



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

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



Interim Report 2003



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

HIGHLIGHTS

- Turnover increased by approximately 34.46% for the six months ended 30 June 2003 as compared with the corresponding period in 2002.
- Net profit increased by approximately 21.51% for the six months ended 30 June 2003 as compared with the corresponding period in 2002.
- Earnings per share for the six months ended 30 June 2003 was RMB0.509.



HALF-YEARLY RESULTS (UNAUDITED)

The Board of Directors (the “Board”) of Tong Ren Tang Technologies Co. Ltd. (the “Company”) is pleased to announce the unaudited results of the Company and its subsidiaries and its joint venture (hereafter collectively referred to as the “Group”) for the six months ended 30 June 2003, as follows:

Condensed Consolidated Statement of Income

	Notes	For the six months ended 30 June		For the three months ended 30 June	
		2003 (Unaudited) RMB'000	2002 (Unaudited) RMB'000	2003 (Unaudited) RMB'000	2002 (Unaudited) RMB'000
Turnover	3	531,812	395,525	260,183	201,723
Cost of sales		(271,055)	(188,079)	(124,385)	(83,512)
Gross profit		260,757	207,446	135,798	118,211
Selling and distribution costs		(87,816)	(54,637)	(43,955)	(19,503)
Administrative expenses		(73,314)	(75,673)	(43,009)	(56,778)
Profit from operations		99,627	77,136	48,834	41,930
Finance income, net	4	1,156	1,365	577	626
Profit before taxation	5	100,783	78,501	49,411	42,556
Taxation	6	(6,662)	(595)	(3,750)	(367)
Profit before minority interests		94,121	77,906	45,661	42,189
Minority interests		(1,142)	(1,385)	(1,027)	(1,313)
Net profit		92,979	76,521	44,634	40,876
Earnings per share – Basic and diluted	7	RMB0.509	RMB0.419	RMB0.244	RMB0.224

Condensed Consolidated Balance Sheet

		30 June 2003	31 December 2002
		(Unaudited)	(Audited)
	<i>Notes</i>	RMB'000	<i>RMB'000</i>
ASSETS			
Non-current assets			
Property, plant and equipment, net	8	206,681	198,142
Land use rights, net		30,975	30,975
Investments in associated companies		7,548	5,717
Deferred tax assets		3,969	3,969
Other long-term assets		7,732	6,866
		<hr/> 256,905 <hr/>	<hr/> 245,669 <hr/>
Current assets			
Cash and cash equivalents		268,463	241,863
Short-term bank deposits		95,508	53,373
Accounts receivable, net	9	41,524	6,373
Inventories		170,953	232,632
Due from related parties		–	1,683
Prepayments and other current assets		12,780	10,728
		<hr/> 589,228 <hr/>	<hr/> 546,652 <hr/>
Total assets		<hr/> 846,133 <hr/>	<hr/> 792,321 <hr/>



Condensed Consolidated Balance Sheet (Continued)

		30 June 2003 (Unaudited) <i>RMB'000</i>	31 December 2002 (Audited) <i>RMB'000</i>
	<i>Notes</i>		
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	10	182,800	182,800
Reserves	11	387,786	366,099
		<u>570,586</u>	<u>548,899</u>
Minority interests		<u>15,623</u>	<u>14,481</u>
Current liabilities			
Short-term borrowings		15,000	15,000
Accounts payable	12	59,660	69,393
Salary and welfare payables		63,410	38,538
Advances from customers		12,853	59,333
Due to related parties		–	10,477
Dividends payable		28,392	–
Accrued expenses and other current liabilities		80,609	36,200
		<u>259,924</u>	<u>228,941</u>
Total equity and liabilities		<u>846,133</u>	<u>792,321</u>

Condensed Consolidated Statement of Cash Flows

	For the six months ended 30 June	
	2003 <i>(Unaudited)</i> RMB'000	2002 <i>(Unaudited)</i> RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash generated from operations	140,674	99,147
Interest paid	(625)	(672)
Income taxes refunded	741	2,049
Net cash from operating activities	<u>140,790</u>	<u>100,524</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property, plant and equipment	(28,937)	(32,630)
Proceeds from disposals of property, plant and equipment	–	678
Investments in associated companies	(1,831)	(6,719)
(Increase) decrease in short-term bank deposits	(42,135)	18,319
Interest received	1,613	2,037
Net cash used in investing activities	<u>(71,290)</u>	<u>(18,315)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayments of short-term borrowings	–	(15,000)
Dividends paid	(42,900)	(33,000)
Net cash used in financing activities	<u>(42,900)</u>	<u>(48,000)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	26,600	34,209
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	<u>241,863</u>	<u>178,565</u>
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<u><u>268,463</u></u>	<u><u>212,774</u></u>



