



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 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.

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**BOARD OF DIRECTORS****EXECUTIVE DIRECTORS**

Yin Shun Hai (*Chairman*)

Mei Qun (*Vice-chairman*)

Li Lian Ying (*Vice-chairman*)

**NON-EXECUTIVE DIRECTORS**

Bi Jie Ping

Zhao Bing Xian

**INDEPENDENT NON-EXECUTIVE DIRECTORS**

Tam Wai Chu, Maria

Ting Leung Huel, Stephen

Jin Shi Yuan

**SUPERVISORS**

Tian Da Fang

Wu Yi Gang

Liu Gui Rong

**SENIOR MANAGEMENT**

Bi Jie Ping

Bai Jian

Liu Shi Yi

Wang Yu Wei

Zhu Gong Pei

Xie Su Hua

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**

Li Lian Ying

**AUTHORIZED REPRESENTATIVES**

Li Lian Ying

Choi Wai Lung, Edward, FHKSA, FCCA

**AUTHORIZED PERSON TO ACCEPT SERVICE OF PROCESS AND NOTICE**

Yang Qiong

**AUDITORS**

PricewaterhouseCoopers

**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**

20th Floor

Park Avenue

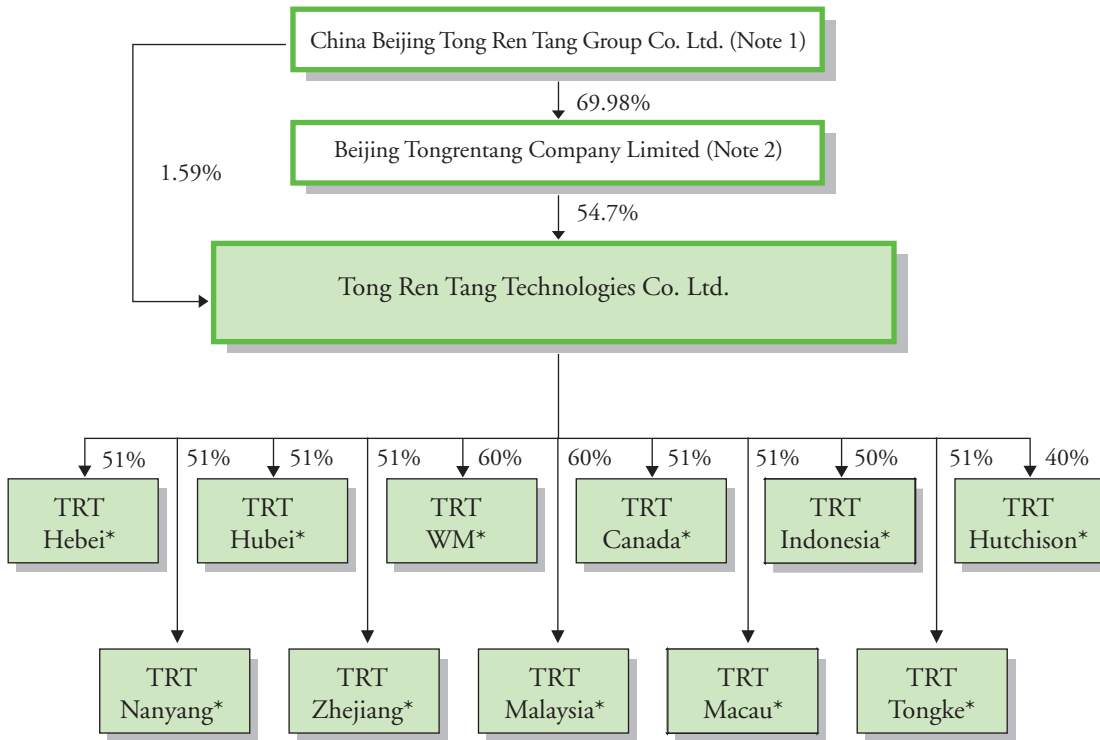
No. 5 Moreton Terrace

Causeway Bay

Hong Kong

**GEM STOCK CODE**

8069



Note 1: China Beijing Tong Ren Tang Group Co. Ltd. ("Tongrentang Holdings") is the ultimate holding company of Tong Ren Tang Technologies Co. Ltd. ("Tongrentang Technologies").

Note 2: Beijing Tongrentang Company Limited ("Tongrentang Ltd.") was incorporated in 1997 and listed on the Shanghai Stock Exchange in June of the same year. Tongrentang Ltd. is the holding company of Tongrentang Technologies.

\* For the full names of the subsidiaries, joint ventures and associated company, please refer to note 1 to the financial statements for details.

I am pleased to present to our shareholders the annual report of Tong Ren Tang Technologies Co. Ltd. (the "Company") and its subsidiaries and its joint ventures (hereafter collectively referred to as the "Group") for the year ended 31 December 2003.

## RESULTS OF THE YEAR

The performance of the Company's core business in manufacturing of Chinese Patent Medicine in 2003 was good and a sustained growth trend has been continuously maintained with a stable increase in profit. The Group's turnover for the year ended 31 December 2003 amounted to approximately RMB864,976,000, representing an increase of approximately 30.49% as compared with previous year. Net profit amounted to approximately RMB174,343,000, representing an increase of approximately 18.41% as compared with previous year. Earnings per share for the year ended 31 December 2003 was RMB0.95.

## DIVIDENDS

The Board of Directors (the "Board") of the Company recommend the payment of final dividend for the year ended 31 December 2003 of RMB0.43 per share at the forthcoming Annual General Meeting.

## REVIEW OF THE YEAR

2003 was an extraordinary year in which the pharmaceutical market has been continuously changing and developing. The Company strove for increasing the sales of Chinese Patent Medicine. Although the sudden outbreak of the Severe Acute Respiratory Syndrome ("SARS") epidemic has substantially increased the market demand of anti-virus medicinal products within a short period of time, the epidemic has also resulted in various negative effects on the normal production and operation. All staff of the Company worked hard in unity to overcome difficulties. On one hand, the Company adjusted its production structure and actively created advantageous conditions to ensure they meet the market supply. On the other hand, the Company captured opportunities to take full advantage of the brand name, quality and technique of Tong Ren Tang. The annual sales target was smoothly achieved by means of flexible marketing strategies and a sustained and stable growth in its results was maintained in the current year.



## OUTLOOK AND PROSPECTS

The continuous growth of the national macro-economy has expedited the growth of pharmaceutical business in 2004. The further enforcement of a series of policies such as Good Manufacturing Practice ("GMP") and GSP certification, classified management of medicine and the further opening of market after entry into the World Trade Organization have intensified the adjustment of industry structure and market competition of the pharmaceutical industry.

The Company will continue to adhere to the production of Chinese Patent Medicine as its core business. It will also extend to areas including development of production bases for Chinese medicinal raw materials and sales network so as to expand and strengthen the Company in order to achieve economies of scale.

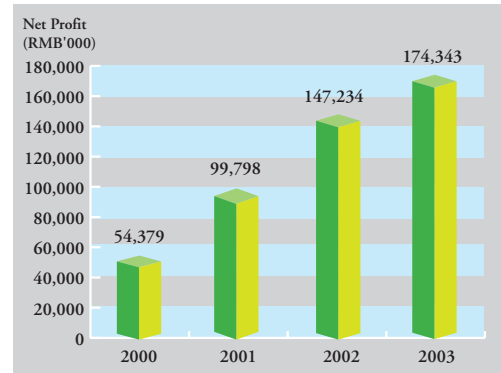
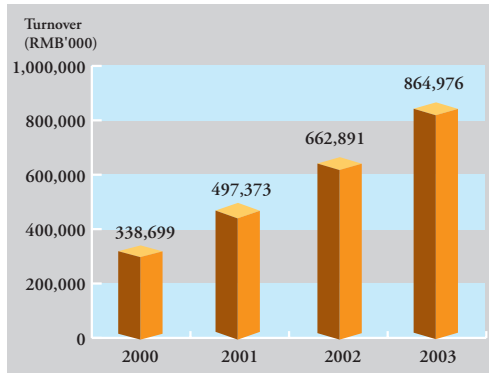
The financial position of the Company is sound. I and the Board of Directors have confidence in the future development of the Company while the Chinese medicine production business of the Company will continue to maintain a good development trend. All the staff of the Company will continue to contribute their efforts for the continuous development of the Company.

I would like to express my sincere gratitude to the Board and all the staff of the Company for their efforts and excellent performance, and to all shareholders for their support. We will make our best efforts to produce good results and better returns for our shareholders.

**Yin Shun Hai**  
*Chairman*

Beijing, the PRC,  
27 February 2004





## BUSINESS REVIEW

The Company followed the overall strategy of the year in 2003 to capture opportunities and adhere to the principles of reformation, innovation and development to bring the market competitive advantage of Tong Ren Tang into full play. The Company has actively dealt with market changes so as to further enhance the overall business performance and sustained growth of the Company and has achieved satisfactory results.

The Group's turnover for the year ended 31 December 2003 amounted to approximately RMB864,976,000, representing an increase of approximately 30.49% as compared with previous year. Net profit amounted to approximately RMB174,343,000, representing an increase of approximately 18.41% as compared with previous year.



## SALES ANALYSIS

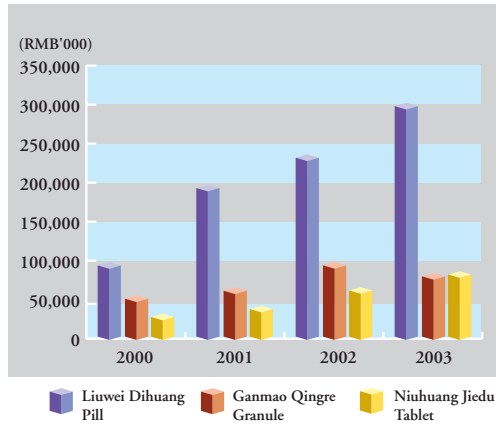
Two sales branch companies which are the operating and new product branch companies operated independently and are responsible for the development of the domestic marketing work of the Company's products. With the establishment of marketing strategies which emphasized the development of marketing channels and strengthening of management of sales network, a sustained growth in the sales of major products has been ensured with the yearly sales target being achieved.

The Company continued to reform and innovate the sales model. With the current sales channels being maintained, the Company tried to develop sales network with regional agents as core in different regions and gradually constituted a complete sales network formed by regional agents, distributors and terminal retailers. The Company has already established regional sales network testing points in Heilongjiang and Fujian and gradually expanded to other major marketing regions in order to explore and broaden the regional market continuously.

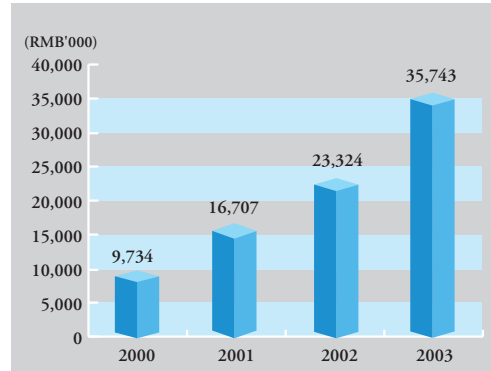




### Turnover of major products



### Turnover of overseas markets



The Company explored the hospital market and has chosen Beijing as a testing point after investigation and research. It has selected agents with better hospital market resources and adopted various cooperation formats to promote Tong Ren Tang products. Especially during the period of SARS epidemic, the Company has associated with local hospital authorities to develop various charitable activities which promoted Tong Ren Tang products so as to enlarge the market share of the Company's products in the hospitals of Beijing.

