北京同仁堂

創建於一六六九年

Tong Ren Tang Technologies Co. Ltd.

北京同仁堂科技發展股份有限公司

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

Annual Report 2004

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

Contents

BOARD OF DIRECTORS

EXECUTIVE DIRECTORS

Yin Shun Hai *(Chairman)*
Mei Qun *(Vice-chairman)*
Bi Jie Ping *(Vice-chairman)*

NON-EXECUTIVE DIRECTORS

Li Lian Ying
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

Bai Jian
Wang Yu Wei
Liu Zi Lu
Zhu Gong Pei
Xie Su Hua
Deng Wen Lin
Zhang Jing Yan
Chan Ngai Chi, CPA, FCCA

QUALIFIED ACCOUNTANT AND COMPANY SECRETARY

Chan Ngai Chi, CPA, FCCA

AUDIT COMMITTEE

Tam Wai Chu, Maria
Ting Leung Huel, Stephen
Jin Shi Yuan

COMPLIANCE OFFICER

Mei Qun

AUTHORIZED REPRESENTATIVES

Mei Qun
Chan Ngai Chi, CPA, FCCA

AUTHORIZED PERSON TO ACCEPT SERVICE OF PROCESS AND NOTICE

Yang Qiong

AUDITORS

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

LEGAL ADVISORS

Mallesons Stephen Jaques
37th Floor, Two International Finance Centre
8 Finance Street, Central, Hong Kong

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

H-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

OFFICE AND MAILING ADDRESS

No 20. Nansanhuan Zhonglu
Fengtai District
Beijing, the PRC

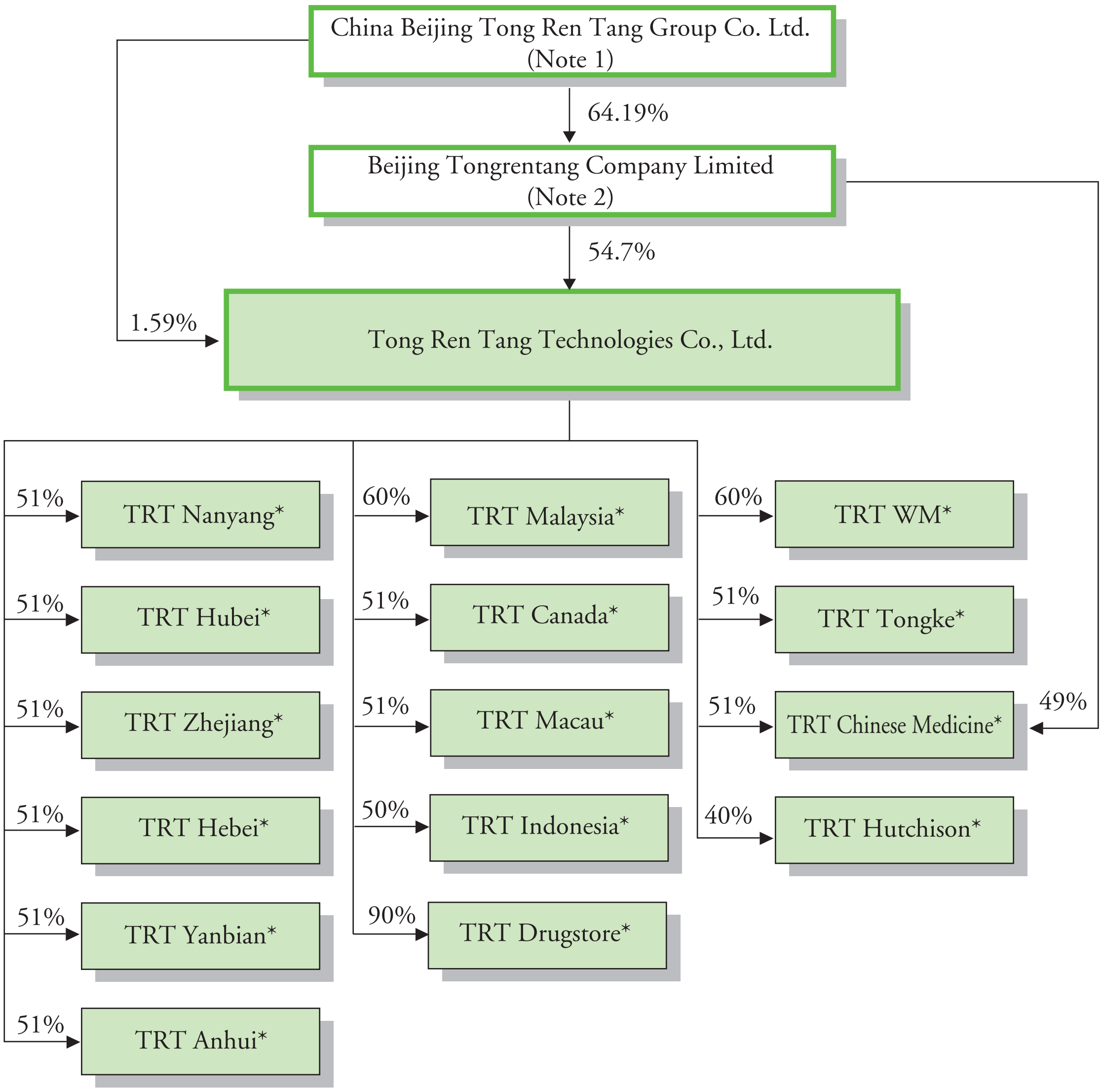
OFFICE IN HONG KONG

20th Floor
Park Avenue
No. 5 Moreton Terrace
Causeway Bay
Hong Kong

GEM STOCK CODE

8069

Corporate Structure



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.

RESULTS

A summary of the consolidated results of the Group for each of the five years ended 31 December 2004, as extracted from the audited financial statements of the Group, is set out below:

	Year ended 31 December				
	2004	2003	2002	2001	2000
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Revenue	**983,249**	864,976	662,891	497,373	338,699
Profit before taxation	**225,422**	193,414	148,632	92,768	66,626
Taxation	**(18,162)**	(16,493)	953	6,910	(12,247)
Profit before minority interests	**207,260**	176,921	149,585	99,678	54,379
Minority interests	**(1,653)**	(2,578)	(2,351)	120	–
Net profit for the year	**205,607**	174,343	147,234	99,798	54,379

ASSETS AND LIABILITIES

A summary of the consolidated balance sheet of the Group as at each of the five years ended 31 December 2004, as extracted from the audited financial statements of the Group, is set out below:

	As at 31 December				
	2004	2003	2002	2001	2000
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Non-current assets	**445,554**	316,341	245,669	127,601	82,767
Current assets	**810,769**	582,172	546,652	490,260	434,836
TOTAL ASSETS	**1,256,323**	898,513	792,321	617,861	517,603
Non-current liabilities	**10,974**	9,511	–	–	–
Current liabilities	**428,448**	220,030	228,941	149,217	122,499
Minority interests	**38,195**	17,059	14,481	12,130	–
TOTAL LIABILITIES AND MINORITY INTERESTS	**477,617**	246,600	243,422	161,347	122,499
NET ASSETS	**778,706**	651,913	548,899	456,514	395,104

PERFORMANCE DATA

	Year ended 31 December				
	2004	2003	2002	2001	2000
	RMB	*RMB*	*RMB*	*RMB*	*RMB*
Earnings per share	**1.12**	0.95	0.81	0.55	0.44
Dividends per share	**0.46**	0.43	0.39	0.30	0.21

	As at 31 December				
	2004	2003	2002	2001	2000
	RMB	*RMB*	*RMB*	*RMB*	*RMB*
Net assets per share	**4.26**	3.57	3.00	2.50	2.16

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 2004.

RESULTS OF THE YEAR

The performance of the Company's core business in manufacturing of Chinese Patent Medicine in 2004 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 2004 amounted to approximately RMB983,249,000, representing an increase of approximately 13.67% as compared with previous year. Net profit amounted to approximately RMB205,607,000 , representing an increase of approximately 17.93% as compared with previous year. Earnings per share for the year ended 31 December 2004 was RMB1.12.

DIVIDENDS

The Board of Directors declares and proposes the final dividend for the year ended 31 December 2004 of RMB0.46 (2003: RMB0.43) per share based on 110,000,000 domestic shares and 72,800,000 H shares in issue. Such proposed dividend has not been recorded in the accounts and is subject to passing of the proposal at the Annual General Meeting.

REVIEW OF THE YEAR

The year 2004 was a year of hardship and consolidation for the Company. Despite fierce market competition, the Company still reported exciting results in various aspects: both its sales amount and net profits saw stable growth; construction of the Yizhuang production base has been completed basically; the domestic sales network has been further expanded; sales of leading products achieved stable growth; in order to focus on overseas markets, the Company and its parent company, Beijing Tongrentang Company Limited, have jointly invested and established Beijing Tong Ren Tang Chinese Medicine Company Limited as its Chinese medicine production base in Hong Kong and this is the first Tong Ren Tang production base established abroad. For the year under review, the Company has successfully completed several missions, paving a solid foundation for its sustainable business development.

OUTLOOK AND PROSPECTS

In 2005, the Chinese economy is expected to maintain its stable growth. The pharmaceutical sector, despite continuing growth, will enter into a new era of reformation. The implementation of GMP certification will expel some pharmaceutical manufacturers out of the industry, and with further implementation of such policies as GSP certification, separation of prescription and medication, and classification of prescription and non-prescription drug, a major reformation in medicine distribution system will consequently be created and thus a new arena will be set for the system. As the restructuring of the industry deepens, competition among enterprises will increasingly focus on product innovation and new marketing initiative.

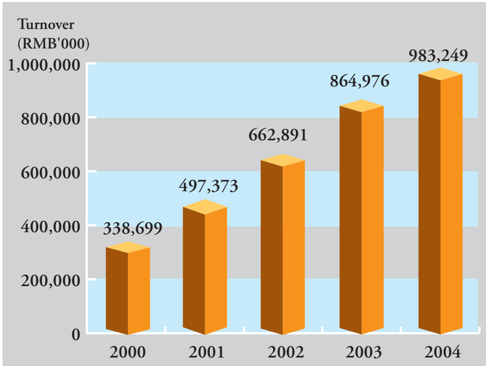
The Company will continue to manufacture Chinese medicine as its core business, with both mainland China and overseas market as major targets. Capitalizing on Tong Ren Tang's brand reputation, the Company will make further efforts in market penetration and coverage to become a stronger enterprise in terms of business scale.