Condensed Consolidated Statement of Changes in Equity

	Share capital <i>(Unaudited)</i> RMB'000	Share premium <i>(Unaudited)</i> RMB'000	Statutory surplus reserve fund <i>(Unaudited)</i> RMB'000	Statutory public welfare fund <i>(Unaudited)</i> RMB'000	Tax reserve <i>(Unaudited)</i> RMB'000	Retained profits <i>(Unaudited)</i> RMB'000	Foreign currency translation difference <i>(Unaudited)</i> RMB'000	Total <i>(Unaudited)</i> RMB'000
Balances as of 1 January 2002	182,800	157,925	15,890	7,945	23,193	68,761	-	456,514
Net profit for the six months ended 30 June 2002	-	-	-	-	-	76,521	-	76,521
Final dividend declared	-	-	-	-	-	(54,840)	-	(54,840)
Appropriation from retained profits	-	-	-	-	11,393	(11,393)	-	-
Balances as of 30 June 2002	182,800	157,925	15,890	7,945	34,586	79,049	-	478,195
Balances as of 1 January 2003	182,800	157,925	30,677	15,339	51,583	110,584	(9)	548,899
Net profit for the six months ended 30 June 2003	-	-	-	-	-	92,979	-	92,979
Final dividend declared	-	-	-	-	-	(71,292)	-	(71,292)
Appropriation from retained profits	-	-	-	-	7,492	(7,492)	-	-
Balances as of 30 June 2003	182,800	157,925	30,677	15,339	59,075	124,779	(9)	570,586

Notes:

1. Basis of presentation

The Company was incorporated as a joint stock company with limited liability in the People's Republic of China (the "PRC") on 22 March 2000 and upon the placing of its H shares, was listed on the GEM on 31 October 2000. Its ultimate holding company is China Beijing Tong Ren Tang Group Co. Ltd., incorporated in Beijing, the PRC.

The Group has prepared the condensed consolidated financial statements in accordance with the International Accounting Standard 34 "Interim Financial Reporting".

2. Principal accounting policies

The accompanying condensed consolidated financial statements are prepared in accordance with the International Financial Reporting Standards as published by the International Accounting Standards Board. The accounting policies adopted are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2002.

3. Turnover

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

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

	For the six months ended 30 June		For the three months ended 30 June	
	2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000
Sales of medicine:				
Domestic	505,196	378,877	246,860	195,352
Overseas	21,829	11,935	10,853	4,634
Agency fee income - domestic	4,787	4,713	2,470	1,737
	<u>531,812</u>	<u>395,525</u>	<u>260,183</u>	<u>201,723</u>

4. Finance income, net

	For the six months ended 30 June		For the three months ended 30 June	
	2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000
Interest expenses on bank loans repayable within 5 years	(625)	(646)	(625)	(224)
Interest income	1,613	2,037	1,026	941
Others	168	(26)	176	(91)
	<u>1,156</u>	<u>1,365</u>	<u>577</u>	<u>626</u>



5. Profit before taxation

Profit before taxation was determined after charging the following:

	For the six months ended 30 June		For the three months ended 30 June	
	2003	2002	2003	2002
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Depreciation of property, plant and equipment	<u>8,546</u>	<u>6,346</u>	<u>4,272</u>	<u>3,342</u>

6. Taxation

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

In 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 Jingdishuikajianmianfa [2000] No. 23) to enjoy an EIT exemption for three years commencing from 2000 and a 50% reduction in EIT for the three years thereafter. In October 2002, Beijing Administration of Taxation issued a circular, namely Jinguoshuihan [2002] No. 632, stating that a HTE can enjoy the preferential tax treatment only if both the registration and operation are in the designated area. However, BETDZ LTB has also verbally confirmed to the Company that the above EIT preferences should be available to the Company as long as the Company’s registered address is in BETDZ and it remains as a HTE.

