot of land with an area of about 15,000 square meters in the Beijing Yizhuang Economic and Technological Development Zone this year. This piece of land combined with the two plots bought in 2001 will be used in building the production bases. The processing workshop project was started in February 2002, and was completed in November. Within a period of nine months, the Company finished such tasks as the production plant construction, equipment introduction, staff training, removing and the Good Manufacturing Practice ("GMP") standard certification. Presently the two production lines of tablets and four production lines of packaging have already been put into operation. Based upon the principle of high starting points and high standards, the use of excellent materials, the choice of advanced equipment (both domestically and internationally) and the application of advanced network technology for the construction of the above-mentioned workshop, the degree of automation of traditional Chinese medicine production has been raised. Steady product quality control can also be ensured through the application of such modern measures. Completion and operation of this workshop has equipped the Company to an advanced industry level all over the country, and thus creates an advantageous condition for its products to reinforce its share in the domestic market and facilitate its entry into the international market.

Good Manufacturing Practice ("GMP")

GMP standard certification is not only a state requirement to medicine manufacturing enterprises but also a necessity for business products to increase their competitiveness in the market and get geared to international standards. Thus the Company has revised its practice in a number of aspects in strict accordance with the GMP standards. In respect of hardware, the Company has transformed the production lines with advanced technology and equipment according to the principle of high starting points, high standards, and high quality. In respect of software, the Company has further perfected all the rules and regulations and quality standards on package materials, and has established and improved the system for all original records. Through the Company's integrated and concerted efforts, production lines of soft capsules, tablets, and liquid dosage (oral liquids and aerosols) have successfully passed the GMP standard certification. In addition to the production lines of pills and granules (including the two production lines of medicinal raw material pre-processing and extracting) that passed the certification in 2001, all the production lines of the major forms of the Company's products have passed the GMP standard certification. The undertaking and development of the work in GMP standard certification has effectively raised the Company's management level.

Sale

In year 2002, the newly established operating branch company, new product branch company and the original import and export branch company constituted a new sales pattern for the Company's products.



The operating and new product branch companies have undertaken the entire domestic marketing work. In compliance with the spirits of new companies, new people and new mechanism, the two companies have established a brand-new concept of marketing, started brave reforms and active innovations and carried on a sales system based on cash sales and complemented by credit sales. Customers who buy products on a credit basis are managed according to their credit rating so that the operating risks are reduced. The domestic sales discount rate is unified to create a strict and orderly market environment. The companies have also focused on introduction of key areas and key customers and gradual establishment and improvement of a well-developed and smooth sales network and system of channels, so as to open up the national market on a rolling basis. The operating branch company emphatically conducted the brand name strategy, design product families in a stair-shaped structure, set up main directions for efforts to meticulously foster flagship products. Turnover of such three flagship products as Liuwei Dihuang Pill (六味地黃丸), Ganmao Qingre Granule (感冒清熱顆粒) and Niuhuang Jiedu Tablet (牛黃解毒片) of this year marks a respective increase of 19.47%, 50.32% and 58.25% as compared to their respective turnover of last year. Turnover of these three products has contributed to more than 60% of the total sales revenues. The new product branch company has

positioned their product target at new products and marketable products in small quantities such as Xiaoer Qingfei Zhike Tablet (小兒清肺止咳片), Ruhe Neixiao Liquor (乳核內消液), and Shenshao Tablet (參葯片). In respect of different characteristics of different products, they promote the products by way of seminars on product knowledge, volunteer consultation and diagnosis and other methods so as to open up some space in the end users market.

The overseas marketing situation was affected by the slowdown of the world economy in the year 2002. On the one hand, consumers demand slipped down obviously, which made overseas clients and agents take a conservative attitude to the product market. On the other hand, many major countries consuming natural medicine or herbal medicine have successively formulated or revised relevant laws and regulations to tighten the import standards of Chinese Patent medicine and Chinese medicinal raw materials, which in turn increased technological barriers. Therefore, the import and export branch company made timely adjustments to sales strategies in accordance with the changing trends of international pharmaceutical market, through which the concept of "Obeying and serving the market" was emphasized, market and clients' requirements were strictly complied, technological standards of export products were more rapidly upgraded, with a view to accomplish steady growth in turnover of both new and existing products. The Company's turnover in overseas markets in 2002 went up 39.61% over the last year. Great achievements have also been made in the establishment of overseas sales network. Peking Tong Ren Tang (Malaysia) Sdn. Bhd. and Beijing Tongrentang (Canada) Co., Ltd., which were invested by the Company, both started business respectively in Kuala Lumpur of Malaysia and Vancouver of Canada. While trading in medical products of Tong Ren Tang, the two stores have brought in concept of traditional Chinese medicine for consumers there and have won welcome and support of local government and residents. Meanwhile, busy preparation was started for the Beijing Tong Ren Tang (Macao) Drug Store Company Ltd., and other overseas regions were preliminarily surveyed and in the process of negotiation. As a window of Beijing Tong Ren Tang located abroad, these overseas sales outlets play a major role in promoting overseas sales and increasing product penetration in the global market.

Research and development of products

In the field of new product research, research on the three new products mentioned in the Prospectus is carried on. After the new anti-influenza drug — anti-influenza effervescent tablet (抗感泡騰片) was awarded the New Medicine Certificate and production approval, the Company has completed the production technique testing and production technique research on the application of many practical methods, has determined many important technical parameters by trial and error, and has made full preparations for the trial production in the next step. With efforts the new anti-cardiovascular system diseases drug — Taizhi Baoxin Koufu Liquor (太子保心口服液) has been awarded the New Medicine Certificate and production approval with a file number. The curative effects of this medicine for cardiovascular diseases are precise and has promised a very good future for the market. For the new anti-menopause syndrome drug, relevant clinical conclusion materials and technical materials have been completed, and it is soon to enter the stage of new medicine application. At the same time, the Company has strengthened the screening of new product key projects. With more and more high-standard new medicines developed and registered, the Company has established a basic pattern for its new product development and has laid a technical foundation for its accelerated growth.

Secondary research and applied research in new technology and new techniques are the Company's foundation for as well as focus of research. In accordance with the market demand and production and operations demand, this year the Research Centre has finished more than 10 secondary research projects. Among these projects there are technique experiments with about 10 OTC products, fundamental research on several preserved traditional Chinese medicines. Also included in the research are the application of membrane filtration technology in the production of tablets, resin suction technology and application of ultra-micro crashing technology in production.

Bio-pharmaceutical technologies

The Company's project on bio-pharmaceutical technologies continues to follow the principle of "active involvement and progress steadily, picking the right project and proceeding systematically for gradual expansion to achieve economies of scale". In accordance with the four-steps development strategies and plans driven by sales, profits, research and development and brand name, Beijing Tong Ren Tang WM Dianorm Biotech Co., Limited ("Tong Ren Tang WM Dianorm") introduced monopolistic liposome technology as breakthrough and established new product and new revenue growth point through the absorption and understanding of liposome technology and the related products. Tong Ren Tang WM Dianorm has exercised strict management system in respect of production, testing and quality. While the public health licence and the production licence of cosmetics have been granted, several liposome products which were registered as cosmetics have achieved the trial production stage. Preliminary planning work on marketing and promotion of products with remarkable liposome features have been commenced. These indicated that Tong Ren Tang WM Dianorm has achieved solid progress in its first stage of work. The marketing of liposome product line will consolidate the foundation of the Company in the development of bio-pharmaceutical technologies.

Establishment of production bases for Chinese medicinal raw materials

After investigating into the plantation areas of medicinal herbs, studying the quality, soil and environmental conditions of over ten species of medicinal herbs, and conducting analysis as to the demand for raw materials within five years, the Company made investments in Hangzhou of Zhejiang province, Nanyang of Henan province, Wuhan of Hubei province and Yutian of Hebei province to establish four joint venture companies responsible for setting up raw material production bases in the four regions respectively. After establishment, the base companies perfected their own organizational structures and management systems, especially for business workflow and financial workflow. They took full advantages of being a research institute or expert team to formulate technological testing programs and operation standards for each medicinal herbs and to initiate technological research and establishment of demonstration bases strictly in accordance with the requirements of GAP. A better whole process quality guarantee mechanism was hence established to ensure that the medicinal herb outputs would meet the green medicine standard. After carrying out processes such as gathering, processing and planting, the bases' outputs of Chinese medicinal raw materials, including Fructus Corni (山茱萸), Poria (茯苓) and Semen Armeniacae Amarum (苦杏仁), have begun to be used by the Company for production. The commencement of operation of the production bases was important to ensure supply of raw materials, quality of medicinal herbs and to improve product quality.