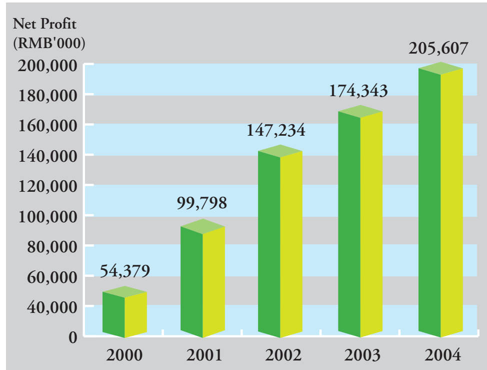
The Board of Directors and I have confidence in the future development of the Company while the Chinese medicine production business of the Company will continue to maintain a stable development trend. All the staff of the Company will continue to contribute their efforts for the development of the Company.

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

Yin Shun Hai
Chairman

Beijing, the PRC,
9 March 2005





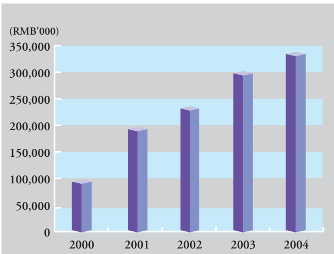
BUSINESS REVIEW

The Company achieved satisfactory operating results for the year 2004 due to its adherence to the working strategy of "working hard for a year and consolidating the business foundation", continuous implementation of the guiding principle of "focusing on market demand with profitability as its goal", exercise of teamwork, working hard and flexible response to the market trend. The Company showed good operating status and maintained stable development momentum in 2004. For the year ended 31 December 2004, the Group reported RMB983,249,000 in turnover, representing an increase of 13.67% as compared with the corresponding period of the preceding year; RMB205,607,000 in net profit, representing an increase of 17.93% as compared with the corresponding period of the preceding year.

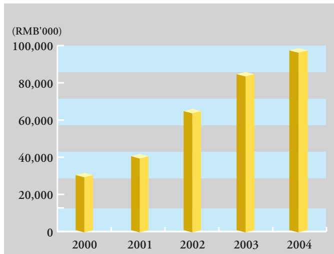
SALES

The Company continued to reform and innovate the sales model, aiming to create a complete sales network formed by agents, distributors and terminal retailers. In 2004, two sales branch companies began the construction of promotion network in full scale in the major regions where products were sold, and regional distributors and contracted dealers were developed in an effort to create a good, regulated and orderly market environment. The operating branch company established a network of distributors in Shannxi, Sichuan, Chongqing, Guangxi, etc.; new product branch company was committed to increase contracted dealers. Up till now, the Company has had more than 400 distributors or terminal retailers across various regions. Its dealing and retail network has basically covered almost 20 provinces and municipalities. A preliminary solid structure of network comprising Class I agents, Class II distributors and Class III terminals has been formed. During the time of establishing its network with all efforts, the Company also adjusted the composition of the marketing team in support of the construction of network by piloting the recruitment of local sales persons in some major sales regions, a move that effectively enhanced the overall talent resources and their adaptability to market, forming a new model of the Company's marketing team recruitment.

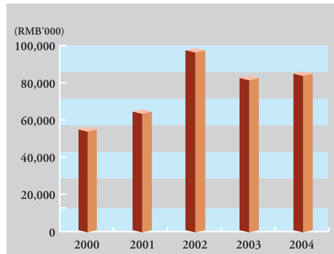
Turnover of major products



Liuwei Dihuang Pill



Niuhuang Jiedu Tablet

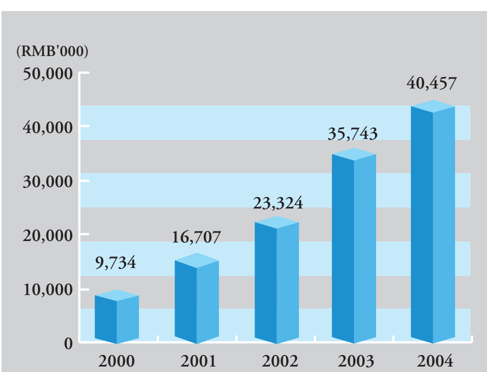


Ganmao Qingre Granule

Throughout the year of 2004, the Company successfully organized four theme marketing activities, namely "Anti-cold Campaign" and "Cooling and Refreshing Summer", "Delightful Autumn" and "Winter Sunshine". These theme activities with lively seasonal characteristics fully capitalized on distributors in each area and the end network, forming the network sales model with products as theme, activity as content and the network as support. Such activities had strong repercussions in each region, and the network has thus become the Company's marketing base.

The Company set up the goal of building a group of product lines based on the scientific analysis of the structure of its own product mix, namely, the goal of meeting market demand with the structure of rich products comprising main product lines and potential product lines by virtue of assortment goal management. In ensuring major products in the steady growth, the Company focused on developing competitive products with market potential. In 2004, the sales of the Company's main products Liuwei Dihuang Pill (六味地黃丸) and Niuhuang Jiedu Tablet (牛黃解毒片) maintained stable growth, increasing by 13.40% and 15.61% as compared with the corresponding period of the preceding year respectively. The number of products with sales exceeding RMB10,000,000 increased obviously on the same comparable basis. Some kinds of the products achieved outstanding growth with sharp increase in product concentricity. The sales of Ganmao Qingre Granule (感冒清熱顆粒) for this year increased by 1.89% as compared with the corresponding period of the preceding year, forming different kinds of product mix such as tonic medicine, cooling and antidotal medicines and gynaecological medicine.

Turnover of overseas markets



As for sales on overseas market, the Company adjusted its marketing strategy in a timely manner in the face of the increasingly keen competition of the international pharmaceutical market, and devoted to the development of new markets, realizing stable growth in product sales. The Company recorded RMB40,457,000 in the sales in the overseas market for 2004, representing an increase of 13.19% as compared with the corresponding period of the preceding year and accounting for 4.11% of the Group's total turnover.

PRODUCTION

In 2004, the Company's overall production system still faced severe challenges. The guiding principle of market-led orientation and everchanging market demand required the Company to have the production capacity of many product lines and in different dosage forms in order to satisfy the need of consumers of different social strata and types. Because of this, the Company took the opportunity to build a production base to accelerate the adjustment of overall production structure and strengthen the production control in order to make full use of the existing production resources, to expand production and to gradually ease part of the pressure of market demand for products in dosage form by way of adjustment to organizational structure, redeployment of staff and implementation of internal shift system and organization of small production workshops. The production division also made full use of production deployment system through the process of computer monitoring and management of product manufacturing to optimise production process and to enhance working efficiency as well as production capacity.

In the production base in Yizhuang, the tablet production workshop and multipurpose building (including part of the tablet production line and the supporting facilities) were put into operation. The output and variety of tablet products gradually increased. The workshops of pill and granule under construction were completed in the year and are in the stage of equipment installation and commissioning. Now the whole production base in Yizhuang was basically completed and will be put into operation by the first half of 2005. After the completion of construction of Yizhuang production base and the commencement of its operation, the base will become the main production base for products in dosage form such as tablet, pill and granule, and become another main production base other than that Liujiayau, Fengtai District.

The construction of the Chinese medicine pre-processing workshop located in Tongzhou district of Beijing City is being undertaken by Beijing Tong Ren Tang Tongke Pharmaceutical Company Limited. The workshop will produce semi-products for the Company's medicines in all dosage forms so that the overall productivity of the Company will be enhanced.

In order to expand the share of the Company's products in the international market and procure the modern Chinese medicine entering into the main international market of medicines, the Company and Beijing Tongrentang Company Limited ("Tongrentang Ltd.") jointly invested to establish Beijing Tong

Ren Tang Chinese Medicine Company Limited (北京同仁堂國藥有限公司) ("Tongrentang Chinese Medicine 同仁堂國藥"). The total investment plan of Tongrentang Chinese Medicine amounted to HK$150,000,000 in which the Company will contribute HK$76,500,000, representing 51%, and Tongrentang Ltd. will contribute HK$73,500,000, representing 49%. Tongrentang Chinese Medicine will establish a production base of Chinese medicines in Hong Kong with a view to development in the overseas market. Tongrentang Chinese Medicine will adopt advanced technologies and scientific business management approaches in line with medicine quality requirements of different countries to realize the modernized reform of traditional Chinese medicines and develop high-tech products for producing globally competitive Chinese medicines meeting the need of the overseas market. As such, the modernization and globalization of Chinese medicines will gradually come true. In October 2004, Tongrentang Chinese Medicine was duly established in Hong Kong. It will construct its production base in Tai Po Industrial Estate in Hong Kong in 2005. Currently, the pre-planning design of the production base is underway.

RESEARCH AND DEVELOPMENT

The research centre was proactively engaged in research study in line with the research concept of "keep an eye on market demand, accelerate technological advancement and construct new product mix of the Company, and speeded up turning the scientific research achievements into the thrust of productivity enhancement. During the year, the new product Baihe Geng Nian An Granule (百合更年安顆粒) for treatment of climacterium syndrome successfully obtained new drug certificate and approval number. The Company will actively arrange the trial production of this product together with other new products already granted the new drug certificates, and launch them into the market gradually.

Two new product projects confirmed are in pre-clinic research. Meanwhile, the Company has confirmed a new product project through technological argumentation and is making preparation for research and development with a view to enhancing the capacity of development.

The research and development centre completed many projects of secondary research and new technology application research as well as the technological research of changing the dosage forms of part of the existing products according to the market demand and the need of production and operation. It continued its research on the application of membrane filtration technology on several tablet products and furthered the expansion of application scope.

MANAGEMENT

The Company followed the working principle to consolidate its foundation and strengthen fundamental management work. Besides, it continued to comprehensively implement ISO9001 Quality Management System and optimized the construction of system. By developing process monitoring and internal audit and rationalizing the internal work flow, the internal management level will be further enhanced.