For the period ended 30 June 2003, an amount equal to the 7.5% EIT exempted amounting to approximately RMB7,492,000 (2002: RMB11,393,000) was transferred to the tax reserve.

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

	For the six months ended 30 June		For the three months ended 30 June	
	2003 <i>RMB'000</i>	2002 <i>RMB'000</i>	2003 <i>RMB'000</i>	2002 <i>RMB'000</i>
Accounting profit	<u>100,783</u>	<u>78,501</u>	<u>49,411</u>	<u>42,556</u>
Tax rate	14.04%	15.27%	14.76%	14.90%
EIT at tax rate	14,154	11,988	7,293	6,340
Effect of tax benefits of being a HTE	<u>(7,492)</u>	<u>(11,393)</u>	<u>(3,543)</u>	<u>(5,973)</u>
Tax expense	<u><u>6,662</u></u>	<u><u>595</u></u>	<u><u>3,750</u></u>	<u><u>367</u></u>

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 period, no income tax provision was made.

7. Earnings per share

The calculation of the basic earnings per share for the six months ended 30 June 2003 was based on the net profit of approximately RMB92,979,000 (2002: RMB76,521,000) divided by the weighted average number of shares issued during the period of 182,800,000 shares (2002: 182,800,000 shares).

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

8. Additions to property, plant and equipment

During the period, the Group spent approximately RMB28,937,000 (31 December 2002: RMB116,496,000) on the acquisition of property, plant and equipment.



9. Accounts receivable, net

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

	30 June 2003 <i>(Unaudited)</i> RMB'000	31 December 2002 <i>(Audited)</i> RMB'000
Accounts receivable	48,454	13,303
Provision for doubtful accounts	<u>(6,930)</u>	<u>(6,930)</u>
Accounts receivable, net	<u>41,524</u>	<u>6,373</u>

The aging analysis of accounts receivable was as follows:

	30 June 2003 <i>(Unaudited)</i> RMB'000	31 December 2002 <i>(Audited)</i> RMB'000
Within 4 months	35,303	5,260
Over 4 months but within 1 year	7,218	1,273
Over 1 year but within 2 years	1,193	1,065
Over 2 years but within 3 years	-	4,630
Over 3 years	<u>4,740</u>	<u>1,075</u>
	<u>48,454</u>	<u>13,303</u>

10. Share capital

	30 June 2003		31 December 2002	
	Number of shares	Nominal value RMB'000	Number of shares	Nominal value RMB'000
Registered	<u>182,800,000</u>	<u>182,800</u>	<u>182,800,000</u>	<u>182,800</u>
Issued and fully paid				
Domestic shares of				
RMB 1 each	<u>110,000,000</u>	<u>110,000</u>	<u>110,000,000</u>	<u>110,000</u>
H shares of RMB 1 each	<u>72,800,000</u>	<u>72,800</u>	<u>72,800,000</u>	<u>72,800</u>
	<u>182,800,000</u>	<u>182,800</u>	<u>182,800,000</u>	<u>182,800</u>

11. Reserves

	Share premium <i>RMB'000</i>	Statutory surplus reserve fund <i>RMB'000</i>	Statutory public welfare fund <i>RMB'000</i>	Tax reserve <i>RMB'000</i>	Retained profits <i>RMB'000</i>	Foreign currency translation difference <i>RMB'000</i>	Total <i>RMB'000</i>
Balances as of 1 January 2002	157,925	15,890	7,945	23,193	68,761	-	273,714
Net profit for the year	-	-	-	-	147,234	-	147,234
Final dividend declared	-	-	-	-	(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 (Audited)	157,925	30,677	15,339	51,583	110,584	(9)	366,099
Final dividend declared	-	-	-	-	(71,292)	-	(71,292)
Net profit for the three months ended 31 March 2003	-	-	-	-	48,345	-	48,345
Appropriation from retained profits (See Note 6 above)	-	-	-	3,949	(3,949)	-	-
Balances as of 31 March 2003 (Unaudited)	157,925	30,677	15,339	55,532	83,688	(9)	343,152
Net profit for the three months ended 30 June 2003	-	-	-	-	44,634	-	44,634
Appropriation from retained profits (See Note 6 above)	-	-	-	3,543	(3,543)	-	-
Balances as of 30 June 2003 (Unaudited)	157,925	30,677	15,339	59,075	124,779	(9)	387,786



