



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

(a joint stock limited company incorporated in the People's Republic of China with limited liability)  
(Stock Code: 8069)



Interim Report **2006**



## 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 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 RMB630,006,000 for the six months ended 30 June 2006, representing an decrease of approximately 10.85% as compared with that for the corresponding period in 2005.
- Net profit attributable to equity shareholders of the Company amounted to RMB123,572,000 for the six months ended 30 June 2006, representing an decrease of approximately 7.60% as compared with that for the corresponding period in 2005.
- Earnings per share for profit attributable to equity shareholders of the Company amounted to RMB0.676 for the six months ended 30 June 2006.



## 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 (hereafter collectively referred to as the “Group”) and its joint ventures for the six months ended 30 June 2006, as follows:

### Condensed Consolidated Statement of Income

	Notes	For the six months ended 30 June		For the three months ended 30 June	
		2006 <i>(Unaudited)</i> RMB'000	2005 <i>(Unaudited)</i> RMB'000	2006 <i>(Unaudited)</i> RMB'000	2005 <i>(Unaudited)</i> RMB'000
Revenue	3	630,006	706,654	317,066	402,792
Cost of sales		(347,148)	(383,882)	(172,711)	(223,789)
Gross Profit		282,858	322,772	144,355	179,003
Other gains – net	4	1,757	410	846	222
Distribution costs		(88,324)	(124,093)	(39,871)	(72,265)
Administrative expenses		(49,333)	(52,857)	(24,975)	(27,810)
Profit from operations		146,958	146,232	80,355	79,150
Financial costs	5	(2,280)	(2,047)	(1,141)	(661)
Profit before income tax	6	144,678	144,185	79,214	78,489
Income tax expense	7	(22,229)	(10,210)	(12,096)	(5,923)
Profit for the period		<u>122,449</u>	<u>133,975</u>	<u>67,118</u>	<u>72,566</u>
Attributable to:					
Equity holders of the Company		123,572	133,739	67,482	72,361
Minority interests		(1,123)	236	(364)	205
		<u>122,449</u>	<u>133,975</u>	<u>67,118</u>	<u>72,566</u>
Earnings per share for profit attributable to equity shareholders of the Company	8	<u>RMB0.676</u>	<u>RMB0.732</u>	<u>RMB0.369</u>	<u>RMB0.396</u>

## Condensed Consolidated Balance Sheet

		30 June 2006 (Unaudited) RMB'000	31 December 2005 (Audited) RMB'000
	<i>Notes</i>		
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	9	525,286	513,381
Leasehold land and land use rights		54,738	55,330
Investment in an associated company		4,849	4,849
Deferred income tax assets		338	338
Other long-term assets		4,217	3,778
		<u>589,428</u>	<u>577,676</u>
<b>Current assets</b>			
Inventories		414,768	479,972
Trade and bills receivable – net	10	249,169	132,975
Prepayments and other current assets and amount due from related parties		34,991	25,443
Short-term bank deposits		–	27,829
Cash and cash equivalents		269,333	206,203
		<u>968,261</u>	<u>872,422</u>
<b>Total assets</b>		<u><u>1,557,689</u></u>	<u><u>1,450,098</u></u>



## Condensed Consolidated Balance Sheet (Continued)

		30 June 2006 (Unaudited) RMB'000	31 December 2005 (Audited) RMB'000
	<i>Notes</i>		
<b>EQUITY</b>			
<b>Capital and reserves attributable to equity holders of the Company</b>			
Share capital	11	182,800	182,800
Reserves	12	790,139	752,891
		<u>972,939</u>	<u>935,691</u>
Minority interests		58,522	59,645
<b>Total equity</b>		<u>1,031,461</u>	<u>995,336</u>
<b>Non-current liabilities</b>			
Deferred income tax liabilities		2,035	2,035
Deferred income – government grants		10,853	12,548
		<u>12,888</u>	<u>14,583</u>
<b>Current liabilities</b>			
Trade payables	13	115,567	148,630
Salary and welfare payables		50,128	51,198
Advances from customers		3,273	35,706
Current income tax liabilities		12,872	6,122
Accrued expenses and other current liabilities and amount due to related parties		144,215	66,475
Bank advances for discounted bills		18,197	47,048
Short-term borrowings		85,000	85,000
Dividend payable		84,088	
		<u>513,340</u>	<u>440,179</u>
<b>Total liabilities</b>		<u>526,228</u>	<u>454,762</u>
<b>Total equity and liabilities</b>		<u>1,557,689</u>	<u>1,450,098</u>