The sales of major products and cultivation of new products with market potentials were emphasized. The turnover of the Company's flagship products Liuwei Dihuang Pill (六味地黄丸) and Niuhuang Jiedu Tablet (牛黄解毒片) continued to maintain steady growth and have increased by 28.06% and 29.24% respectively over the corresponding period of last year. After three years' market cultivation, the turnover of Liuwei Dihuang Pill (六味地黄丸) exceeded RMB300 million and became the bestseller of the Company. The turnover of Ganmao Qingre Granule (感冒清热颗粒) has decreased by 15% as compared with the corresponding period of last year. The turnover of Banlangen Granule (板蓝根颗粒) has increased substantially by 130.33% as compared with the corresponding period of last year because of the increase market demand resulted from the unexpected SARS epidemic.

For the overseas market, the import and export branch company made timely adjustments to sales strategies in accordance with the changing trends of international pharmaceutical market, overcome various difficulties brought by SARS and eventually achieved significant increase in sales revenue. The Company's turnover in overseas markets in 2003 amounted to RMB35,743,000, representing an increase of 53.25% as compared with previous year and 4.18% of the Company's sales revenue of medicine.

## PRODUCTION BASE

In order to satisfy the gradual increase of market demand, advocate the modernization of Chinese medicine and raise the standard of production technique of Chinese medicine, the Company has fully utilized the current production resources to enlarge production while the construction of the Yizhuang production base has been accelerated. The tablet production workshop and the multi-purpose building have been completed while the remaining land will be used for the construction of the pill and granule production workshops.

The tablet production workshop has finished such tasks as staff training, equipment adjustment, removing and GMP standard certification. The tablet product production line has commenced operation during the year with the production volume being increased gradually.

The multi-purpose building includes part of the tablet product production line and related production utility facilities. The construction of the overall structure has been completed while the decoration work has been commenced. The order of equipments has been completed and is expected to commence operation in 2004.

During the year, the Company has invested RMB 5.1 million to establish a joint venture named Beijing Tong Ren Tang Tongke Pharmaceutical Company Limited. The registered capital of the joint venture company is RMB10 million. The joint venture company is located in Tongzhou district of Beijing City and is mainly engaged in the business of pre-processing of Chinese medicinal raw materials.

### MANAGEMENT, RESEARCH AND DEVELOPMENT



In order to further enhance the management standard of the Company and the competitiveness of the Company's products in international market, the Company has set up and perfect the quality control system. The Company has passed the ISO9001 International Quality Standard certification and has obtained the ISO9001 International Quality Standard certificate during the year.



The new anti-menopause syndrome drug has passed the preliminary approval of Beijing City Pharmaceutical Supervision Bureau for new drugs and has submitted to the State Pharmaceutical Supervision and Administration of the PRC for approval and is still under the assessment of the State Pharmaceutical Assessment Centre. Projects on two new major products have been established after selection and prepared for research and development.

During the year, the Research Centre has completed more than 10 secondary research projects and projects on application of new technique according to market demand and requirement of production. The new membrane filtration technology has been widely applied in the production of tablets.

### SALES NETWORK

The Company followed the principle of prudence and stability to develop the sales network. Currently, four overseas joint ventures have been invested to develop the local distribution business and open retail medicine sales network to enlarge the sales of Company's products.

Peking Tongrentang (M) Sdn. Bhd., which is located in Malaysia, has established a retail pharmacy in Kuala Lumpur. The shop officially commenced business in August 2002 and has been operating well. In 2003, the sales revenue amounted to RMB7,798,000 and has achieved profit.

Beijing Tong Ren Tang Canada Co. Ltd. , which is located in Canada, has established its first pharmacy in Vancouver which officially commenced business in December 2002. The sales revenue in 2003 amounted to RMB3,893,000.

The Company has invested US\$255,000 to establish Beijing Tong Ren Tang (Macau) Company Limited in Macau Special Administrative Region which represented 51% contribution of its total investment. Its first pharmacy has started business in Macau in September 2003 and is welcomed by local customers.

The Company has invested US\$500,000 to establish Beijing Tong Ren Tang (Indonesia) Company Limited in Jakarta, Indonesia which represented 50% contribution of its total investment. Its local pharmacy is now under preparation.

## PRODUCTION BASES FOR CHINESE MEDICINAL RAW MATERIALS

In this year, the four production bases for Chinese medicinal raw materials invested and established by the Company in major production regions of medicinal raw materials such as Hebei, Hubei, Zhejiang and Henan have been operated well. The sales revenue of the four production bases for Chinese medicinal raw materials amounted to RMB36,750,000, amongst which RMB35,300,000 were being supplied to the Company. The operation of the production bases for Chinese medicinal raw materials is important in ensuring the supply and quality of Chinese medicinal raw materials for the major products of the Company.

## FINANCIAL REVIEW

### 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. As at 31 December 2003, the Group had bank and cash balances amounted to RMB261,343,000 (2002: RMB295,236,000) and short-term borrowings of RMB15,000,000 (2002: RMB15,000,000). These borrowings are denominated in Renminbi and provided by various banks in the PRC and bear fixed interest at 5.31% (2002: 5.04%) per annum. As at 31 December 2003, the Group had total assets of RMB898,513,000 (2002: RMB792,321,000) which were financed by current liabilities of RMB229,541,000 (2002: RMB228,941,000), shareholders' equity of RMB651,913,000 (2002: RMB548,899,000) and minority interests of RMB17,059,000 (2002: RMB14,481,000).

### Capital Structure

There has been no change in the capital structure of the group as at 31 December 2003 as compared with that as at 31 December 2002.

### **Gearing and liquidity ratio**

The Group's gearing ratio, defined as the ratio between total borrowings and shareholders' equity, was 0.02 (2002: 0.03). The liquidity ratio of the Group, represented by a ratio between current assets over current liabilities, was 2.54 (2002: 2.39), reflecting the abundance of financial resources.

### **Charges on group assets**

As at 31 December 2003, none of the Group's assets was pledged as security for liabilities (2002: Nil).

### **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.

### **Contingent liabilities**

Other than those disclosed in note 18(a) to the financial statements, the Group had no contingent liabilities as at 31 December 2003.

### **Capital commitments**

As at 31 December 2003, the Group had the capital commitments relating to the construction of production facilities amounted to approximately RMB20,445,000 (2002: RMB22,995,000) which were not provided but had been authorised and contracted for in the consolidated financial statements of the Group.

The Group will utilize its internally generated cash flows to pay the capital commitments.

## PROSPECTS

The Company will consolidate its foundation and strive for solid development in 2004. Resources will be deployed to accelerate the construction of production base, enlarge the production scale, speed up secondary research and upgrade the technique utilized in existing products. The construction of sales network will be perfected to increase the sales revenue and consolidate the foundation of the Company in sustained growth.

Yizhuang production base is the foundation of the Company to adjust production structure and promote production development. Production workshops which have commenced production must comply with GMP standards strictly and gradually raise the production capacity. After the completion of the construction of the multi-purpose building, the Company will proceed the installation and testing of equipment for operation in the nature future. The construction of the pill and granule production workshops will be sped up. The allocation of resources will be optimized while the production scale will be further raised under gradual adjustment of production arrangement.

The Company will totally promote the construction of market network and continue to perfect sales network with regional agents as the core so as to create a good, standard and orderly market environment. This will be coordinated with the adjustment of organization structure of sales team to explore new market and broaden marketing channels.

The Company will actively carry out secondary research on existing products and apply new technique to enhance the market competitiveness of the products. New products will be selected and introduced to increase the reserve of new projects.

The Company will strengthen the management of the existing four production bases for Chinese medicinal raw materials while technical research will be conducted and demonstrative production base will be constructed. Production bases for Chinese medicinal raw materials will be established timely according to the supply and demand condition of different species of Chinese medicinal raw materials to ensure a good quality, stable and controllable supply of Chinese medicinal raw materials for production.

The internal fundamental management work and the control of cost and expenses will be strengthened so as to achieve sustained growth.

The directors of Tong Ren Tang Technologies Co. Ltd. (the “Directors”) have pleasure in presenting their annual report together with the audited financial statements of the Group for the year ended 31 December 2003.

## PRINCIPAL ACTIVITIES

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

An analysis of the Group’s revenue is as follows:

|                              | <b>2003</b>    | 2002           |
|------------------------------|----------------|----------------|
|                              | <i>RMB'000</i> | <i>RMB'000</i> |
| Sales of medicine:           |                |                |
| Domestic                     | <b>820,243</b> | 631,809        |
| Overseas                     | <b>35,743</b>  | 23,324         |
| Agency fee income – domestic | <b>8,954</b>   | 7,731          |
| Others                       | <b>36</b>      | 27             |
|                              | <b>864,976</b> | 662,891        |

## 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 (2002: less than 30%).

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

|                                 | <b>2003</b> | 2002 |
|---------------------------------|-------------|------|
| The largest supplier            | <b>8%</b>   | 27%  |
| Five largest suppliers combined | <b>29%</b>  | 47%  |

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 2003 are set out on page 26 to 68 of the annual report.

## DIVIDENDS

The Directors recommend the payment of a final dividend of RMB0.43 per share in respect of the year, to shareholders whose names appear on the register of shareholders of the Company on 18 May 2004.

## 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 2003, the Group's retained profits of approximately RMB174,553,000 (2002: RMB110,584,000) 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.

## EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2003, the Group had 1,899 employees (2002: 1,552 employees). Remuneration is determined by reference to market terms and the performance, qualifications and experience of individual employee. Discretionary bonuses based 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.

## STAFF QUARTERS

During the year, the Group did not provide any staff quarters to its staff (2002: 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 (2002: 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*) (*retired on 22 October 2003*)

Mei Qun (*Vice-chairman*)

Li Lian Ying (*Vice-chairman*) (*appointed on 22 October 2003*)

### Non-Executive Directors

Tian Rui Hua (*retired on 22 October 2003*)

Bi Jie Ping (*appointed on 22 October 2003*)

Zhao Bing Xian



## DIRECTORS AND SUPERVISORS (CONT'D)

### Independent Non-Executive Directors

Tam Wai Chu, Maria

Ting Leung Huel, Stephen

Jin Shi Yuan

### Supervisors

Tian Da Fang

Yang Liang (*retired on 22 October 2003*)

Sun Feng Sheng (*retired on 22 October 2003*)

Wu Yi Gang (*appointed on 22 October 2003*)

Liu Gui Rong (*appointed on 22 October 2003*)

## DIRECTORS' AND SUPERVISORS' SERVICE CONTRACTS

None of the Directors or Supervisors has any service contract with the Company that is not terminable by the Company within one year without payment of compensation other than statutory compensation.

## 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.

## PROFILES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Profiles of Directors, Supervisors and Senior Management are set out on pages 22 to 24.