The Company enhanced the financial management and implemented a budget system across the board to strengthen the system management and pre-control. The Company put more effort to quality management and insisted in a quality controller system under which special quality management officers would be sent to adjust and perfect the quality management system. Subsequent to 2002, the Company has been awarded the title of National Quality Effective Advanced Enterprise for the year 2003 by the Chinese Association for Quality again and listed on the National Users' Satisfactory Enterprises for the year 2004.

SALES NETWORK

The Company gradually developed sales network in line with the principle of being cautious and firm in operation. Currently, the Company has set up four joint ventures overseas by way of investment in the hope of developing local distribution business, setting up drug retail outlets and to increase the sales of the Company's products.

Peking Tongrentang (M) Sdn. Bhd., which is located in Malaysia, established a drug store in Kuala Lumpur in 2002. Since then, the shop has been operating well. In June 2004, its retail drug store in Penang was launched. In 2004, the revenue of Peking Tongrentang (M) Sdn. Bhd. amounted to RMB8,780,400.

the drug store in Malaysia

Beijing Tong Ren Tang Canada Co. Ltd., which is located in Canada, has established a drug store in Vancouver which officially commenced business. Beijing Tong Ren Tang (Macau) Company Limited established a drug store in Macau Special Administrative Region in September 2003 which has been in good operating status. In 2004, the two companies realized the revenue of RMB4,464,600 and RMB5,973,600 respectively.

the drug store in Canada

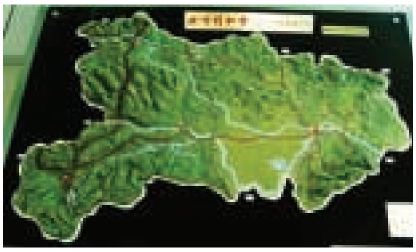
Beijing Tong Ren Tang (Indonesia) Company Limited, in which the Company invested USD500,000 representing 50% of the total investment, is located in Jakarta, Indonesia. The company and its affiliated drug store were formally opened in end of June of this year and were warmly welcomed by local consumers.

the drug store in Macau

During the year, the Company made investment to establish Beijing Tong Ren Tang Nansanhuan Zhonglu Drugstore Co., Limited (北京同仁堂南三環中路藥店有限公司) with a registered capital of RMB500,000, in which the Company invested RMB450,000, representing 90% of the registered capital. The company is a retail drug store located at Nansanhuan Zhonglu, Fengtai District, Beijing (北京豐台區南三環中路). Its has been in good operating status and realized the revenue of RMB6,522,800 in 2004.

CHINESE MEDICINAL RAW MATERIALS PRODUCTION BASES

In 2004, the affiliated production bases for Chinese medicinal raw materials of the Company implemented the planting, harvesting, processing, etc. At the same time, they proactively worked for GAP (Good Agriculture Practice) Certification. They strictly complied with the requirements of the certification by quality supervision over the planting, processing and the whole process of Chinese medicinal production, enhancement of hardware and software deployment and construction of ever-improving operational management system. Through joint efforts by all parties, the affiliated cornel base of Beijing Tong Ren Tang Zhejiang Chinese Medicinal Raw Materials Co., Limited, the affiliated 荊芥 base and isatis root base of Beijing Tong Ren Tang Hebei Chinese Medicinal Raw Materials Technologies Co., Limited, the affiliated cornel base of Beijing Tong Ren Tang Nanyang Shanzhuyu Co., Limited and the affiliated tuckahoe base of Beijing Tong Ren Tang Hubei Chinese Medicinal Raw Materials Co., Limited. There were five bases of four companies. They successively passed the GAP Certification conducted on the spot by the State Food and Drug Administration.



Map of plantation fields of Beijing Tong Ren Tang Hubei Chinese Medicinal Raw Materials Co., Limited

In 2004, the revenue of the aforesaid four companies amounted to RMB44,645,700, amongst which RMB42,297,800 of Chinese medicinal raw material were being supplied to the Company. 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.

Besides, after the market investigation and research as well as field study, the Company established two companies, namely Beijing Tong Ren Tang Anhui Chinese Medicinal Raw Materials Co., Limited (北京同仁堂安徽中藥材有限公司) and Beijing Tong Ren Tang Yanbian Chinese Medicinal Raw Materials Co., Limited (北京同仁堂延邊中藥材基地有限公司) in light of the species of Chinese medicines of the Company in demand. The registered capital of each of the two companies is RMB4,000,000, in which the Company invested RMB2,040,000 in each of them, representing 51%. The companies are duly established in their respective region. They will establish their production bases for Chinese medicinal raw materials in Tongling County, Anhui Province and Yanji City, Jilin Province to ensure a quality, stable and controllable supply of Chinese medicinal raw materials for the Company's production.

FINANCIAL REVIEW

Liquidity and Financial Resources

The Group has maintained a sound financial position in this year. As at 31 December 2004, the Group had cash and bank balances amounted to RMB277,408,000 (2003: RMB261,343,000) and short-term borrowings of RMB75,000,000 (2003: RMB15,000,000). The borrowings bear fixed interest at 4.78% (2003: 5.31%) per annum. As at 31 December 2004, the Group had total assets of RMB1,256,323,000 (2003: RMB898,513,000) which were financed by non-current liabilities of RMB10,974,000 (2003: RMB9,511,000), current liabilities of RMB428,448,000 (2003: RMB220,030,000), shareholders' equity of RMB778,706,000 (2003: RMB651,913,000) and minority interests of RMB38,195,000 (2003: RMB17,059,000).

Capital Structure

There has been no material change in the capital structure of the Group as at 31 December 2004 as compared with that as at 31 December 2003.

Gearing and liquidity ratio

The Group's gearing ratio, defined as the ratio between total borrowings and shareholders' equity, was 0.10 (2003: 0.02). The liquidity ratio of the Group, represented by a ratio between current assets over current liabilities, was 1.89 (2003: 2.65), reflecting the abundance of financial resources.

Charges on group assets

As at 31 December 2004, none of the Group's assets was pledged as security for liabilities (2003: Nil).

Foreign currency risk

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

Contingent liabilities

Other than those disclosed in note 19(a) to the financial statements, the Group had no contingent liabilities as at 31 December 2004 (2003: Nil).

Capital commitments

At as 31 December 2004, the Group had the following capital commitments which had been authorised and contracted for in the consolidated financial statements of the Group:

(i) Commitments relating to the construction of production facilities amounted to approximately RMB3,300,000 (2003: RMB20,445,000).

(ii) Commitments relating to investment contributions to investee entities amounted to approximately RMB79,730,000 (2003: Nil).

Those capital commitments will be financial by the Group with its internal cashflows.

PROSPECTS

According to the guiding principle of work as proposed by the Board of Directors, the objectives of the Company in 2005 are to establish a solid management force for business consolidation, maximize profit for business growth, strengthen and develop our sales network for business expansion, and continuous innovation for sustainable and stable growth in the long run. Based on the above objectives, the Company's focus of work in 2005 is as follows:

With Yizhuang as the production base, the Company will continue to regulate the structure of production supported by its strong management function and to make better use of its production system. Both the production lines for tablets and pills will soon be operational while Yizhuang will serve as the production base with upgraded production facilities, which will further increase production efficiency.

The Company will continue to expand its sales network with full force, to consolidate and extend its marketing network, to increase production on the back of greater market penetration, and to nurture and develop new products in concord with network expansion. With more effective marketing initiatives, the Company will have greater market penetration and coverage for its products.

With strong belief that technology is always the core element of productivity, we will make further investment in R&D to improve the R&D environment and to raise the standard of R&D staff. As economic benefits are our ultimate goal, the Company will accelerate the re-development of existing products into and development of new products, and then introduce new products to the market when appropriate.

By enhancing our management team and place more importance on cash flow management, the Company will pay particular attention to the control of production cost in every process of operation, increase production while saving unnecessary expenditure, all aiming at better return from its operations.

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 2004.

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:

	2004	2003
	RMB'000	*RMB'000*
Sales of medicine:		
Domestic	**942,268**	820,243
Overseas	**40,457**	35,743
Agency fee income – domestic	**–**	8,954
Others	**524**	36
	983,249	864,976

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 (2003: less than 30%).

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

	2004	2003
The largest supplier	**7%**	8%
Five largest suppliers combined	**25%**	29%

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 2004 are set out on page 29 to 72 of the annual report.

DIVIDENDS

The Directors recommend the payment of a final dividend of RMB0.46 per share in respect of the year, to shareholders whose names appear on the register of shareholders of the Company on 16 May 2005.

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 at 31 December 2004, the Group's retained profits of approximately RMB250,865,000 (2003: RMB174,553,000) 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), 18 and 23 to the financial statements.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2004, the Company had 1,855 employees (2003: 1,899 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 pension scheme, medical insurance scheme, unemployment insurance scheme, industrial accident insurance scheme and housing fund.

STAFF QUARTERS

During the reporting period, the Group:

1. did not provide any staff quarters to its staff (2003: Nil);

2. The details of housing fund benefits provided by the Group to its staff are set out in note 24 to the financial statements;

3. also provides housing subsidies to staff at an average of approximately RMB90 per person per month (2003: 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)*
Mei Qun *(Vice-chairman)*
Bi Jie Ping *(Vice-chairman) (Transferred from Non-executive Director on 3 August 2004)*

Non-Executive Directors

Li Lian Ying *(Transferred from Executive Director on 3 August 2004)*
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
Wu Yi Gang
Liu Gui Rong

DIRECTORS' AND SUPERVISORS' SERVICE CONTRACTS

Each of Mr. Yin Shun Hai, Mr. Mei Qun and Mr. Tian Da Fang has entered into a service contract with the Company for a term of three years commencing on 9 March 2000. Upon the reappointment at the annual general meeting in 2003, the term of the original service contracts continue until the conclusion of the annual general meeting in 2006. Each of Mr. Wu Yi Gang and Ms. Liu Gui Rong has entered into a service contract with the Company for a term commencing on their respective appointment dates to the conclusion of the annual general meeting in 2006. Mr. Bi Jie Ping has also entered into a service contract with the Company commencing on 3 August 2004 to the conclusion of the annual general meeting in 2006.

