



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)



Third Quarterly Report 2005



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

HIGHLIGHTS

- Revenue amounted to RMB915,144,000 for the nine months ended 30 September 2005, representing an increase of approximately 11.57% as compared with that for the corresponding period in 2004.
- Net profit amounted to RMB175,460,000 for the nine months ended 30 September 2005, representing an increase of approximately 8.48% as compared with that for the corresponding period in 2004.
- Earnings per share amounted to RMB0.96 for the nine months ended 30 September 2005.



THIRD 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 nine months ended 30 September 2005 together with the unaudited comparative figures for the corresponding period in 2004, as follows:

	<i>Notes</i>	For the nine months ended 30 September		For the three months ended 30 September	
		2005	2004	2005	2004
		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Revenue	3	915,144	820,275	208,490	208,175
Cost of sales		(483,508)	(407,586)	(99,626)	(99,068)
Gross Profit		431,636	412,689	108,864	109,107
Distribution costs		(165,401)	(147,781)	(41,308)	(37,008)
Administrative expenses		(72,806)	(86,380)	(20,036)	(21,645)
Profit from operations		193,429	178,528	47,520	50,454
Financial cost, net	4	(3,653)	(2,553)	(1,929)	(1,153)
Profit before taxation	5	189,776	175,975	45,591	49,301
Taxation	6	(13,518)	(13,350)	(3,308)	(3,856)
Profit for the Period		176,258	162,625	42,283	45,445
Attributable to:					
Equity holders of the Company		175,460	161,744	41,721	45,577
Minority interests		798	881	562	(132)
		176,258	162,625	42,283	45,445
Earnings per share	7	RMB0.960	RMB0.885	RMB0.228	RMB0.249

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.

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. 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 nine months ended 30 September		For the three months ended 30 September	
	2005 RMB'000	2004 RMB'000	2005 RMB'000	2004 RMB'000
Sales of medicine:				
Domestic	900,875	791,629	205,545	201,749
Overseas	14,269	28,621	2,945	6,426
Agency fee income	–	25	–	–
	<u>915,144</u>	<u>820,275</u>	<u>208,490</u>	<u>208,175</u>

4. Finance cost, net

	For the nine months ended 30 September		For the three months ended 30 September	
	2005 RMB'000	2004 RMB'000	2005 RMB'000	2004 RMB'000
Interest expenses on bank loans				
repayable within 5 years	(3,523)	(2,698)	(1,475)	(1,549)
Interest income	953	629	543	189
Exchange (loss)/gain, net	(937)	(438)	(938)	213
Others	(146)	(46)	(59)	(6)
	<u>(3,653)</u>	<u>(2,553)</u>	<u>(1,929)</u>	<u>(1,153)</u>



5. Profit before taxation

Profit before taxation was determined after charging the following:

	For the nine months ended 30 September		For the three months ended 30 September	
	2005	2004	2005	2004
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Depreciation of property, plant and equipment	<u>21,799</u>	<u>22,064</u>	<u>8,588</u>	<u>5,956</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 nine months ended 30 September 2005, an amount equal to the 7.5% (2004: 7.5%) EIT exempted amounting to approximately RMB14,138,000 (2004: RMB13,084,000) was transferred to the tax reserve.

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

	For the nine months ended 30 September		For the three months ended 30 September	
	2005	2004	2005	2004
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Accounting profit	189,776	175,975	45,591	49,301
Tax rate	14.57%	15.02%	14.36%	15.35%
EIT at tax rate	27,656	26,434	6,549	7,569
Effect of tax benefits of being a HTE	(14,138)	(13,084)	(3,241)	(3,713)
Tax expense	<u>13,518</u>	<u>13,350</u>	<u>3,308</u>	<u>3,856</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 September 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 nine months ended 30 September 2005 was based on the profit attributable to equity holders of the Company of approximately RMB175,460,000 (2004: RMB161,744,000) 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 nine months ended 30 September 2005 (2004: Nil).