**Condensed Consolidated Statement of Cash Flows**

	For the six months ended 30 June	
	2006	2005
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
	<i>RMB'000</i>	<i>RMB'000</i>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Cash generated from operations	84,031	72,460
Interest paid	(2,388)	(2,048)
Income taxes refunded	275	599
	<u>81,918</u>	<u>71,011</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchases of property, plant and equipment	(49,193)	(84,730)
Proceeds from disposals of property, plant and equipment	19	–
Decrease in short-term bank deposits	27,829	26,519
Interest received	1,757	410
	<u>(19,588)</u>	<u>(57,801)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from short-term borrowings	–	95
Proceeds from government grants	800	764
	<u>800</u>	<u>859</u>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>63,130</b>	<b>14,069</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD</b>	<b>206,203</b>	<b>185,930</b>
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	<b><u>269,333</u></b>	<b><u>199,999</u></b>



## Condensed Consolidated Statement of Changes in Equity

	Share Capital	Share Premium	Statutory surplus reserve fund	Statutory public welfare fund	Tax reserve	Property, plant and equipment revaluation	Retained earnings	Foreign currency translation difference	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance 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)	-	-
Balance 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>-</u>	<u>289,619</u>	<u>(100)</u>	<u>828,513</u>
Balance as of									
1 January 2006	182,800	157,925	93,243	46,622	102,043	11,536	343,427	(1,905)	935,691
Net profit for the six months ended									
30 June 2006	-	-	-	-	-	-	123,572	-	123,572
Dividends	-	-	-	-	-	-	(84,088)	-	(84,088)
Foreign currency translation difference	-	-	-	-	-	-	-	(2,236)	(2,236)
Balance as of 30 June 2006 (unaudited)	<u>182,800</u>	<u>157,925</u>	<u>93,243</u>	<u>46,622</u>	<u>102,043</u>	<u>11,536</u>	<u>382,911</u>	<u>(4,141)</u>	<u>972,939</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 2005.

3. Revenue

	For the six months ended 30 June		For the three months ended 30 June	
	2006 <i>(Unaudited)</i> RMB'000	2005 <i>(Unaudited)</i> RMB'000	2006 <i>(Unaudited)</i> RMB'000	2005 <i>(Unaudited)</i> RMB'000
Sales of medicine:				
Domestic	613,158	695,330	308,858	394,416
Overseas	16,848	11,324	8,208	8,376
	<u>630,006</u>	<u>706,654</u>	<u>317,066</u>	<u>402,792</u>

4. Other Gains – Net

	For the six months ended 30 June		For the three months ended 30 June	
	2006 <i>(Unaudited)</i> RMB'000	2005 <i>(Unaudited)</i> RMB'000	2006 <i>(Unaudited)</i> RMB'000	2005 <i>(Unaudited)</i> RMB'000
Interest income	<u>1,757</u>	<u>410</u>	<u>846</u>	<u>222</u>



## 5. Finance costs

	For the six months ended 30 June		For the three months ended 30 June	
	2006 <i>(Unaudited)</i> RMB'000	2005 <i>(Unaudited)</i> RMB'000	2006 <i>(Unaudited)</i> RMB'000	2005 <i>(Unaudited)</i> RMB'000
Interest expenses	2,388	2,048	1,321	959
Exchange gain	(108)	(1)	(180)	(298)
	<u>2,280</u>	<u>2,047</u>	<u>1,141</u>	<u>661</u>