12. Accounts payable

The aging analysis of accounts payable was as follows:

	30 June 2003 <i>(Unaudited)</i> RMB'000	31 December 2002 <i>(Audited)</i> RMB'000
Within 4 months	58,148	65,050
Over 4 months but within 1 year	1,104	3,877
Over 1 year but within 2 years	8	10
Over 2 years but within 3 years	—	—
Over 3 years	400	456
	<hr/> 59,660 <hr/>	<hr/> 69,393 <hr/>

13. Segment information

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

14. Charges on group assets

As at 30 June 2003, none of the Group's assets was pledged as security for liabilities (2002: Nil).

15. Foreign currency risk

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

16. Capital commitments

As of 30 June 2003, the Group had the following capital commitments which were not provided for in the condensed consolidated financial statements of the Group:

Authorised and contracted for:

Commitments relating to the construction of production facilities amounted to approximately RMB48,000,000 (31 December 2002: RMB22,995,000).

Commitments relating to investment contributions to investee entities amounted to approximately RMB46,312,000 (31 December 2002: RMB48,464,000).

INTERIM DIVIDENDS

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2003 (2002: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

The first half of the year 2003 is an extraordinary half year which all the staff of the Company worked hard in unity. Especially facing the sudden outbreak of the Severe Acute Respiratory Syndrome (“SARS”) epidemic, the Company remained calm, made decision promptly, actively followed the yearly plan, reformed and developed with renovation, captured opportunities, overcome difficulties and tried its best to minimize the negative effects brought by SARS which resulted in the double victory in the overall performance of production and operation and the resistance against SARS. The production and operation of the Company in the first half of 2003 have been enhanced and a better development trend has been continuously achieved. Turnover and net profit for the six months ended 30 June 2003 amounted to approximately RMB531,812,000 and RMB92,979,000, representing an increase of 34.46% and 21.51% respectively as compared with the corresponding period of last year.

Production

Due to the unexpected SARS epidemic in the first half of this year, the demand for anti-virus medicinal products exceeded the supply. The Company has actively created advantageous condition and adjusted the production structure to arrange the production of anti-virus medicinal products as a priority. The departments of raw material supply, production, quality control, warehouse and transportation were unified and spared no efforts to overcome difficulties such as shortage of raw materials and blockage in transportation channels so as to ensure the market supply. Commencing from early February till late May, the production staff continuously persisted in working and sacrificed their rest and holidays. Their hard work came up with fruitful results.



The production volume and turnover of anti-virus medicinal products of the Company have increased substantially. The turnover of Banlangen Granule (板藍根顆粒) for the first half of 2003 has been increased by 282.27% as compared with the corresponding period in last year. The sale of Qingre Jiedu Liquor (清熱解毒口服液) with the effect of dissipating heat has also achieved obvious growth.

Currently, the Yizhuang tablet production workshop has been operating well with the production quantity of tablets being raised gradually. While the structure and the internal design of the multi-purpose building has been completed, the internal decoration work will commence upon the approval being granted by relevant departments. The completion and use of the multi-purpose building will further raise the production capacity of tablet products and consolidate the foundation of the Company in the further expansion of sale.

Sale

The turnover of the Company's flagship products has increased substantially in recent year. The Company must continuously reform and innovate the sales model in order to further increase the market share under keen market competition. Accordingly, the Company has actively implemented the plan established at the beginning of the year to achieve outstanding results in the hospital market, sales of main products and new products. With the hospital market being established as the key point together with smooth sales channels and network as foundation, the sales of main products and new products have been further enhanced.

Hospital market is an area which the Company has not yet explored. The Company has chosen Beijing as a testing point after investigation and research. It has selected agents with better hospital market resources, strengthened the communication with major hospitals and adopted various cooperation formats to promote Tong Ren Tang products. Especially during the peak period of the SARS epidemic, the Company has associated with hospital authorities to develop various charitable activities which promoted the knowledge of prevention and personal hygiene while facing SARS as well as promoted Tong Ren Tang products so as to enlarge the market share of the Company's products.