## 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 at 31 December 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<br>(Note) | Percentage of<br>domestic shares | Percentage of<br>total registered<br>share capital |
|--------------------|-------------------|------------------|----------------------------|----------------------------------|--|
| Mr. Yin Shun Hai   | Personal          | Beneficial owner | 500,000                    | 0.455%                           | 0.274%   |
| Mr. Mei Qun        | Personal          | Beneficial owner | 500,000                    | 0.455%                           | 0.274%   |
| 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<br>(Note) | Percentage of<br>total registered<br>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<br>total issued<br>share capital |
|------------------|-------------------|------------------|------------------|--|
| Mr. Yin Shun Hai | Personal          | Beneficial owner | 39,000           | 0.500%   |
| Mr. Mei Qun      | Personal          | Beneficial owner | 78,000           | 1.000%   |

#### Beijing Tongrentang Nature-Pharm Co. Ltd.

| Name             | Type of interests | Capacity         | Number of shares | Percentage of<br>total registered<br>share capital |
|------------------|-------------------|------------------|------------------|--|
| Ms. Li Lian Ying | Personal          | Beneficial owner | 300,000          | 0.600%   |

Save as disclosed above, as at 31 December 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 31 December 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 ( <i>Note 1</i> )                           | 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                   | 8,736,000        | –                             | 12.000%                | 4.779%                                       |
| Capital Group International, Inc. ( <i>Note 2</i> )              | Interest of a controlled corporation | 8,736,000        | –                             | 12.000%                | 4.779%                                       |
| The Capital Group Companies, Inc. ( <i>Note 2</i> )              | Interest of a controlled corporation | 8,736,000        | –                             | 12.000%                | 4.779%                                       |
| J.P. Morgan Chase & Co. ( <i>Notes 3,4 and 5</i> )               | Interest of a controlled corporation | 4,942,000        | –                             | 6.789%                 | 2.704%                                       |
| First State Investments (Hong Kong) Limited                      | Investment manager                   | 5,064,000        | –                             | 6.956%                 | 2.770%                                       |
| First State (Hong Kong) LLC ( <i>Note 6</i> )                    | Interest of a controlled corporation | 5,064,000        | –                             | 6.956%                 | 2.770%                                       |
| First State Investments (Bermuda) Ltd ( <i>Note 6</i> )          | Interest of a controlled corporation | 5,064,000        | –                             | 6.956%                 | 2.770%                                       |
| First State Investment Managers (Asia) Ltd ( <i>Note 6</i> )     | Interest of a controlled corporation | 5,064,000        | –                             | 6.956%                 | 2.770%                                       |
| Colonial First State Group Ltd ( <i>Note 6</i> )                 | Interest of a controlled corporation | 5,164,000        | –                             | 7.093%                 | 2.825%                                       |
| The Colonial Mutual Life Assurance Society Ltd ( <i>Note 6</i> ) | Interest of a controlled corporation | 5,164,000        | –                             | 7.093%                 | 2.825%                                       |
| Colonial Holding Company (No.2) Pty Limited ( <i>Note 6</i> )    | Interest of a controlled corporation | 5,164,000        | –                             | 7.093%                 | 2.825%                                       |
| Colonial Holding Company Pty Ltd ( <i>Note 6</i> )               | Interest of a controlled corporation | 5,164,000        | –                             | 7.093%                 | 2.825%                                       |
| Colonial Ltd ( <i>Note 6</i> )                                   | Interest of a controlled corporation | 5,164,000        | –                             | 7.093%                 | 2.825%                                       |
| Commonwealth Bank of Australia ( <i>Note 6</i> )                 | Interest of a controlled corporation | 5,164,000        | –                             | 7.093%                 | 2.825%                                       |

*Notes:*

- (1) Such shares were held through Tongrentang Ltd. As at 31 December 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 8,736,000 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 350,000 shares and 1,959,000 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 Chase & Co. and J.P. Morgan Fleming Asset Management Holdings Inc. are 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 2,072,000 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 5,064,000 shares held by First State Investments (Hong Kong) Limited.

Save as disclosed above, as at 31 December 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.

## COMPETING INTERESTS

### Direct competition with Tongrentang Ltd. and 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 Niu Huang Pills (安宮牛黃丸), Tongren Wuji Baifen Pills (同仁烏雞白鳳丸), Tongren Dahuolo Pills (同仁大活絡丸) 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%.

## 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.

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

Two meetings have been conducted by the audit committee in 2003. 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.

The audit committee meeting held on 20 February 2004 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 2003 and listened to the advice provided by auditors.

## BOARD PRACTICES AND PROCEDURES

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.

## 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  
27 February 2004



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 operation and development plans of the Company and provided reasonable suggestions and opinions to the Board of Directors. 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 2003 and has great confidence in the future of the Company.

By Order of the Supervisory Committee

**Tian Da Fang**  
*Chairman*

Beijing, the PRC  
27 February 2004

## EXECUTIVE DIRECTORS

**Mr. 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 Tongrentong 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.

**Mr. Mei Qun**, aged 47, vice-chairman of the Company, is a deputy pharmacist 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 Tongrentang 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.

**Ms. Li Lian Ying**, aged 47, vice-chairman of the Company, is a senior economist with a bachelor's degree. She was formerly the deputy general manager of Beijing Medicinal Materials Company, the general manager of Tongrentang Holdings, secretary to the board of directors and general manager of the securities department of Tongrentang Ltd.. She is currently serving as a director of Tongrentang Ltd. Ms. Li is the compliance officer of the Company and responsible for overseeing all matters relating to the listing of the Company. She was appointed as a director of the Company on 22 October 2003.

## NON-EXECUTIVE DIRECTORS

**Mr. Bi Jie Ping**, aged 47, general manager of the Company, is a deputy pharmacist with a bachelor's degree. He was formerly the deputy head of factory, the acting head of factory and the head of factory of Beijing Tong Ren Tang Chinese Medicinal Wine Factory, the deputy general manager of Tongrentang Ltd. and the manager of the branch office of Tongrentang Ltd. and the general manager of Tongrentang Ltd.. Mr. Bi was appointed as a director of the Company on 22 October 2003.

**Mr. Zhao Bing Xian**, aged 40, 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

**Ms. 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, Urban Renewal Authority and Advisory Committee on Corruption of the ICAC. 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.

**Mr. Ting Leung Huel, Stephen**, FCCA, FHKSA, FTIHK, CPA, aged 50, 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 five listed companies namely Chow Sang Sang Holdings International Ltd., eForce Holdings Ltd., REXCAPITAL International Limited, Tongda Group Holdings Limited and Oriental Metals (Holdings) Co. Ltd. respectively. He was appointed as an independent non-executive director on 11 October 2000.

**Mr. 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

**Mr. 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.

**Mr. Wu Yi Gang**, aged 45, obtained a bachelor of laws degree and was qualified as a lawyer in 1984. Mr. Wu has commenced practice as a lawyer in the PRC since then. Mr. Wu was the founder of Beijing Wu Luan Zhao Yan Law Office in 1994 and has been the general manager since then. Mr. Wu served as the arbitrator of the 1st session of the Beijing Arbitration Committee in 1995. He is currently serving as the executive committee member of the Beijing Lawyers Association and the deputy general manager of the Disciplinary Committee of the Beijing Lawyers Association. Mr. Wu was appointed as a supervisor of the Company on 22 October 2003.

**Ms. Liu Gui Rong**, aged 49, is a senior political engineer with a bachelor's degree. Ms. Liu has been the Chairman of the labour union of Tongrentang Holdings, the secretary to the party committee of the retailing department of Northern city of Tongrentang Holdings, the deputy factory head of Beijing Tong Ren Tang Chinese Medicine Factory, the deputy factory head and the assistant secretary to the party committee of the Company. Ms. Liu is currently serving as the assistant secretary to the party committee and the secretary to the disciplinary committee of the Company. Ms. Liu was appointed as a supervisor of the Company on 22 October 2003.

## SENIOR MANAGEMENT

**Mr. Bi Jie Ping**, please refer to the profiles of non-executive directors for details.

**Mr. Bai Jian**, aged 44, is a deputy 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.

**Mr. Liu Shi Yi**, aged 48, is a chief pharmacist and licensed pharmacist 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 chief engineer of the Company.

**Mr. Wang Yu Wei**, aged 36, is a senior engineer with a postgraduate qualification. 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.

**Mr. Zhu Gong Pei**, aged 44, is a senior economist with a bachelor's degree. He formerly served as the section head of the production section of Tongrentang pharmaceutical manufacturing plant, assistant to factory manager and 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.

**Ms. Xie Su Hua**, aged 39, is a senior engineer and licensed pharmacist with a postgraduate qualification. She formerly served as the deputy section head, assistant to factory manager and deputy factory manager of Factory No.2, and assistant to the general manager of the Company. She is currently the deputy general manager of the Company.

**Ms. 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.

**Mr. Choi Wai Lung, Edward**, aged 35, 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 13 years of experience in accounting and auditing.



羅兵咸永道會計師事務所

PricewaterhouseCoopers  
22nd Floor, Prince's Building  
Central, Hong Kong

**TO THE SHAREHOLDERS OF TONG REN TANG TECHNOLOGIES CO. LTD.:**

*(Incorporated in the People's Republic of China with limited liability)*

We have audited the accompanying balance sheet of Tong Ren Tang Technologies Co. Ltd. (the "Company") and consolidated balance sheet of the Company and its subsidiaries and its joint ventures (hereafter collectively referred to as the "Group") as of 31 December 2003; 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. This report is made solely to you, as a body and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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 2003 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, 27 February 2004

As of 31 December 2003

*(Expressed in thousands of Renminbi ("RMB"))*

|  | Note  | The Group      |                | The Company    |                |
|--|-------|----------------|----------------|----------------|----------------|
|  |       | 2003           | 2002           | 2003           | 2002           |
| <b>ASSETS</b>                                  |       |                |                |                |                |
| <b>Non-current assets</b>                      |       |                |                |                |                |
| Property, plant and equipment, net             | 3(a)  | 276,226        | 198,142        | 267,920        | 190,262        |
| Land use rights, net                           | 3(b)  | 30,570         | 30,975         | 26,749         | 27,284         |
| Investments in subsidiaries                    | 4     | –              | –              | 17,756         | 13,368         |
| Investments in joint ventures                  | 5     | –              | –              | 29,477         | 19,052         |
| Investment in an associated company            | 6     | 5,296          | 5,717          | 5,296          | 5,717          |
| Deferred tax assets                            | 9     | 426            | 3,969          | 426            | 3,969          |
| Other long-term assets                         |       | 3,823          | 6,866          | 109            | 2,654          |
|  |       | <b>316,341</b> | <b>245,669</b> | <b>347,733</b> | <b>262,306</b> |
| <b>Current assets</b>                          |       |                |                |                |                |
| Cash and cash equivalents                      | 24(b) | 128,130        | 241,863        | 105,304        | 219,198        |
| Short-term bank deposits                       | 24(b) | 133,213        | 53,373         | 133,213        | 53,373         |
| Trade receivables, net                         | 7     | 28,839         | 6,373          | 28,145         | 5,781          |
| Inventories                                    | 8     | 271,272        | 232,632        | 250,582        | 219,673        |
| Due from related parties                       | 25(e) | 4,249          | 1,683          | 4,064          | 1,683          |
| Prepayments and other current assets           |       | 16,469         | 10,728         | 8,364          | 6,394          |
|  |       | <b>582,172</b> | <b>546,652</b> | <b>529,672</b> | <b>506,102</b> |
| <b>Total assets</b>                            |       | <b>898,513</b> | <b>792,321</b> | <b>877,405</b> | <b>768,408</b> |
| <b>EQUITY AND LIABILITIES</b>                  |       |                |                |                |                |
| <b>Capital and reserves</b>                    |       |                |                |                |                |
| Share capital                                  | 10    | 182,800        | 182,800        | 182,800        | 182,800        |
| Reserves                                       | 11    | 469,113        | 366,099        | 469,997        | 366,108        |
|  |       | <b>651,913</b> | <b>548,899</b> | <b>652,797</b> | <b>548,908</b> |
| <b>Minority interests</b>                      |       | <b>17,059</b>  | <b>14,481</b>  | <b>–</b>       | <b>–</b>       |
| <b>Current liabilities</b>                     |       |                |                |                |                |
| Short-term borrowings                          | 12    | 15,000         | 15,000         | 15,000         | 15,000         |
| Trade payables                                 | 13    | 83,304         | 69,393         | 81,085         | 67,435         |
| Salary and welfare payables                    | 14    | 57,280         | 38,538         | 57,153         | 38,464         |
| Advances from customers                        |       | 36,928         | 59,333         | 36,615         | 59,333         |
| Due to related parties                         | 25(e) | 9,554          | 10,477         | 9,554          | 10,477         |
| Accrued expenses and other current liabilities |       | 27,475         | 36,200         | 25,201         | 28,791         |
|  |       | <b>229,541</b> | <b>228,941</b> | <b>224,608</b> | <b>219,500</b> |
| <b>Total equity and liabilities</b>            |       | <b>898,513</b> | <b>792,321</b> | <b>877,405</b> | <b>768,408</b> |

Approved by and signed on behalf of the Board of Directors on 27 February 2004.