## 6. Profit before income tax

Profit before income tax was arrived at after charging the following:

	For the six months ended 30 June		For the three months ended 30 June	
	2006 <i>(Unaudited)</i> RMB'000	2005 <i>(Unaudited)</i> RMB'000	2006 <i>(Unaudited)</i> RMB'000	2005 <i>(Unaudited)</i> RMB'000
Depreciation of property, plant and equipment	<u>20,558</u>	<u>13,211</u>	<u>9,895</u>	<u>6,620</u>

## 7. Income tax expense

Pursuant to the relevant regulations of the PRC, the applicable income tax rate for the Company is 15%.

With the approval from the Beijing Economic and Technological Development Zone Local Tax Bureau (Document Jingdishuikaijianmianfa [2000] No. 23), the Company was entitled to an exemption from Enterprise Income Tax ("EIT") for the first three years from its commencement of operations and a 50% reduction for the three years thereafter, on a condition that an amount equal to the EIT exemption or reduction from 15% had to be appropriated to a non-distributable tax reserve. The exemption and reduction started from 2000 and expired in 2005.

For the six months ended 30 June 2006, the applicable income tax rate for the Company was 15%, without any tax relief. For the corresponding period in 2005, an amount equal to EIT exempted amounting to approximately RMB10,897,000 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	
	2006 <i>(Unaudited)</i> RMB'000	2005 <i>(Unaudited)</i> RMB'000	2006 <i>(Unaudited)</i> RMB'000	2005 <i>(Unaudited)</i> RMB'000
Accounting profit	144,678	144,185	79,214	78,489
Tax rate	15.36%	14.64%	15.27%	15.11%
EIT at tax rate	22,229	21,107	12,096	11,858
Effect of tax benefits of being a HTE	–	(10,897)	–	(5,935)
Income tax expense	<u>22,229</u>	<u>10,210</u>	<u>12,096</u>	<u>5,923</u>

Except for the Company and Beijing Tong Ren Tang Hebei Chinese Medicinal Raw Materials Technologies Co., the provision for PRC current income tax is based on the statutory rate of 33% of the assessable income of each of the companies and enterprises now comprising the Group as determined in accordance with the relevant PRC income tax rules and regulations for the periods ended 30 June 2006.

Foreign entities are subject to income tax as required by tax laws of countries where those entities operate.

#### 8. Earnings per share

The calculation of the earnings per share for the six months ended 30 June 2006 was based on the profit attributable to equity holders of the Company of approximately RMB123,572,000 (2005: RMB133,739,000) divided by the weighted average number of shares issued during the period of 182,800,000 shares (2005: 182,800,000 shares).

The Company had no potential dilutive shares for the six months ended 30 June 2006 (2005: Nil).

#### 9. Additions to property, plant and equipment

During the period, the Group spent approximately RMB49,193,000 (12 months ended 31 December 2005: RMB135,163,000) on the acquisition of property, plant and equipment.



#### 10. Trade and bills receivable – net

	30 June 2006 <i>(Unaudited)</i> RMB'000	31 December 2005 <i>(Audited)</i> RMB'000
Trade and bills receivables	260,600	144,406
Less: provision for impairment of receivables	(11,431)	(11,431)
Trade and bills receivable – net	<u>249,169</u>	<u>132,975</u>

The carrying amounts of trade and bills receivables approximate their fair values.

The ageing analysis of trade and bills receivables was as follows:

	30 June 2006 <i>(Unaudited)</i> RMB'000	31 December 2005 <i>(Audited)</i> RMB'000
Within 4 months	166,504	127,426
Over 4 months but within 1 year	86,483	11,649
Over 1 year but within 2 years	2,424	1,383
Over 2 years but within 3 years	2,133	3,822
Over 3 years	3,056	126
	<u>260,600</u>	<u>144,406</u>

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

The Group transferred certain bills of exchange amounting to RMB18,197,000 (31 December 2005: RMB47,048,000) to banks with recourse in exchange for cash during the six months ended 30 June 2006. The transactions have been accounted for as collateralised bank advances.

