



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

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



First Quarterly Report 2005



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

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

The principal means of information dissemination on GEM is publication on the Internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed issuers.

The Stock Exchange of Hong Kong Limited takes no responsibility for the contents of this report, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this report.

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

HIGHLIGHTS

- Turnover decreased by approximately 3.28% for the three months ended 31 March 2005 as compared with the corresponding period in 2004.
- Net profit increased by approximately 4.12% for the three months ended 31 March 2005 as compared with the corresponding period in 2004.
- Earnings per share for the three months ended 31 March 2005 was RMB0.34.



QUARTERLY RESULTS (UNAUDITED)

The Board of Directors (the “Board”) of Tong Ren Tang Technologies Co. Ltd. (the “Company”) is pleased to announce the unaudited consolidated results of the Company and its subsidiaries and its joint ventures (hereafter collectively referred to as the “Group”) for the three months ended 31 March 2005 together with the unaudited comparative figures for the corresponding period in 2004, as follows:

		For the three months ended 31 March	
		2005	2004
	<i>Notes</i>	<i>RMB'000</i>	<i>RMB'000</i>
Turnover	3	303,862	314,165
Cost of sales		<u>(160,093)</u>	<u>(159,256)</u>
Gross Profit		143,769	154,909
Selling and distribution costs		(51,828)	(51,113)
Administrative expenses		<u>(25,044)</u>	<u>(38,285)</u>
Profit from operations		66,897	65,511
Financial cost, net	4	<u>(1,201)</u>	<u>(1,007)</u>
Profit before taxation	5	65,696	64,504
Taxation	6	<u>(4,287)</u>	<u>(4,770)</u>
Profit before minority interests		61,409	59,734
Minority interests		<u>(31)</u>	<u>(784)</u>
Net profit		<u>61,378</u>	<u>58,950</u>
Earnings per share	7	<u>RMB0.34</u>	<u>RMB0.32</u>

Notes:

1. Basis of presentation

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

2. Principal accounting policies

The accompanying unaudited consolidated results are prepared in accordance with the International Financial Reporting Standards as published by the International Accounting Standards Board. The accounting policies adopted are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2004.

3. Turnover

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

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

	For the three months ended 31 March	
	2005 RMB'000	2004 RMB'000
Sales of medicine:		
Domestic	300,914	304,999
Overseas	2,948	9,141
Agency fee income	—	25
	<u>303,862</u>	<u>314,165</u>

4. Finance cost, net

	For the three months ended 31 March	
	2005 RMB'000	2004 RMB'000
Interest expenses on bank loans repayable within 5 years	(1,089)	(669)
Interest income	188	259
Exchange (loss)/gain, net	(297)	(583)
Others	(3)	(14)
	<u>(1,201)</u>	<u>(1,007)</u>



5. Profit before taxation

Profit before taxation was determined after charging the following:

	For the three months ended 31 March	
	2005	2004
	RMB'000	RMB'000
Depreciation of property, plant and equipment	6,591	6,002

6. Taxation

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

In 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 Jingdishuikajianmianfa [2000] No. 23) to enjoy an EIT exemption for three years commencing from 2000 and a 50% reduction in EIT for the three years thereafter. 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 period would arise. Management believes that the possibility of such liabilities arising is unlikely.

For the three months ended 31 March 2005, an amount equal to the 7.5% (2004: 7.5%) EIT exempted amounting to approximately RMB4,962,000 (2004: RMB4,733,000) was transferred to the tax reserve.

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

	For the three months ended 31 March	
	2005 RMB'000	2004 RMB'000
Accounting profit	<u>65,696</u>	<u>64,504</u>
Tax rate	14.08%	14.73%
EIT at tax rate	9,249	9,503
Effect of tax benefits of being a HTE	<u>(4,962)</u>	<u>(4,733)</u>
Tax expense	<u>4,287</u>	<u>4,770</u>

The provision for PRC current income tax is based on the statutory rate of 33% (2004: 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 periods ended 31 March 2005 and 2004, except for Beijing Tong Ren Tang Hebei Chinese Medicinal Raw Materials Technologies Co., Limited which is taxed at rate of 2.31% of total revenue.

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%.

7. Earnings per share

The calculation of the basic earnings per share for the three months ended 31 March 2005 was based on the net profit of approximately RMB61,378,000 (2004: RMB58,950,000) divided by the weighted average number of shares issued during the period of 182,800,000 shares (2004: 182,800,000 shares).

The Company had no potential dilutive shares for the three months ended 31 March 2005 (2004: Nil).