**Yin Shun Hai**  
Director

**Li Lian Ying**  
Director

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

## Consolidated Statement of Income

For the year ended 31 December 2003

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

|  | Note | 2003                   | 2002                   |
|--|------|------------------------|------------------------|
| Revenue                                    | 15   | 864,976                | 662,891                |
| Cost of sales                              | 25   | <u>(392,877)</u>       | <u>(306,691)</u>       |
| Gross profit                               |      | 472,099                | 356,200                |
| Distribution costs                         | 25   | <u>(152,222)</u>       | <u>(91,041)</u>        |
| Administrative expenses                    | 25   | <u>(129,283)</u>       | <u>(120,268)</u>       |
| Profit from operations                     |      | 190,594                | 144,891                |
| Finance income, net                        | 16   | 3,241                  | 4,218                  |
| Share of result from an associated company |      | <u>(421)</u>           | <u>(477)</u>           |
| Profit before taxation                     | 17   | 193,414                | 148,632                |
| Taxation                                   | 18   | <u>(16,493)</u>        | <u>953</u>             |
| Profit before minority interests           |      | 176,921                | 149,585                |
| Minority interests                         |      | <u>(2,578)</u>         | <u>(2,351)</u>         |
| Net profit for the year                    |      | <u><u>174,343</u></u>  | <u><u>147,234</u></u>  |
| Dividends declared                         | 19   | <u><u>(71,292)</u></u> | <u><u>(54,840)</u></u> |
| Earnings per share                         | 20   | <u><u>RMB0.95</u></u>  | <u><u>RMB0.81</u></u>  |

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



## Consolidated Statement of Changes in Equity

For the year ended 31 December 2003  
(Expressed in thousands of RMB)

|  | Share<br>capital | Share<br>premium | Statutory<br>surplus<br>reserve fund | Statutory<br>public<br>welfare fund | Tax<br>reserve | Retained<br>profits | Foreign<br>currency<br>translation<br>difference | Total          |
|--|------------------|------------------|--------------------------------------|-------------------------------------|----------------|---------------------|--|----------------|
| Balances as of 1 January 2002              | 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<br>translation difference | -                | -                | -                                    | -                                   | -              | -                   | (9)  | (9)            |
| Appropriation from<br>retained profits     | -                | -                | 14,787                               | 7,394                               | 28,390         | (50,571)            | -  | -              |
| Balances as of<br>31 December 2002         | <u>182,800</u>   | <u>157,925</u>   | <u>30,677</u>                        | <u>15,339</u>                       | <u>51,583</u>  | <u>110,584</u>      | <u>(9)</u>                                       | <u>548,899</u> |
| Net profit for the year                    | -                | -                | -                                    | -                                   | -              | 174,343             | -  | 174,343        |
| Dividends                                  | -                | -                | -                                    | -                                   | -              | (71,292)            | -  | (71,292)       |
| Foreign currency<br>translation difference | -                | -                | -                                    | -                                   | -              | -                   | (37)   | (37)           |
| Appropriation from<br>retained profits     | -                | -                | 17,282                               | 8,641                               | 13,159         | (39,082)            | -  | -              |
| Balances as of<br>31 December 2003         | <u>182,800</u>   | <u>157,925</u>   | <u>47,959</u>                        | <u>23,980</u>                       | <u>64,742</u>  | <u>174,553</u>      | <u>(46)</u>                                      | <u>651,913</u> |

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

## Consolidated Statement of Cash Flows

For the year ended 31 December 2003

(Expressed in thousands of RMB)

|   | <i>Note</i>  | <b>2003</b>      | 2002        |
|---|--------------|------------------|-------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>                |              |                  |             |
| Cash generated from operations                              | <i>24(a)</i> | <b>147,054</b>   | 96,661      |
| Interest paid   |              | <b>(1,629)</b>   | (734)       |
| Income taxes paid   |              | <b>(13,067)</b>  | (650)       |
|   |              | <hr/>            | <hr/>       |
| Net cash from operating activities                          |              | <b>132,358</b>   | 95,277      |
|   |              | <hr/>            | <hr/>       |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>                |              |                  |             |
| Purchases of property, plant and equipment                  |              | <b>(97,859)</b>  | (109,196)   |
| Acquisition of land use rights                              |              | <b>(205)</b>     | (14,235)    |
| Proceeds from disposals of property,<br>plant and equipment |              | <b>9</b>         | 92          |
| (Increase)/decrease in other long-term assets               |              | <b>(104)</b>     | 682         |
| (Increase)/decrease in short-term bank deposits             |              | <b>(79,840)</b>  | 155,566     |
| Interest received   |              | <b>3,200</b>     | 4,952       |
|   |              | <hr/>            | <hr/>       |
| Net cash (used in)/from investing activities                |              | <b>(174,799)</b> | 37,861      |
|   |              | <hr/>            | <hr/>       |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>                |              |                  |             |
| Proceeds from short-term borrowings                         |              | –                | 15,000      |
| Repayments of short-term borrowings                         |              | –                | (30,000)    |
| Dividends paid  |              | <b>(71,292)</b>  | (54,840)    |
|   |              | <hr/>            | <hr/>       |
| Net cash used in financing activities                       |              | <b>(71,292)</b>  | (69,840)    |
|   |              | <hr/>            | <hr/>       |
| Net (decrease)/increase in cash and cash equivalents        |              | <b>(113,733)</b> | 63,298      |
| Cash and cash equivalents at beginning of year              |              | <b>241,863</b>   | 178,565     |
|   |              | <hr/>            | <hr/>       |
| Cash and cash equivalents at end of year                    | <i>24(b)</i> | <b>128,130</b>   | 241,863     |
|   |              | <hr/> <hr/>      | <hr/> <hr/> |

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

31 December 2003

*(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 of the Company on the Growth Enterprise Market (the “GEM”) of the Stock Exchange of Hong Kong Limited (the “Stock Exchange”), the Parent Company transferred part of its Chinese medicine production and 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 2003

*(Amounts expressed in RMB unless otherwise stated)***1. ORGANISATION AND OPERATIONS (CONT'D)**

As at 31 December 2003, 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  |
|---|----------------------------------|---|----------------------------|---|
| <i>Subsidiaries:</i>  |                                  |   |                            |   |
| Beijing Tong Ren Tang Hebei Chinese Medicinal Raw Materials Technologies Co., Limited ("TRT Hebei") | Hebei, PRC<br>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<br>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<br>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<br>31 October 2001 | 51%   | RMB10,000,000              | Planting, purchasing Chinese medicinal raw materials; selling agricultural by-products    |

31 December 2003

*(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   |
|---|---|---|----------------------------|--|
| <i>Joint ventures:</i>  |   |   |                            |  |
| Beijing Tong Ren Tang<br>WM Dianorm Biotech<br>Co., Limited<br>("TRT WM")           | Beijing, PRC<br>20 February 2001          | 60%   | US\$3,000,000              | Technological development and sales of biological products, Chinese and western medicines, cosmetics and health food |
| Peking Tongrentang (M)<br>SDN. BHD.<br>("TRT Malaysia")                             | Kuala Lumpur, Malaysia<br>19 January 2001 | 60%   | US\$500,000                | Sales of medicine products   |
| Beijing Tong Ren Tang<br>Canada Co. Ltd.<br>("TRT Canada")                          | Vancouver, Canada<br>11 January 2002      | 51%   | US\$1,000,000              | Sales of medicine products   |
| Beijing Tong Ren Tang<br>(Macau) Company<br>Limited ("TRT Macau")                   | Macau, PRC<br>14 May 2003                 | 51%   | US\$500,000                | Sales of medicine products   |
| Beijing Tong Ren Tang<br>(Indonesia) Company<br>Limited ("TRT Indonesia")           | Jakarta, Indonesia<br>22 September 2003   | 50%   | US\$1,000,000              | Sales of medicine products   |
| Beijing Tong Ren Tang<br>Tongke Pharmaceutical<br>Company Limited<br>("TRT Tongke") | Beijing, PRC<br>4 November 2003           | 51%   | RMB10,000,000              | Medicine production  |

31 December 2003

*(Amounts expressed in RMB unless otherwise stated)***1. ORGANISATION AND OPERATIONS (CONT'D)**

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, TRT Canada, TRT Macau, TRT Indonesia and TRT Tongke 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.

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

|                         | <b>As of 31 December</b> |                |
|-------------------------|--------------------------|----------------|
|                         | <b>2003</b>              | 2002           |
|                         | <b>RMB'000</b>           | <i>RMB'000</i> |
| Current assets          | 24,732                   | 14,182         |
| Non-current assets      | 5,955                    | 6,081          |
| Current liabilities     | 1,257                    | 1,221          |
| Non-current liabilities | –                        | –              |

|          | <b>For the year ended</b> |                |
|----------|---------------------------|----------------|
|          | <b>31 December</b>        |                |
|          | <b>2003</b>               | 2002           |
|          | <b>RMB'000</b>            | <i>RMB'000</i> |
| Revenues | 7,624                     | 2,739          |
| Expenses | 8,283                     | 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.

31 December 2003

*(Amounts expressed in RMB unless otherwise stated)***1. ORGANISATION AND OPERATIONS (CONT'D)**

As of 31 December 2003, 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   |
|--|------------------------------------|---|----------------------------|--|
| <i>Associated company:</i>   |                                    |   |                            |  |
| Tong Ren Tang Hutchison (HK) Pharmaceutical Development Co., Limited ("TRT Hutchison", formerly known as Great Forever Investment Limited) | Hong Kong, PRC<br>10 February 1999 | 40%   | HK\$15,000,000             | Researching, developing, producing, processing and selling herbal medicine, Chinese medicine and health products |

**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.



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*(Amounts expressed in RMB unless otherwise stated)*

## 2. PRINCIPAL ACCOUNTING POLICIES (CONT'D)

### (b) Principles of consolidation

The consolidated financial statements of the Group include those of the Company and its subsidiaries and also incorporate the Group's interests in joint 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.

### (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.

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(Amounts expressed in RMB unless otherwise stated)

## 2. PRINCIPAL ACCOUNTING POLICIES (CONT'D)

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

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

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

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

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

Construction-in-progress ("CIP") 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.

CIP 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.

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*(Amounts expressed in RMB unless otherwise stated)*

## 2. PRINCIPAL ACCOUNTING POLICIES (CONT'D)

### (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.

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.

31 December 2003

*(Amounts expressed in RMB unless otherwise stated)*

## 2. PRINCIPAL ACCOUNTING POLICIES (CONT'D)

### (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 normally does not 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.

### (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.

31 December 2003

(Amounts expressed in RMB unless otherwise stated)

## 2. PRINCIPAL ACCOUNTING POLICIES (CONT'D)

### (h) Trade receivables

Trade receivables are carried at original invoice amount less provision made for impairment of these receivables. A provision for impairment of trade receivables is established when there is an objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the carrying amount and recoverable amount, being the present value of expected cash flows, discounted at the market rate of interest for similar borrowers.

### (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.

### (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.

31 December 2003

(Amounts expressed in RMB unless otherwise stated)

## 2. PRINCIPAL ACCOUNTING POLICIES (CONT'D)

### (k) Revenue recognition (cont'd)

#### (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 2003

*(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 provides for income tax on the basis of their taxable profit, which is derived from the profit for financial reporting purposes, adjusted for income and expense items, which are not assessable or deductible for income tax purposes.