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 2002, the Group had bank and cash balances amounted to RMB295,236,000 (2001: RMB387,504,000) and short-term borrowings of RMB15,000,000 (2001: RMB30,000,000). These borrowings are denominated in Renminbi and provided by various banks in the PRC and bear fixed interest at 5.04% (2001: 5.58% to 5.85%) per annum. As at 31 December 2002, the Group had total assets of RMB792,321,000 (2001: RMB617,861,000) which were financed by current liabilities of RMB228,941,000 (2001: RMB149,217,000), shareholders' equity of RMB548,899,000 (2001: RMB456,514,000) and minority interests of RMB14,481,000 (2001: RMB 12,130,000).

The Group's gearing ratio, defined as the ratio between total borrowings and shareholders' equity, was 0.03 (2001: 0.07). The liquidity ratio of the Group, represented by a ratio between current assets over current liabilities, was 2.39 (2001: 3.29), reflecting the abundance of financial resources.

PROSPECTS

In 2002, the production and sales of the Company has attained satisfactory results. In face of the competition from foreign enterprises engaged in natural medicinal products after entry into the World Trade Organisation and more fierce competition from domestic Chinese medicine manufacturers, the Company sees the year 2003 as a critical period for seizing opportunities, consolidation and further development. In the coming future, the Company will focus on enlarging production scale and capacity and increasing sales revenues and market share, as well as enhancing research and development for new products, with an aim to further enhance the overall business performance and sustained growth of the Company.

Seeking breakthrough in marketing and all-round rapid development

For domestic market, expected breakthrough in sales activities of the Company in 2003 are in three aspects: First, the hospital market—We will establish clinical trial professional committee to strengthen the liaison and communication with major hospitals. Advices will be collected on clinical trial results, demand for medicines and their future prospects and will be used to increase the competitiveness of the Company's products. Second, the main products—We will study the market segments and customer groups, place major marketing efforts on target markets and consolidate the respective market shares, hoping that 1 to 2 more products can have sales revenues of over RMB100,000,000. Third, new products—We will emphasize core products and identify and promote products with good development potential. Our target is to have 1 to 2 new products achieving yearly sales revenues of over RMB10,000,000. The Company will also consider to set up its own retail outlets within the country to exploit the end-user market.

For overseas market, different business strategies will be applied according to the situation of each country or region. In the Southeast Asia market, our major export market, various modes of cooperation will be used to speed up sales outlets and enlarge market share. In countries where import of Chinese Patent Medicines are prohibited or the market is not well developed, we will promote Chinese medicinal healing and create awareness to our products so as to prepare for future market entry. In regions which have well-developed medicine markets or hubs of medicine trading, we will cooperate with large distributors and increase the popularity of the Tong Ren Tang brandname.

Persisting modernized large scale production and improving the production capacity

Under the direction of modernized large scale production, the Company aims at initially completing a production structure comprising Chinese medicinal raw material production base, Chinese medicinal raw material processing base and modernized medicine manufacturing.

For the establishment of production bases for Chinese medicinal raw materials, the Company will strengthen management of the existing four medicinal raw material production bases in Zhejiang, Hubei, Henan and Hebei in accordance with GAP standards. The Company will establish new medicinal raw material production base when demand justifies so that adequate amount of raw materials are available for production.

Beginning from Yizhuang production base, the production structure will undergo further improvement. This production base is the basis of production structure improvement. All production workshops must strictly comply with the GMP standards. Construction of the production complex has been completed and together with the newly acquired land and the current production facilities, the production structure has much improved, which successfully raised productivity.

The Company will establish a computerized production management system and gear up the digitalization program. Digitalization and information networking of the production supply system will be pursued. The Company seeks to reduce the amount of locked-up capital and increase operating efficiency by integrating data processing.

Taking advantage of technological advance, to pursue technology innovation and raise core competitiveness

Technology innovation is one of the keys to rapid growth of enterprise. Core competitiveness can only be enhanced by developing products of high technology content that command substantial market potential.

The Company will keep researching on and developing new medicines with an aim of obtaining a new medicine approval document in 2003, thereby establishing a new revenue growth center. Laboratory testings on production technique of anti-influenza effervescent tablet (抗感泡騰片) will be sped up and trial production and marketing of the product is expected to be made jointly with Taizhi Baoxin Koufu Liquor (太子保心口服液). New drugs for anti-menopause syndrome require the new medicine approvals from Beijing City Pharmaceutical Supervision Bureau and State Pharmaceutical Supervision and Administration of the PRC ("SPSAC"). We expected to provide all the supplemental technological information to the related authorities and aim at obtaining the approvals in the coming year. The Company intends to capitalize on the strengths of the research and development resources and expertise in the Beijing region, so that more cooperation on technology development can be made between the Company's Research Centre and external research institues. We will continue the selection of high-tech projects and newly established projects will proceeds in a faster pace.

The Company will continue to carry out secondary research on the Company's products, including the comprehensive fundamental research of existing advantageous products and export products.The Company has also extended the use of such new techniques as membrane filtration technology, ultra-micro crashing technology and resin suction technology in product manufacturing process.

Charges on group assets

As at 31 December 2002, none of the Group's assets was pledged as security for liabilities (2001: 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.

Contingent liabilities

Other than those disclosed in note 18(a) to the financial statements, the Group had no contingent liabilities as at 31 December 2002.

Capital commitments

As at 31 December 2002, 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 approximately RMB22,995,000 (2001: RMB13,510,000).

Commitments relating to investment contributions to investee entities amounted to approximately RMB48,464,000 (2001: RMB88,417,000).

(ii) Authorised but not contracted for:

No commitments relating to the construction of production facilities (2001: RMB15,490,000).

Employees and Remuneration Policies

As at 31 December 2002, the Group had 1,552 employees (2001: 1,306 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 to the GEM Listing Rules 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 make 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
12 March 2003

COMPARISON OF THE BUSINESS PLANS AND ACTUAL PROGRESS

From 1 January 2002 to 31 December 2002

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**
Construction in progress, purchase and installation of equipment and trial production.	The GMP construction or improvement work on the production lines of soft capsules, tablets and liquid dosage have been completed and successfully passed the GMP standard certification.
	The progress of construction of the production base in the BETDZ is proceeding well. The construction of tablet production workshop has been finished while the adjustment of equipment and training of staff have been completed and production has already been commenced. The construction of the production complex has been completed, while the planning and design of production technique are in progress.
The anticipated investment would be HK$25 million.	The actual investment amounted to RMB46,740,000, equivalent to approximately HK$44,090,000. The actual investment amount exceeds the anticipated is due to the further expansion of production scale and acceleration of establishment of production base in order to ensure the market supply.

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
Continuation of construction process and completion of construction.	The Company has purchased the equipment such as solvent extractor, spectrocomparator, spinning evaporator and laser particle sizer in order to further perfect the construction of the Research Centre. Currently, the Research Centre has preliminary resources for fundamental research. The Company has completed more than 10 secondary research projects and the application research of membrane filtration technology on production.
The anticipated investment would be HK$6 million.	Actual investment amounted to RMB4,548,500, equivalent to approximately HK$4,290,000. The difference between the anticipated and actual amounts is attributable to the fact that part of the equipment and facilities have been ordered but payment has not been made.

Development of new medicine

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

A. Research on new anti-influenza drug

The new anti-influenza medicine is developed in accordance with international technical and quality standards, in the form of effervescent tablet to tailor for the intake habit of the western people. The New Medicine Certificate has been obtained in 2001.

Expected project progress	Actual project progress
Completion of clinical trials, apply and obtain SPSAC approval for production and trial production.	The Company has completed the laboratory testings on production technique and has conducted application research of various new technologies in order to prepare fully for the upcoming trial production.

B. Development of the new anti-cardiovascular system diseases 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
Completion of clinical trials, apply and obtain SPSAC approval for production and trial production.	The Company has obtained the New Medicine Certificate and production approval while laboratory testings on production technique are in progress.

C. Development of new anti-menopause syndrome drug

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

Expected project progress	**Actual project progress**
Completion of clinical trials, apply and obtain SPSAC approval for production and trial production.	The Company has completed clinical conclusion and all relevant technical materials and is undergoing the stage of new drugs approval.
HK$1 million would be invested in three new medicines.	Actual investment amounted to RMB6,596,000, equivalent to approximately HK$6,222,600. The actual investment exceeds the anticipated is due to the fact that part of the previous outstanding research and development fund were paid after the completion of clinical research, issuance of the New Medicine Certificate and the achievement of success of research and development.

