



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

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



Interim Report 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

- Revenue amounted to RMB706,654,000 for the six months ended 30 June 2005, representing an increase of approximately 15.45% as compared with that for the corresponding period in 2004.
- Net profit amounted to RMB133,739,000 for the six months ended 30 June 2005, representing an increase of approximately 15.13% as compared with that for the corresponding period in 2004.
- Earnings per share amounted to RMB0.732 for the six months ended 30 June 2005.



HALF-YEARLY RESULTS (UNAUDITED)

The Board of Directors (the “Board”) of Tong Ren Tang Technologies Co. Ltd. (the “Company”) is pleased to announce the unaudited results of the Company and its subsidiaries and its joint ventures (hereafter collectively referred to as the “Group”) for the six months ended 30 June 2005, as follows:

Condensed Consolidated Statement of Income

	<i>Notes</i>	For the six months ended 30 June		For the three months ended 30 June	
		2005 (Unaudited) <i>RMB'000</i>	2004 (Unaudited) <i>RMB'000</i>	2005 (Unaudited) <i>RMB'000</i>	2004 (Unaudited) <i>RMB'000</i>
Revenue	3	706,654	612,100	402,792	297,935
Cost of sales		<u>(383,882)</u>	<u>(308,518)</u>	<u>(223,789)</u>	<u>(149,262)</u>
Gross Profit		322,772	303,582	179,003	148,673
Distribution costs		<u>(124,093)</u>	<u>(110,773)</u>	<u>(72,265)</u>	<u>(59,660)</u>
Administrative expenses		<u>(52,770)</u>	<u>(64,735)</u>	<u>(27,726)</u>	<u>(26,450)</u>
Profit from operations		145,909	128,074	79,012	62,563
Financial cost, net	4	<u>(1,724)</u>	<u>(1,400)</u>	<u>(523)</u>	<u>(393)</u>
Profit before taxation	5	144,185	126,674	78,489	62,170
Taxation	6	<u>(10,210)</u>	<u>(9,494)</u>	<u>(5,923)</u>	<u>(4,724)</u>
Profit before minority interests		133,975	117,180	72,566	57,446
Minority interests		<u>(236)</u>	<u>(1,013)</u>	<u>(205)</u>	<u>(229)</u>
Net profit for the period		<u>133,739</u>	<u>116,167</u>	<u>72,361</u>	<u>57,217</u>
Earnings per share	7	<u>RMB0.732</u>	<u>RMB0.635</u>	<u>RMB0.396</u>	<u>RMB0.313</u>

Condensed Consolidated Balance Sheet

		30 June 2005 (Unaudited)	31 December 2004 (Audited)
	<i>Notes</i>	<i>RMB'000</i>	<i>RMB'000</i>
ASSETS			
Non-current assets			
Property, plant and equipment, net	8	412,836	403,307
Land use rights, net		32,916	32,916
Investments in an associated company		4,952	4,952
Deferred tax assets		–	299
Other long-term assets		3,007	4,080
		<u>453,711</u>	<u>445,554</u>
Current assets			
Cash and cash equivalents		199,999	185,930
Short-term bank deposits	9	64,959	91,478
Trade receivables, net		100,258	64,997
Inventories		332,558	459,818
Due from related parties		–	1,215
Prepayments and other current assets		165,523	7,331
		<u>863,297</u>	<u>810,769</u>
Total assets		<u><u>1,317,008</u></u>	<u><u>1,256,323</u></u>



		30 June 2005 (Unaudited) RMB'000	31 December 2004 (Audited) RMB'000
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	10	182,800	182,800
Reserves	11	645,713	595,906
		<u>828,513</u>	<u>778,706</u>
Minority interests		<u>72,595</u>	<u>38,195</u>
Non-current liabilities			
Deferred income – government grants		11,738	10,974
Current liabilities			
Short-term borrowings		75,095	75,000
Trade payables	12	120,936	194,360
Salary and welfare payables		59,931	60,013
Advances from customers		1,804	66,486
Due to related parties		–	9,615
Dividends payable		84,088	–
Accrued expenses and other current liabilities		62,308	22,974
		<u>404,162</u>	<u>428,448</u>
Total liabilities		<u>415,900</u>	<u>439,422</u>
Total equity and liabilities		<u>1,317,008</u>	<u>1,256,323</u>