In order to further expand the domestic market, the operating and new product branch companies developed sales network with regional agents as the core, strengthened the management of retail terminal network, made efforts to anticipate demand and acquire market while maintaining the existing sales channels. During the first half year, the regional sales network testing points established in Heilongjiang and Fujian have obtained outstanding achievements. Especially after the outbreak of the SARS epidemic in Beijing, the sales staff have overcome difficulties such as restrictions on travelling to develop business. The Company has also established policies such as short distance delivery service to ensure the normal progress of marketing work. In the first half of 2003, the turnover of the Company's flagship products Liuwei Dihuang Pill (六味地黃丸) and Niuhuang Jiedu Tablet (牛黃解毒片) have increased by 18.83% and 34.13% over the corresponding period of last year. The turnover of Ganmao Qingre Granule (感冒清熱顆粒) has been decreased mildly as compared with the corresponding period in 2002.

For the overseas market, the Company has adopted active measures and striven to turn the challenge brought by SARS into opportunities. Focused on the different features of the target market, appropriate products were being selected to promote overseas sale. The turnover of overseas markets in the first half of 2003 amounted to approximately RMB21,829,000, representing an increase of 82.9% as compared with the corresponding period of last year. The operation situations of Peking Tong Ren Tang (Malaysia) Sdn. Bhd. and Beijing Tongrentang (Canada) Co., Ltd., being invested by the Company in Malaysia and Canada respectively, were fine and have achieved profits. In order to further expand the overseas market, the Company has invested and established Beijing Tong Ren Tang (Macao) Company Ltd. in the first half of 2003. The registered capital is US\$500,000 and the Company has a 51% contribution to its total investment. The Macau pharmacy is under busy preparation and trial operation will be commenced in July.



Research and development

In order to improve the technological level of research and development of medicinal products, the Research Centre actively cooperated with pharmaceutical research institutes, screened new medicine research projects as reserve, accelerated the progress of the existing research projects and the launching of new products in the market. For the anti-influenza effervescent tablet (抗感泡騰片) which has been awarded the New Medicine Certificate, the Company has completed the trial production, technological conclusion, improvement on production technique and striven to launch in the market together with Taizi Baoxin Liquor (太子保心口服液) within this year. For the new anti-menopause syndrome drug, the Company has passed the preliminary approval of Beijing City Pharmaceutical Supervision Bureau for new drugs in the first half year and has submitted to the State Pharmaceutical Supervision and Administration of the PRC which is now undergoing assessment in the State Pharmaceutical Assessment Centre.

Bio-pharmaceutical technologies

Beijing Tong Ren Tang WM Dianorm Biotech Co., Limited (“Tong Ren Tang WM Dianorm”) is a specialized company which studies the usage of German monopolistic liposome technology. Tong Ren Tang WM Dianorm has further absorbed the core technology of liposome products and upgrade the technology level of core production in the first half year. It has selected to develop and launch several liposome spray products, including NIT-EYE (立眼舒), NIT-ACB(立消瘞) and NIT-MOUTH (立口健), in the market. Liposome spray products are advantageous over traditional products in the way that they have the characteristics of efficient permeation, easy to absorb, natural and convenient to use. The marketing and promotion work are now under proceeding.

Liquidity and Financial Resources

The Group has maintained a sound financial position for the six months ended 30 June 2003. During the period, 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 30 June 2003, the Group had bank and cash balances amounted to RMB363,971,000 (31 December 2002: RMB295,236,000) and short-term borrowings of RMB15,000,000 (31 December 2002: RMB15,000,000). These borrowings are denominated in Renminbi and provided by various banks in the PRC and bear fixed interest of 5.31% (31 December 2002: 5.04%) per annum. As at 30 June 2003, the Group had total assets of RMB846,133,000 (31 December 2002: RMB792,321,000) which were financed by current liabilities of RMB259,924,000 (31 December 2002: RMB228,941,000), shareholders' equity of RMB570,586,000 (31 December 2002: RMB548,899,000) and minority interests of RMB15,623,000 (31 December 2002: RMB14,481,000).

The Group's gearing ratio, defined as the ratio between total borrowings and shareholders' equity, was 0.03 (31 December 2002: 0.03). The liquidity ratio of the Group, represented by a ratio between current assets over current liabilities, was 2.27 (31 December 2002: 2.39), reflecting the abundance of financial resources.