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 ("Tong Ren Tang WM Dianorm Biotech"). Tong Ren Tang WM Dianorm Biotech was incorporated in Beijing in 2001 with registered capital of US$3 million, of which 60% of its interest was attributable to the Company. By utilizing Dianorm's advanced technologies in liposome and other bio-pharmaceutical areas, Tong Ren Tang WM Dianorm Biotech will be able to promote the technological level of Chinese medicine and will be able to develop other new bio-pharmaceutical products.

Expected project progress	**Actual project progress**
Production approval from SPSAC obtained and commencement of production of bio-pharmaceutical products.	The Company has obtained the public health licence and the production licence of cosmetics. Several liposome products registered as cosmetics have achieved the trial production stage while the preliminary marketing and promotion work have already been commenced.
–	Actual investment amounted to RMB7,450,000, equivalent to approximately to HK$7,020,000. The actual investment is more than anticipated because part of the previous outstanding fund were paid during the year.

Establishing sales network and venturing into e-commerce business

A. 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
Construction and decoration of properties, obtaining certificate and trial run.	Peking Tongrentang (Malaysia) Sdn. Bhd., an overseas sales point in which the Company holds a 60% equity interest, has commenced business in Kuala Lumpur in late August of 2002.
	Beijing Tongrentang (Canada) Co., Ltd., another oversea sales point in which the Company holds a 51% equity interest, has commenced business in Vancouver in December 2002.
The anticipated investment would be HK$10 million.	Actual investment amounted to RMB6,719,400, equivalent to approximately HK$6,339,100. The difference between actual and anticipated investment amounts is attributable to the fact that the Company has adopted prudent policy in respect of overseas investment and development of overseas sales points.

B. 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
Increment of types of information service and commencement of online medical business.	Since the internet business 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.

Establishing 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
Plantation, field management and partial harvest.	All 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 have been operated well, of which Fructus Corni (山茱萸), Poria (茯苓) and Semen Armeniacae Amarum (苦杏仁) have begun to be used by the Company for production.
The anticipated investment would be HK$9 million.	No investment has been made. The difference between the actual and anticipated investment amounts is attributable to the fact that the sites for the new production bases for Chinese medicinal raw materials are now under selection. The Company is now undergoing site inspection and research and thus investment has not been made.

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, named Tong Ren Tang Hutchison Pharmaceutical Development in Hong Kong. The total investment proposed to be made by the shareholders in the associated company is HK$200 million. Subsequently it has been agreed through friendly consultation among the three shareholders of the associated company to reduce the total investment for the associated company to HK$15 million, an amount of registered capital permitted by the relevant PRC authorities. The registration of the associated company was completed in 2001, with authorized share capital amounting to HK$15 million. The Company owns 40% equity interest of the assciated company.

Expected project progress	Actual project progress
–	The associated company was set up to engage in the research, development and sale of Chinese medicine in Hong Kong, conduct research on the production technique of Chinese medicinal products in accordance with the related regulations for import and market demand of the United States with an aim to fulfill the requirements of market of the United States.
–	–

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 2002.

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:

	2002	2001
	RMB'000	*RMB'000*
Sales of medicine:		
Domestic	**631,809**	472,322
Overseas	**23,324**	16,707
Agency fee income – domestic	**7,731**	8,344
Others	**27**	–
	662,891	497,373

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 (2001: less than 30%).

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

	2002	2001
The largest supplier – Tongrentang Holdings	27%	43%
Five largest suppliers combined	47%	53%

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.

RESULTS

The results and the statement of affairs of the Group for the year ended 31 December 2002 are set out on page 32 to 71 of the annual report.

DIVIDENDS

The Directors recommend the payment of a final dividend of RMB0.39 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 23 April 2003.

SHARE CAPITAL

Details of movement in share capital of the Company for the year are set out in note 10 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 11 to the financial statements.

As of 31 December 2002, the Group's retained profits of approximately RMB110,584,000 (2001: RMB68,761,000) 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 3 to the financial statements.

STAFF RETIREMENT SCHEME

Details of staff retirement scheme of the Group are set out in notes 2(p), 17 and 22 to the financial statements.

STAFF QUARTERS

During the year, the Group did not provide any staff quarters to its staff (2001: 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 RMB90 per person per month (2001: 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 in 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' INTERESTS

As of 31 December 2002, the interests of the Directors of the Company 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 (the "GEM Listing Rules"), to be notified to the Company and the Stock Exchange, were as follows:

The Company

Name	Personal Interest Number of shares	Family Interest Number of shares	Corporate Interest Number of shares	Other Interest Number of shares
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	–	–	–

Tongrentang Ltd.

Name	Personal Interest Number of shares *(Note)*	Family Interest Number of shares	Corporate Interest Number of shares	Other Interest Number of shares
Mr. Yin Shun Hai	19,923	–	–	–
Mr. Wang Zhao Qi	15,939	–	–	–
Mr. Mei Qun	15,939	–	–	–

Note: All represented A Shares of Tongrentang Ltd.

Save as disclosed above, as of 31 December 2002, none of the Directors or their associates had any interests in any securities in the Company and its associated corporations. None of the Directors, 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 2002, according to the register required to be kept under Section 16(1) of the SDI Ordinance, the parties with an interest of 10% or more in the issued shared capital of the Company were as follows:

Name	Number of shares		Shareholding percentage as of 31 December 2002
Tongrentang Ltd.	100,000,000		54.705%
Tongrentang Holdings	100,000,000	*(Note)*	54.705%
	2,900,000		1.586%

Note: Such Shares were held through Tongrentang Ltd. As at 31 December 2002, Tongrentang Ltd. was owned as to 69.98% by Tongrentang Holdings. According to the SDI Ordinance, Tongrentang Holdings is deemed to own the 100,000,000 Shares held by Tongrentang Ltd.

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 2002.

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 2002, approximately RMB72.05 million (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 RMB81 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 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.

COMPETING INTERESTS

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

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

The Company, Tongrentang Ltd. and Tongrentang Holdings are all engaged in the manufacturing of Chinese Patent Medicine. Their businesses are delineated in accordance with their differences in focus on the forms of medicine they produce. Tongrentang Ltd. mainly produces Chinese Patent Medicine in traditional form such as large pill, powder, ointment, pellet and medicinal wine. It also has some minor production lines for the production of granules and pills. On the other hand, the Company focuses on manufacturing products in forms of granules, pills, tablets and soft capsules. Tongrentang Ltd.'s main products include Angong Niuhuang Pills（安宮牛黃丸）, Tongren Wuji Baifen Pills（同仁烏雞白鳳丸）, Tongren Dahuolo Pellets（同仁大活絡丹）and Guogong Wine（國公酒）.

In order to ensure that the business delineation between the Company and Tongrentang Holdings and Tongrentang Ltd. are properly documented and formalized, pursuant to an undertaking dated 19 October 2000 given by Tongrentang Holdings and Tongrentang Ltd. in favor of the Company ("October Undertaking"), Tongrentang Holdings and Tongrentang Ltd. undertook that, except for Angong Niuhuang Pills（安宮牛黃丸）, Tongrentang Holdings, Tongrentang Ltd. and their respective subsidiaries would not produce any common products of the same names or under the same names with different forms that may compete directly with those of the Company in the future. In this regard, the Company, Tongrentang Ltd. and Tongrentang Holdings agreed not to produce certain of their products so that only one of them would continue the production of each of the products with common production permits. As such, it was agreed that out of the 86 products of the Company with common production permits, 49 of them would only be manufactured by the Company in the future, while 31 and 5 of them would only be manufactured by Tongrentang Ltd. and Tongrentang Holdings respectively upon listing of the shares of the Company on GEM on 31 October 2000 and only one of them, Angong Niuhuang Pills（安宮牛黃丸）, would be manufactured by both the Company and Tongrentang Ltd. in the future.

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

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

COMPETING INTERESTS (CONT'D)

First right of refusal

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

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

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

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

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;

(iv) the aggregate amount of each of these transactions has not exceeded the cap amount as agreed with the Stock Exchange in this regard; and

(v) the Company should continue with these transactions.