Deferred taxation is provided under the balance sheet liability method in respect of significant taxable or deductible temporary differences between the carrying amount of assets or liabilities in the balance sheet and their respective tax bases. The tax basis of an asset or liability is the amount attributed to that asset or liability for tax purposes. Deferred tax liabilities are recognised for all taxable temporary differences.

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

### (n) Borrowing costs

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

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

31 December 2003

*(Amounts expressed in RMB unless otherwise stated)*

## 2. PRINCIPAL ACCOUNTING POLICIES (CONT'D)

### (o) Operating leases

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

### (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, trade receivables, due from related parties, borrowings, trade payables and due to related parties. The accounting policies on recognition and measurement of these items are disclosed in the respective accounting policies.

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



31 December 2003

*(Amounts expressed in RMB unless otherwise stated)*

## 2. PRINCIPAL ACCOUNTING POLICIES (CONT'D)

### (r) Impairment of long-lived assets

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

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

### (s) 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 2003, the Company obtained grant of RMB600,000 from government in relation to the Company's Chinese traditional medicine research project (2002: RMB1,000,000).

31 December 2003

*(Amounts expressed in RMB unless otherwise stated)*

## 2. PRINCIPAL ACCOUNTING POLICIES (CONT'D)

### (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.

### (v) Dividends

Dividends are recorded in the Group's financial statements in the period in which they are approved by the Group's shareholders.

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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:

|                                 | 2003                 |                                       |                              |                                |   | Total<br>RMB'000 |
|---------------------------------|----------------------|---------------------------------------|------------------------------|--------------------------------|---|------------------|
|                                 | Buildings<br>RMB'000 | Equipment<br>and machinery<br>RMB'000 | Motor<br>vehicles<br>RMB'000 | Office<br>equipment<br>RMB'000 | Construction-<br>in-progress<br>RMB'000 |                  |
| <b>Valuation</b>                |                      |                                       |                              |                                |   |                  |
| Beginning of year               | 123,781              | 146,629                               | 10,775                       | 7,430                          | 17,808                                  | 306,423          |
| Additions                       | 7,225                | 134                                   | 641                          | 982                            | 91,406                                  | 100,388          |
| Transfers from CIP              | -                    | 33,244                                | 1,987                        | 2,380                          | (37,611)                                | -                |
| Disposals                       | -                    | (5,198)                               | (186)                        | (1,131)                        | -                                       | (6,515)          |
| End of year                     | 131,006              | 174,809                               | 13,217                       | 9,661                          | 71,603                                  | 400,296          |
| <b>Accumulated depreciation</b> |                      |                                       |                              |                                |   |                  |
| Beginning of year               | 38,230               | 62,345                                | 5,306                        | 2,400                          | -                                       | 108,281          |
| Charges for the year            | 4,049                | 14,989                                | 1,383                        | 1,346                          | -                                       | 21,767           |
| Disposals                       | -                    | (4,923)                               | (149)                        | (906)                          | -                                       | (5,978)          |
| End of year                     | 42,279               | 72,411                                | 6,540                        | 2,840                          | -                                       | 124,070          |
| <b>Net book value</b>           |                      |                                       |                              |                                |   |                  |
| End of year                     | 88,727               | 102,398                               | 6,677                        | 6,821                          | 71,603                                  | 276,226          |
| Beginning of year               | 85,551               | 84,284                                | 5,469                        | 5,030                          | 17,808                                  | 198,142          |

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*(Amounts expressed in RMB unless otherwise stated)***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:

|                                 | 2003                 |                                       |                              |                                |   | Total<br>RMB'000 |
|---------------------------------|----------------------|---------------------------------------|------------------------------|--------------------------------|---|------------------|
|                                 | Buildings<br>RMB'000 | Equipment<br>and machinery<br>RMB'000 | Motor<br>vehicles<br>RMB'000 | Office<br>equipment<br>RMB'000 | Construction-<br>in-progress<br>RMB'000 |                  |
| <b>Valuation</b>                |                      |                                       |                              |                                |   |                  |
| Beginning of year               | 119,759              | 146,379                               | 9,714                        | 4,534                          | 17,808                                  | 298,194          |
| Additions                       | 7,207                | -                                     | 385                          | 479                            | 91,180                                  | 99,251           |
| Transfers from CIP              | -                    | 33,244                                | 1,987                        | 2,380                          | (37,611)                                | -                |
| Disposals                       | -                    | (5,198)                               | (186)                        | (1,131)                        | -                                       | (6,515)          |
| End of year                     | 126,966              | 174,425                               | 11,900                       | 6,262                          | 71,377                                  | 390,930          |
| <b>Accumulated depreciation</b> |                      |                                       |                              |                                |   |                  |
| Beginning of year               | 38,208               | 62,333                                | 5,188                        | 2,203                          | -                                       | 107,932          |
| Charges for the year            | 3,874                | 14,952                                | 1,206                        | 1,024                          | -                                       | 21,056           |
| Disposals                       | -                    | (4,923)                               | (149)                        | (906)                          | -                                       | (5,978)          |
| End of year                     | 42,082               | 72,362                                | 6,245                        | 2,321                          | -                                       | 123,010          |
| <b>Net book value</b>           |                      |                                       |                              |                                |   |                  |
| End of year                     | 84,884               | 102,063                               | 5,655                        | 3,941                          | 71,377                                  | 267,920          |
| Beginning of year               | 81,551               | 84,046                                | 4,526                        | 2,331                          | 17,808                                  | 190,262          |

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*(Amounts expressed in RMB unless otherwise stated)***3. PROPERTY, PLANT AND EQUIPMENT AND LAND USE RIGHTS (CONT'D)****(a) Property, plant and equipment, net (Cont'd)**

As of 31 December 2003, 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:

|                             | 2003                 |                                       |                              |                                |   | Total<br>RMB'000 | 2002<br>Total<br>RMB'000 |
|-----------------------------|----------------------|---------------------------------------|------------------------------|--------------------------------|---|------------------|--------------------------|
|                             | Buildings<br>RMB'000 | Equipment<br>and machinery<br>RMB'000 | Motor<br>vehicles<br>RMB'000 | Office<br>equipment<br>RMB'000 | Construction-<br>in-progress<br>RMB'000 |                  |                          |
| Cost                        | 116,181              | 152,341                               | 12,211                       | 10,452                         | 71,603                                  | 362,788          | 268,915                  |
| Accumulated<br>depreciation | 35,024               | 50,382                                | 5,580                        | 3,760                          | -                                       | 94,746           | 82,074                   |
| Net book value              | 81,157               | 101,959                               | 6,631                        | 6,692                          | 71,603                                  | 268,042          | 186,841                  |

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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*(Amounts expressed in RMB unless otherwise stated)***3. PROPERTY, PLANT AND EQUIPMENT AND LAND USE RIGHTS (CONT'D)****(b) Land use rights, net**

|                          | The Group              |                        | The Company            |                        |
|--------------------------|------------------------|------------------------|------------------------|------------------------|
|                          | 2003<br><i>RMB'000</i> | 2002<br><i>RMB'000</i> | 2003<br><i>RMB'000</i> | 2002<br><i>RMB'000</i> |
| Cost                     | 32,092                 | 31,887                 | 28,177                 | 28,177                 |
| Accumulated amortisation | (1,522)                | (912)                  | (1,428)                | (893)                  |
| Land use rights, net     | <u>30,570</u>          | <u>30,975</u>          | <u>26,749</u>          | <u>27,284</u>          |

**4. INVESTMENTS IN SUBSIDIARIES**

|                     | The Group              |                        | The Company            |                        |
|---------------------|------------------------|------------------------|------------------------|------------------------|
|                     | 2003<br><i>RMB'000</i> | 2002<br><i>RMB'000</i> | 2003<br><i>RMB'000</i> | 2002<br><i>RMB'000</i> |
| Share of net assets | <u>–</u>               | <u>–</u>               | <u>17,756</u>          | <u>13,368</u>          |

**5. INVESTMENTS IN JOINT VENTURES**

|                     | The Group              |                        | The Company            |                        |
|---------------------|------------------------|------------------------|------------------------|------------------------|
|                     | 2003<br><i>RMB'000</i> | 2002<br><i>RMB'000</i> | 2003<br><i>RMB'000</i> | 2002<br><i>RMB'000</i> |
| Share of net assets | <u>–</u>               | <u>–</u>               | <u>29,477</u>          | <u>19,052</u>          |

There are no contingent liabilities relating to the Company's interest in the joint ventures.

**6. INVESTMENT IN AN ASSOCIATED COMPANY**

|                   | The Group              |                        | The Company            |                        |
|-------------------|------------------------|------------------------|------------------------|------------------------|
|                   | 2003<br><i>RMB'000</i> | 2002<br><i>RMB'000</i> | 2003<br><i>RMB'000</i> | 2002<br><i>RMB'000</i> |
| Beginning of year | 5,717                  | 6,194                  | 5,717                  | 6,194                  |
| Share of results  | (421)                  | (477)                  | (421)                  | (477)                  |
| End of year       | <u>5,296</u>           | <u>5,717</u>           | <u>5,296</u>           | <u>5,717</u>           |

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*(Amounts expressed in RMB unless otherwise stated)***7. TRADE RECEIVABLES, NET**

|                              | The Group              |                        | The Company            |                        |
|------------------------------|------------------------|------------------------|------------------------|------------------------|
|                              | 2003<br><i>RMB'000</i> | 2002<br><i>RMB'000</i> | 2003<br><i>RMB'000</i> | 2002<br><i>RMB'000</i> |
| Trade receivables            | 34,633                 | 13,303                 | 33,939                 | 12,711                 |
| Provision for doubtful debts | (5,794)                | (6,930)                | (5,794)                | (6,930)                |
| Trade receivables, net       | <u>28,839</u>          | <u>6,373</u>           | <u>28,145</u>          | <u>5,781</u>           |

The aging analysis of trade receivables was as follows:

|                                 | The Group              |                        | The Company            |                        |
|---------------------------------|------------------------|------------------------|------------------------|------------------------|
|                                 | 2003<br><i>RMB'000</i> | 2002<br><i>RMB'000</i> | 2003<br><i>RMB'000</i> | 2002<br><i>RMB'000</i> |
| Within 4 months                 | 26,984                 | 5,260                  | 26,752                 | 4,677                  |
| Over 4 months but within 1 year | 4,364                  | 1,273                  | 4,364                  | 1,264                  |
| Over 1 year but within 2 years  | 1,584                  | 1,065                  | 1,122                  | 1,065                  |
| Over 2 years but within 3 years | 626                    | 4,630                  | 626                    | 4,630                  |
| Over 3 years                    | 1,075                  | 1,075                  | 1,075                  | 1,075                  |
|                                 | <u>34,633</u>          | <u>13,303</u>          | <u>33,939</u>          | <u>12,711</u>          |

**8. INVENTORIES**

|                  | The Group              |                        | The Company            |                        |
|------------------|------------------------|------------------------|------------------------|------------------------|
|                  | 2003<br><i>RMB'000</i> | 2002<br><i>RMB'000</i> | 2003<br><i>RMB'000</i> | 2002<br><i>RMB'000</i> |
| Raw materials    | 114,957                | 57,750                 | 96,651                 | 46,663                 |
| Work in progress | 10,003                 | 13,446                 | 10,003                 | 13,446                 |
| Finished goods   | 146,312                | 161,436                | 143,928                | 159,564                |
|                  | <u>271,272</u>         | <u>232,632</u>         | <u>250,582</u>         | <u>219,673</u>         |

There were no inventories carried at net realisable value as of 31 December 2003 (2002: Nil).