Save as disclosed above, 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.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Profiles of Directors, Supervisors and Senior Management are set out on pages 25 to 27.

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 22 to the financial statements.

DIRECTORS' INTERESTS

As at 31 December 2004, 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 5.46 of the Rules Governing the Listing of Securities on the GEM (the "GEM Listing Rules"), were as follows:

Long positions in shares

The Company

Name	Type of interests	Capacity	Number of shares *(Note)*	Percentage of domestic shares	Percentage of total registered share capital
Mr. Yin Shun Hai	Personal	Beneficial owner	500,000	0.455%	0.274%
Mr. 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 *(Note)*	Percentage of total registered share capital
Mr. Yin Shun Hai	Personal	Beneficial owner	25,900	0.007%
Mr. Mei Qun	Personal	Beneficial owner	20,721	0.006%

Note: All represented A shares.

Beijing Tong Ren Tang International Co., Limited

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

Beijing Tongrentang Nature-Pharm Co. Ltd.

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

Save as disclosed above, as at 31 December 2004, 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 standards of dealing by directors as referred to in Rule 5.46 of the GEM Listing Rules.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2004, the following persons (other than the Directors and chief executives of the Company) had interests and short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO:

Long positions in shares

Name of shareholder	Capacity	Number of shares	Percentage of domestic shares	Percentage of H shares	Percentage of total registered share capital
Tongrentang Ltd.	Beneficial owner	100,000,000	90.909%	–	54.705%
Tongrentang Holdings *(Note 1)*	Interest of a controlled corporation	100,000,000	90.909%	–	54.705%
	Beneficial owner	2,900,000	2.636%	–	1.586%
Capital International, Inc.	Investment manager	8,648,000	–	11.879%	4.731%
Capital Group International, Inc. *(Note 2)*	Interest of a controlled corporation	8,648,000	–	11.879%	4.731%
The Capital Group Companies, Inc. *(Note 2)*	Interest of a controlled corporation	8,648,000	–	11.879%	4.731%
First State Investments (Hong Kong) Limited	Investment manager	5,931,000	–	8.147%	3.245%
First State (Hong Kong) LLC *(Note 3)*	Interest of a controlled corporation	5,931,000	–	8.147%	3.245%
First State Investments (Bermuda) Ltd *(Note 3)*	Interest of a controlled corporation	5,931,000	–	8.147%	3.245%
First State Investment Managers (Asia) Ltd *(Note 3)*	Interest of a controlled corporation	5,931,000	–	8.147%	3.245%
Colonial First State Group Ltd *(Note 3)*	Interest of a controlled corporation	5,931,000	–	8.147%	3.245%
The Colonial Mutual Life Assurance Society Ltd *(Note 3)*	Interest of a controlled corporation	5,931,000	–	8.147%	3.245%
Colonial Holding Company (No.2) Pty Limited *(Note 3)*	Interest of a controlled corporation	5,931,000	–	8.147%	3.245%
Colonial Holding Company Pty Ltd *(Note 3)*	Interest of a controlled corporation	5,931,000	–	8.147%	3.245%
Colonial Ltd *(Note 3)*	Interest of a controlled corporation	5,931,000	–	8.147%	3.245%
Commonwealth Bank of Australia *(Note 3)*	Interest of a controlled corporation	5,931,000	–	8.147%	3.245%

Notes:

(1) Such shares were held through Tongrentang Ltd. As at 31 December 2004, Tongrentang Ltd. was owned as to 64.19% 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 8,648,000 shares held by Capital International, Inc.

(3) 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 5,931,000 shares held by First State Investments (Hong Kong) Limited.

Save as disclosed above, as at 31 December 2004, 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 Niuhuang 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 Niuhuang Pills（安宮牛黃丸）, Tongrentang Holdings, Tongrentang Ltd. and their respective subsidiaries would not produce any common products of the same names or under the same names with different forms that may compete directly with those of the Company in the future. Only one of them, Angong Niuhuang Pills（安宮牛黃丸）, would be manufactured by both the Company and Tongrentang Ltd. in the future.

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

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 one of the independent non-executive Directors is a reputable person in the Chinese medicine industry and 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 26 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 5.28 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 5.29 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, Mr. Ting Leung Huel, Stephen and Mr. Jin Shi Yuan, who are independent non-executive directors of the Company.

Two meetings have been conducted by the audit committee in 2004. The first meeting was held on 20 February 2004 for discussion of the operating results, statements of affairs, major accounting policies and internal audit issues of the Company for the year ended 31 December 2003. The second meeting was held on 30 July 2004 for discussion of the operating results, statements of affairs, major accounting policies and internal audit issues with respect to the unaudited interim report of the Company for the six months ended 30 June 2004.

The audit committee meeting held on 28 February 2005 has discussed the operating results, statements of affairs, major accounting policies and internal audit issues of the Company for the year ended 31 December 2004 and listened to the advice provided by auditors.

BOARD PRACTICES AND PROCEDURES

The Company has complied with rules 5.34 to 5.45 of the GEM Listing Rules concerning board practices and procedures throughout the accounting period.

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. A resolution for the re-appointment of PricewaterhouseCoopers as auditors of the Company for the year 2005 is to be proposed at the forthcoming annual general meeting.

By the Order of the Board

Yin Shun Hai
Chairman

Beijing, the PRC
9 March 2005

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 2004 and has great confidence in the future of the Company.

By Order of the Supervisory Committee

Tian Da Fang
Chairman

Beijing, the PRC
9 March 2005

EXECUTIVE DIRECTORS

Mr. Yin Shun Hai, aged 51, chairman of the Company, is a senior economist with postgraduate qualification. He was formerly the factory manager of Factory No. 2, the deputy general manager and general manager of Tongrengtong Holdings. He is now the chairman of Tongrentang Holdings, chairman of Tongrentang Ltd., the vice president of China Chinese Medicine Research Society Councillor Committee, and an executive member of the ninth committee 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 48, 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 Tongrengtang Holdings. He is now the general manager of Tongrentang Holdings, vice-chairman of Tongrentang Ltd. and executive committee member of Beijing Trade and Industry Association. He is the compliance officer of the Company and responsible for overseeing all matters relating to the listing of the Company. He will spend approximately one-fifth of his time in the business of the Company. He is one of the promoters of the Company.

Mr. Bi Jie Ping, aged 48, vice-chairman and 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 transferred to be a executive director from non-executive director on 3 August 2004.

NON-EXECUTIVE DIRECTORS

Ms. Li Lian Ying, aged 48, deputy general manager of the Company, is a senior economist with a bachelor's degree. She was formerly the deputy office supervisor of Beijing Medicinal Materials Company, the office supervisor 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. She was transferred to be a non-executive director from executive director on 3 August 2004.

Mr. Zhao Bing Xian, aged 41, 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 board member of the Hong Kong Airport Authority and the Urban Renewal Authority and a member of the 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 and was re-elected at the annual general meeting in 2003.

Mr. Ting Leung Huel, Stephen, FCCA, FCPA (Practising), FTIHK, aged 51, is the Managing Partner of Ting Ho Kwan & Chan, Certified Public Accountants since 1987. He is a non-executive director of Chow Sang Sang Holdings International Ltd., and an independent non-executive director of six listed companies in Hong Kong namely eForce Holdings Ltd., Tongda Group Holdings Limited, Oriental Metals (Holdings) Co. Ltd. MACRO-LINK International Holdings Limited, Computer and Technologies Holdings Limited and Texhong textile Group Limited respectively. He was appointed as an independent non-executive director on 11 October 2000 and was re-elected at the annual general meeting in 2003.

Mr. Jin Shi Yuan, aged 78, 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 and was re-elected at the annual general meeting in 2003.

SUPERVISORS

Mr. Tian Da Fang, aged 58, 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 president of Beijing Pharmaceutical Profession Association. He is one of the promoters of the Company.

Mr. Wu Yi Gang, aged 46, 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 50, 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. Bai Jian, aged 45, 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. Wang Yu Wei, aged 37, 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.

Ms. Liu Zi Lu, aged 49, was an accountant with tertiary qualification. She formerly served as a deputy section head and section head of the financial department of Factory No.2 and a deputy manager and deputy chief accountant of the financial department of the Company and is currently the chief accountant of the Company.

Mr. Zhu Gong Pei, aged 45, 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 40, 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, assistant to the general manager and deputy general manager of the Company. She is currently the chief engineer of the Company.

Mr. Deng Wen Lin, aged 50, was a deputy pharmacist with tertiary qualification. He formerly served as a deputy manager and manager of the supplies and logistics department of a pharmaceutical company in Beijing, a manager of the supplies and logistics department of Tongrentang Group, an assistant to general manager of the Company and is currently the deputy general manager of the Company.

Ms. Zhang Jing Yan, aged 31, 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. Chan Ngai Chi, aged 33, was appointed financial controller and company secretary of the Company on 1 December 2004, with postgraduate qualification. He is a member of Hong Kong Institute of Certified Public Accountants and a fellow member of Association of Chartered Certified Accountants of the United Kingdom with over ten years of experience in accounting and auditing.