## 11. Share capital

	30 June 2006 (Unaudited)		31 December 2005 (Audited)	
	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>182,800,000</u>
Issued and fully paid				
– Domestic shares with a par value of RMB1 per share	110,000,000	110,000	110,000,000	110,000
– H shares with a par value of RMB1 per share	<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>



## 12. Reserves

	Share Premium RMB'000	Statutory surplus reserve fund RMB'000	Statutory public welfare fund RMB'000	Tax reserve RMB'000	Property, plant and equipment revaluation RMB'000	Retained earnings RMB'000	Foreign currency translation difference RMB'000	Total RMB'000
Balance as of								
1 January 2005	157,925	69,923	34,962	82,487	-	250,865	(256)	595,906
Net profit for the year	-	-	-	-	-	231,186	-	231,186
Revaluation - gross	-	-	-	-	13,571	-	-	13,571
Revaluation - tax	-	-	-	-	(2,035)	-	-	(2,035)
Dividends paid	-	-	-	-	-	(84,088)	-	(84,088)
Foreign currency translation difference	-	-	-	-	-	-	(1,649)	(1,649)
Appropriation of retained profits	-	23,320	11,660	19,556	-	(54,536)	-	-
Balance as of								
31 December 2005 (Audited)	157,925	93,243	46,622	102,043	11,536	343,427	(1,905)	752,891
Dividends	-	-	-	-	-	(84,088)	-	(84,088)
	157,925	93,243	46,622	102,043	11,536	259,339	(1,905)	668,803
Net profit for the three months ended								
31 March 2006	-	-	-	-	-	56,090	-	56,090
Balance as of								
31 March 2006 (unaudited)	157,925	93,243	46,622	102,043	11,536	315,429	(1,905)	724,893
Net profit for the three months ended								
30 June 2006	-	-	-	-	-	67,482	-	67,482
Foreign currency translation difference	-	-	-	-	-	-	(2,236)	(2,236)
Balance as of								
30 June 2006 (unaudited)	157,925	93,243	46,622	102,043	11,536	382,911	(4,141)	790,139

**13. Accounts payable**

The aging analysis of accounts payable was as follows:

	30 June 2006 <i>(Unaudited)</i> RMB'000	31 December 2005 <i>(Audited)</i> RMB'000
Within 4 months	80,025	102,887
Over 4 months but within 1 year	32,320	34,511
Over 1 year but within 2 years	3,222	11,232
	<u>115,567</u>	<u>148,630</u>

**14. Segment information**

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

**15. Charges on group assets**

As at 30 June 2006, none of the Group's assets was pledged as security for liabilities (31 December 2005: Nil).

**16. 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.

**17. Capital commitments**

As at 30 June 2006, 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 RMB2,820,000 (31 December 2005: RMB3,600,000).
- (ii) Commitments relating to investment contributions to investee entities amounted to approximately RMB0 (31 December 2005: RMB28,508,000).

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



## INTERIM DIVIDENDS

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2006 (2005: Nil).

## MANAGEMENT DISCUSSION AND ANALYSIS

### Business Review

In 2006, according to the management target of “perseverance and consolidation” set by the Board, the Company focused on the two main subjects of “reform” and “management”, and adhered to the principle of “emphasis on profitability and cash flow.” The Company upheld the guiding principle of realizing a cost effective and highly efficient enterprise by means of tapping resources and saving costs, and to further improve the profitability and management of the Company. With the concerted effort and hard work of all members of staff, the Company achieved its targeted profit for the first half of 2006. As at 30 June 2006, sales revenue of the Company amounted to RMB630,006,000, representing a decrease of 10.85% as compared with the corresponding period last year. The decrease in sales revenue was due to tighter control of certain items sold to distributors in order to tackle the fierce market competition by keeping order in the market. Pre-tax profit was RMB144,678,000, the same as the corresponding period last year. Profit attributable to shareholders of the Company was RMB123,572,000, representing a decrease of 7.60% as compared with the corresponding period last year. One of the reasons of the decrease in profit attributable to equity holders of the Company was the termination of profit tax benefits enjoyed by the Company in 2005.