SUMMARY OF FINANCIAL INFORMATION

A summary of the consolidated results of the Group for each of the five years ended 31 December 2002, as extracted from the audited financial statements of the Group, is set out below:

Results

	Year ended 31 December				
	2002	2001	2000	1999	1998
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Revenue	**662,891**	497,373	338,699	308,068	248,672
Profit before taxation	**148,632**	92,768	66,626	57,102	36,264
Taxation	**953**	6,910	(12,247)	(18,844)	(11,967)
Profit before minority interests	**149,585**	99,678	54,379	38,258	24,297
Minority interests in the net (income) loss of subsidiaries	**(2,351)**	120	–	–	–
Net profit for the year	**147,234**	99,798	54,379	38,258	24,297

Assets and liabilities

A summary of the consolidated balance sheet of the Group as at each of the four years ended 31 December 2002, as extracted from the audited financial statements of the Group, is set out below:

	As at 31 December			
	2002	2001	2000	1999
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Non-current assets	**245,669**	127,601	82,767	65,881
Current assets	**546,652**	490,260	434,836	157,548
TOTAL ASSETS	**792,321**	617,861	517,603	223,429
Current liabilities	**228,941**	149,217	122,499	141,705
Minority interests	**14,481**	12,130	–	–
TOTAL LIABILITIES AND MINORITY INTERESTS	**243,422**	161,347	122,499	141,705
NET ASSETS	**548,899**	456,514	395,104	81,724

No consolidated balance sheet of the Group as at 31 December 1998 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 "A Guide For The Formation of An Audit Committee" compiled by the Hong Kong Society of Accountants. In compliance with the 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 committee comprises Mr. Ting Leung Huel, Stephen and Ms. Tam Wai Chu, Maria, who are independent non-executive directors of the Company.

Two meetings have been conducted by the audit committee in 2002. The first meeting was held on 27 February 2002 for discussion of the operating results, statements of affairs and accounting policies with respect to the audited financial statements of the Company for the year ended 31 December 2001 and listened to the advice provided by auditors. The second meeting was held on 26 July 2002 for discussion of the operating results, statements of affairs and accounting policies with respect to the unaudited interim report of the Company for the six months ended 30 June 2002.

The audit committee meeting held on 28 February 2003 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 2002 and listened to the advice provided by auditors.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

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

AUDITORS

The accompanying financial statements were audited by PricewaterhouseCoopers. Pursuant to a special general meeting of the Company held on 25 July 2002, it has been resolved that PricewaterhouseCoopers are appointed as the auditors of the Company in place of the retired auditors, Arthur Andersen & Co.

By the Order of the Board

Yin Shun Hai
Chairman

Beijing, the PRC
12 March 2003

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 2002 and has great confidence in the future of the Company.

By Order of the Supervisory Committee

Tian Da Fang
Chairman

Beijing, the PRC
12 March 2003

EXECUTIVE DIRECTORS

Yin Shun Hai, aged 50, 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 an executive committee member of All-China Federation of Industry and Commerce. 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 55, 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 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 47, 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, vice-chairman of Tongrentang Ltd. and vice-president of Beijing Trade and Industry Association. 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 43, senior engineer, 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 chief engineer of Tongrentang Holdings and the committee member of the State Pharmacopeia Committee. He is one of the promoters of the Company.

Zhao Bing Xian, aged 39, 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. 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, is a non-executive director of four listed companies, namely, Guangnan (Holdings) Limited, ONFEM Holdings 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 10th National People's Congress. She was appointed as an independent non-executive director on 11 October 2000.

Ting Leung Huel, Stephen, FCCA, FHKSA, FTIHK, CPA, aged 49, 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 on 11 October 2000.

Jin Shi Yuan, aged 77, 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 57, 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 the vice-chairman and 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 46, 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 54, holds a post-secondary qualification. She formerly served as deputy head of the organizational department of Factory No. 2. and the chairperson of the labour union of the Company.

SENIOR MANAGEMENT

Kuang Gui Shen, aged 47, is a senior economist with a postgraduate qualification. He formerly served as deputy factory manager of Factory No. 2, factory manager of Chinese Pharmaceutical 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 (Being Tong Ren Tong Pharmaceutical Factory) and the general manager of the Company.

Bai Jian, aged 44, is a chief pharmacist with a bachelor's degree. He formerly served as section head of the foreign trade section, assistant to factory manager and deputy factory manager of Factory No.2, deputy factory manager of pharmaceutical factory of Tongrentang Ltd. and factory manager of south pharmaceutical branch factory of Tongrentang Ltd.. He is currently the deputy general manager of the Company.

Liu Shi Yi, aged 47, is a deputy pharmaceutical officer with a bachelor's degree. He formerly served 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 of Tongrentang Development Office. He is currently the deputy general manager of the Company.

Li Xing Yi, aged 46, is a senior economist with a bachelor's degree. He formerly served as deputy section head, section head and assistant to factory manager of the production section of Chinese Medicine Refinery, deputy manager of the operating company of Tongrentang Ltd. and deputy manager of the supply section of Tongrentang Holdings. He is currently the deputy general manager of the Company.

Wang Yu Wei, aged 36, is a senior engineer with a bachelor's degree. He formerly served as deputy officer of the new technology research and development centre of Factory No.2, deputy factory manager of Factory No.2 and assistant to the general manager of the Company. He is currently the deputy general manager of the Company.

Zhang Jing Yan, aged 30, is a licensed pharmacist with a bachelor's degree. She formerly served as a member of the securities department and securities representative of Tongrentang Ltd.. She is currently the secretary to the Company's Board of Directors.

Choi Wai Lung, Edward, aged 34, was appointed qualified accountant and company secretary of the Company on 1 June 2001. Mr. Choi is a fellow member of the Hong Kong Society of Accountants and the Association of Chartered Certified Accountants of the United Kingdom. He has over 12 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 2003 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 2002;

2. To receive and consider the Report of the Supervisory Committee for the year ended 31 December 2002;

3. To declare and propose a final dividend of RMB0.39 per share for the year ended 31 December 2002. The proposed dividend will be payable on or before 31 August 2003 to shareholders whose names appear on the register of shareholders of the Company at 4:00 p.m. on 23 April 2003;

4. To approve the appointment of Mr. Yin Shun Hai, Mr. Mei Qun and Mr. Wang Zhao Qi as the executive directors, Mr. Tian Rui Hua and Mr. Zhao Bing Xian as the non-executive directors, Ms. Tam Wai Chu, Maria, Mr. Ting Leung Huel, Stephen and Mr. Jin Shi Yuan as the independent non-executive directors, Mr. Tian Da Fang, Mr. Yang Liang as the supervisors, Ms. Sun Feng Sheng as the supervisor in the position of labour representative, and authorize the Board of Directors to fix the remuneration of directors and supervisors;

5. To re-appoint PricewaterhouseCoopers as the auditors of the Company for 2003 and to authorize the Board of Directors to fix their remuneration; and

6. To review and re-approve the ongoing connected transactions and the respective cap approved in the special general meeting held on 25 July 2002 where the cap is to be greater than the higher of HK$10,000,000 or 3% of the net tangible assets of the Company, including:

   In any financial year

   (1) The aggregate amount relating to the Raw Material Supply Agreement (as amended) does not exceed RMB150,000,000;

   (2) the aggregate amount relating to transactions between the Company and subsidiaries and associates of Tongrentang Holdings and Tongrentang Ltd. (as amended) does not exceed RMB400,000,000; and

   (3) the aggregate amount relating to the Overseas Distribution Agency Agreement (as amended) does not exceed RMB20,000,000.

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

Beijing, the PRC
12 March 2003

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 need 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 Rooms 1901-1905, 19/F, Hopewell Centre, 183 Queen's Road East, Wanchai, 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 18 April 2003 to 19 May 2003 (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 4:00 p.m. on 17 April 2003 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 2003.