PROSPECTS

There has been a substantial increase in the production and sale of the Company in the first half of 2003. The situation of the pharmaceutical market for the second half year is pessimistic. The aftereffect of the SARS epidemic on economic development may result in new changes in the pharmaceutical market while the production and operation of the Company may have to face severer challenge. In the light of this, the Company will continue to persist the principles of reformation, innovation and development. New idea, new thinking and new method will be used to adapt market changes and accept challenge with the market competitiveness being enhanced to achieve the target of continuous and accelerated growth of the Company.



The Company will continue to pay close attention to each market-oriented production and operational segment to ensure the achievement of the yearly working target. The establishment of sales network will be further extended to bring the function of sales network into full play and drag the consumption demand. The developed pharmaceutical market will be consolidated while the exploration and development of the Beijing pharmaceutical market will be carried out simultaneously. The organization will be adjusted according to region and product-category. The market will be segmented to enlarge the marketing scale of single product. The training of the sales team will be strengthened to raise the business quality.

The construction of the multi-purpose building of the Yizhuang production base will be accelerated and the production scale of the tablet product will be further enlarged to ensure the market supply. The planning and design of the acquired land in the Yizhuang production base will be speeded up in order to optimize the allocation of resources. Accordingly, the production capacity and scale will be raised under reasonable arrangement.

The Company will keep on the research and development work of the existing research projects and speed up the launching of new products in the market. At the same time, the research and development work of Chinese medicinal new products will be strengthened while the screening of high standard projects will be continued. The research work of the new key products already registered will be accelerated to further strengthen the competitiveness of the Company's products.

The Company will continue to strictly comply with the Good Manufacturing Practice standards and strengthen the quality control procedures. The management by quality control will be accomplished with the standard of quality control management being further raised.

OTHER INFORMATION

COMPETING INTERESTS

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

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

The Company, Tongrentang Ltd. and Tongrentang Holdings are all engaged in the manufacturing of Chinese Patent Medicine. Their businesses are delineated in accordance with their differences in focus on the forms of medicine they produce. Tongrentang Ltd. mainly produces Chinese Patent Medicine in traditional form such as large pill, powder, ointment, pellet and medicinal wine. It also has some minor production lines for the production of granule 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 Niu Huang 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 Niu Huang Pills (安宮牛黃丸), Tongrentang Holdings, Tongrentang Ltd. and their respective subsidiaries would not produce any common products of the same names or under the same names with different forms that may compete directly with those of the Company in the future. In this regard, the Company, Tongrentang Ltd. and Tongrentang Holdings agreed not to produce certain of their products so that only one of them would continue the production of each of the products with common production permits. As such, it was agreed that out of the 86 products of the Company with common production permits, 49 of them would only be manufactured by the Company in the future, while 31 and 5 of them would only be manufactured by Tongrentang Ltd. and Tongrentang Holdings respectively upon listing of the shares of the Company on GEM on 31 October 2000 and only one of them, Angong Niu Huang Pills (安宮牛黃丸), would be manufactured by both the Company and Tongrentang Ltd. in the future.

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

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

First right of refusal

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

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



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

In the event that the Company 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%.

DIRECTORS' INTERESTS IN SHARES

As at 30 June 2003, the interests and short positions of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the minimum standards of dealing by directors as referred

to in Rule 5.40 of the Rules Governing the Listing of Securities on the GEM (the “GEM Listing Rules”), were as follows:

Long positions in shares

The Company

Name	Type of interests	Capacity	Number of shares (Note)	Percentage of domestic shares	Percentage of total registered share capital
Mr. Yin Shun Hai	Personal	Beneficial owner	500,000	0.455%	0.274%
Mr. Wang Zhao Qi	Personal	Beneficial owner	500,000	0.455%	0.274%
Mr. Mei Qun	Personal	Beneficial owner	500,000	0.455%	0.274%
Mr. Tian Rui Hua	Personal	Beneficial owner	100,000	0.091%	0.055%
Mr. Zhao Bing Xian	Personal	Beneficial owner	5,000,000	4.546%	2.735%

Note: All represented domestic shares.

Tongrentang Ltd.

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

Note: All represented A shares of Tongrentang Ltd.