Condensed Consolidated Statement of Cash Flows

	For the six months ended 30 June	
	2005	2004
	(Unaudited) RMB'000	(Unaudited) RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash generated from operations	72,460	37,617
Interest paid	(2,048)	(1,149)
Income taxes refunded/(paid)	599	(3,180)
Net cash from operating activities	<u>71,011</u>	<u>33,288</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property, plant and equipment	(84,730)	(54,488)
Proceeds from disposals of property, plant and equipment	–	2
Decrease in short-term bank deposits	26,519	600
Interest received	410	440
Net cash used in investing activities	<u>(57,801)</u>	<u>(53,446)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from short-term borrowings	95	20,000
Proceeds from government grants	764	–
Net cash generated from financing activities	<u>859</u>	<u>20,000</u>
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	14,069	(158)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	<u>185,930</u>	<u>128,130</u>
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<u><u>199,999</u></u>	<u><u>127,972</u></u>



Condensed Consolidated Statement of Changes in Equity

	Share capital	Share premium	Statutory surplus reserve fund	Statutory public welfare fund	Tax reserve	Retained profits	Foreign currency translation difference	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balances as of 1 January 2004	182,800	157,925	47,959	23,980	64,742	174,553	(46)	651,913
Net profit for the six months ended 30 June 2004	-	-	-	-	-	116,167	-	116,167
Dividends	-	-	-	-	-	(78,604)	-	(78,604)
Foreign currency translation difference	-	-	-	-	-	-	(7)	(7)
Appropriation from retained profits	-	-	-	-	9,371	(9,371)	-	-
Balances as of 30 June 2004 (unaudited)	<u>182,800</u>	<u>157,925</u>	<u>47,959</u>	<u>23,980</u>	<u>74,113</u>	<u>202,745</u>	<u>(53)</u>	<u>689,469</u>
Balances as of 1 January 2005	182,800	157,925	69,923	34,962	82,487	250,865	(256)	778,706
Net profit for the six months ended 30 June 2005	-	-	-	-	-	133,739	-	133,739
Dividends	-	-	-	-	-	(84,088)	-	(84,088)
Foreign currency translation difference	-	-	-	-	-	-	156	156
Appropriation from retained profits	-	-	-	-	10,897	(10,897)	-	-
Balances as of 30 June 2005 (unaudited)	<u>182,800</u>	<u>157,925</u>	<u>69,923</u>	<u>34,962</u>	<u>93,384</u>	<u>289,619</u>	<u>(100)</u>	<u>828,513</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. ("Tongrentang Holdings"), incorporated in Beijing, the PRC.

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

2. Principal accounting policies

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

3. Revenue

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

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

	For the six months ended 30 June		For the three months ended 30 June	
	2005 (Unaudited) RMB'000	2004 (Unaudited) RMB'000	2005 (Unaudited) RMB'000	2004 (Unaudited) RMB'000
Sales of medicine:				
Domestic	695,330	589,880	394,416	284,881
Overseas	11,324	22,195	8,376	13,054
Agency fee income	—	25	—	—
	<u>706,654</u>	<u>612,100</u>	<u>402,792</u>	<u>297,935</u>



4. Finance cost, net

	For the six months ended 30 June		For the three months ended 30 June	
	2005 (Unaudited) RMB'000	2004 (Unaudited) RMB'000	2005 (Unaudited) RMB'000	2004 (Unaudited) RMB'000
Interest expenses on bank loans				
repayable within 5 years	(2,048)	(1,149)	(959)	(480)
Interest income	410	440	222	181
Exchange (loss)/gain, net	1	(651)	298	(68)
Others	(87)	(40)	(84)	(26)
	<u>(1,724)</u>	<u>(1,400)</u>	<u>(523)</u>	<u>(393)</u>

5. Profit before taxation

Profit before taxation was determined after charging the following:

	For the six months ended 30 June		For the three months ended 30 June	
	2005 (Unaudited) RMB'000	2004 (Unaudited) RMB'000	2005 (Unaudited) RMB'000	2004 (Unaudited) RMB'000
Depreciation of property, plant and equipment	<u>13,211</u>	<u>16,108</u>	<u>6,620</u>	<u>10,106</u>

6. Taxation

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

In 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 six months ended 30 June 2005, an amount equal to the 7.5% (2004: 7.5%) EIT exempted amounting to approximately RMB10,897,000 (2004: RMB9,371,000) was transferred to the tax reserve.