PRICEWATERHOUSECOOPERS

羅兵咸永道會計師事務所

PricewaterhouseCoopers
22nd Floor Prince's Building
Central Hong Kong
Telephone (852) 2289 8888
Facsimile (852) 2810 9888

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 ventures (hereafter collectively referred to as the "Group") as of 31 December 2002; and the related consolidated statements of income 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 2002 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.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 12 March 2003

Balance Sheets

As of 31 December 2002
(Expressed in thousands of Renminbi ("RMB"))

	Note	The Group 2002	The Group 2001	The Company 2002	The Company 2001
ASSETS					
Non-current assets					
Property, plant and equipment, net	*3(a)*	**198,142**	95,423	**190,262**	94,937
Land use rights, net	*3(b)*	**30,975**	17,652	**27,284**	17,652
Investments in subsidiaries	*4*	**–**	–	**13,368**	12,625
Investments in joint ventures	*5*	**–**	–	**19,052**	6,908
Investment in an associated company	*6*	**5,717**	6,194	**5,717**	6,194
Deferred tax assets	*9*	**3,969**	230	**3,969**	230
Other long-term assets		**6,866**	8,102	**2,654**	3,636
		245,669	127,601	**262,306**	142,182
Current assets					
Cash and cash equivalents	*24(b)*	**241,863**	178,565	**219,198**	162,684
Short-term bank deposits	*24(b)*	**53,373**	208,939	**53,373**	208,939
Accounts receivable, net	*7*	**6,373**	7,992	**5,781**	7,992
Inventories	*8*	**232,632**	83,711	**219,673**	72,176
Due from related parties	*25*	**1,683**	855	**1,683**	855
Prepayments and other current assets		**10,728**	10,198	**6,394**	6,803
		546,652	490,260	**506,102**	459,449
Total assets		**792,321**	617,861	**768,408**	601,631
EQUITY AND LIABILITIES					
Capital and reserves					
Share capital	10	**182,800**	182,800	**182,800**	182,800
Reserves	11	**366,099**	273,714	**366,108**	273,714
		548,899	456,514	**548,908**	456,514
Minority interests		**14,481**	12,130	**–**	–
Current liabilities					
Short-term borrowings	12	**15,000**	30,000	**15,000**	30,000
Accounts payable	13	**69,393**	28,069	**67,435**	26,226
Salary and welfare payables	14	**38,538**	10,094	**38,464**	10,091
Advances from customers		**59,333**	47,697	**59,333**	47,697
Due to related parties	25	**10,477**	9,337	**10,477**	9,337
Accrued expenses and other current liabilities		**36,200**	24,020	**28,791**	21,766
		228,941	149,217	**219,500**	145,117
Total equity and liabilities		**792,321**	617,861	**768,408**	601,631

Approved by and signed on behalf of the Board of Directors on 12 March 2003.

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 2002

(Expressed in thousands of RMB except for earnings per share)

	Note	**2002**	2001
Revenue	*15*	**662,891**	497,373
Cost of sales	*25*	**(306,691)**	(241,049)
Gross profit		**356,200**	256,324
Distribution costs	*25*	**(91,041)**	(70,262)
Administrative expenses	*25*	**(120,268)**	(100,735)
Profit from operations		**144,891**	85,327
Finance income, net	*16*	**4,218**	7,614
Share of result from an associated company		**(477)**	(173)
Profit before taxation	*17*	**148,632**	92,768
Taxation	*18*	**953**	6,910
Profit before minority interests		**149,585**	99,678
Minority interests in the net (income) loss of subsidiaries		**(2,351)**	120
Net profit for the year		**147,234**	99,798
Dividends declared	*19*	**(54,840)**	(38,388)
Earnings per share	*20*		
– Basic and diluted		**RMB0.81**	RMB0.55

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

Consolidated Statement of Changes in Equity

For the year ended 31 December 2002
(Expressed in thousands of RMB)

	Share capital	Share premium	Statutory surplus reserve fund	Statutory public welfare fund	Tax reserve	Retained profits	Foreign currency translation difference	Total
Balances as of 1 January 2001	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
Net profit for the year	–	–	–	–	–	147,234	–	147,234
Dividends	–	–	–	–	–	(54,840)	–	(54,840)
Foreign currency translation difference	–	–	–	–	–	–	(9)	(9)
Appropriation from retained profits	–	–	14,787	7,394	28,390	(50,571)	–	–
Balances as of 31 December 2002	182,800	157,925	30,677	15,339	51,583	110,584	(9)	548,899

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

Consolidated Statement of Cash Flows

For the year ended 31 December 2002
(Expressed in thousands of RMB)

	Note	**2002**	2001
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash generated from operations	*24(a)*	**96,661**	159,832
Interest paid		**(734)**	(2,816)
Income taxes (paid) refunded		**(650)**	7,724
Net cash from operating activities		**95,277**	164,740
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchases of property, plant and equipment		**(109,196)**	(24,712)
Acquisition of land use rights		**(14,235)**	(17,652)
Proceeds from disposals of property, plant and equipment		**92**	66
Investment in an associated company		**–**	(6,367)
Decrease (increase) in other long-term assets		**682**	(8,421)
Decrease (increase) in short-term bank deposits		**155,566**	(208,939)
Interest received		**4,952**	10,430
Net cash from (used in) investing activities		**37,861**	(255,595)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from short-term borrowings		**15,000**	70,000
Repayments of short-term borrowings		**(30,000)**	(85,400)
Additional contributions from minority shareholders of subsidiaries		**–**	12,250
Dividends paid		**(54,840)**	(38,388)
Net cash used in financing activities		**(69,840)**	(41,538)
Net increase (decrease) in cash and cash equivalents		**63,298**	(132,393)
Cash and cash equivalents at beginning of year		**178,565**	310,958
Cash and cash equivalents at end of year	*24(b)*	**241,863**	178,565

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

31 December 2002

(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 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 known as 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 were 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, the ultimate holding company.

31 December 2002
(Amounts expressed in RMB unless otherwise stated)

1. ORGANISATION AND OPERATIONS (CONT'D)

As at 31 December 2002, the Company had equity interests in the following subsidiaries and joint ventures:

Name	Place and date of incorporation	Percentage of equity interest held directly	Issued and paid-up 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
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
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; purchasing and selling agricultural by-products
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; selling agricultural by-products

31 December 2002

(Amounts expressed in RMB unless otherwise stated)

1. ORGANISATION AND OPERATIONS (CONT'D)

Name	Place and date of incorporation	Percentage of equity interest held directly	Issued and paid-up capital	Principal activities
Joint ventures:				
Beijing Tong Ren Tang WM Dianorm Biotech Co., Limited ("TRT WM")	Beijing, PRC 20 February 2001	60%	US$3,000,000	Developing technologies for the production of biological products, Chinese and western medicines, cosmetics and health food
Peking Tongrentang (M) SDN. BHD. ("TRT Malaysia")	Kuala Lumpur, Malaysia 19 January 2001	60%	US$500,000	Sales of medicine products
Beijing Tong Ren Tang Canada Co. Ltd. ("TRT Canada")	Vancouver, Canada 11 January 2002	51%	US$1,000,000	Sales of medicine products

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 out of the 5 board members in each of these entities. Accordingly, they are considered subsidiaries for International Financial Reporting Standards ("IFRS") reporting purposes. Substantial portion of sales of these subsidiaries were made to the Company.

TRT WM, TRT Malaysia and TRT Canada are considered joint ventures for IFRS reporting purposes because their strategic operating, investing and financing activities are jointly controlled by the Company and the joint venture partners. The Company's profit and loss sharing from the joint ventures correspond to their equity interest percentages held by the Company.

31 December 2002
(Amounts expressed in RMB unless otherwise stated)

1. ORGANISATION AND OPERATIONS (CONT'D)

The aggregate amounts of assets, liabilities, revenues and expenses related to the Company's interest in these joint ventures are summarized as follows:

	As of 31 December	
	2002	2001
	RMB'000	*RMB'000*
Current assets	**14,182**	4,535
Non-current assets	**6,081**	4,609
Current liabilities	**1,221**	2,236
Non-current liabilities	**–**	–

	For the year ended 31 December	
	2002	2001
	RMB'000	*RMB'000*
Revenues	**2,739**	–
Expenses	**4,764**	–

The Company and its subsidiaries and joint ventures 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 2002, the Company also had the following interest in an associated company:

Name	**Place and date of incorporation**	**Percentage of equity interest held directly**	**Issued and paid-up capital**	**Principal activities**
Associated company:				
Tong Ren Tang Hutchison (HK) Pharmaceutical Development Co., Limited ("TRT Huthchison", formerly known as Great Forever Investment Limited)	Hong Kong, PRC 10 February 1999	40%	HK$15,000,000	Researching, developing, producing, processing and selling herbal medicine, Chinese medicine and health products

31 December 2002

(Amounts expressed in RMB unless otherwise stated)

2. 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 consolidated financial statements have been prepared in accordance with IFRS as published by the International Accounting Standards Board ("IASB"). The consolidated financial statements have been prepared under the historical cost convention as modified by the revaluation of property, plant and equipment.

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of current events and actions, actual results ultimately may differ from those estimates.

(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 ventures on the basis as set out in Note 2(e) below.