## Sales

During the year 2006, the Company's marketing aimed at changing its operation model, strengthening network at various levels, improving the product portfolio, maintaining operation channels, streamlining management procedure and enhancing the Company's overall marketing and sales ability.

The Company made use of its existing sales network to strengthen the overall planning of marketing as well as the maintenance and administration of terminal network. In this respect, the Company further adjusted the structure of its marketing framework by setting up a specialized Marketing Department to be in charge of the establishment and maintenance of the retail network and the marketing and promotion of products. The Department carried out trial runs in Tianjin, Shijiazhuang, Chongqing, Jinan, Xian, etc. with the training of OTC terminal marketing teams, the setting up of promotional counters and strengthening promotion to drugstores in order to foster the demand by end users.

In face of stiff competition in the market, the Company focused on standardizing sales by distributors, strengthening market monitoring and maintaining market order for the sale of key products. With its cash flow objective in mind, the Company strived to enhance its management of delivery and payment procedure as well as sales cost budgeting in order to maximize profit with the marketing costs involved.

The Company continued to enhance its product portfolio and organized promotional campaigns and health seminars for different types of products in the appropriate seasons. To meet the demand of different consumers the Company continued to refine and add new forms of medicine, packaging and specifications in addition to developing and promoting products with market potential. Though the sales of major series including Liuwei Dihuang Pill (六味地黃丸), Niu Huang Jiedu Tablet (牛黃解毒片) and Ganmao Qingre Granule (感冒清熱顆粒) decreased as compared with the corresponding period of the previous year, the sales of certain other series rose substantially. Such included Zhibai Dihuang Pill (知柏地黃丸), Xihuang Pill (西黃丸), Banlangen Granule (板藍根顆粒) etc.



## **Production**

With its manufacturing base, the Company continued to improve the overall production framework, to strengthen its control on direction and deployment of production, to enhance the system of production and management and to fully capitalize on the advantages of technology and equipment. The Company also strengthened its cost management throughout the production process from the use of equipment to the utilization of man hours to the ability of responding to urgency and strived to develop potential in these areas and to take advantage of its scale so as to increase the Company's overall productivity.

The production plant of Beijing Tong Ren Tang Chinese Medicine Company Limited in Hong Kong is being constructed in Tai Po Industrial Estate. With basic structure completed and installation of plant and machinery in progress, it is expected that the whole project will finish by the end of 2006.

## **Management and Research & Development**

According to the guiding principle of realizing a cost effective enterprise, the Company strengthened its costs budgeting with a strict system of approving and managing external capital. All the employees worked as best they could and achieved good results in lowering costs for each part of operation including raw material procurement, production, sales, transport, storage, etc.

Being market-oriented, production-oriented and future-oriented, the Company's R&D aimed at a more rapid pace of developing new products, strengthening re-development of existing products, tailoring products into new forms, new packages and new specifications for market demand and customers.

## Sales Network

The Company established four joint ventures overseas in order to expand its distribution business into such areas by setting up retail outlets for the Company's products.

The operating performance of Peking Tongrentang (M) Sdn. Bhd. in Malaysia, Beijing Tong Ren Tang (Canada) Co. Ltd. in Canada, Beijing Tong Ren Tang (Indonesia) Company Limited in Indonesia and Beijing Tong Ren Tang (Macau) Company Limited in Macau realized sales revenues of RMB5,032,000, RMB2,788,000, RMB3,771,000 and RMB4,245,000 respectively.