INTERIM DIVIDENDS

The Board does not recommend the payment of an interim dividend for the three months ended 31 March 2005 (2004: Nil).



MOVEMENT OF RESERVES

There was no movement of reserves for the relevant periods in 2005 and 2004 except those disclosed as below:

	For the three months ended 31 March			
	Tax reserve		Retained profits	
	2005	2004	2005	2004
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Balances as of 1 January	82,487	64,742	250,865	174,553
Final dividend declared	—	—	(84,088)	(78,604)
	<u>82,487</u>	<u>64,742</u>	<u>166,777</u>	<u>95,949</u>
Net profit for the three months ended 31 March	—	—	61,378	58,950
Appropriation to reserve (See Note 6 above)	<u>4,962</u>	<u>4,733</u>	<u>(4,962)</u>	<u>(4,733)</u>
Balances as of 31 March	<u><u>87,449</u></u>	<u><u>69,475</u></u>	<u><u>223,193</u></u>	<u><u>150,166</u></u>

BUSINESS REVIEW

Following the objectives of the Company set out at the beginning of the year 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, the Company maintained a stable development in production and operation during the first quarter of 2005. For the three months ended 31 March 2005, the Company reported RMB303,862,000 in turnover, representing a decrease of 3.28% as compared with the corresponding period of the preceding year; net profits RMB61,378,000, representing an increase of 4.12% as compared with the corresponding period of the preceding year.

During the period, the Company continued to consolidate and develop its sales network by further exploiting the existing network to give full play to regional distributors and contracted terminal retailers so as to further expand the market coverage of the products of the Company in major sales regions. The Company continued to consolidate its market position on the pharmaceutical market of Beijing area by actively taking part in the tendering of pharmaceutical supplies in order to raise the market share of the Company's products in hospitals. Focusing on the features of the products of the Company and regional differentials, the Company launched promotion among regional distributors and contracted retailers in the northern area, continued the Anti-cold Campaign to mainly promote anti-flu products, particularly Ganmao Qingre Granule, to further drive up the consumption demand in those regions. In the first quarter, the sales of anti-flu products rose steadily as compared with the corresponding period of the preceding year, and of which, the sales of Ganmao Qingre Granule posted an increase of 9.18% as compared with the corresponding period of the preceding year.



The construction of production base continued aiming to adjust the overall production structure, strengthen coordination and control of production and to improve direction and deployment of production so as to further optimize the Company's production and management system. In the production base in Yizhuang, the workshops of pill and granule under construction were completed and now in the stage of equipment installation and commissioning. The production base in Yizhuang will undergo inspection for GMP certification in the second quarter and commence operation during the first half of 2005. 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 supply semi-finished products for the Company's medicines in all dosage forms so that the overall productivity of the Company will be enhanced.

The Company will strengthen fundamental management work, standardize the management of cash flow, perform all-process monitoring of costs and expenses of production, increase production output and save costs to further enhance the quality of economic operation. The Company will also strengthen its accounting management, continue the implementation of financial budgeting to strengthen system management and prior control and effectively reduce various expenses.

PROSPECTS

In 2005, the Company will continue to aim at sustained and stable development, take full advantage of its own technology, products and quality as well as the reputation of the Tong Ren Tang brand, rely on gradually improving its sales network and to focus on the development of product lines with higher market potential while maintaining stable growth of its main products in order to lay a solid foundation for sustained development of the Company in future. Meanwhile, the Company will further adjust its production structure, prudently deploy its resources, optimize the structure of production capacity and raise productivity. The Company will also pursue on combining systematic innovation with technical innovation so as to steadily enhance the quality of operation of the Company and achieve development with economies of scale.

OTHER INFORMATION

DIRECTORS' INTERESTS IN SHARES

As at 31 March 2005, 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

Names	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.

Names	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

Names	Type of interests	Capacity	Number of shares	Percentage of total registered 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.

Names	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 March 2005, 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 March 2005, the following persons (other than the Directors and chief executives of the Company) had interests and short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO:

Long positions in shares

Name of shareholder	Capacity	Number of shares	Percentage of domestic shares	Percentage of H shares	Percentage of total registered share capital
Tongrentang Ltd.	Beneficial owner	100,000,000	90.909%	–	54.705%
Tongrentang Holdings (<i>Note 1</i>)	Interest of a controlled corporation	100,000,000	90.909%	–	54.705%
	Beneficial owner	2,900,000	2.636%	–	1.586%
Capital International, Inc.	Investment manager	8,648,000	–	11.879%	4.731%
Capital Group International, Inc. (<i>Note 2</i>)	Interest of a controlled corporation	8,648,000	–	11.879%	4.731%
The Capital Group Companies, Inc. (<i>Note 2</i>)	Interest of a controlled corporation	8,648,000	–	11.879%	4.731%
First State Investments (Hong Kong) Limited	Investment manager	6,554,000	–	9.003%	3.585%