All intra-group accounts and transactions among the Company, its subsidiaries and joint ventures 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.

31 December 2002
(Amounts expressed in RMB unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES (CONT'D)

(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. Increases in the carrying amount arising on revaluation are credited to fair value and other reserves in shareholders' equity. Decreases that offset previous increases of the same asset are charged against fair value and other reserves; all other decreases are charged to the income statement. Each year the difference between depreciation based on the revalued carrying amount of the asset (the depreciation charged to the income statement) and depreciation based on the asset's original cost is transferred from other reserves to retained earnings.

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 2002
(Amounts expressed in RMB unless otherwise stated)

2. 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 costs 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 3(b)). Land use rights are stated at cost less accumulated amortisation and accumulated impairment loss. Amortisation of land use rights is calculated on a straight-line basis over the duration of the land use rights of fifty years.

(e) Investments in subsidiaries, joint ventures 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 venture is in a position to control unilaterally the activity of the venture.

In the consolidated financial statements, investments in joint ventures are accounted for using proportionate consolidation whereby the Company's share of each of the assets, liabilities, income and expenses of a joint venture are 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.

2. PRINCIPAL ACCOUNTING POLICIES (CONT'D)

(e) Investments in subsidiaries, joint ventures and associated company (Cont'd)

In the Company's financial statements, investments in subsidiaries and joint ventures are accounted for using the equity method. An assessment of investments in subsidiaries and joint ventures 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 Company has significant influence and which is neither a subsidiary nor a joint venture of the investor. Significant influence exists when the Company 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 or 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 2002

(Amounts expressed in RMB unless otherwise stated)

2. 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.

2. 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

Items included in the financial statements of each entity in the Group are measured using the currency that best reflects the economic substance of the underlying events and circumstances relevant to that entity ("the measurement currency"). The consolidated financial statements are presented in RMB, which is the measurement currency of the Company.

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.

Income statements and cash flows of foreign entities are translated into the Group's reporting currency at average exchange rates for the year and their balance sheets are translated at the exchange rates ruling on 31 December. Exchange differences arising from the translation of the net investment in foreign entities are taken to shareholders' equity. When a foreign entity is sold, such exchange difference are recognized in the income statement as part of the gain or loss on sale.

31 December 2002

(Amounts expressed in RMB unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES (CONT'D)

(m) Taxation

Taxation of the Group's entities within PRC 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.

(o) Operating leases

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

Lease payments under operating leases are 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.

31 December 2002

(Amounts expressed in RMB unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES (CONT'D)

(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 receivable, 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.

(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).

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2. PRINCIPAL ACCOUNTING POLICIES (CONT'D)

(s) Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions. Government grants relating to costs are deferred and recognised in the income statement over the period necessary to match them with the costs they are intended to compensate. Government grants relating to the purchase of property, plant and equipment are included in other liabilities and are credited to the income statement on a straight-line basis over the expected lives of the related assets. In 2002, the Company obtained grant of RMB1 million from government in relation to the Company's information system upgrading project (2001: Nil).

(t) 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.

(u) 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.

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(Amounts expressed in RMB unless otherwise stated)

3. PROPERTY, PLANT AND EQUIPMENT AND LAND USE RIGHTS

(a) Property, plant and equipment, net

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

	2002					
	Buildings	Equipment and machinery	Motor vehicles	Office equipment	Construction-in-progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Valuation						
Beginning of year	81,938	94,535	7,777	3,683	4,400	192,333
Additions	2,308	250	949	2,798	110,191	116,496
Transfers	39,535	53,596	2,512	1,140	(96,783)	–
Disposals	–	(1,752)	(463)	(191)	–	(2,406)
End of year	123,781	146,629	10,775	7,430	17,808	306,423
Accumulated depreciation						
Beginning of year	35,632	54,727	4,680	1,871	–	96,910
Charges for the year	2,598	9,266	977	705	–	13,546
Disposals	–	(1,648)	(351)	(176)	–	(2,175)
End of year	38,230	62,345	5,306	2,400	–	108,281
Net book value						
End of year	85,551	84,284	5,469	5,030	17,808	198,142
Beginning of year	46,306	39,808	3,097	1,812	4,400	95,423

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3. 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:

	2002					
	Buildings	Equipment and machinery	Motor vehicles	Office equipment	Construction-in-progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Valuation						
Beginning of year	81,938	94,535	7,665	3,306	4,400	191,844
Additions	–	–	–	279	108,477	108,756
Transfers	37,821	53,596	2,512	1,140	(95,069)	–
Disposals	–	(1,752)	(463)	(191)	–	(2,406)
End of year	119,759	146,379	9,714	4,534	17,808	298,194
Accumulated depreciation						
Beginning of year	35,632	54,727	4,677	1,871	–	96,907
Charges for the year	2,576	9,254	862	508	–	13,200
Disposals	–	(1,648)	(351)	(176)	–	(2,175)
End of year	38,208	62,333	5,188	2,203	–	107,932
Net book value						
End of year	81,551	84,046	4,526	2,331	17,808	190,262
Beginning of year	46,306	39,808	2,988	1,435	4,400	94,937

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

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

As of 31 December 2002, 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:

	2002						2001
	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	108,956	124,161	9,769	8,221	17,808	268,915	154,825
Accumulated depreciation	31,474	42,945	4,509	3,146	–	82,074	73,845
Net book value	77,482	81,216	5,260	5,075	17,808	186,841	80,980

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 RMB18,276,000 of the surplus has been transferred to the Company's share capital arising from the injection by the Parent Company, while the rest amount of approximately RMB354,000 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.

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

(b) Land use rights, net

As at 31 December 2002, land use rights, net comprised:

	The Group		The Company	
	2002	2001	**2002**	2001
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Cost	**31,887**	17,652	**28,177**	17,652
Accumulated amortisation	**(912)**	–	**(893)**	–
Land use rights, net	**30,975**	17,652	**27,284**	17,652

4. INVESTMENTS IN SUBSIDIARIES

	The Group		The Company	
	2002	2001	**2002**	2001
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Share of net assets	**–**	–	**13,368**	12,625

5. INVESTMENTS IN JOINT VENTURES

	The Group		The Company	
	2002	2001	2002	2001
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Share of net assets	**–**	–	**19,052**	6,908

6. INVESTMENT IN AN ASSOCIATED COMPANY

	The Group		The Company	
	2002	2001	**2002**	2001
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Beginning of year	**6,194**	6,367	**6,194**	6,367
Share of results	**(477)**	(173)	**(477)**	(173)
End of year	**5,717**	6,194	**5,717**	6,194

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(Amounts expressed in RMB unless otherwise stated)

7. ACCOUNTS RECEIVABLE, NET

	The Group		The Company	
	2002	2001	**2002**	2001
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Accounts receivable	**13,303**	14,944	**12,711**	14,944
Provision for doubtful accounts	**(6,930)**	(6,952)	**(6,930)**	(6,952)
Accounts receivable, net	**6,373**	7,992	**5,781**	7,992

The aging analysis of accounts receivable was as follows:

	The Group		The Company	
	2002	2001	**2002**	2001
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Within 4 months	**5,260**	5,550	**4,677**	5,550
Over 4 months but within 1 year	**1,273**	3,689	**1,264**	3,689
Over 1 year but within 2 years	**1,065**	4,630	**1,065**	4,630
Over 2 years but within 3 years	**4,630**	–	**4,630**	–
Over 3 years	**1,075**	1,075	**1,075**	1,075
	13,303	14,944	**12,711**	14,944

8. INVENTORIES

	The Group		The Company	
	2002	2001	**2002**	2001
	RMB'000	RMB'000	**RMB'000**	RMB'000
Raw materials	**57,750**	30,799	**46,663**	19,264
Work in progress	**13,446**	24,768	**13,446**	24,768
Finished goods	**161,436**	28,144	**159,564**	28,144
	232,632	83,711	**219,673**	72,176

There were no inventories carried at net realisable value as of 31 December 2002 (2001: Nil).

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9. DEFERRED INCOME TAXES

Deferred income taxes are calculated in respect of temporary differences under the liability method using the tax rates which are expected to apply at the time of reversal of the temporary differences.