Beijing Tong Ren Tang Nanshuan Zhonglu Drugstore Co., Limited is a retail drug store invested by the Company in Beijing. It realized sales revenue of RMB6,440,000 in the first half of 2006.

## EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2006, the Company had 1,950 employees (31 December 2005: 1,851 employees). Remuneration is determined by reference to market terms and the performance, qualifications and experience of individual employee. Discretionary bonuses based on individual performance will be paid to employees as recognition of and reward for their contribution. Other benefits include contributions to pension scheme, medical insurance scheme, unemployment insurance scheme, industrial accident insurance scheme, female worker 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 2006. During the period, the Group's primary source of funds was cash provided by operating activities and bank loans.

As at 30 June 2006, the Group had bank and cash balances amounted to RMB269,333,000 (31 December 2005: RMB234,032,000) and short term borrowings of RMB85,000,000 (31 December 2005: RMB85,000,000). These borrowings bear fixed interest of 5.265% (31 December 2005: 5.02%) per annum.

As at 30 June 2006, the Group had total assets of RMB1,557,689,000 (31 December 2005: RMB1,450,098,000) which were financed by non-current liabilities of RMB12,888,000 (31 December 2005: RMB14,583,000), current liabilities of RMB513,340,000 (31 December 2005: RMB440,179,000), shareholders' equity of RMB972,939,000 (31 December 2005: RMB935,691,000) and minority interests of RMB58,522,000 (31 December 2005: RMB59,645,000).

### Capital Structure

There has been no material change in the capital structure of the Group as at 30 June 2006 as compared with that as at 31 December 2005.

### Gearing and liquidity ratio

The Group's gearing ratio, defined as the ratio between total borrowings and shareholders' equity, was 0.09 (31 December 2005: 0.09). The liquidity ratio of the Group, represented by a ratio between current assets over current liabilities, was 1.89 (31 December 2005: 1.98), reflecting the abundance of financial resources.

## Prospects

In the first half of 2006, the overall results of the Company was basically of the same level as last year. In the second half of the year, the Company will continue to focus on the two main subjects of “reform” and “management” by fully capitalizing on the advantageous position of its technology, products and quality and of the brand name Tong Ren Tang. Efforts will be put into the continual enhancement of operation so as to achieve steady growth in the Company’s results.

The Company will also continue to improve its marketing model by selecting product series and regions for the development of terminal direct sales. Market operation will be further standardized and efforts will be made to maintain the leading position of its main products in terms of market share. Promotions will be reinforced and various kinds of sales campaigns will be introduced and sales strategies will be adopted to boost consumer demand. The Company will also revise and perfect the appraisal system for sales staff, the assessment of internal posts as well as competition and the training system.

The Company will keep on strengthening internal control, rationalizing the allocation of resources, and reducing costs and expenses in order to further enhance the operation and profitability of the Company.



## **CORPORATE GOVERNANCE**

For the half year ended 30 June 2006, the Company complied with the provisions set out in Appendix 15 of the Code on Corporate Governance Practices of the Rules Governing the Listing of Securities on the GEM ("GEM Listing Rules") of the Stock Exchange.

### **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 third session of the board of directors of the Company is currently comprised of nine directors and their term of office will end upon the conclusion of the general meeting in 2009. The board of directors comprises three influential independent non-executive directors. Independent 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 2006 and at any time, the board of directors fulfilled 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 being at least 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. Kuang Gui Shen 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 report, two meetings have been conducted by the audit committee in the year. The first meeting was held on 3 March 2006 for reviewing and discussing 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 2005 and internal audit matters and listened to the advice provided by auditors. The Committee concurred in the contents of the annual report.

The second meeting was held on 7 August 2006 for reviewing and discussing 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 2006 and internal audit matters. The Committee concurred in the contents of the interim report.