INTERIM DIVIDENDS

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

RESERVES

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

	For the nine months ended 30 September			
	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)
	82,487	64,742	166,777	95,949
Net profit for the three months ended 31 March	–	–	61,378	58,950
Appropriation to reserve	4,962	4,733	(4,962)	(4,733)
Balances as of 31 March	87,449	69,475	223,193	150,166
Net profit for the three months ended 30 June	–	–	72,361	57,217
Appropriation to reserve	5,935	4,638	(5,935)	(4,638)
Balances as of 30 June	93,384	74,113	289,619	202,745
Net profit for the three months ended 30 September	–	–	41,721	45,577
Appropriation to reserve (See Note 6 above)	3,241	3,713	(3,241)	(3,713)
Balances as of 30 September	96,625	77,826	328,099	244,609

Business Review

The Company continued to follow the operating objective of “Growing, Strengthening and Expanding” as set out at the beginning of the year, and grasped firmly the overall strategy of “focusing on market demand with profitability as its goal”, working earnestly towards market demand and effectiveness. The Company maintained a stable development in production and operation during the third quarter of 2005. In particular, although production and sales were under the influence of a high temperature and off-season period, the Company met all economic indicators as planned and maintained a steady growth. For the nine months ended 30 September 2005, the Company’s revenue reached RMB915,144,000, representing an increase of approximately 11.57% as compared to that in the corresponding period of 2004; while the net profit amounted to RMB175,460,000, representing an increase of approximately 8.48% as compared to that in the corresponding period of 2004.

Sales

During the reporting period, the Company further standardized and developed its existing sales network consisting of agents, regional distributors and contracted terminal retailers, aggressively expanded the end-users market such as pharmacy outlets and hospital, and strived to increase the market share for its products.

The Company continued to strengthen the marketing of its leading products including Liuwei Dihuang Pill (六味地黃丸), Niu Huang Jie Du Tablet (牛黃解毒片) and Ganmao Qingre Granule (感冒清熱顆粒), and ensured that the sales of its leading products maintain to be steady. Meanwhile, in respect of product cultivation, the Company actively advanced the production organization and marketing plan, focusing on strengthening the promotion effort on its products and fully utilizing the competitive advantage of its products to grasp the market and increase market share.



The Company continued to initiate various types of marketing campaigns according to the features of its products. In the third quarter of the this year, the Company launched the promotion campaigns under the theme of “Cooling Summer” in several major sales regions to promote such products as pharmaceuticals used in summer and seasonal pharmaceuticals, which effectively drove up the end-user’s demand. Meanwhile, starting from the second half of the year, the sales branches initiated the promotion of its end-user products in the form of lectures under the title of health seminar at various retail terminals such as the pharmaceutical chain outlets and hospitals in several major sales regions to enhance the market awareness of the Group’s products.

For the first three quarters of the year, the sales of Liuwei Dihuang Pill (六味地黃丸) increased by 1.16%, Ganmao Qingre Granule (感冒清熱顆粒) by over 30%, while the sales of Niu Huang Jiedu Tablet (牛黃解毒片) series of products decreased, as compared with those in the corresponding period in previous year. The turnover proportion of up-and-coming products explicitly increased as compared to that in the corresponding period last year. Part of the products benefited from the strategy of product lines array, significantly boosting the sales. The sales of Jinguì Shenqì Pill (金匱腎氣丸) increased by 26.14% and Fufang Danshen Tablet (複方丹參片) by over 100%, as compared with those in the corresponding period last year.

Production

In the third quarter, the Company continued to follow its established plan to adjust and improve the overall production structure, to strengthen its control in direction and deployment of production, and to fully motivate the management and staff. With appropriate laying and scientific arrangement of various production processes, the Company was able to satisfy the market demand by sufficient supply while the high quality of its products was ensured.

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, constructed the Chinese medicine preprocessing workshop. At present, the construction of the plant has been completed and the installation and testing of equipment is in progress. In Hong Kong, Beijing Tong Ren Tang Chinese Medicine Limited (北京同仁堂國藥有限公司) has commenced the construction of a production base in Tai Po Industrial Estate. At present, the plant is in construction stage.