The movement in deferred taxation account is as follows:

	The Group		The Company	
	2002	2001	**2002**	2001
	RMB'000	RMB'000	**RMB'000**	RMB'000
Beginning of year	**230**	–	**230**	–
Increase during the year	**3,739**	230	**3,739**	230
End of year	**3,969**	230	**3,969**	230
Provided for in respect of:				
Provision for termination benefits	**302**	230	**302**	230
Provision for staff salary and welfare	**2,885**	–	**2,885**	–
Provision for impairment of receivables	**520**	–	**520**	–
Provision for amortization of land use rights	**134**	–	**134**	–
Unrealized profit of inventory purchase from subsidiaries	**128**	–	**128**	–
	3,969	230	**3,969**	230

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10. SHARE CAPITAL

The details of share capital were as follows:

	2002		2001	
	Number of shares	**Nominal value**	Number of shares	Nominal value
		RMB'000		*RMB'000*
Registered	**182,800,000**	**182,800**	182,800,000	182,800
Issued and fully paid				
Domestic shares of RMB 1 each	**110,000,000**	**110,000**	110,000,000	110,000
H shares of RMB 1 each	**72,800,000**	**72,800**	72,800,000	72,800
	182,800,000	**182,800**	182,800,000	182,800

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

11. 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 RMB14,787,000 (2001: RMB10,452,000), 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 2002. Further, the Directors proposed an appropriation of approximately RMB7,394,000 (2001: RMB5,226,000), being 5% of net profit after tax determined under PRC accounting standards, to the statutory public welfare fund.

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11. RESERVES (CONT'D)

(a) Statutory reserves (Cont'd)

According to the Articles of Association of the Company, the reserve available for distribution is the lower of the amount determined under the PRC accounting standards and the amount determined under IFRS. As of 31 December 2002, the reserve available for distribution was approximately RMB110,584,000 (2001: RMB68,761,000), before taking into account the current year's proposed final dividends.

(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 2002. 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 RMB28,390,000 (2001: RMB18,766,000) to a tax reserve, representing the EIT exempted for the year at applicable tax rate of 15%.

12. SHORT-TERM BORROWINGS

As of 31 December 2002, the Company and the Group had short-term bank borrowings granted by a bank amounting to approximately RMB15,000,000 (2001: RMB30,000,000). These borrowings bear fixed interest rate of 5.04% (2001: from 5.58% to 5.85%) per annum.

13. ACCOUNTS PAYABLE

The aging analysis of accounts payable was as follows:

	The Group		**The Company**	
	2002	2001	**2002**	2001
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Within 4 months	**65,050**	25,676	**63,092**	23,833
Over 4 months but within 1 year	**3,877**	846	**3,877**	846
Over 1 year but within 2 years	**10**	1,091	**10**	1,091
Over 2 years but within 3 years	**–**	–	**–**	–
Over 3 years	**456**	456	**456**	456
	69,393	28,069	**67,435**	26,226

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14. SALARY AND WELFARE PAYABLES

	The Group		The Company	
	2002	2001	**2002**	2001
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Salary payable	**32,879**	9,866	**32,879**	9,866
Welfare payable	**5,659**	228	**5,585**	225
	38,538	10,094	**38,464**	10,091

Under salary reform schemes in accordance with government regulations, the Company's aggregate salary amount is subject to government's approval each year. Under the schemes, the Company provided salary of approximately RMB66 million in 2002 (2001: RMB38 million).

15. REVENUE

	2002	2001
	RMB'000	*RMB'000*
Sales of goods	**655,133**	489,029
Agency fee income	**7,731**	8,344
Others	**27**	–
	662,891	497,373

16. FINANCE INCOME, NET

	2002	2001
	RMB'000	*RMB'000*
Interest expenses on bank loans repayable within 5 years	**(1,045)**	(2,148)
Interest income	**4,952**	10,430
Others	**311**	(668)
	4,218	7,614

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17. PROFIT BEFORE TAXATION

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

	2002	2001
	RMB'000	*RMB'000*
Crediting:		
Interest income	**4,952**	10,430
Agency fee income	**7,731**	8,344
Charging:		
Cost of inventories sold	**279,223**	186,792
Staff costs		
– Salary and wages	**70,859**	40,281
– Staff welfare	**8,485**	4,329
– Contribution to retirement benefits	**5,468**	4,885
Depreciation of property, plant and equipment	**13,546**	11,566
Amortization of land use rights	**912**	–
Amortization of other long-term assets	**554**	319
Operating lease rentals	**11,990**	6,933
Auditors' remuneration	**1,100**	1,100
Exchange (gain) losses, net	**(362)**	622
(Reversal) provision for doubtful debts	**(22)**	5,251
Research and development expenses	**12,243**	7,307
Advertising expenses	**46,187**	32,468
Agency fee charged by the Parent Company	**–**	14,499
Loss on disposal of property, plant and equipment	**139**	424

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.

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18. TAXATION (CONT'D)

(a) EIT (cont'd)

In March 2002, the Company renewed its HTE certification granted by Beijing Science-Technology Committee for the years of 2002 and 2003. 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. In October 2002, Beijing Administration of Taxation issued a circular, namely Jingguoshuihan [2002] No.632, stating that a HTE can enjoy the preferential tax treatment only if both the registration and operation are in the designated area. However, BETDZ LTB has also verbally confirmed to the Company that the above EIT preferences should be available to the Company as long as the Company's registered address is in BETDZ and it remains as a HTE.

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 RMB62,459,000 (2001: RMB39,611,000) may arise. Management believes that the possibility of such a liability arising is unlikely.

For the year ended 31 December 2002, an amount equal to the 15% EIT exempted amounting to approximately RMB28,390,000 (2001: RMB18,766,000) was transferred to the tax reserve.

Details of taxation credited during the year are as follows:

	2002	2001
	RMB'000	*RMB'000*
Current income tax expense (credit)	**2,786**	(6,680)
Deferred tax credit	**(3,739)**	(230)
	(953)	(6,910)

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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:

	2002 RMB'000		2001 RMB'000	
Accounting profit	**148,632**	**100.0%**	92,768	100.0%
Tax at the statutory tax rate of the Company of 33%	**49,049**	**33.0%**	30,613	33.0%
Non-deductible permanent differences	**1,876**	**1.3%**	7,290	7.9%
Temporary difference for which no deferred taxation is recognized	**–**	**0.0%**	1,708	1.8%
Effect of different applicable EIT rates upon expected reversal of temporary difference	**10,581**	**7.1%**	531	0.6%
Effect of tax benefits of being a HTE	**(62,459)**	**(42.0%)**	(40,372)	(43.5%)
Application of the Parent Company's tax rate in 2000 prior to issuance of income tax registration certificate and refund in 2001	**–**	**0.0%**	(6,680)	(7.2%)
Taxation	**(953)**	**(0.6%)**	(6,910)	(7.4%)

Under PRC income tax law, the Company's subsidiaries and joint ventures within PRC are generally subject to EIT at a rate of 33% on the taxable income. Foreign entities are subject to income tax as required by tax laws of countries where those entities operate, respectively. However, as these foreign entities had no material operating activities nor taxable profits for the year, no income tax provision was made.

(b) Business Tax ("BT")

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

(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 purchases of goods can be used to offset the output VAT to determine the net VAT payable.

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19. DIVIDENDS

	2002 RMB'000	2001 RMB'000
Dividends declared/proposed before year end	**54,840**	38,388
Dividends declared/proposed after year end	**71,292**	54,840

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 2002, the distributable profits under IFRS was lower than that under the PRC accounting standards by approximately RMB638,000. This was primarily due to the amortization of land use rights, approximately amounting to RMB759,000 made under IFRS (2001: Nil).

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 RMB147,234,000 (2001: RMB99,798,000) divided by the weighted average number of shares during the year of 182,800,000 shares (2001: 182,800,000 shares).

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

21. DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS

(a) Details of directors' emoluments are:

	2002 *RMB'000*	2001 *RMB'000*
Fees for executive directors	**–**	–
Fees for non-executive directors	**255**	255
Other emoluments for executive directors		
– Basic salaries and allowances	**482**	489
– Contribution to retirement scheme	**9**	–
Other emoluments for non-executive directors	**–**	–
	746	744

None of the directors waived any emoluments during the year.

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

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

	2002	2001
Executive directors		
– Nil to Hong Kong Dollar1,000,000	**3**	3
Non-executive directors		
– Nil to Hong Kong Dollar1,000,000	**5**	5
	8	8

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

	2002	2001
	RMB'000	*RMB'000*
Basic salaries and allowance	**1,504**	1,131
Contribution to retirement scheme	**49**	6
Discretionary bonus and others	**900**	–
	2,453	1,137

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

	2002	2001
Nil to Hong Kong Dollar1,000,000	**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 granting these shares. The Company does not provide for any other equity compensation benefits.