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*(Amounts expressed in RMB unless otherwise stated)***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 is as follows:

|  | The Group       |                 | The Company     |                 |
|--|-----------------|-----------------|-----------------|-----------------|
|  | 2003<br>RMB'000 | 2002<br>RMB'000 | 2003<br>RMB'000 | 2002<br>RMB'000 |
| Beginning of year  | 3,969           | 230             | 3,969           | 230             |
| (Decrease)/increase during the year                          | (3,543)         | 3,739           | (3,543)         | 3,739           |
| End of year  | <u>426</u>      | <u>3,969</u>    | <u>426</u>      | <u>3,969</u>    |
| Provided for in respect of:                                  |                 |                 |                 |                 |
| Provision for termination benefits                           | 212             | 302             | 212             | 302             |
| Provision for staff salary and welfare                       | –               | 2,885           | –               | 2,885           |
| Provision for impairment of receivables                      | –               | 520             | –               | 520             |
| Provision for amortization of<br>land use rights             | 214             | 134             | 214             | 134             |
| Unrealized profit of inventory<br>purchase from subsidiaries | –               | 128             | –               | 128             |
|  | <u>426</u>      | <u>3,969</u>    | <u>426</u>      | <u>3,969</u>    |



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*(Amounts expressed in RMB unless otherwise stated)***10. SHARE CAPITAL**

|                                 | 2003                |                                    | 2002                |                                    |
|---------------------------------|---------------------|------------------------------------|---------------------|------------------------------------|
|                                 | Number of<br>shares | Nominal<br>value<br><i>RMB'000</i> | Number of<br>shares | Nominal<br>value<br><i>RMB'000</i> |
| Registered                      | <b>182,800,000</b>  | <b>182,800</b>                     | 182,800,000         | 182,800                            |
| Issued and fully paid:          |                     |                                    |                     |                                    |
| – Domestic shares of RMB 1 each | <b>110,000,000</b>  | <b>110,000</b>                     | 110,000,000         | 110,000                            |
| – H shares of RMB 1 each        | <b>72,800,000</b>   | <b>72,800</b>                      | 72,800,000          | 72,800                             |
|                                 | <b>182,800,000</b>  | <b>182,800</b>                     | 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 RMB17,282,000 (2002: RMB14,787,000), 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 2003. Further, the Directors proposed an appropriation of approximately RMB8,641,000 (2002: RMB7,394,000), being 5% of net profit after tax determined under PRC accounting standards, to the statutory public welfare fund.

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*(Amounts expressed in RMB unless otherwise stated)***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 2003, the reserve was approximately RMB175,389,000 (2002: RMB110,584,000) and RMB178,396,000 (2002: RMB115,946,000), under IFRS and PRC accounting standards, respectively, before taking into account the current year's proposed final dividends. The difference was primarily due to the amortization of land use rights and provision of termination benefit made under IFRS.

**(b) Tax reserve**

According to the enterprise income tax preferential policy for high-technology enterprises, the Company is entitled to 50% reduction for Enterprise Income Tax ("EIT") in 2003. 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 RMB13,159,000 (2002: RMB28,390,000) to a tax reserve, representing the EIT exempted for the year at applicable tax rate of 7.5%.

**12. SHORT-TERM BORROWINGS**

As of 31 December 2003, the Company and the Group had an unsecured short-term bank borrowing amounting to approximately RMB15,000,000 (2002: RMB15,000,000). These borrowings bear fixed interest rate of 5.31% (2002: 5.04%) per annum.

**13. TRADE PAYABLES**

The aging analysis of trade payables was as follows:

|                                 | The Group              |                        | The Company            |                        |
|---------------------------------|------------------------|------------------------|------------------------|------------------------|
|                                 | 2003<br><i>RMB'000</i> | 2002<br><i>RMB'000</i> | 2003<br><i>RMB'000</i> | 2002<br><i>RMB'000</i> |
| Within 4 months                 | 78,294                 | 65,050                 | 76,144                 | 63,092                 |
| Over 4 months but within 1 year | 4,610                  | 3,877                  | 4,541                  | 3,877                  |
| Over 1 year but within 2 years  | —                      | 10                     | —                      | 10                     |
| Over 2 years but within 3 years | —                      | —                      | —                      | —                      |
| Over 3 years                    | 400                    | 456                    | 400                    | 456                    |
|                                 | <u>83,304</u>          | <u>69,393</u>          | <u>81,085</u>          | <u>67,435</u>          |

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*(Amounts expressed in RMB unless otherwise stated)***14. SALARY AND WELFARE PAYABLES**

|                 | The Group              |                        | The Company            |                        |
|-----------------|------------------------|------------------------|------------------------|------------------------|
|                 | 2003<br><i>RMB'000</i> | 2002<br><i>RMB'000</i> | 2003<br><i>RMB'000</i> | 2002<br><i>RMB'000</i> |
| Salary payable  | 44,512                 | 32,879                 | 44,512                 | 32,879                 |
| Welfare payable | 12,768                 | 5,659                  | 12,641                 | 5,585                  |
|                 | <u>57,280</u>          | <u>38,538</u>          | <u>57,153</u>          | <u>38,464</u>          |

Under salary reform schemes in accordance with government regulations, the Company's aggregate salary amount is subject to government's approval each year. The Company provided salary of approximately RMB84 million in 2003 (2002: RMB66 million).

**15. REVENUE**

|                   | 2003<br><i>RMB'000</i> | 2002<br><i>RMB'000</i> |
|-------------------|------------------------|------------------------|
| Sales of medicine |                        |                        |
| – Domestic        | 820,243                | 631,809                |
| – Overseas        | 35,743                 | 23,324                 |
| Agency fee income | 8,954                  | 7,731                  |
| Others            | 36                     | 27                     |
|                   | <u>864,976</u>         | <u>662,891</u>         |

**16. FINANCE INCOME, NET**

|  | 2003<br><i>RMB'000</i> | 2002<br><i>RMB'000</i> |
|--|------------------------|------------------------|
| Interest expenses on bank loans repayable within 5 years | (1,629)                | (1,045)                |
| Interest income  | 3,200                  | 4,952                  |
| Exchange gain, net                                       | 1,298                  | 362                    |
| Others   | 372                    | (51)                   |
|  | <u>3,241</u>           | <u>4,218</u>           |

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*(Amounts expressed in RMB unless otherwise stated)***17. PROFIT BEFORE TAXATION**

Profit before taxation was arrived at after crediting and charging the following:

|   | <b>2003</b>    | 2002    |
|---|----------------|---------|
|   | <b>RMB'000</b> | RMB'000 |
| Crediting:  |                |         |
| Interest income                                   | <b>3,200</b>   | 4,952   |
| Agency fee income                                 | <b>8,954</b>   | 7,731   |
| Exchange gain, net                                | <b>1,298</b>   | 362     |
| Reversal of provision for doubtful debts          | <b>1,136</b>   | 22      |
| Charging:   |                |         |
| Cost of inventories sold                          | <b>343,507</b> | 279,223 |
| Staff costs                                       |                |         |
| – Salary and wages                                | <b>86,507</b>  | 70,859  |
| – Staff welfare                                   | <b>10,344</b>  | 8,485   |
| – Contribution to retirement benefits             | <b>10,260</b>  | 5,468   |
| Depreciation of property, plant and equipment     | <b>21,767</b>  | 13,546  |
| Amortization of land use rights                   | <b>610</b>     | 912     |
| Amortization of other long-term assets            | <b>618</b>     | 554     |
| Operating lease rentals                           | <b>11,987</b>  | 11,990  |
| Auditors' remuneration                            | <b>1,100</b>   | 1,100   |
| Research and development expenses                 | <b>4,128</b>   | 12,243  |
| Advertising expenses                              | <b>40,163</b>  | 46,187  |
| Loss on disposal of property, plant and equipment | <b>528</b>     | 139     |

**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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*(Amounts expressed in RMB unless otherwise stated)***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 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 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 RMB48,622,000 for this year (2002: RMB62,459,000) may arise. Management believes that the possibility of such a liability arising is unlikely.

For the year ended 31 December 2003, an amount equal to the 7.5% (2002: 15%) EIT exempted amounting to approximately RMB13,159,000 (2002: RMB28,390,000) was transferred to the tax reserve.

Details of taxation during the year are as follows:

|                             | <b>2003</b><br><i>RMB'000</i> | 2002<br><i>RMB'000</i> |
|-----------------------------|-------------------------------|------------------------|
| Current income tax expense  | <b>12,950</b>                 | 2,786                  |
| Deferred tax debit/(credit) | <b>3,543</b>                  | (3,739)                |
|                             | <b>16,493</b>                 | (953)                  |

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*(Amounts expressed in RMB unless otherwise stated)***18. TAXATION (CONT'D)****(a) EIT (cont'd)**

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

|   | 2003<br>RMB'000 |               | 2002<br>RMB'000 |               |
|---|-----------------|---------------|-----------------|---------------|
| Accounting profit   | <u>193,414</u>  | <u>100.0%</u> | <u>148,632</u>  | <u>100.0%</u> |
| Tax at the statutory tax rate<br>of the Company of 33%  | 63,827          | 33.0%         | 49,049          | 33.0%         |
| Non-deductible permanent<br>differences   | 3,839           | 2.0%          | 1,876           | 1.3%          |
| Effect of different applicable EIT<br>rates upon expected reversal<br>of temporary difference       | 710             | 0.4%          | 10,581          | 7.1%          |
| Effect of tax benefits of being a HTE   | (48,622)        | (25.2%)       | (62,459)        | (42.0%)       |
| Effect of different tax rates and<br>tax refund for consolidated<br>subsidiaries and joint ventures | <u>(3,261)</u>  | <u>(1.7%)</u> | <u>—</u>        | <u>—</u>      |
| Taxation  | <u>16,493</u>   | <u>8.5%</u>   | <u>(953)</u>    | <u>(0.6%)</u> |

The provision for PRC current income tax is based on the statutory rate of 33% of the assessable income of each of the companies and enterprises now comprising the Group as determined in accordance with the relevant PRC income tax rules and regulations for the years ended 31 December 2003 and 2002, except for TRT Hebei which is taxed at rate of 2.31% of total revenue. TRT Zhejiang and TRT Nanyang recognized tax refund from local tax bureaus in current year, amounting to approximately RMB2.4 million.

Foreign entities are subject to income tax as required by tax laws of countries where those entities operate, respectively, at rates ranging from 2.00% to 39.96%.

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*(Amounts expressed in RMB unless otherwise stated)***18. TAXATION (CONT'D)****(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.

**19. DIVIDENDS**

|   | <b>2003</b><br><i>RMB'000</i> | 2002<br><i>RMB'000</i> |
|---|-------------------------------|------------------------|
| Dividends declared/proposed before year end | <u>71,292</u>                 | <u>54,840</u>          |
| Dividends declared/proposed after year end  | <u>78,604</u>                 | <u>71,292</u>          |

**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 RMB174,343,000 (2002: RMB147,234,000) divided by the weighted average number of shares during the year of 182,800,000 shares (2002: 182,800,000 shares).

The Company had no dilutive potential shares for the years ended 31 December 2003 and 2002.

31 December 2003

*(Amounts expressed in RMB unless otherwise stated)***21. DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS****(a) Details of directors' emoluments are:**

|  | <b>2003</b><br><i>RMB'000</i> | 2002<br><i>RMB'000</i> |
|--|-------------------------------|------------------------|
| Fees for executive directors                             | –                             | –                      |
| Fees for independent non-executive directors             | <b>291</b>                    | 255                    |
| Fees for non-executive directors                         | –                             | –                      |
| Other emoluments for executive directors                 |                               |                        |
| – Basic salaries and allowances                          | <b>448</b>                    | 482                    |
| – Contribution to retirement scheme                      | <b>12</b>                     | 9                      |
| Other emoluments for independent non-executive directors | –                             | –                      |
| Other emoluments for non-executive directors             |                               |                        |
| – Basic salaries and allowances                          | <b>180</b>                    | –                      |
| – Contribution to retirement scheme                      | <b>12</b>                     | –                      |
| Bonuses for executive directors                          | <b>750</b>                    | –                      |
| Bonuses for independent non-executive directors          | –                             | –                      |
| Bonuses for non-executive directors                      | <b>50</b>                     | –                      |
|  | <u><b>1,743</b></u>           | <u>746</u>             |

None of the directors waived any emoluments during the year.