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

	For the six months ended 30 June		For the three months ended 30 June	
	2005 (Unaudited) RMB'000	2004 (Unaudited) RMB'000	2005 (Unaudited) RMB'000	2004 (Unaudited) RMB'000
Accounting profit	144,185	126,674	78,489	62,170
Tax rate	14.64%	14.89%	15.11%	15.06%
EIT at tax rate	21,107	18,865	11,858	9,362
Effect of tax benefits of being a HTE	(10,897)	(9,371)	(5,935)	(4,638)
Tax expense	<u>10,210</u>	<u>9,494</u>	<u>5,923</u>	<u>4,724</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 30 June 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 six months ended 30 June 2005 was based on the net profit of approximately RMB133,739,000 (2004: RMB116,167,000) 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 six months ended 30 June 2005 (2004: Nil).

8. Additions to property, plant and equipment

During the period, the Group spent approximately RMB84,730,000 (31 December 2004: RMB152,516,000) on the acquisition of property, plant and equipment.

9. Accounts receivable, net

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

	30 June 2005 (Unaudited) RMB'000	31 December 2004 (Audited) RMB'000
Accounts receivable	110,911	75,650
Provision for doubtful accounts	(10,653)	(10,653)
Accounts receivable, net	<u>100,258</u>	<u>64,997</u>

The aging analysis of accounts receivable was as follows:

	30 June 2005 (Unaudited) RMB'000	31 December 2004 (Audited) RMB'000
Within 4 months	86,977	56,854
Over 4 months but within 1 year	12,609	13,991
Over 1 year but within 2 years	6,919	4,179
Over 2 years but within 3 years	3,780	—
Over 3 years	626	626
	<u>110,911</u>	<u>75,650</u>

10. Share capital

	30 June 2005		31 December 2004	
	Number of shares	Nominal Value RMB'000	Number of shares	Nominal Value RMB'000
Registered	<u>182,800,000</u>	<u>182,800</u>	<u>182,800,000</u>	<u>182,800</u>
Issued and fully paid				
– Domestic shares of RMB1 each	<u>110,000,000</u>	<u>110,000</u>	<u>110,000,000</u>	<u>110,000</u>
– H shares of RMB1 each	<u>72,800,000</u>	<u>72,800</u>	<u>72,800,000</u>	<u>72,800</u>
	<u>182,800,000</u>	<u>182,800</u>	<u>182,800,000</u>	<u>182,800</u>

11. Reserves

	Share premium RMB'000	Statutory surplus reserve fund RMB'000	Statutory public welfare fund RMB'000	Tax reserve RMB'000	Retained profits RMB'000	Foreign currency translation difference RMB'000	Total RMB'000
Balances as of 1 January 2004	157,925	47,959	23,980	64,742	174,553	(46)	469,113
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 (Audited)	<u>157,925</u>	<u>69,923</u>	<u>34,962</u>	<u>82,487</u>	<u>250,865</u>	<u>(256)</u>	<u>595,906</u>
Dividends	–	–	–	–	(84,088)	–	(84,088)
	<u>157,925</u>	<u>69,923</u>	<u>34,962</u>	<u>82,487</u>	<u>166,777</u>	<u>(256)</u>	<u>511,818</u>
Net profit for the three months ended 31 March 2005	–	–	–	–	61,378	–	61,378
Appropriation from retained profits (See Note 6 above)	–	–	–	4,962	(4,962)	–	–
Balances as of 31 March 2005 (Unaudited)	<u>157,925</u>	<u>69,923</u>	<u>34,962</u>	<u>87,449</u>	<u>223,193</u>	<u>(256)</u>	<u>573,196</u>
Net profit for the three months ended 30 June 2005	–	–	–	–	72,361	–	72,361
Foreign currency translation difference	–	–	–	–	–	156	156
Appropriation from retained profits (See Note 6 above)	–	–	–	5,935	(5,935)	–	–
Balances as of 30 June 2005 (Unaudited)	<u>157,925</u>	<u>69,923</u>	<u>34,962</u>	<u>93,384</u>	<u>289,619</u>	<u>(100)</u>	<u>645,713</u>



12. Accounts payable

The aging analysis of accounts payable was as follows:

	30 June 2005 (Unaudited) RMB'000	31 December 2004 (Audited) RMB'000
Within 4 months	101,196	178,669
Over 4 months but within 1 year	19,054	15,541
Over 1 year but within 2 years	686	150
Over 2 years but within 3 years	—	—
Over 3 years	—	—
	<u>120,936</u>	<u>194,360</u>

13. Segment information

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

14. Charges on group assets

As at 30 June 2005, none of the Group's assets was pledged as security for liabilities (31 December 2004: Nil).