PRICEWATERHOUSECOOPERS

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 2004; 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 2004 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, 9 March 2005

Balance Sheets

As of 31 December 2004
(Expressed in thousands of Renminbi ("RMB"))

	Note	The Group		The Company	
		2004	2003	**2004**	2003
ASSETS					
Non-current assets					
Property, plant and equipment, net	*3(a)*	**403,307**	276,226	**368,569**	267,920
Land use rights, net	*3(b)*	**32,916**	30,570	**25,904**	26,749
Investments in subsidiaries	*4*	**–**	–	**39,781**	17,756
Investments in joint ventures	*5*	**–**	–	**23,811**	29,477
Investment in an associated company	*6*	**4,952**	5,296	**4,952**	5,296
Deferred tax assets	*9*	**299**	426	**299**	426
Other long-term assets		**4,080**	3,823	**354**	109
		445,554	316,341	**463,670**	347,733
Current assets					
Cash and cash equivalents	*25(b)*	**185,930**	128,130	**138,457**	105,304
Short-term bank deposits	*25(b)*	**91,478**	133,213	**91,478**	133,213
Trade receivables, net	*7*	**64,997**	28,839	**62,273**	28,145
Inventories	*8*	**459,818**	271,272	**446,816**	250,582
Due from related parties	*26(e)*	**1,215**	4,249	**12,375**	4,064
Prepayments and other current assets		**7,331**	16,469	**2,907**	8,364
		810,769	582,172	**754,306**	529,672
Total assets		**1,256,323**	898,513	**1,217,976**	877,405
EQUITY AND LIABILITIES					
Capital and reserves					
Share capital	*10*	**182,800**	182,800	**182,800**	182,800
Reserves	*11*	**595,906**	469,113	**598,225**	469,997
		778,706	651,913	**781,025**	652,797
Minority interests		**38,195**	17,059	**–**	–
Non-current liabilities					
Deferred income – government grants	*12*	**10,974**	9,511	**10,974**	9,511
Current liabilities					
Short-term borrowings	*13*	**75,000**	15,000	**75,000**	15,000
Trade payables	*14*	**194,360**	83,304	**188,466**	78,129
Salary and welfare payables	*15*	**60,013**	57,280	**59,754**	57,153
Advances from customers		**66,486**	36,928	**66,143**	36,615
Due to related parties	*26(e)*	**9,615**	9,554	**25,096**	12,510
Accrued expenses and other current liabilities		**22,974**	17,964	**11,518**	15,690
		428,448	220,030	**425,977**	215,097
Total liabilities		**439,422**	229,541	**436,951**	224,608
Total equity and liabilities		**1,256,323**	898,513	**1,217,976**	877,405

Approved by and signed on behalf of the Board of Directors on 9 March 2005.

Yin Shun Hai
Director

Bi Jie Ping
Director

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

Consolidated Statement of Income

For the year ended 31 December 2004
(Expressed in thousands of RMB except for earnings per share)

	Note	**2004**	2003
Revenue	*16*	**983,249**	864,976
Cost of sales	*26*	**(450,893)**	(392,877)
Gross profit		**532,356**	472,099
Distribution costs	*26*	**(200,039)**	(152,222)
Administrative expenses	*26*	**(103,309)**	(129,283)
Profit from operations		**229,008**	190,594
Finance (expenses)/income, net	*17*	**(3,242)**	3,241
Share of result from an associated company		**(344)**	(421)
Profit before taxation	*18*	**225,422**	193,414
Taxation	*19*	**(18,162)**	(16,493)
Profit before minority interests		**207,260**	176,921
Minority interests		**(1,653)**	(2,578)
Net profit for the year		**205,607**	174,343
Dividends paid	*20*	**(78,604)**	(71,292)
Earnings per share	*21*	**RMB1.12**	RMB0.95

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

Consolidated Statement of Changes in Equity

For the year ended 31 December 2004
(Expressed in thousands of RMB)

	Share capital	Share premium	Statutory surplus reserve fund	Statutory public welfare fund	Tax reserve	Retained profits	Foreign currency translation difference	Total
Balances as of 1 January 2003	182,800	157,925	30,677	15,339	51,583	110,584	(9)	548,899
Net profit for the year	–	–	–	–	–	174,343	–	174,343
Dividends	–	–	–	–	–	(71,292)	–	(71,292)
Foreign currency translation difference	–	–	–	–	–	–	(37)	(37)
Appropriation from retained profits	–	–	17,282	8,641	13,159	(39,082)	–	–
Balances as of 31 December 2003	182,800	157,925	47,959	23,980	64,742	174,553	(46)	651,913
Net profit for the year	–	–	–	–	–	205,607	–	205,607
Dividends	–	–	–	–	–	(78,604)	–	(78,604)
Foreign currency translation difference	–	–	–	–	–	–	(210)	(210)
Appropriation from retained profits	–	–	21,964	10,982	17,745	(50,691)	–	–
Balances as of 31 December 2004	182,800	157,925	69,923	34,962	82,487	250,865	(256)	778,706

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

Consolidated Statement of Cash Flows

For the year ended 31 December 2004
(Expressed in thousands of RMB)

	Note	**2004**	2003
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash generated from operations	*25(a)*	**188,856**	146,454
Interest paid		**(4,436)**	(1,629)
Income taxes paid		**(17,207)**	(13,067)
Net cash inflow from operating activities		**167,213**	131,758
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchases of property, plant and equipment		**(152,516)**	(97,859)
Acquisition of land use rights		**(3,252)**	(205)
Proceeds from disposals of property, plant and equipment		**–**	9
Purchases of other long-term assets		**(1,102)**	(104)
Decrease/(increase) in short-term bank deposits		**41,735**	(79,840)
Interest received		**1,463**	3,200
Net cash used in investing activities		**(113,672)**	(174,799)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from short-term borrowings		**75,000**	–
Additional contributions from minority shareholders of subsidiaries		**19,483**	–
Proceeds from government grants		**3,380**	600
Repayments of short-term borrowings		**(15,000)**	–
Dividends paid		**(78,604)**	(71,292)
Net cash generated from/(used in) financing activities		**4,259**	(70,692)
Net increase/(decrease) in cash and cash equivalents		**57,800**	(113,733)
Cash and cash equivalents at beginning of year		**128,130**	241,863
Cash and cash equivalents at end of year	*25(b)*	**185,930**	128,130

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

31 December 2004

(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 limited 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 2004

(Amounts expressed in RMB unless otherwise stated)

1. ORGANISATION AND OPERATIONS (CONT'D)

As at 31 December 2004, the Company had equity interests in the following subsidiaries and joint ventures:

Name	Place/ date of incorporation/ legal status	Percentage of equity interest held directly	Issued and paid-up capital	Principal activities
Subsidiaries:				
Beijing Tong Ren Tang Nanyang Shanzhuyu Co., Limited ("TRT Nanyang")	Henan, PRC 24 October 2001 Limited liability company	51%	RMB4,000,000	Planting, purchasing, processing and selling Chinese medicinal raw materials
Beijing Tong Ren Tang Hubei Chinese Medicinal Raw Materials Co., Limited ("TRT Hubei")	Hubei, PRC 26 October 2001 Limited liability company	51%	RMB3,000,000	Planting Chinese medicinal raw materials; purchasing and selling agricultural by-products
Beijing Tong Ren Tang Zhejiang Chinese Medicinal Raw Materials Co., Limited ("TRT Zhejiang")	Zhejiang, PRC 31 October 2001 Limited liability company	51%	RMB10,000,000	Planting, purchasing Chinese medicinal raw materials; selling agricultural by-products
Beijing Tong Ren Tang Hebei Chinese Medicinal Raw Materials Technologies Co., Limited ("TRT Hebei")	Hebei, PRC 19 November 2001 Limited liability company	51%	RMB8,000,000	Planting, purchasing, processing and selling Chinese medicinal raw materials
Beijing Tong Ren Tang Tongke Pharmaceutical Company Limited ("TRT Tongke")	Beijing, PRC 4 November 2003 Limited liability company	51%	RMB10,000,000	Medicine production

31 December 2004

(Amounts expressed in RMB unless otherwise stated)

1. ORGANISATION AND OPERATIONS (CONT'D)

Name	Place/ date of incorporation/ legal status	Percentage of equity interest held directly	Issued and paid-up capital	Principal activities
Subsidiaries: (cont'd)				
Beijing Tong Ren Tang Chinese Medicine Company Limited ("TRT Chinese Medicine") (Note)	Hong Kong, PRC 18 March 2004 Limited liability company	51%	HK$2	Production and sales of Chinese traditional medicine
Beijing Tong Ren Tang Nansanhuan Zhonglu Drugstore Co., Limited ("TRT Drugstore")	Beijing, PRC 28 April 2004 Limited liability company	90%	RMB500,000	Sales of medicine products
Beijing Tong Ren Tang Yanbian Chinese Medicinal Raw Materials Co., Limited ("TRT Yanbian")	Jilin, PRC 24 September 2004 Limited liability company	51%	RMB4,000,000	Planting Chinese medicinal raw materials; purchasing and selling agricultural by-products
Beijing Tong Ren Tang Anhui Chinese Medicinal Raw Materials Co., Limited ("TRT Anhui")	Anhui, PRC 18 October 2004 Limited liability company	51%	RMB4,000,000	Planting Chinese medicinal raw materials; purchasing and selling agricultural by-products

Note: On 9 July 2004, the Company had entered into an agreement with the Parent Company whereby both parties agreed to invest in TRT Chinese Medicine, the total investment plan amounted to HK$150,000,000. As of 31 December 2004, both parties had invested a total of HK$20,000,000 into TRT Chinese Medicine.

31 December 2004

(Amounts expressed in RMB unless otherwise stated)

1. ORGANISATION AND OPERATIONS (CONT'D)

Name	Place/ date of incorporation/ legal status	Percentage of equity interest held directly	Issued and paid-up capital	Principal activities
Joint ventures:				
Beijing Tong Ren Tang WM Dianorm Biotech Co., Limited ("TRT WM")	Beijing, PRC 20 February 2001 Sino-foreign equity joint venture	60%	US$3,000,000	Technological development and sales of biological products, Chinese and western medicines and cosmetics and health food
Peking Tongrentang (M) SDN. BHD. ("TRT Malaysia")	Kuala Lumpur, Malaysia 19 January 2001 Limited liability company	60%	US$500,000	Sales of medicine products
Beijing Tong Ren Tang Canada Co. Ltd. ("TRT Canada")	Vancouver, Canada 11 January 2002 Limited liability company	51%	US$1,000,000	Sales of medicine products
Beijing Tong Ren Tang (Macau) Company Limited ("TRT Macau")	Macau, PRC 14 May 2003 Limited liability company	51%	US$500,000	Sales of medicine products
Beijing Tong Ren Tang (Indonesia) Company Limited ("TRT Indonesia")	Jakarta, Indonesia 22 September 2003 Limited liability company	50%	US$1,000,000	Sales of medicine products

31 December 2004
(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 its subsidiaries since these policies are decided by the board of directors of these nine companies by simple majority votes and the Company can appoint more than half of the board members in each of these entities. Accordingly, they are considered subsidiaries for International Financial Reporting Standards ("IFRS") reporting purposes. At present, most of the subsidiaries' sales were made to the Company.