Beijing Tong Ren Tang International Co., Limited

Name	Type of interests	Capacity	Number of shares	Percentage of total issued share capital
Mr. Yin Shun Hai	Personal	Beneficial owner	39,000	0.500%
Mr. Mei Qun	Personal	Beneficial owner	78,000	1.000%

Save as disclosed above, as at 30 June 2003, none of the Directors and chief executives of the Company has any interests and short positions in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the minimum standards of dealing by directors as referred to in Rule 5.40 of the GEM Listing Rules.

SUBSTANTIAL SHAREHOLDERS

As at 30 June 2003, the following persons (other than the Directors and chief executives of the Company) had interests and short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO:

Long positions in shares

Name of shareholder	Capacity	Number of shares	Percentage of domestic shares	Percentage of H shares	Percentage of total registered share capital
Tongrentang Ltd.	Beneficial owner	100,000,000	90.909%	–	54.705%
Tongrentang Holdings (Note 1)	Interest of a controlled corporation	100,000,000	90.909%	–	54.705%
	Beneficial owner	2,900,000	2.636%	–	1.586%
Capital International, Inc.	Investment manager	6,596,000	–	9.060%	3.608%
Capital Group International, Inc. (Note 2)	Interest of a controlled corporation	6,596,000	–	9.060%	3.608%
The Capital Group Companies, Inc. (Note 2)	Interest of a controlled corporation	6,596,000	–	9.060%	3.608%
JF Asset Management Limited	Investment manager	3,705,000	–	5.089%	2.027%
J.P. Morgan Fleming Asset Management (Asia) Inc. (Notes 3 and 4)	Interest of a controlled corporation	4,495,000	–	6.175%	2.459%
J.P. Morgan Fleming Asset Management Holdings Inc. (Notes 3 and 4)	Interest of a controlled corporation	5,056,000	–	6.945%	2.766%
J.P. Morgan Chase & Co. (Notes 3,4 and 5)	Interest of a controlled corporation	7,203,000	–	9.894%	3.940%
First State Investments (Hong Kong) Limited	Investment manager	4,481,000	–	6.155%	2.451%
First State (Hong Kong) LLC (Note 6)	Interest of a controlled corporation	4,481,000	–	6.155%	2.451%
First State Investments (Bermuda) Ltd (Note 6)	Interest of a controlled corporation	4,481,000	–	6.155%	2.451%
First State Investment Managers (Asia) Ltd (Note 6)	Interest of a controlled corporation	4,481,000	–	6.155%	2.451%



Name of shareholder	Capacity	Number of shares	Percentage of domestic shares	Percentage of H shares	Percentage of total registered share capital
Colonial First State Group Ltd (Note 6)	Interest of a controlled corporation	4,481,000	-	6.155%	2.451%
The Colonial Mutual Life Assurance Society Ltd (Note 6)	Interest of a controlled corporation	4,481,000	-	6.155%	2.451%
Colonial Holding Company (No.2) Pty Limited (Note 6)	Interest of a controlled corporation	4,481,000	-	6.155%	2.451%
Colonial Holding Company Pty Ltd (Note 6)	Interest of a controlled corporation	4,481,000	-	6.155%	2.451%
Colonial Ltd (Note 6)	Interest of a controlled corporation	4,481,000	-	6.155%	2.451%
Commonwealth Bank of Australia (Note 6)	Interest of a controlled corporation	4,481,000	-	6.155%	2.451%

Notes:

- (1) Such shares were held through Tongrentang Ltd. As at 30 June 2003, Tongrentang Ltd. was owned as to 69.98% by Tongrentang Holdings. According to Part XV of the SFO, Tongrentang Holdings is deemed to be interested in the 100,000,000 shares held by Tongrentang Ltd.
- (2) The Capital Group Companies, Inc. owns 100% of Capital Group International, Inc. while Capital Group International, Inc. owns 100% of Capital International, Inc. Accordingly, The Capital Group Companies, Inc. and Capital Group International, Inc. are deemed by Part XV of the SFO to be interested in the 6,596,000 shares held by Capital International, Inc.
- (3) J.P. Morgan Chase & Co. owns 100% of J.P. Morgan Fleming Asset Management Holdings Inc. J.P. Morgan Fleming Asset Management Holdings Inc. owns 100% of J.P. Morgan Fleming Asset Management (Asia) Inc. J.P. Morgan Fleming Asset Management (Asia) Inc. owns 100% of JF International Management Inc. and 99.99% of JF Asset Management Limited respectively. Accordingly,

J.P. Morgan Chase & Co., J.P. Morgan Fleming Asset Management Holdings Inc. and J.P. Morgan Fleming Asset Management (Asia) Inc. are deemed by Part XV of the SFO to be interested in the 790,000 shares and 3,705,000 shares held by JF International Management Inc. and JF Asset Management Limited respectively.