15. Foreign currency risk

The Group has foreign currency risk as certain of its payables to equipment suppliers and certain accounts receivable arising from export sales are denominated in foreign currencies, principally U.S. dollars, but the impact is not material to the Company.

16. Capital commitments

As of 30 June 2005, 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 (31 December 2004: RMB3,300,000).
- (ii) Commitments relating to investment contributions to investee entities amounted to approximately RMB51,330,000 (31 December 2004: RMB79,730,000).

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

INTERIM DIVIDENDS

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2005 (2004: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

In 2005, the pharmaceutical market has experienced intense competition and the reorganization of the industry and the adjustment of its structure have also deepened. Meanwhile, China has continued to implement its macroeconomic monitoring policies, which thus led to the tightening of capital flow. In view of such situation, the management and the entire staff of the Company strictly follow the operating objective of “Growing, Strengthening and Expanding” as set out by the board of directors, and grasp firmly the overall strategy of “focus on market demand and target economic efficiency and performance”, working earnestly towards market demand and efficiency. As a result of the persistent effort of the entire staff of the Company, the Company met all economic indicators for the first half of 2005 and achieved satisfactory results. Production management was smooth and development was steady for the first half of the Year. Ending 30 June 2005, the Company’s revenue reached RMB706,654,000, representing an increase of 15.45% as compared to the corresponding period of the preceding year; while the net profit was RMB133,739,000, representing an increase of 15.13% as compared to the corresponding period of preceding year.



Sales

The Company fully utilized its sales and distribution network. While it ensured the steady growth of its leading products, it also tried its best to cultivate the development of competitive products which might have good market potential.

- continued to analyze its product mix, develop and create market potential for its products, combine market demand, design and develop marketable products, change forms of medicine, re-package and enhance the packaging standard to increase more than 10 products so as to meet consumer demand of different geographical regions and levels and also enhance the competitiveness of the Company's products.
- developed branches of products, sub-segmented the market, defined the responsibility for each product, in examining the consolidated performance indicators of the sales personnel, the individual turnover of the product lines will be emphasized, so as to enhance the selling effectiveness of new products and smaller products;
- innovated operation model. Specialized product development departments have been established within the operation branches of sales; agency has been appointed to try to operate the business of new products or smaller products and market planning and cultivation was emphasized, which effectively accelerated product penetration into market.
- initiated culture marketing and product marketing. For the first half of the Year, the Company launched the promotion campaigns under the two themes: "Anti-cold Campaign" and "Cooling and Refreshing Summer" in different regions respectively. With the help of regional distributors and contracted retailers for intense promotion, establishment of product lines was deepened and market recognition was increased. The results were significantly effective. For example, the "Anti-cold Campaign", the sales of anti-flu drugs, especially Ganmao Qingre Granule (感冒清热颗粒), increased significantly as compared to the corresponding period of the preceding year.

The sales of Liuwei Dihuang Pill (六味地黄丸) increased by 0.49%, Ganmao Qingre Granule (感冒清热颗粒) increased by over 50%, Niuhuang Jiedu Tablet (牛黄解毒片) series of products decreased, as compared with the corresponding period in 2004. The turnover proportion of up-and-coming products explicitly increased as compared to the corresponding period last year, partly attributable to the establishment network of product lines, significantly boosting the sales. Of which, the sales of Jingui Shenqi Pill (金匱腎氣丸) increased by 28.71%, Fufang Danshen Tablet (複方丹參片) increased by over 100%, as compared with the corresponding period last year.

Production

In 2005, the Company made Yizhuang its core production base and carried out substantial restructuring of its overall production bases. Specialized management departments were established according to different production units in charge of the their respective production duties. At the same time, with the adjustment of the organizational structure, the Company further improved the system of and strengthened its control in direction and deployment of production, resulting in fast, accurate and orderly production. The production bases, characterized with their respective strengths, continuously develop their potential in terms of such as the utilization ratio of equipment, the ratio of quality control, the utilization ratio of working hours, the ratio of process combination and the ability to respond, etc. With appropriate allocation and scientific adjustment of various production processes, the overall production capacity was further enhanced.