TRT WM, TRT Malaysia, TRT Canada, TRT Macau and TRT Indonesia 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:

	As of 31 December	
	2004	2003
	RMB'000	*RMB'000*
Current assets	**19,064**	24,732
Non-current assets	**6,593**	5,955
Current liabilities	**2,103**	1,257
Non-current liabilities	**–**	–

	For the year ended 31 December	
	2004	2003
	RMB'000	*RMB'000*
Revenues	**15,890**	7,624
Expenses	**8,598**	8,283

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 2004

(Amounts expressed in RMB unless otherwise stated)

1. ORGANISATION AND OPERATIONS (CONT'D)

As of 31 December 2004, the Company also had the following interest in an associated company:

Name	Place/ date of incorporation/ legal status	Percentage of equity interest held directly	Issued and paid-up capital	Principal activities
Associated company:				
Tong Ren Tang Hutchison (HK) Pharmaceutical Development Co., Limited ("TRT Huthchison", formerly known as Great Forever Investment Limited)	Hong Kong, PRC 10 February 1999 Limited liability company	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.

31 December 2004
(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.

31 December 2004

(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.

31 December 2004

(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.

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(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 2004
(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.

31 December 2004

(Amounts expressed in RMB unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES (CONT'D)

(k) Revenue recognition

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

(i) Sales of goods

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

(ii) Agency fee income

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

(iii) Interest income

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

(l) Foreign currency translation

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

Transactions denominated in currencies other than RMB are translated into RMB at the applicable rates of exchange quoted by the People's Bank of China ("PBOC Rates") prevailing at the dates of the transactions. Monetary assets and liabilities denominated in other currencies are translated into RMB at the applicable PBOC Rates prevailing at the balance sheet dates. Non-monetary assets and liabilities in other currencies are translated at historical rates. Exchange differences arising from changes on the settlement of monetary items at rates different from those at which they were initially recorded during the periods other than those capitalised as a component of borrowing costs, are recognised in the income statement in the period in which they arise.

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

31 December 2004

(Amounts expressed in RMB unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES (CONT'D)

(m) Taxation

Taxation of the Group's entities within the PRC is based on the tax laws and regulations applicable to the 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 2004

(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 2004

(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 non-current liabilities as deferred income and are credited to the income statement on a straight-line basis over the expected lives of the related assets.

31 December 2004

(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.

(w) Comparatives

Certain comparative figures have been reclassified to conform with changes in presentation in current year.

31 December 2004
(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:

	2004					
	Buildings	Equipment and machinery	Motor vehicles	Office equipment	CIP	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Valuation						
Beginning of year	131,006	174,809	13,217	9,661	71,603	400,296
Additions	255	159	–	1,700	150,402	152,516
Transfers from CIP	46,932	31,150	–	1,024	(79,106)	–
Disposals	–	(4,096)	–	(76)	–	(4,172)
End of year	178,193	202,022	13,217	12,309	142,899	548,640
Accumulated depreciation						
Beginning of year	42,279	72,411	6,540	2,840	–	124,070
Charges for the year	4,468	16,589	1,628	2,425	–	25,110
Disposals	–	(3,787)	–	(60)	–	(3,847)
End of year	46,747	85,213	8,168	5,205	–	145,333
Net book value						
End of year	131,446	116,809	5,049	7,104	142,899	403,307
Beginning of year	88,727	102,398	6,677	6,821	71,603	276,226

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

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

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

	2004					
	Buildings	Equipment and machinery	Motor vehicles	Office equipment	CIP	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Valuation						
Beginning of year	126,966	174,425	11,900	6,262	71,377	390,930
Additions	–	–	–	17	124,490	124,507
Transfers from CIP	46,932	31,150	–	1,024	(79,106)	–
Disposals	–	(4,096)	–	(71)	–	(4,167)
End of year	173,898	201,479	11,900	7,232	116,761	511,270
Accumulated depreciation						
Beginning of year	42,082	72,362	6,245	2,321	–	123,010
Charges for the year	4,280	16,495	1,412	1,332	–	23,519
Disposals	–	(3,771)	–	(57)	–	(3,828)
End of year	46,362	85,086	7,657	3,596	–	142,701
Net book value						
End of year	127,536	116,393	4,243	3,636	116,761	368,569
Beginning of year	84,884	102,063	5,655	3,941	71,377	267,920

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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 2004, 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:

	2004						2003
	Buildings	Equipment and machinery	Motor vehicles	Office equipment	Construction-in-progress	Total	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Cost	163,368	179,554	12,211	13,100	142,899	511,132	362,788
Accumulated depreciation	38,978	60,568	7,029	6,301	–	112,876	94,746
Net book value	124,390	118,986	5,182	6,799	142,899	398,256	268,042

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 remaining 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	
	2004	2003	**2004**	2003
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Cost	**35,344**	32,092	**28,177**	28,177
Accumulated amortisation	**(2,428)**	(1,522)	**(2,273)**	(1,428)
Land use rights, net	**32,916**	30,570	**25,904**	26,749

4. INVESTMENTS IN SUBSIDIARIES

	The Group		The Company	
	2004	2003	**2004**	2003
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Share of net assets	**–**	–	**39,781**	17,756

5. INVESTMENTS IN JOINT VENTURES

	The Group		The Company	
	2004	2003	**2004**	2003
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Share of net assets	**–**	–	**23,811**	29,477

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	
	2004	2003	**2004**	2003
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Beginning of year	**5,296**	5,717	**5,296**	5,717
Share of results	**(344)**	(421)	**(344)**	(421)
End of year	**4,952**	5,296	**4,952**	5,296

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7. TRADE RECEIVABLES, NET

	The Group		The Company	
	2004	2003	**2004**	2003
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Trade receivables	**75,650**	34,633	**72,926**	33,939
Provision for doubtful debts	**(10,653)**	(5,794)	**(10,653)**	(5,794)
Trade receivables, net	**64,997**	28,839	**62,273**	28,145

The ageing analysis of trade receivables was as follows:

	The Group		The Company	
	2004	2003	**2004**	2003
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Within 4 months	**56,854**	26,984	**54,455**	26,752
Over 4 months but within 1 year	**13,991**	4,364	**13,666**	4,364
Over 1 year but within 2 years	**4,179**	1,584	**4,179**	1,122
Over 2 years but within 3 years	**–**	626	**–**	626
Over 3 years	**626**	1,075	**626**	1,075
	75,650	34,633	**72,926**	33,939

The Group normally grants a credit period raging from 30 days to 120 days to its trade customers.

8. INVENTORIES

	The Group		The Company	
	2004	2003	**2004**	2003
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Raw materials	**204,129**	114,957	**195,996**	96,651
Work-in-progress	**57,280**	10,003	**57,280**	10,003
Finished goods	**198,409**	146,312	**193,540**	143,928
	459,818	271,272	**446,816**	250,582

There were no inventories carried at net realisable value as of 31 December 2004 (2003: Nil).

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9. DEFERRED TAXES ASSETS

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	
	2004	2003	**2004**	2003
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Beginning of year	**426**	3,969	**426**	3,969
Decrease during the year	**(127)**	(3,543)	**(127)**	(3,543)
End of year	**299**	426	**299**	426
Provided for in respect of:				
Provision for termination benefits	**142**	212	**142**	212
Provision for amortization of land use rights	**157**	214	**157**	214
	299	426	**299**	426

10. SHARE CAPITAL

	2004		2003	
	Number of shares	**Nominal value**	Number of shares	Nominal value
		RMB'000		*RMB'000*
Registered	**182,800,000**	**182,800**	182,800,000	182,800
Issued and fully paid				
– Domestic shares of RMB 1 each	**110,000,000**	**110,000**	110,000,000	110,000
– H shares of RMB 1 each	**72,800,000**	**72,800**	72,800,000	72,800
	182,800,000	**182,800**	182,800,000	182,800

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

11. RESERVES

(a) Statutory reserves

According to the Articles of Association of the Company (the "Articles of Association"), when distributing the net profit of each year, the Company shall set aside 10% of its net profit after tax (based on the Company's PRC statutory accounts) for the statutory surplus reserve fund (except where the reserve balance has reached 50% of the Company's paid-up share capital), and for the statutory public welfare fund at a percentage from 5% to 10%, determined by the Directors. These reserves cannot be used for purposes other than those for which they are created and are not distributable as cash dividends.

The Directors have resolved that the statutory public welfare fund is to be utilised to build or acquire capital items, such as dormitories and other facilities for the Company's employees, and cannot be used to pay for staff welfare expenses. Title to these capital items will remain with the Company.

According to the Articles of Association of the Company, approximately RMB20,681,000 (2003: RMB17,282,000), being 10% of net profit after tax determined under the PRC accounting standards, was transferred to the statutory surplus reserve for the year ended 31 December 2004. Further, the Directors proposed an appropriation of approximately RMB10,340,000 (2003: RMB8,641,000), being 5% of net profit after tax determined under the PRC accounting standards, to the statutory public welfare fund.

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 2004, the reserve was approximately RMB254,851,000 (2003: RMB175,389,000) and RMB257,832,000 (2003: RMB178,396,000), under IFRS and the 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 was entitled to 50% reduction for Enterprise Income Tax ("EIT") from 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 RMB17,745,000 (2003: RMB13,159,000) to a tax reserve, representing the EIT exempted for the year at applicable tax rate of 7.5%.

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(Amounts expressed in RMB unless otherwise stated)

12. DEFERRED INCOME - GOVERNMENT GRANTS

	The Group		The Company	
	2004	2003	**2004**	2003
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Beginning of year	**9,511**	10,801	**9,511**	10,801
– Government grants obtained during the year	**3,380**	600	**3,380**	600
– Amount recognized in the income statement	**(1,917)**	(1,890)	**(1,917)**	(1,890)
End of year	**10,974**	9,511	**10,974**	9,511

13. SHORT-TERM BORROWINGS

As of 31 December 2004, the Company and the Group had an unsecured short-term bank borrowing amounting to RMB75,000,000 (2003: RMB15,000,000). These borrowings bear fixed interest rate of 4.78% (2003: 5.31%) per annum.