## OTHER INFORMATION

### Directors' Interests in Shares

As at 30 June 2006, 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%

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	38,850	0.009%
Mr. Mei Qun	Personal	Beneficial Owner	31,081	0.007%
Mr. Kuang Gui Shen	Personal	Beneficial Owner	22,700	0.005%

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%

**Beijing Tong Ren Tang Nature-Pharm Co. Ltd.**

Names	Type of interests	Capacity	Number of shares	Percentage of total registered share capital
Mr. Wang Quan	Personal	Beneficial Owner	200,000	0.400%

Save as disclosed above, as at 30 June 2006, 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 2006, 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 Beneficial owner	100,000,000 2,900,000	90.909% 2.636%	–	54.705% 1.586%
First State Investments (Hong Kong) Ltd (Note 2)	Investment manager	10,933,000	–	15.018%	5.981%
First State (Hong Kong) LLC (Note 2)	Interest of a controlled corporation	10,933,000	–	15.018%	5.981%
First State Investments (Bermuda) Ltd (Note 2)	Interest of a controlled corporation	10,933,000	–	15.018%	5.981%
First State Investment Managers (Asia) Ltd (Note 2)	Interest of a controlled corporation	10,933,000	–	15.018%	5.981%
Colonial First State Group Ltd (Note 2)	Interest of a controlled corporation	10,933,000	–	15.018%	5.981%
Commonwealth Insurance Holdings Ltd (Note 2)	Interest of a controlled corporation	10,933,000	–	15.018%	5.981%
Colonial Holding Company Ltd (Note 2)	Interest of a controlled corporation	10,933,000	–	15.018%	5.981%
Commonwealth Bank of Australia (Note 2)	Interest of a controlled corporation	10,933,000	–	15.018%	5.981%

Name of shareholder	Capacity	Number of shares	Percentage of domestic shares	Percentage of H shares	Percentage of total registered share capital
Capital Research and Management Company (Note 3)	Investment manager	5,824,000	-	8.000%	3.186%
Capital International, Inc. (Note 3)	Investment manager	2,556,000	-	3.511%	1.398%
Capital Group International, Inc. (Note 3)	Interest of a controlled corporation	2,556,000	-	3.511%	1.398%
The Capital Group Companies, Inc. (Note 3)	Interest of a controlled corporation	8,380,000	-	11.511%	4.584%
Fidelity International Limited	Investment manager	7,387,000	-	10.147%	4.041%

*Notes:*

- (1) Such shares were held through Tongrentang Ltd. As at 30 June 2006, Tongrentang Ltd. was owned as to 55.24% 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 Holding Company Ltd. Colonial Holding Company Ltd. owns 100% of Commonwealth Insurance Holdings Ltd. Commonwealth Insurance Holdings 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 Holding Company Ltd., Commonwealth Insurance Holdings 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 10,933,000 shares held by First State Investments (Hong Kong) Limited.

- (3) The Capital Group Companies, Inc. owns 100% of Capital Group International, Inc. Capital Group International, Inc. owns 100% of Capital International, Inc.. The Capital Group Companies, Inc. owns 100% of Capital Research and Management Company.

Accordingly, under Part XV of the SFO, The Capital Group Companies, Inc. and Capital Group International, Inc are deemed to be interested in the 2,556,000 shares held by Capital International, Inc., The Capital Group Companies, Inc. is deemed to be interested in the 5,824,000 shares held by Capital Research and Management Company.



Save as disclosed above, as at 30 June 2006, 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 2006, the Company has not purchased, sold or redeemed any of the Company's listed shares.

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

Beijing, the PRC  
11th August 2006

As at the date of this report, the Board comprises (i) Mr. Yin Shun Hai, Mr. Mei Qun, Mr. Wang Quan, Ms. Ding Yong Ling, Mr. Kuang Gui Shen and Mr. Zhang Sheng Yu as executive directors; (ii) Ms. Tam Wai Chu, Maria, Mr. Ting Leung Huel, Stephen and Mr. Jin Shi Yuan as independent non-executive directors.