Yizhuang has become the major production base of the Company for tablets, pills, granules, etc. The workshops of pill and granule have completed works such as installation and testing of equipment and staff training. The GMP certification was obtained successfully and these two workshops became operational. To align with the new installations and equipment, production and technical staff made themselves familiar with the changes and amended various technical standards of operation, aiming to achieve the optimized combination of production techniques and equipment in order to maximize production capacity and improve production efficiency.



Beijing Tong Ren Tang Tongke Pharmaceutical Company Limited (北京同仁堂通科藥業有限責任公司), located in Tongzhou district of Beijing City, has speeded up the construction of the Chinese medicine pre-processing workshop. At present, the construction of the plant has been completed and the installation of supporting facilities and equipment has been in progress.

Beijing Tong Ren Tang Chinese Medicine Limited (北京同仁堂國藥有限公司), located in Hong Kong, will construct a production base in Tai Po Industrial Estate in Hong Kong. At present, the preliminary planning and designing of the production base have been completed and the construction of plant will begin in the second half of the Year.

Management and Research & Development

The Company will strengthen its fundamental management and continue to implement ISO 9001 quality control system, improve the establishment of its system and structure, rationalize internal work process, emphasize standardized management prioritizing cash flow, continue to carry out expenses budget, initiate the thorough monitoring of production costs and expenses and raise the profitability of the Company with the best effort.

Scientific research targets the objective of “pay attention to market demand, accelerate technological progress and formulate new products” and speeds up the process of transforming R&D results to production stage. As a result, the progress of various R&D projects has been accelerated and new drugs, having obtained certification, have been put on trial for production. In the meantime, among the products with approval for production, those with good market prospect and development potential are selected for specialized research in order to create advantageous conditions for launch of new products.

Sales Network

The Company made foreign investment and established four joint ventures overseas in an attempt to develop distribution business, establish pharmaceuticals retail outlets in those places so that product sales of the Company can be expanded.

Peking Tongrentang (M) Sdn. Bhd., located in Malaysia, Beijing Tong Ren Tang Canada Co. Ltd., located in Canada and Beijing Tong Ren Tang (Indonesia) Company Limited, located in Indonesia keep good operation status; Beijing Tong Ren Tang (Macau) Company Limited, located in Macau Special Administrative Region has established a new store-in-store, which was officially opened at the end of June this year. It is in good operation status and its products are well received by local consumers.

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), a retail drug store invested by the Company in Beijing, was in good operation status for the first half of the year. It achieved a turnover of approximately RMB5,828,300 for the first half of the year.

Chinese Medicinal Raw Materials Production Bases

In 2005, the affiliated production bases of the Company for Chinese medicinal raw materials of the Company has completed the implementation of planting, harvesting, processing, etc. At the same time, it proactively works for GAP (Good Agriculture Practice) Certification, and also strictly complies with the requirements of the certification by quality supervision over the planting, processing and the whole process of Chinese medicinal production. It has enhanced the hardware and software deployment and construction of ever-improving operational management system. Through joint effort by all parties, on-site GAP inspections for most of the production bases were passed last year, the Ku Diding base under Beijing Tong Ren Tong Hebei Chinese Medicine Technological Development Company Limited (北京同仁堂河北中藥材科技開發有限公司) successfully passed the GAP on-site inspection in the first half of 2005. The Chinese medicine raw materials production bases achieved a turnover



of approximately RMB12,039,000 for the first half of 2005. The Chinese medicine raw materials production bases play an important role in ensuring the supply and the quality of raw materials required by the Company.

EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2005, the Company had 1,832 employees (31 December 2004: 1,855 employees). Remuneration is determined according to the remuneration management system and the relevant policies in the PRC. Staff remuneration is linked to the economic efficiency and performance of the Company. Staff benefits include contributions to pension scheme, medical insurance scheme, unemployment insurance scheme, industrial accident insurance scheme and housing fund.

FINANCIAL REVIEW

Liquidity and Financial Resources

The Group has maintained a sound financial position for the six months ended 30 June 2005. During the period, the Group's primary source of funds was cash provided by operating activities and bank loans.