31 December 2003

*(Amounts expressed in RMB unless otherwise stated)***21. DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS (CONT'D)****(b) Analysis of directors' emoluments by number of directors and emolument ranges is as follows:**

|                                     | <b>2003</b> | 2002 |
|-------------------------------------|-------------|------|
| Executive directors                 |             |      |
| – Nil to HK\$1,000,000              | <b>3</b>    | 3    |
| Independent non-executive directors |             |      |
| – Nil to HK\$1,000,000              | <b>3</b>    | 3    |
| Non-executive directors             |             |      |
| – Nil to HK\$1,000,000              | <b>2</b>    | 2    |
|                                     | <b>8</b>    | 8    |

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

|                                   | <b>2003</b><br><i>RMB'000</i> | 2002<br><i>RMB'000</i> |
|-----------------------------------|-------------------------------|------------------------|
| Basic salaries and allowance      | <b>1,693</b>                  | 1,504                  |
| Contribution to retirement scheme | <b>63</b>                     | 49                     |
| Discretionary bonus and others    | –                             | 900                    |
|                                   | <b>1,756</b>                  | 2,453                  |

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

|                      | <b>2003</b> | 2002 |
|----------------------|-------------|------|
| Nil to HK\$1,000,000 | <b>5</b>    | 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.

31 December 2003

(Amounts expressed in RMB unless otherwise stated)

## 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 2003, the Company accrued for RMB500,000 (2002: RMB1,500,000) in accordance with the plan.

During the year ended 31 December 2003, 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 (2002: 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 from 26% to 32% (2002: from 26% to 31%) of the standard salary set by the local government, of which percentage from 19% to 26% (2002: from 19% to 26%) 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 2003 and 2002, approximated RMB2,003,000, and RMB3,330,000, respectively, with the utilization in current year approximately of RMB1,327,000.

## 23. HOUSING FUND

The Group's 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. The Group's liability in respect of the fund is limited to the contributions payable in each period. For the year ended 31 December 2003, the Group contributed approximately RMB3.7 million (2002: RMB2.1 million) to the fund.

31 December 2003

*(Amounts expressed in RMB unless otherwise stated)***24. CASH GENERATED FROM OPERATIONS****(a) Reconciliation from profit before tax to cash generated from operations**

|   | <b>2003</b>     | 2002      |
|---|-----------------|-----------|
|   | <b>RMB'000</b>  | RMB'000   |
| Profit before taxation                                  | <b>193,414</b>  | 148,632   |
| Adjustments for:  |                 |           |
| Reversal of provision for doubtful debts                | <b>(1,136)</b>  | (22)      |
| Depreciation  | <b>21,767</b>   | 13,546    |
| Amortization of land use rights                         | <b>610</b>      | 912       |
| Amortization of other long-term assets                  | <b>618</b>      | 554       |
| Loss on disposals of property, plant and equipment, net | <b>528</b>      | 139       |
| Share of results from an associated company             | <b>421</b>      | 477       |
| Interest income   | <b>(3,200)</b>  | (4,952)   |
| Interest expenses                                       | <b>1,629</b>    | 734       |
| Operating profit before working capital changes         | <b>214,651</b>  | 160,020   |
| (Increase)/decrease in current assets:                  |                 |           |
| Trade receivables                                       | <b>(21,330)</b> | 1,641     |
| Inventories   | <b>(38,640)</b> | (148,921) |
| Prepayments and other current assets                    | <b>(5,741)</b>  | (530)     |
| Due from related parties                                | <b>(2,566)</b>  | (828)     |
| Increase/(decrease) in current liabilities:             |                 |           |
| Trade payables  | <b>13,911</b>   | 41,324    |
| Other current liabilities                               | <b>(12,308)</b> | 42,815    |
| Due to related parties                                  | <b>(923)</b>    | 1,140     |
| Cash generated from operations                          | <b>147,054</b>  | 96,661    |

31 December 2003

*(Amounts expressed in RMB unless otherwise stated)***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     |                 |
|------------------------------|-----------------|-----------------|-----------------|-----------------|
|                              | 2003<br>RMB'000 | 2002<br>RMB'000 | 2003<br>RMB'000 | 2002<br>RMB'000 |
| Cash                         |                 |                 |                 |                 |
| RMB                          | 231             | 38              | 16              | 7               |
| Canada Dollar denominated    | 2               | 4               | –               | –               |
| Malaysia Ringgit denominated | 2               | 4               | –               | –               |
| Hong Kong Dollar denominated | 1               | 1               | 1               | 1               |
|                              | <u>236</u>      | <u>47</u>       | <u>17</u>       | <u>8</u>        |
| Demand deposits              |                 |                 |                 |                 |
| RMB                          | 93,105          | 91,181          | 81,017          | 73,480          |
| US Dollar denominated        | 19,467          | 15,170          | 12,961          | 11,798          |
| Canada Dollar denominated    | 220             | 480             | –               | –               |
| Malaysia Ringgit denominated | 1,667           | 1,073           | –               | –               |
| Hong Kong Dollar denominated | 13,435          | 133,912         | 11,309          | 133,912         |
|                              | <u>127,894</u>  | <u>241,816</u>  | <u>105,287</u>  | <u>219,190</u>  |
|                              | <u>128,130</u>  | <u>241,863</u>  | <u>105,304</u>  | <u>219,198</u>  |

As of 31 December 2003, bank deposits of approximately RMB133,213,000 (2002: RMB53,373,000) with original maturities over three months and bearing interest at fixed rate of 0.85% (2002: from 1.20% to 1.85%) per annum were presented as short-term bank deposits.

**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, which were entered into at terms agreed with these related parties in the ordinary course of business.

31 December 2003

*(Amounts expressed in RMB unless otherwise stated)***25. RELATED PARTY TRANSACTIONS (CONT'D)****(a) Transactions with the Parent Company**

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 2003 was approximately RMB8,954,000 (2002: RMB7,731,000) (Note (i)).

**(b) Transactions with the Ultimate Holding Company**

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

|   | <b>2003</b>    | 2002    |
|---|----------------|---------|
|   | <b>RMB'000</b> | RMB'000 |
| Purchases of raw materials <i>(Note (ii))</i> | <b>14,796</b>  | 91,029  |
| Trademark royalty fee <i>(Note (iii))</i>     | <b>793</b>     | 793     |
| Land use fee <i>(Note (iv))</i>               | <b>2,685</b>   | 2,685   |
| Operating lease rentals fee <i>(Note (v))</i> | <b>3,000</b>   | 3,000   |
| Storage expenses <i>(Note (vi))</i>           | <b>6,804</b>   | 6,804   |

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

During the year ended 31 December 2003, the Company sold products to the distribution agents which are related companies of the Parent Company or the Ultimate Holding Company amounting to approximately RMB79,467,000 (2002: RMB120,176,000).

During the year ended 31 December 2003, the Company paid transportation fees to a transportation agent under the Ultimate Holding Companies' control amounting to approximately RMB4,823,000 (2002: RMB6,026,000).

During the year ended 31 December 2003, the Company paid advertising fee to an advertising agent which is a subsidiary of the Ultimate Holding Company amounting to approximately RMB2,043,000 (2002: RMB4,462,000) *(Note (vii))*.

31 December 2003

(Amounts expressed in RMB unless otherwise stated)

## 25. RELATED PARTY TRANSACTIONS (CONT'D)

### (c) Transactions with the subsidiaries and associates of the Parent Company or the Ultimate Holding Company (cont'd)

Notes:

- (i) A distribution agency agreement dated 6 October 2000 with a term of 3 years was entered into between the Company and the Parent Company, pursuant to which the 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.
- (ii) 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. On 17 May 2002, both parties agreed to extend the term of the agreement to 31 December 2004.
- (iii) 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. 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.

- (iv) 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.

31 December 2003

*(Amounts expressed in RMB unless otherwise stated)***25. RELATED PARTY TRANSACTIONS (CONT'D)****(c) Transactions with the subsidiaries and associates of the Parent Company or the Ultimate Holding Company (cont'd)***Notes (Cont'd):*

- (v) 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.

- (vi) 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.
- (vii) 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**

|   | <b>2003</b><br><i>RMB'000</i> | 2002<br><i>RMB'000</i> |
|---|-------------------------------|------------------------|
| Sales made to minority shareholders of subsidiaries | <b>5,487</b>                  | 6,647                  |
| Sales made to joint venture partners                | <b>14,263</b>                 | 9,450                  |

31 December 2003

*(Amounts expressed in RMB unless otherwise stated)***25. RELATED PARTY TRANSACTIONS (CONT'D)****(e) Balances with related parties**

As of 31 December, balance with related parties consisted of:

|   | The Group              |                        | The Company            |                        |
|---|------------------------|------------------------|------------------------|------------------------|
|   | 2003<br><i>RMB'000</i> | 2002<br><i>RMB'000</i> | 2003<br><i>RMB'000</i> | 2002<br><i>RMB'000</i> |
| Due from related parties:   |                        |                        |                        |                        |
| The Ultimate Holding Company  | 1,506                  | –                      | 1,506                  | –                      |
| Subsidiaries and associates of the<br>Parent Company or the<br>Ultimate Holding Company | 2,542                  | 1,683                  | 2,542                  | 1,683                  |
| Minority shareholders of<br>subsidiaries and joint venture<br>partners                  | 201                    | –                      | 16                     | –                      |
|   | <u>4,249</u>           | <u>1,683</u>           | <u>4,064</u>           | <u>1,683</u>           |
| Due to related parties:   |                        |                        |                        |                        |
| The Parent Company  | –                      | 1,843                  | –                      | 1,843                  |
| The Ultimate Holding Company  | 2,311                  | 1,760                  | 2,311                  | 1,760                  |
| Subsidiaries and associates of the<br>Parent Company or the<br>Ultimate Holding Company | 4,875                  | 2,981                  | 4,875                  | 2,981                  |
| Minority shareholders of<br>subsidiaries and joint venture<br>partners                  | 2,368                  | 3,893                  | 2,368                  | 3,893                  |
|   | <u>9,554</u>           | <u>10,477</u>          | <u>9,554</u>           | <u>10,477</u>          |

The amounts due to and from related parties as of 31 December 2003 and 2002 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.



31 December 2003

*(Amounts expressed in RMB unless otherwise stated)*

## 27. BANKING FACILITIES

As of 31 December 2003, the Group had aggregated banking facilities of RMB100,000,000 (2002: RMB100,000,000) for loan and other trade financing. As of 31 December 2003, the unutilised facilities amounted to RMB85,000,000 (2002: RMB85,000,000).

## 28. FINANCIAL INSTRUMENTS

### (a) Fair values

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

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

### (b) Credit risk

The carrying amount of cash and cash equivalents, trade receivables 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 1.1% (2002: 1.5%).

The majority of the Group's trade receivables relate to sales of goods to third party customers. The Group does not have fixed credit period for its trade receivables. The Group performs ongoing credit evaluations of its customers' financial condition and generally does not require collateral on trade receivables. The Group maintains a provision for doubtful debts and actual losses have been within the management's expectation.

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 Note 12.

### (d) Foreign currency risk

The Group has foreign currency risk as certain of its payables to equipment suppliers and certain trade receivables arising 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.