Name of shareholder	Capacity	Number of shares	Percentage of domestic shares	Percentage of H shares	Percentage of total registered share capital
First State (Hong Kong) LLC (Note 3)	Interest of a controlled corporation	6,554,000	–	9.003%	3.585%
First State Investments (Bermuda) Ltd (Note 3)	Interest of a controlled corporation	6,554,000	–	9.003%	3.585%
First State Investment Managers (Asia) Ltd (Note 3)	Interest of a controlled corporation	6,554,000	–	9.003%	3.585%
Colonial First State Group Ltd (Note 3)	Interest of a controlled corporation	6,554,000	–	9.003%	3.585%
The Colonial Mutual Life Assurance Society Ltd (Note 3)	Interest of a controlled corporation	6,554,000	–	9.003%	3.585%
Colonial Holding Company (No. 2) Pty Limited (Note 3)	Interest of a controlled corporation	6,554,000	–	9.003%	3.585%
Colonial Holding Company Pty Ltd (Note 3)	Interest of a controlled corporation	6,554,000	–	9.003%	3.585%
Colonial Ltd (Note 3)	Interest of a controlled corporation	6,554,000	–	9.003%	3.585%
Commonwealth Bank of Australia (Note 3)	Interest of a controlled corporation	6,554,000	–	9.003%	3.585%
Fidelity Management & Research Company (Note 4)	Investment manager corporation	3,703,000	–	5.087%	2.026%
FMR Corp (Note 4)	Interest of a controlled corporation	3,703,000	–	5.087%	2.026%

Notes:

- (1) Such shares were held through Tongrentang Ltd. As at 31 March 2005, 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 6,554,000 shares held by First State Investments (Hong Kong) Limited.
- (4) FMR Corp owns 100% of Fidelity Management & Research Company. Accordingly, FRM Corp is deemed by Part XV of the SFO to be interested in the 3,703,000 shares held by Fidelity Management & Research Company.

Save as disclosed above, as at 31 March 2005, 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 Beijing Tongrentang Company Limited (“Tongrentang Ltd.”) and China Beijing Tong Ren Tang Group Co. Ltd. (“Tongrentang Holdings”)

The curative effects of Chinese medicine are brought about by not only treating the symptoms of the disease, but also treating and regulating other implicit problems of the body which may have a direct or indirect influence on the explicit symptoms. As such, the curative effects of Chinese medicine are usually very broad. The proper medicine is selected with reference to a number of variables such as the patient’s state of illness, gender, age and constitution, the occurring season of the disease and its curative effects



on the implicit problems of the patient. As such, any particular type of Chinese medicine usually has several curative effects, some of which may be in common with those of other products under different names. Given this nature of Chinese medicine, there may exist direct competition between the products of the Company and those of Tongrentang Holdings and Tongrentang Ltd.

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

In order to ensure that the business delineation between the Company and Tongrentang Holdings and Tongrentang Ltd. are properly documented and formalized, pursuant to an undertaking dated 19 October 2000 given by Tongrentang Holdings and Tongrentang Ltd. in favor of the Company ("October Undertaking"), Tongrentang Holdings and Tongrentang Ltd. undertook that, except for Angong Niu Huang Pills (安宮牛黃丸), Tongrentang Holdings, Tongrentang Ltd. and their respective subsidiaries would not produce any common products of the same names or under the same names with different forms that may compete directly with those of the Company in the future. Only one of them, Angong Niu Huang Pills (安宮牛黃丸), would be manufactured by both the Company and Tongrentang Ltd. in the future.

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

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.

Up to the date of this announcement, the audit committee has conducted one meeting in 2005. The meeting was 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. The audit committee has reviewed the first quarterly report of 2005.

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 three months ended 31 March 2005.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

During the period ended 31 March 2005, the Company has not purchased, sold or redeemed any of the Company's listed shares.

By the Order of the Board

Yin Shun Hai

Chairman

Beijing, the PRC

4th May 2005

As at the date of this report the board of director of the Company comprises Mr. Yin Shun Hai, Mr. Mei Qun, and Mr. Bi Jie Ping as executive directors; Ms. Li Lian Ying and Mr. Zhao Bing Xian as non-executive director; and Ms. Tam Wai Chu, Maria, Mr. Ting Leung Huel, Stephen and Mr. Jin Shi Yuan as independent non-executive directors.