As at 30 June 2005, the Group had bank and cash balances amounted to RMB264,958,000 (31 December 2004: RMB277,408,000) and short term borrowings of RMB75,095,000 (31 December 2004: RMB75,000,000). These borrowings bear fixed interest of 5.02% (31 December 2004: 4.78%) per annum.

As at 30 June 2005, the Group had total assets of RMB1,317,008,000 (31 December 2004: RMB1,256,323,000) which were financed by non-current liabilities of RMB11,738,000 (31 December 2004: RMB10,974,000), current liabilities of RMB404,162,000 (31 December 2004: RMB428,448,000), shareholders' equity of RMB828,513,000 (31 December 2004: RMB778,706,000) and minority interests of RMB72,595,000 (31 December 2004: RMB38,195,000).

Capital Structure

There has been no material change in the capital structure of the Group as at 30 June 2005 as compared with that as at 31 December 2004.

Gearing and liquidity ratio

The Group's gearing ratio, defined as the ratio between total borrowings and shareholders' equity, was 0.09 (31 December 2004: 0.10). The liquidity ratio of the Group, represented by a ratio between current assets over current liabilities, was 2.14 (31 December 2004: 1.89), reflecting the abundance of financial resources.

Prospects

In the first half of the Year, the Company obtained satisfactory achievement in various targeted segments. In the second half of the year, the Company will continue to take full advantage of its own strengths in respect of technology, product variety and quality and the brand reputation of Tong Ren Tang according to the operating goal of "Growing, Strengthening and Expanding". In order to continuously improve the operational quality and maintain the steady growth of the Company, there are two aspects currently in focus:

The Company will continue to deepen network establishment, improve sales models, formulate a scientific and modern marketing strategy and encourage all staff to develop the mindset of marketing and enrich their marketing skills, so that the Company can make full use of its own strengths, taking advantage of its brand awareness, history and culture in product marketing, improve the attractiveness of the Company's products to dealers and consumers so that consumption can be stimulated and contribution to overall turnover can be further raised.



Management in various aspects will be further strengthened. Costs will be further lowered and resources be effectively used. Intensifying the belief of “efficiency through management” in respect of production, organization, selling, quality, technology, personnel, etc., the spirit of “operating business with thriftiness” is promoted throughout the company. The Company will be able to enhance its profitability and overall competitiveness by increasing revenue and productivity and reducing costs and expenses.

CORPORATE GOVERNANCE

Rule 5.35 to Rule 5.45 of the Rules Governing the Listing of Securities on the GEM (“GEM Listing Rules”) setting out the provisions of the practice and procedure of the board of directors have been replaced by Appendix 15 of the Code on Corporate Governance Practices, which took effect from 1 January 2005.

For the half year ended 30 June 2005, the Company complied with the provisions set out in Appendix 15 of the Code on Corporate Governance Practices of the GEM Listing Rules.

Directors’ Dealing in Securities

The Company has formulated and implemented its Code on Dealing in Securities, pursuant to required standard of dealings set out in Rule 5.48 to Rule 5.67 of the GEM Listing Rules to regulate the directors’ dealing in securities. The Code on Dealing in Securities of the Company are no less exacting terms than the required standard of dealings and these requirements are also applicable to specific persons such as the senior management.

After the enquiry by the Company to all directors, all directors have confirmed that they have been complying with the required standard of dealings set out the GEM Listing Rules and the Code on Dealing in Securities of the Company.

Board of Directors

The second session of the board of directors of the Company is currently comprised of eight directors and their term of office will end upon the conclusion of the general meeting in 2006. The board of directors comprises three influential independent non-executive directors and one non-executive director. Non-executive directors are independent of the management and in possession of solid experience in business and finance. They provide significant contribution to the development of the Company.

As at 30 June 2005 and at any time, the board of directors exceeded the minimum requirement of appointing at least three independent non-executive directors as required by the GEM Listing Rules and the number of independent non-executive directors exceeded one-third of the members of the board of directors, and it also met the requirement of having one independent non-executive director qualified as a professional or having the professional accounting and financial management expertise.

Chairman of the Board and General Manager

Mr. Yin Shun Hai and Mr. Bi Jie Ping are chairman of the board of directors and general manager respectively, which are two clearly defined positions. The chairman is responsible for the operation of the board of directors while the general manager is in charge of ordinary business management. The Articles of Association of the Company sets out the respective functions of the chairman and the general manager in detail.