The Group had no positions in derivative contracts that are designated and qualified as hedging instruments as of 31 December 2003 and 2002.

31 December 2003

*(Amounts expressed in RMB unless otherwise stated)***29. COMMITMENTS****(a) Capital commitments**

As of 31 December 2003, the Group had the capital commitments relating to the construction of production facilities amounted to approximately RMB20,445,000 (2002: RMB22,995,000) which were not provided but had been authorised and contracted for in the consolidated financial statements of the Group.

**(b) Operating lease commitments**

As of 31 December 2003, 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 RMB60,785,000 (2002: RMB73,274,000). Total future minimum lease payments under non-cancelable operating leases are as follow:

|   | <b>2003</b><br><i>RMB'000</i> | 2002<br><i>RMB'000</i> |
|---|-------------------------------|------------------------|
| Land and buildings:                                 |                               |                        |
| – not later than one year                           | <b>12,489</b>                 | 12,489                 |
| – later than one year and not later than five years | <b>16,742</b>                 | 26,546                 |
| – later than five years                             | <b>31,554</b>                 | 34,239                 |
|   | <b>60,785</b>                 | 73,274                 |

**30. SUBSEQUENT EVENTS**

On 27 February 2004, the Board of Directors proposed a final dividend of RMB0.43 per share (2002: RMB0.39 per share) for the year ended 31 December 2003, totalling approximately RMB78,604,000 (2002: RMB71,292,000). 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 2004.

**31. APPROVAL OF FINANCIAL STATEMENTS**

The financial statements set out on pages 26 to 68 were approved by the Board of Directors on 27 February 2004.

## RESULTS

A summary of the consolidated results of the Group for each of the five years ended 31 December 2003, as extracted from the audited financial statements of the Group, is set out below:

|                                  | Year ended 31 December |                |                |                 |                 |
|----------------------------------|------------------------|----------------|----------------|-----------------|-----------------|
|                                  | 2003                   | 2002           | 2001           | 2000            | 1999            |
|                                  | <i>RMB'000</i>         | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i>  | <i>RMB'000</i>  |
| Revenue                          | <u>864,976</u>         | <u>662,891</u> | <u>497,373</u> | <u>338,699</u>  | <u>308,068</u>  |
| Profit before taxation           | <u>193,414</u>         | <u>148,632</u> | <u>92,768</u>  | <u>66,626</u>   | <u>57,102</u>   |
| Taxation                         | <u>(16,493)</u>        | <u>953</u>     | <u>6,910</u>   | <u>(12,247)</u> | <u>(18,844)</u> |
| Profit before minority interests | <u>176,921</u>         | <u>149,585</u> | <u>99,678</u>  | <u>54,379</u>   | <u>38,258</u>   |
| Minority interests               | <u>(2,578)</u>         | <u>(2,351)</u> | <u>120</u>     | <u>–</u>        | <u>–</u>        |
| Net profit for the year          | <u>174,343</u>         | <u>147,234</u> | <u>99,798</u>  | <u>54,379</u>   | <u>38,258</u>   |

## ASSETS AND LIABILITIES

A summary of the consolidated balance sheet of the Group as at each of the five years ended 31 December 2003, as extracted from the audited financial statements of the Group, is set out below:

|   | As at 31 December |                |                |                |                |
|---|-------------------|----------------|----------------|----------------|----------------|
|   | 2003              | 2002           | 2001           | 2000           | 1999           |
|   | <i>RMB'000</i>    | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> |
| Non-current assets                                  | <u>316,341</u>    | <u>245,669</u> | <u>127,601</u> | <u>82,767</u>  | <u>65,881</u>  |
| Current assets                                      | <u>582,172</u>    | <u>546,652</u> | <u>490,260</u> | <u>434,836</u> | <u>157,548</u> |
| <b>TOTAL ASSETS</b>                                 | <u>898,513</u>    | <u>792,321</u> | <u>617,861</u> | <u>517,603</u> | <u>223,429</u> |
| Current liabilities                                 | <u>229,541</u>    | <u>228,941</u> | <u>149,217</u> | <u>122,499</u> | <u>141,705</u> |
| Minority interests                                  | <u>17,059</u>     | <u>14,481</u>  | <u>12,130</u>  | <u>–</u>       | <u>–</u>       |
| <b>TOTAL LIABILITIES AND<br/>MINORITY INTERESTS</b> | <u>246,600</u>    | <u>243,422</u> | <u>161,347</u> | <u>122,499</u> | <u>141,705</u> |
| <b>NET ASSETS</b>                                   | <u>651,913</u>    | <u>548,899</u> | <u>456,514</u> | <u>395,104</u> | <u>81,724</u>  |

## PERFORMANCE DATA

|                      | <b>2003</b>              | <b>Year ended 31 December</b> |                          |                          |
|----------------------|--------------------------|-------------------------------|--------------------------|--------------------------|
|                      |                          | 2002                          | 2001                     | 2000                     |
|                      | <i>RMB</i>               | <i>RMB</i>                    | <i>RMB</i>               | <i>RMB</i>               |
| Earnings per share   | <b>0.95</b>              | 0.81                          | 0.55                     | 0.44                     |
| Dividends per share  | <b>0.43</b>              | 0.39                          | 0.30                     | 0.21                     |
|                      | <u><u>          </u></u> | <u><u>          </u></u>      | <u><u>          </u></u> | <u><u>          </u></u> |
|                      | <b>2003</b>              | <b>As at 31 December</b>      |                          |                          |
|                      | <i>RMB</i>               | 2002                          | 2001                     | 2000                     |
|                      | <i>RMB</i>               | <i>RMB</i>                    | <i>RMB</i>               | <i>RMB</i>               |
| Net assets per share | <b>3.57</b>              | 3.00                          | 2.50                     | 2.16                     |
|                      | <u><u>          </u></u> | <u><u>          </u></u>      | <u><u>          </u></u> | <u><u>          </u></u> |

**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 18 May 2004 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 2003;
2. To receive and consider the Report of the Supervisory Committee for the year ended 31 December 2003;
3. To declare and propose a final dividend of RMB0.43 per share for the year ended 31 December 2003. The proposed dividend will be payable on or before 31 August 2004 to shareholders whose names appear on the register of shareholders of the Company on 18 May 2004;
4. To re-appoint PricewaterhouseCoopers as the auditors of the Company for 2004 and to authorize the Board of Directors to fix their remuneration;
5. 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; and
6. As special business, to consider and pass the following resolutions:

### **SPECIAL RESOLUTION**

**THAT:**

1. there be granted to the Board of Directors of the Company an unconditional general mandate ("General Mandate") to allot, issue and deal with additional shares in the capital of the Company, whether Domestic Shares or H Shares, and to make or grant offers or agreements in respect thereof, subject to the following conditions:
  - (a) such mandate shall not extend beyond the Relevant Period save that the Board of Directors of the Company may during the Relevant Period make or grant offers or agreements which might require the exercise of such powers after the end of the Relevant Period;

- (b) the aggregate nominal amount of shares allotted or agreed conditionally or unconditionally to be allotted by the Board of Directors of the Company, otherwise than pursuant to any scrip dividends or similar arrangement providing for the allotment of such shares in lieu of the whole or part of a dividend on such shares in accordance with the articles of association of the Company, shall not exceed:
  - (i) 20 per cent of the aggregate nominal amount of Domestic Shares of the Company in issue at the date of the passing of this Resolution; and
  - (ii) 20 per cent of the aggregate nominal amount of H Shares of the Company in issue at the date of the passing of this Resolution,
 in each case as at the date of this Resolution; and
- (c) the Board of Directors will only exercise its power under such mandate in accordance with the relevant provisions of the PRC Company Law (as amended from time to time) and the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (as the same may be amended from time to time) and only if all necessary approvals from the China Securities Regulatory Commission and/or other relevant PRC government authorities are obtained.

For the purposes of this Resolution:

**“Relevant Period”** means the period from the passing of this Resolution until the earliest of:

- (a) the conclusion of the next annual general meeting of the Company following the passing of this Resolution; or
  - (b) the expiration of the 12-month period following the passing of this Resolution; or
  - (c) the date on which the authority set out in this Resolution is revoked or varied by a special resolution of the shareholders of the Company in a general meeting; and
2. contingent on the Board of Directors resolving to issue shares pursuant to sub-paragraph (1) of this Resolution:
- (a) approve the Domestic Shareholders to offer for sale H Shares converted from part of its Domestic Shares (“State-owned Shares Reduction”) pursuant to the Provisional Administrative Measures for State-owned Share Reduction for Raising Social Security Fund (減持國有股籌集社會保障資金管理暫行辦法) (State Council Guofa [2001] No.22); and
  - (b) authorize the Board of Directors to:
    - (i) approve, execute and do or procure to be executed and done, all such documents, deeds and things as it may consider necessary in connection with the issue of such new shares including, without limitation, the time, price, quantity and place of issue, making all necessary applications to the relevant authorities, entering into an underwriting agreement (or any other agreement);

## Notice of Annual General Meeting

- (ii) determine the use of proceeds and make all necessary filing to the relevant authorities in the PRC and/or Hong Kong (if required); and
- (iii) to increase the registered capital of the Company in accordance with the actual increase of capital by issuing shares pursuant to sub-paragraph (1) of this Resolution, to register the increased capital with the relevant authorities in the PRC and to make such amendments to the Articles of Association accordingly as it thinks fit so as to reflect the new capital and/or new capital structure of the Company resulting from the State-owned Shares Reduction.

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

Beijing, the PRC  
27 February 2004

*Notes:*

- (i) A member of the Company entitled to attend and vote at the meeting is entitled to appoint a proxy or proxies to attend and vote in his stead. A proxy need not be a member of the Company. A form of proxy for use at the meeting is enclosed herewith. In the case of a joint holding, the form of proxy may be signed by any joint holder, but if more than one joint holder is present at the meeting, whether in person or by proxy, that one of the joint holders whose name stands first on the register of members in respect of the relevant joint holding shall alone be entitled to vote in respect thereof.
- (ii) To be valid, the form of proxy together with any power of attorney or other authority under which it is signed or a notorially certified copy of that power of attorney or authority must be deposited with the Hong Kong H share registrar of the Company, Hong Kong Registrars Limited at Rooms 1901-1905, 19th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong and in case of holders of Domestic Shares, to the Company's registered office at No.10 Hong Da Bei Road, Beijing Economic and Technology Development Zone, Yi Zhuang, Beijing, PRC not later than 24 hours before the time appointed for holding the meeting or the time appointed for passing the resolutions.
- (iii) Shareholders and their proxies should produce identity proof when attending the meeting.
- (iv) The register of members of the Company in Hong Kong will be closed from Sunday, 18 April 2004 to Tuesday, 18 May 2004, both days inclusive, during which period no transfer of H shares of the Company will be effected. For the identification of Shareholders who are qualified to attend and vote at the meeting, all transfer document accompanied by the relevant share certificates must be lodged with the Company's H share registrar and transfer office in Hong Kong, Hong Kong Registrars Limited at Rooms 1901-1905, 19th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:00 p.m. on Friday, 16 April 2004.
- (v) Holders of H Shares of the Company who intend to attend the Annual General Meeting shall complete the enclosed reply slip for the meeting and return it, by hand or by post or by fax to the number: (852) 2865 0990/(852) 2529 6087, to the Company's H shares registrar and transfer office in Hong Kong, Hong Kong Registrars Limited at Rooms 1901-1905, 19th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong on or before Wednesday, 28 April 2004.
- (vi) Holders of Domestic Shares of the Company who intend to attend the Annual General Meeting shall complete the enclosed reply slip for the meeting and return it, by hand or by post or by fax, to the Company's registered office on or before Wednesday, 28 April 2004.