- (4) J.P. Morgan Fleming Asset Management Holdings Inc. owns 96% of Robert Fleming Holdings Ltd. Robert Fleming Holdings Ltd owns 99.96% of Robert Fleming Asset Management Ltd. Robert Fleming Asset Management Ltd owns 100% of J.P. Morgan Fleming Asset Management (UK) Limited. Accordingly, J.P. Morgan Fleming Asset Management Holdings Inc. is deemed by Part XV of the SFO to be interested in the 561,000 shares held by J.P. Morgan Fleming Asset Management (UK) Limited.
- (5) J.P. Morgan Chase & Co. owns 100% of J.P. Morgan Chase Bank. Accordingly, J.P. Morgan Chase & Co. is deemed by Part XV of the SFO to be interested in the 2,147,000 shares held by J.P. Morgan Chase Bank.
- (6) Commonwealth Bank of Australia owns 100% of Colonial Ltd. Colonial Ltd owns 100% of Colonial Holding Company Pty Ltd. Colonial Holding Company Pty Ltd owns 100% of Colonial Holding Company (No.2) Pty Limited. Colonial Holding Company (No.2) Pty Limited owns 100% of The Colonial Mutual Life Assurance Society Ltd. The Colonial Mutual Life Assurance Society Ltd owns 100% of Colonial First State Group Ltd. Colonial First State Group Ltd owns 100% of First State Investment Managers (Asia) Ltd. First State Investment Managers (Asia) Ltd owns 100% of First State Investments (Bermuda) Ltd. First State Investments (Bermuda) Ltd owns 100% of First State (Hong Kong) LLC. First State (Hong Kong) LLC owns 100% of First State Investments (Hong Kong) Limited. Accordingly, Commonwealth Bank of Australia, Colonial Ltd, Colonial Holding Company Pty Ltd, Colonial Holding Company (No.2) Pty Limited, The Colonial Mutual Life Assurance Society Ltd, Colonial First State Group Ltd, First State Investment Managers (Asia) Ltd, First State Investments (Bermuda) Ltd and First State (Hong Kong) LLC are deemed by Part XV of the SFO to be interested in the 4,481,000 shares held by First State Investments (Hong Kong) Limited.

Save as disclosed above, as at 30 June 2003, the Directors were not aware of any other person (other than the Directors and chief executives of the Company) who had interests and short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO.



AUDIT COMMITTEE

Pursuant to Rule 5.23 of the GEM Listing Rules, the Company has set up an audit committee according to “A Guide For The Formation of An Audit Committee” compiled by the Hong Kong Society of Accountants. In compliance with Rules 5.24 and 5.25 of the GEM Listing Rules, the authority and responsibility of the audit committee has been properly written out. The primary duties of the audit committee are to review and monitor the Company’s financial reporting process and internal control system. The audit committee members are Mr. Ting Leung Huel, Stephen and Ms. Tam Wai Chu, Maria, who are independent non-executive directors of the Company.

Up to the date of this announcement, two meetings have been conducted by the audit committee in the year. The first meeting was held on 28 February 2003 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 2002 and listened to the advice provided by auditors. The second meeting was held on 7 August 2003 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 2003.

EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2003, the Group had 1,579 employees (31 December 2002: 1,552 employees). Remuneration is determined in accordance with government policies and by reference to market terms and the performance, qualifications and experience of individual employee. Discretionary bonuses on individual performance will be paid to employees as recognition of and reward for their contribution. Other benefits include contributions to retirement scheme, medical scheme, unemployment insurance scheme and housing fund.

RULES 5.28 TO 5.39 OF THE GEM LISTING RULES

For the six months ended 30 June 2003, the Group has complied with Rules 5.28 to 5.39 of the GEM Listing Rules concerning board practices and procedures.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

During the period ended 30 June 2003, the Company has not purchased, sold or redeemed any of the Company's listed shares.

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

Beijing, the PRC
8 August 2003