Management and Research & Development

The Company continued to strengthen its fundamental management work, to strengthen cost budgeting management so as to ensure the quality of economic operation of the Company. The Research and Development Center of the Company strived to speed up the process of R&D and the launching of new products on the one hand, while on the other hand with the guidance of market demand, it focused on developing new products with good market prospect, and strived to launch new products as soon as possible in order to provide a solid foundation for a sustaining and steady growth of the Company in the future.

Prospects

There has been an increase in the sales and profit of the Company in the first three quarters of 2005 as compared with the corresponding period of last year. In the fourth quarter of the year, the Company will continue to capture market opportunities, and further seize and expand market according to the operating goal of “Growing, Strengthening and Expanding” to ensure the sustaining and steady growth of the Company.

The Company will continue to deepen network establishment, to improve sales models, to adjust and gradually improve the organization structure of its marketing arm, to strengthen the construction of marketing team and to encourage all staff to develop the mindset of marketing.



The Company will continue to conduct the scanning and planning of product lines with growth potential, and consciously cultivate new product lines with market competitiveness.

The Company will strengthen internal management, adjust and optimize organization structure, optimize function deployment to further increase the profitability and overall competitiveness of the Company.

The Company will try to formulate a production and operation plan and a financial budget of 2006 for the achievement of a sustainable growth.

OTHER INFORMATION

DIRECTOR'S INTEREST IN SHARES

As at 30 September 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 <i>(Note)</i>	Percentage of total registered share capital
Mr. Yin Shun Hai	Personal	Beneficial Owner	31,080	0.007%
Mr. Mei Qun	Personal	Beneficial Owner	24,865	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%
Ms. Ding Yong Ling	Personal	Beneficial Owner	39,000	0.500%

Save as disclosed above, as at 30 September 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 September 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%
Colonial Holding Company Pty Ltd (Note 2)	Interest of a controlled corporation	6,554,000	–	9.003%	3.585%
Colonial Ltd (Note 2)	Interest of a controlled corporation	6,554,000	–	9.003%	3.585%
Commonwealth Bank of Australia (Note 2)	Interest of a controlled corporation	6,554,000	–	9.003%	3.585%

Notes:

- (1) Such shares were held through Tongrentang Ltd. As at 30 September 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 September 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 traditional form such as large pill, powder, ointment, pellet and medicinal wine. It also has some minor production lines for the production of granules and pills. On the other hand, the Company focuses on manufacturing products in forms of granules, pills, tablets and soft capsules. Tongrentang Ltd.'s main products include Angong Niu Huang Pills (安宮牛黃丸), Tongren Wuji Baifen Pills (同仁烏雞白鳳丸), Tongren Dahuolo Pills (同仁大活絡丸) and Guogong Wine (國公酒).

In order to ensure that the business delineation between the Company and Tongrentang Holdings and Tongrentang Ltd. are properly documented and formalized, pursuant to an undertaking dated 19 October 2000 given by Tongrentang Holdings and Tongrentang Ltd. in favor of the Company ("October Undertaking"), Tongrentang Holdings and Tongrentang Ltd. undertook that, except for Angong Niu Huang Pills (安宮牛黃丸), Tongrentang Holdings, Tongrentang Ltd. and their respective subsidiaries would not produce any common products of the same names or under the same names with different forms that may compete directly with those of the Company in the future. 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 Niuhuang 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, 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. The audit committee has reviewed the third quarterly report of 2005.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

During the period ended 30 September 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
25th October 2005

As at the date hereof, the executive directors of the Company are Mr. Yin Shun Hai, Mr. Mei Qun, Ms. Ding Yong Ling and Mr. Bi Jie Ping; the non-executive directors of the Company is Mr. Zhao Bing Xian; the independent non-executive directors of the Company are Ms. Tam Wai Chu, Maria, Mr. Ting Leung Huel, Stephen and Mr. Jin Shi Yuan.