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

(e) Executive bonus plan

Certain officers of the Company are participants in the Executive Bonus Plan (the "Plan"). The plan, approved by the board of directors, provides that up to 1% of the Company's net profit be set aside for distributions among participants based upon performance evaluation determined by the board of directors. For the year ended 31 December 2002, the Company accrued for RMB1,500,000 (2001: RMB1,124,000) in accordance with the plan. In addition, as approved by the board of directors, the Company provided and paid bonus of approximately RMB900,000 to the senior management for year ended 31 December 2002 (2001: Nil).

During the year ended 31 December 2002, 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 the loss of office (2001: Nil).

22. RETIREMENT AND TERMINATION BENEFITS

Pursuant to the PRC laws and regulations, contributions to the basic retirement benefit scheme for the Group's staff within PRC mainland are to be made monthly to a government agency based on percentage ranging from 26% to 31% (2001: 26%) of the standard salary set by the local government, of which percentage ranging from 19% to 26% (2001: 19%) is borne by the Group and the remaining portion is borne by the staff. The government agency is responsible for the pension liabilities relating to such staff on their retirements. The Group accounts for these contributions on an accrual basis.

In addition, the Company provides termination benefits to certain employees in the future periods up to their normal retirement age. Termination benefits are payable whenever an employee's employment is terminated before the normal retirement date or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to either terminate the employment of current employees according to a detailed formal plan without possibility of withdrawal or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after balance sheet date are discounted to present value. Carrying value of the relevant provision as of 31 December 2002 and 2001, approximated RMB3,330,000, and RMB4,725,000, respectively, with the utilization in current year approximately of RMB1,624,000.

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23. HOUSING FUND

The Group' s all full-time employees within PRC 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. For the year ended 31 December 2002, the Group contributed approximately RMB2.1 million (2001: RMB1.7 million) to the fund.

24. CASH GENERATED FROM OPERATIONS

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

	2002	2001
	RMB'000	*RMB'000*
Profit before taxation	**148,632**	92,768
Adjustments for:		
Provision for doubtful accounts	**(22)**	5,251
Depreciation	**13,546**	11,566
Amortization of land use rights	**912**	–
Amortization of other long-term assets	**554**	319
Loss on disposals of property, plant and equipment, net	**139**	424
Share of results from an associated company	**477**	173
Interest income	**(4,952)**	(10,430)
Interest expenses	**734**	2,816
Operating profit before working capital changes	**160,020**	102,887
(Increase) decrease in current assets:		
Accounts receivable	**1,641**	24,955
Inventories	**(148,921)**	(1,645)
Prepayments and other current assets	**(530)**	(7,628)
Due from related parties	**(828)**	(855)
Increase (decrease) in current liabilities:		
Accounts payable	**41,324**	3,039
Other current liabilities	**42,815**	35,246
Due to related parties	**1,140**	3,833
Cash generated from operations	**96,661**	159,832

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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:

	The Group		The Company	
	2002	2001	**2002**	2001
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Cash				
RMB	**38**	62	**7**	50
Canada Dollar denominated	**4**	–	**–**	–
Malaysia Ringgit denominated	**4**	–	**–**	–
Hong Kong Dollar denominated	**1**	1	**1**	1
	47	63	**8**	51
Demand deposits				
RMB	**91,181**	153,239	**73,480**	138,093
US Dollar denominated	**15,170**	17,294	**11,798**	16,571
Canada Dollar denominated	**480**	–	**–**	–
Malaysia Ringgit denominated	**1,073**	–	**–**	–
Euro denominated	**–**	437	**–**	437
Hong Kong Dollar denominated	**133,912**	7,532	**133,912**	7,532
	241,816	178,502	**219,190**	162,633
	241,863	178,565	**219,198**	162,684

As of 31 December 2002, bank deposits of approximately RMB53,373,000 (2001: RMB208,939,000) with original maturities over three months and bearing interest at fixed rates ranging from 1.20% to 1.85% (2001: 1.40% to 3.00%) per annum were presented as short-term bank deposits.

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25. RELATED PARTY TRANSACTIONS

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:

(a) Transactions with the Parent Company

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

No 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 2002 (2001: RMB14,499,000) (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 2002 was approximately RMB7,731,000 (2001: RMB8,344,000) (Note (ii)).

(b) Transactions with the Ultimate Holding Company

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

	2002	2001
	RMB'000	*RMB'000*
Purchases of raw materials from the Ultimate Holding Company (Note (iii))	**91,029**	74,968
Purchases 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))	**6,804**	2,268

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25. RELATED PARTY TRANSACTIONS (CONT'D)

(c) Transactions with the subsidiaries and associates of the Parent Company or the Ultimate Holding Company

During the year ended 31 December 2002, the Company sold products to the distribution agents which are related companies of the Parent Company or the Ultimate Holding Company amounting to approximately RMB120,176,000 (2001: RMB126,817,000).

During the year ended 31 December 2002, the Company paid transportation fees to a transportation agent under the Ultimate Holding Companies' control amounting to approximately RMB6,026,000 (2001: RMB4,573,000).

During the year ended 31 December 2002, the Company paid advertising fee to an advertising agent which is a subsidiary of the Ultimate Holding Company amounting to approximately RMB4,462,000 (2001: RMB3,267,000) (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 fee payable to the Company under the distribution agency agreement is limited to 8.5% on the related sales. On 17 May 2002, both parties agreed to extend the term of the agreement to 31 December 2004.

(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. On 17 May 2002, both parties agreed to extend the term of the agreement to 31 December 2004.

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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. On 17 May 2002, both parties agreed to extend the term of this contract to 31 December 2004.

(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. On 17 May 2002, both parties agreed to extend the term of this contract to 31 December 2004.

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25. RELATED PARTY TRANSACTIONS (CONT'D)

Notes: (cont'd)

(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. On 17 May 2002, both parties agreed to extend the term of the agreement to 31 December 2004.

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.

(d) Transactions with minority shareholders of subsidiaries and joint venture partners

	2002	2001
	RMB'000	RMB'000
Sales made to minority shareholders of subsidiaries	**6,647**	–
Sales made to joint venture partners	**9,450**	–

(e) Balances with related parties

The amounts due to and from related parties as of 31 December 2002 and 2001 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 primarily in one industry and geographical segment.

27. BANKING FACILITIES

As of 31 December 2002, the Group had aggregated banking facilities of RMB100,000,000 (2001: RMB100,000,000) for loan and other trade financing. As of 31 December 2002, the unutilised facilities amounted to RMB85,000,000 (2001: RMB70,000,000).

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.

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28. FINANCIAL INSTRUMENTS (CONT'D)

(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 1.5% (2001: 3.0%).

The majority of the Group's accounts receivable relate to sales of goods to third party customers. The Group does not have fixed credit period for its accounts receivable. 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. Sales to a single customer accounted for 11.8% of total revenue in 2002.

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

(c) Interest rate risk

The interest rates and terms of repayment of short-term bank loans of the Group are disclosed in Note12.

(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 RMB against foreign currencies could affect the Group's results of operations.

29. COMMITMENTS

(a) Capital commitments

As of 31 December 2002, 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 approximately RMB22,995,000 (2001: RMB13,510,000).

Commitments relating to investment contributions to investee entities amounted to approximately RMB48,464,000 (2001: RMB88,417,000).

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29. COMMITMENTS (CONT'D)

(a) Capital commitments (cont'd)

(ii) Authorised but not contracted for:

No commitments relating to the construction of production facilities (2001: RMB15,490,000).

(b) Operating lease commitments

As of 31 December 2002, the Group had commitments in respect of leased land and buildings under various non-cancelable operating lease agreements extending to 30 May 2020 amounting to approximately RMB73,274,000 (2001: RMB65,396,000). Total future minimum lease payments under non-cancelable operating leases are as follow:

	2002	2001
	RMB'000	*RMB'000*
Land and buildings:		
– not later than one year	**12,489**	5,685
– later than one year and not later than five years	**26,546**	22,742
– later than five years	**34,239**	36,969
	73,274	65,396

30. SUBSEQUENT EVENTS

On 12 March 2003, the Board of Directors proposed a final dividend of RMB0.39 per share (2001: RMB0.30 per share) for the year ended 31 December 2002, totalling approximately RMB71,292,000 (2001: RMB54,840,000). 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 2003.

31. APPROVAL OF FINANCIAL STATEMENTS

The financial statements set out on pages 32 to 71 were approved by the Board of Directors on 12 March 2003.