14. TRADE PAYABLES

The ageing analysis of trade payables was as follows:

	The Group		The Company	
	2004	2003	**2004**	2003
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Within 4 months	**178,669**	78,294	**172,849**	73,188
Over 4 months but within 1 year	**15,541**	4,610	**15,503**	4,541
Over 1 year but within 2 years	**150**	–	**114**	–
Over 2 years but within 3 years	**–**	–	**–**	–
Over 3 years	**–**	400	**–**	400
	194,360	83,304	**188,466**	78,129

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(Amounts expressed in RMB unless otherwise stated)

15. SALARY AND WELFARE PAYABLES

	The Group		The Company	
	2004	2003	**2004**	2003
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Salary payable	**44,591**	44,512	**44,511**	44,512
Welfare payable	**15,422**	12,768	**15,243**	12,641
	60,013	57,280	**59,754**	57,153

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 RMB90 million in 2004 (2003: RMB84 million).

16. REVENUE

	2004	2003
	RMB'000	*RMB'000*
Sales of medicine		
– Domestic	**942,268**	820,243
– Overseas	**40,457**	35,743
Agency fee income	**–**	8,954
Others	**524**	36
	983,249	864,976

17. FINANCE (EXPENSES)/INCOME, NET

	2004	2003
	RMB'000	*RMB'000*
Interest expenses on bank loans repayable within 5 years	**(4,436)**	(1,629)
Interest income	**1,463**	3,200
Exchange (loss)/gain, net	**(181)**	1,298
Others	**(88)**	372
	(3,242)	3,241

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(Amounts expressed in RMB unless otherwise stated)

18. PROFIT BEFORE TAXATION

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

	2004	2003
	RMB'000	*RMB'000*
Interest income	**(1,463)**	(3,200)
Agency fee income	**–**	(8,954)
Exchange loss/(gain), net	**181**	(1,298)
Provision/(reversal of provision) for doubtful debts	**4,859**	(1,136)
Cost of inventories sold	**370,831**	343,507
Staff costs		
– Salary and wages	**94,121**	86,507
– Staff welfare	**13,039**	10,344
– Contribution to retirement benefits	**13,354**	10,260
Depreciation of property, plant and equipment	**25,110**	21,767
Amortization of land use rights	**906**	610
Amortization of other long-term assets	**845**	618
Operating lease rentals	**11,016**	11,987
Auditors' remuneration	**1,100**	1,100
Research and development expenses	**3,830**	4,128
Advertising expenses	**34,463**	40,163
Loss on disposal of property, plant and equipment	**325**	528

19. 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 Enterprise Income Tax ("EIT") at a rate of 15%. Moreover, upon approval by the relevant local tax bureau, such a HTE is entitled to an exemption from EIT for the first three years from its commencement of operations and a 50% reduction for the three years thereafter. The certification as a HTE is subject to an annual review by the relevant government bodies. In addition, an amount equal to the EIT exemption or reduction from the 15% tax rate has to be appropriated to a non-distributable tax reserve.

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19. TAXATION (CONT'D)

(a) EIT (Cont'd)

In June 2004, the Company renewed its HTE certification granted by Beijing Science-Technology Committee for the years of 2004 and 2005. The Company was registered in the BETDZ and has obtained an approval from the BETDZ Local Tax Bureau ("BETDZ LTB") (Document Jingdishuikaijianmianfa [2000] No. 23) to enjoy an EIT exemption for three years commencing from 2000 and a 50% reduction in EIT for the three years thereafter. Moreover, 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 as Beijing Administration of Taxation issued a circular in October 2002, 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. Should the EIT exemption not be available to the Company, an additional EIT liability for this year is approximately RMB60,334,000 (2003: RMB48,622,000; 2002: RMB62,459,000; 2001: RMB39,611,000). Management believes that the possibility of such liabilities arising are unlikely.

For the year ended 31 December 2004, an amount equal to the 7.5% (2003: 7.5%) EIT exempted amounting to approximately RMB17,745,000 (2003: RMB13,159,000) was transferred to the tax reserve.

Details of taxation during the year are as follows:

	2004	2003
	RMB'000	*RMB'000*
Current income tax expense	**18,035**	12,950
Deferred tax	**127**	3,543
	18,162	16,493

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19. TAXATION (CONT'D)

(a) EIT (Cont'd)

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

	2004 RMB'000		2003 RMB'000	
Accounting profit	**225,422**	**100.0%**	193,414	100.0%
Tax at the statutory tax rate of the Company of 33%	**74,389**	**33.0%**	63,827	33.0%
Non-deductible permanent differences	**3,976**	**1.8%**	3,839	2.0%
Effect of different applicable EIT rates upon expected reversal of temporary difference	**784**	**0.4%**	710	0.4%
Effect of tax benefits of being a HTE	**(60,334)**	**(26.8%)**	(48,622)	(25.2%)
Effect of different tax rates and tax refund for consolidated subsidiaries and joint ventures	**(653)**	**(0.3%)**	(3,261)	(1.7%)
Taxation	**18,162**	**8.1%**	16,493	8.5%

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 2004 and 2003, except for TRT Hebei which is taxed at rate of 2.31% of total revenue. TRT Nanyang recognized tax refund from local tax bureau in current year, amounting to approximately RMB465,000.

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%.

(b) Business Tax ("BT")

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

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19. TAXATION (CONT'D)

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

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

20. DIVIDENDS

	2004	2003
	RMB'000	*RMB'000*
Dividends paid during the year	**78,604**	71,292
Dividends declared/proposed after year end	**84,088**	78,604

21. 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 RMB205,607,000 (2003: RMB174,343,000) divided by the weighted average number of shares during the year of 182,800,000 shares (2003: 182,800,000 shares).

The Company had no dilutive potential shares for the years ended 31 December 2004 and 2003.

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22. DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS

(a) Details of directors' emoluments are:

	2004	2003
	RMB'000	*RMB'000*
Fees for executive directors	**–**	–
Fees for independent non-executive directors	**291**	291
Fees for non-executive directors	**–**	–
Other emoluments for executive directors		
– Basic salaries and allowances	**418**	448
– Contribution to retirement scheme	**14**	12
Other emoluments for independent non-executive directors	**–**	–
Other emoluments for non-executive directors		
– Basic salaries and allowances	**296**	180
– Contribution to retirement scheme	**14**	12
Bonuses for executive directors	**–**	750
Bonuses for independent non-executive directors	**–**	–
Bonuses for non-executive directors	**–**	50
	1,033	1,743

None of the directors waived any emoluments during the year.

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

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

	2004	2003
Executive directors		
– Nil to RMB1,060,000 (Equivalents to Hong Kong Dollar 1,000,000)	**3**	3
Independent non-executive directors		
– Nil to RMB1,060,000 (Equivalents to Hong Kong Dollar 1,000,000)	**3**	3
Non-executive directors		
– Nil to RMB1,060,000 (Equivalents to Hong Kong Dollar 1,000,000)	**2**	2
	8	8

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

	2004	2003
	RMB'000	*RMB'000*
Basic salaries and allowance	**1,903**	1,693
Contribution to retirement scheme	**69**	63
	1,972	1,756

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

	2004	2003
Nil to RMB1,060,000 (Equivalents to Hong Kong Dollar 1,000,000)	**5**	5

(d) Equity compensation benefits:

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

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22. 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 2004, the Company accrued for RMB100,000 (2003: RMB500,000) in accordance with the plan.

During the year ended 31 December 2004, 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 (2003: Nil).

23. RETIREMENT AND TERMINATION BENEFITS

Pursuant to the PRC laws and regulations, contributions to the basic retirement benefit scheme for the Group's staff within the PRC mainland are to be made monthly to a government agency based on percentage from 28% to 32% (2003: from 26% to 32%) of the standard salary set by the local government, of which percentage from 20% to 24% (2003: 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 2004 and 2003, approximated RMB1,186,000, and RMB2,003,000, respectively, with the utilization in current year approximately of RMB817,000.

24. HOUSING FUND

The Group's full-time employees within the 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 2004, the Group contributed approximately RMB5.7 million (2003: RMB3.7 million) to the fund.

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25. CASH GENERATED FROM OPERATIONS

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

	2004 *RMB'000*	2003 *RMB'000*
Profit before taxation	**225,422**	193,414
Adjustments for:		
Provision/(reversal of provision) for doubtful debts	**4,859**	(1,136)
Depreciation	**25,110**	21,767
Amortization of land use rights	**906**	610
Amortization of other long-term assets	**845**	618
Loss on disposals of property, plant and equipment, net	**325**	528
Share of results from an associated company	**344**	421
Deferred government grants recognised in the income statement	**(1,917)**	(1,706)
Interest income	**(1,463)**	(3,200)
Interest expenses	**4,436**	1,629
Operating profit before working capital changes	**258,867**	212,945
(Increase)/decrease in current assets:		
Trade receivables	**(41,017)**	(21,330)
Inventories	**(188,546)**	(38,640)
Prepayments and other current assets	**9,138**	(5,741)
Due from related parties	**3,034**	(2,566)
Increase/(decrease) in current liabilities:		
Trade payables	**111,056**	13,911
Other current liabilities	**36,263**	(11,202)
Due to related parties	**61**	(923)
Cash generated from operations	**188,856**	146,454

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25. 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	
	2004	2003	**2004**	2003
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Cash				
RMB	**122**	231	**6**	16
Canada Dollar denominated	**8**	2	**–**	–
Malaysia Ringgit denominated	**6**	2	**–**	–
Hong Kong Dollar denominated	**15**	1	**7**	1
Macao Pataca	**30**	–	**–**	–
	181	236	**13**	17
Demand deposits				
RMB	**142,277**	93,105	**119,890**	81,017
US Dollar denominated	**12,099**	19,467	**10,094**	12,961
Canada Dollar denominated	**206**	220	**–**	–
Malaysia Ringgit denominated	**1,207**	1,667	**–**	–
Hong Kong Dollar denominated	**26,330**	13,435	**8,460**	11,309
Indonesia Rupiah	**2,383**	–	**–**	–
Macao Pataca	**1,247**	–	**–**	–
	185,749	127,894	**138,444**	105,287
	185,930	128,130	**138,457**	105,304

As of 31 December 2004, bank deposits of approximately RMB91,478,000 (2003: RMB133,213,000) with original maturities over three months and bearing interest at fixed rates ranging from 0.14% to 0.40% (2003: 0.85%) per annum were presented as short-term bank deposits.