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, two meetings have been conducted by the audit committee in the year. The first meeting was held on 28 February 2005 for discussion of the operating results, statements of affairs and accounting policies with respect to the audited financial statements of the Company for the year ended 31 December 2004 and listened to the advice provided by auditors. The second meeting was held on 1 August 2005 for discussion of the operating results, statements of affairs and accounting policies with respect to the unaudited interim report of the Company for the six months ended 30 June 2005.

Remuneration Committee

The Company has established the Remuneration Committee according to the relevant provisions of the GEM Listing Rules with written terms of reference. Its primary responsibility is to make proposals to the board of directors with respect to the overall remuneration policy and framework for directors and senior management of the Company and the establishment of formal and transparent procedure for formulating the remuneration policy.

The Remuneration Committee is comprised of one executive director, Mr. Mei Qun and two independent non-executive directors, Mr. Ting Leung Huel, Stephen and Mr. Jin Shi Yuan, which is in compliance with the requirement of the GEM Listing Rules that independent non-executive directors should form the majority of the remuneration committee.

Nomination Committee

The Company has established the Nomination Committee according to the relevant provisions of the GEM Listing Rules with written terms of reference. Its primary responsibilities include reviewing and supervising the framework, number of members and composition of the board of directors and making proposals to the board of directors in respect of any changes and identifying and nominating suitable persons for appointment of director.

The Nomination Committee is comprised of one executive director, Mr. Mei Qun and two independent non-executive directors, Ms. Tam Wai Chu, Maria and Mr. Jin Shi Yuan, which is in compliance with the requirement of the GEM Listing Rules that independent non-executive directors should form the majority of the nomination committee.



OTHER INFORMATION

DIRECTORS' INTERESTS IN SHARES

As at 30 June 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.

Beijing Tongrentang Company Limited (“Tongrentang Ltd.”)

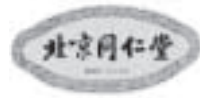
Names	Type of interests	Capacity	Number of shares (Note)	Percentage of total registered share capital
Mr. Yin Shun Hai	Personal	Beneficial Owner	25,900	0.007%
Mr. Mei Qun	Personal	Beneficial Owner	20,721	0.006%

Note: All represented A shares.

Beijing Tong Ren Tang International Co., Limited

Names	Type of interests	Capacity	Number of shares (Note)	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%
Ms. Ding Yong Ling	Personal	Beneficial Owner	39,000	0.500%

Save as disclosed above, as at 30 June 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 30 June 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 (Note 1)	Interest of a controlled corporation	100,000,000	90.909%	–	54.705%
	Beneficial owner	2,900,000	2.636%	–	1.586%
First State Investments (Hong Kong) Limited	Investment manager	6,554,000	–	9.003%	3.585%
First State (Hong Kong) LLC (Note 2)	Interest of a controlled corporation	6,554,000	–	9.003%	3.585%
First State Investments (Bermuda) Ltd (Note 2)	Interest of a controlled corporation	6,554,000	–	9.003%	3.585%
First State Investment Managers (Asia) Ltd (Note 2)	Interest of a controlled corporation	6,554,000	–	9.003%	3.585%
Colonial First State Group Ltd (Note 2)	Interest of a controlled corporation	6,554,000	–	9.003%	3.585%
The Colonial Mutual Life Assurance Society Ltd (Note 2)	Interest of a controlled corporation	6,554,000	–	9.003%	3.585%
Colonial Holding Company (No.2) Pty Limited (Note 2)	Interest of a controlled corporation	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
Colonial Holding Company Pty Ltd (<i>Note 2</i>)	Interest of a controlled corporation	6,554,000	-	9.003%	3.585%
Colonial Ltd (<i>Note 2</i>)	Interest of a controlled corporation	6,554,000	-	9.003%	3.585%
Commonwealth Bank of Australia (<i>Note 2</i>)	Interest of a controlled corporation	6,554,000	-	9.003%	3.585%

Notes:

- (1) Such shares were held through Tongrentang Ltd. As at 30 June 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) 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.

Save as disclosed above, as at 30 June 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 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 such forms 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 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 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%.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

During the six months ended 30 June 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

8th August 2005

As at the date of this report the board of director of the Company comprises Mr. Yin Shun Hai, Mr. Mei Qun, Ms. Ding Yong Ling and Mr. Bi Jie Ping as executive directors; 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.