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26. 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.

(a) Transactions with the Parent Company

No agency fee income was received from the Parent Company for distribution of the Parent Company's products by the Group for the year ended 31 December 2004 (2003: RMB8,954,000) (Note (i)).

(b) Transactions with the Ultimate Holding Company

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

	2004	2003
	RMB'000	*RMB'000*
Purchases of raw materials (Note (ii))	**10,385**	14,796
Trademark royalty fee (Note (iii))	**793**	793
Land use fee (Note (iv))	**2,685**	2,685
Operating lease rental fee (Note (v))	**3,000**	3,000
Storage expenses (Note (vi))	**6,804**	6,804

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(Amounts expressed in RMB unless otherwise stated)

26. RELATED PARTY TRANSACTIONS (CONT'D)

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

During the year ended 31 December 2004, the Company sold products to distribution agents which are related companies of the Parent Company or the Ultimate Holding Company amounting to approximately RMB80,188,000 (2003: RMB79,467,000).

During the year ended 31 December 2004, the Company did not pay any transportation fees to a transportation agent under the Ultimate Holding Company's control (2003: RMB4,823,000).

During the year ended 31 December 2004, the Company did not pay any advertising fee to an advertising agent which is a subsidiary of the Ultimate Holding Company (2003: RMB2,043,000) (Note (vii)).

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.

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(Amounts expressed in RMB unless otherwise stated)

26. RELATED PARTY TRANSACTIONS (CONT'D)

Notes: (Cont'd)

(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.

(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

	2004	2003
	RMB'000	*RMB'000*
Sales made to minority shareholders of subsidiaries	**4,421**	5,487
Sales made to joint venture partners	**8,563**	14,263

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(Amounts expressed in RMB unless otherwise stated)

26. RELATED PARTY TRANSACTIONS (CONT'D)

(e) Balances with related parties

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

	The Group		The Company	
	2004	2003	**2004**	2003
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Due from related parties:				
The Ultimate Holding Company	**–**	1,506	**–**	1,506
Subsidiaries and associates of the Parent Company or the Ultimate Holding Company	**283**	2,542	**283**	2,542
Minority shareholders of subsidiaries and joint venture partners	**932**	201	**932**	16
The subsidiary of the Company	**–**	–	**11,160**	–
	1,215	4,249	**12,375**	4,064
Due to related parties:				
The Ultimate Holding Company	**–**	2,311	**–**	2,311
Subsidiaries and associates of the Parent Company or the Ultimate Holding Company	**9,615**	4,875	**9,123**	4,875
Minority shareholders of subsidiaries and joint venture partners	**–**	2,368	**–**	2,368
Subsidiaries of the Company	**–**	–	**15,973**	2,956
	9,615	9,554	**25,096**	12,510

The amounts due to and from related parties as of 31 December 2004 and 2003 primarily arose from the above transactions. These amounts are interest-free, unsecured and repayable or receivable within twelve months.

27. SEGMENT INFORMATION

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

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(Amounts expressed in RMB unless otherwise stated)

28. BANKING FACILITIES

As of 31 December 2004, the Group had aggregated banking facilities of RMB100,000,000 (2003: RMB100,000,000) for loan and other trade financing. As of 31 December 2004, the unutilised facilities amounted to RMB25,000,000 (2003: RMB85,000,000).

29. 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 0.5% (2003: 1.1%).

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 13.

(d) Foreign currency risk

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

The Group had no positions in derivative contracts that are designated and qualified as hedging instruments as of 31 December 2004 and 2003.

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(Amounts expressed in RMB unless otherwise stated)

30. COMMITMENTS

(a) Capital commitments

As of 31 December 2004, the Group had the following capital commitments which were not provided but had been authorised and contracted for in the consolidated financial statements of the Group:

(i) Commitments relating to the construction of production facilities amounted to approximately RMB3,300,000 (2003: RMB20,445,000).

(ii) Commitments relating to investment contributions to investee entities amounted to approximately RMB79,730,000 (2003: Nil).

(b) Operating lease commitments

As of 31 December 2004, 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 RMB48,295,000 (2003: RMB60,785,000). Total future minimum lease payments under non-cancelable operating leases are as follow:

	2004	2003
	RMB'000	*RMB'000*
Land and buildings:		
– not later than one year	**5,685**	12,489
– later than one year and not later than five years	**13,742**	16,742
– later than five years	**28,868**	31,554
	48,295	60,785

31. SUBSEQUENT EVENTS

On 9 March 2005, the Board of Directors proposed a final dividend of RMB0.46 per share (2003: RMB0.43 per share) for the year ended 31 December 2004, totalling approximately RMB84,088,000 (2003: RMB78,604,000). 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 2005.

32. APPROVAL OF FINANCIAL STATEMENTS

The financial statements set out on pages 29 to 72 were approved by the Board of Directors on 9 March 2005.

NOTICE IS HEREBY GIVEN that the annual general meeting of Tong Ren Tang Technologies Co. Ltd. (the "Company") will be held at No. 16 Tongji Bei Road, Beijing Economic and Technology Development Zone, Yi Zhuang, Beijing, the PRC on Monday, 16 May 2005 at 9:30 a.m. for the purpose of considering and, if thought fit, passing, with or without modification, the following resolutions:

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 2004;

2. To receive and consider the Report of the Supervisory Committee of the Company for the year ended 31 December 2004;

3. To declare and propose a final dividend of RMB0.46 per share for the year ended 31 December 2004. The proposed dividend will be payable before 31 August 2005 to shareholders whose names appear on the register of shareholders of the Company on 16 May 2005;

4. To approve the appointment of Ms. Ding Yong Ling as an executive director of the Company for a term up to the conclusion of the annual general meeting of the Company to be convened in 2006 and to authorize the board of directors of the Company to fix appropriate terms and conditions in the service or employment contract;

5. To approve the resignation of Ms. Li Lian Ying from a non-executive director of the Company;

6. To re-appoint PricewaterhouseCoopers as the auditors of the Company for the year ended 31 December 2005 and to authorize the board of directors of the Company to fix their remuneration;

7. By way of special business, to consider, and if thought fit, to pass the following resolution:

   "**THAT**:

   (1) the continuing connected transactions (as defined in the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited ("GEM Listing Rules")) pursuant to the following agreements as more particularly described, defined or referred to in the circular to the shareholders of the Company dated 14 March 2005 ("Circular") be and are hereby approved subject to the annual caps as stated below for the three years ending 31 December 2007:

      (a) the Renewal Raw Material Supply Agreement (as defined in the Circular) subject to an annual cap of RMB68,000,000; and

      (b) the Master Distribution Agreement (as defined in the Circular) subject to an annual cap of RMB380,000,000;

   (2) the entering into, execution, performance and implementation of the Renewal Raw Material Supply Agreement and the Master Distribution Agreement by the directors of the Company (the "Directors") for and on behalf of the Company be and are hereby approved, confirmed and ratified; and

   (3) the Directors be and are hereby authorized on behalf of the Company to sign, seal, execute, perfect and deliver all such documents and do all such deeds, acts, matters and things as they may in their discretion consider necessary or desirable for the purposes of or in connection with the implementation of the Renewal Raw Material Supply Agreement and the Master Distribution Agreement and all the continuing connected transactions mentioned above."

8. By way of special business, to consider, and if thought fit, to pass the following resolution, as a special resolution:

SPECIAL RESOLUTION

"**THAT**:

(1) there be granted to the board of directors of the Company (the "Board") an unconditional general mandate to allot, issue and deal with additional shares in the capital of the Company (the "Shares"), 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 (as defined below) save that the Board 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, 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 ("Articles of Association"), 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 will only exercise its power under such mandate in accordance with the relevant provisions of the Company Law of the People's Republic of China (the "PRC") (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 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 resolving to issue Shares pursuant to sub-paragraph (1) of this Resolution, authorize the Board to:

(a) 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);

(b) determine the use of proceeds and make all necessary filing to the relevant authorities in the PRC and/or Hong Kong (if required);

(c) 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

(d) 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."

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

Beijing, the PRC, 24 March 2005

Notes:

(i) A member of the Company ("Member") 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. 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 notarially certified copy of that power of attorney or authority must be deposited with the H share registrar of the Company in Hong Kong, 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) Members and their proxies should produce identity proof when attending the meeting.

(iv) The register of Members in Hong Kong will be closed from Saturday, 16 April 2005 to Monday, 16 May 2005, both days inclusive, during which period no transfer of H shares of the Company will be effected. For the identification of Members 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, 15 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 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, or by fax to (852) 2865 0990/(852) 2529 6087, on or before Monday, 25 April 2005.

(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 on or before Monday, 25 April 2005.

(vii) It is expect that the annual general meeting will last not more than a half day. Shareholders and their proxies attending the annual general meeting shall bear their own travel and accommodation expenses.

(viii) In relation to the Ordinary Resolution 4 above, the biographical profile of the director of the Company to be appointed is as follow:

Ms. Ding Yong Ling, aged 41, is a deputy pharmacist with a bachelor's degree. She served as the deputy head of the foreign trade department, the assistant to the general manager, the deputy manager, manager of the import and export branch, under China Beijing Tong Ren Tang Group Co. Ltd., the manager of the import and export branch of Beijing Tongrentang Company Limited, the deputy general manager of the Company and the manager of the import and export branch of the Company. She currently served as the deputy general manager of China Beijing Tong Ren Tang Group Co. Ltd. and the managing director of Beijing Tong Ren Tang International Co., Limited.

(ix) In accordance with the GEM Listing Rules, Beijing Tongrentang Company Limited and China Beijing Tong Ren Tang Group Co. Ltd. will abstain from voting on Ordinary Resolution 7 as set out above to approve the terms and the annual caps of the continuing connected transactions at the annual general meeting.

(x) The Ordinary Resolution 7 as set out above will be determined by way of a poll.