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If you are in any doubt about this circular or as to the action to be taken, you should consult a stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Tong Ren Tang Technologies Co. Ltd., you should at once hand this circular to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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Tong Ren Tang Technologies Co. Ltd.

北京同仁堂科技發展股份有限公司

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

(Stock code: 8069)

ONGOING CONNECTED TRANSACTIONS

Independent financial adviser to the independent board committee and the independent shareholders of Tong Ren Tang Technologies Co. Ltd.

大福融資有限公司
TAI FOOK CAPITAL LIMITED

A letter from the Board is set out on pages 3 to 8 of this circular. A letter from the Independent Board Committee is set out on pages 9 to 10 of this circular. A letter from Tai Fook Capital Limited containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 11 to 20 of this circular.

Resolutions will be proposed at the AGM of the Company to approve the matters referred to in this circular. A notice convening the AGM will be despatched, together with the proxy form and reply slip for the AGM and the annual report of the Company for the year ended 31 December 2004, to all Shareholders as soon as possible.

14 March 2005

CHARACTERISTICS OF GEM

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 a 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 at *www.hkgem.com* in order to obtain up-to-date information on GEM-listed issuers.

CONTENTS

In this circular, the following expressions shall have the meanings set out below unless the context requires otherwise:

"AGM"	the annual general meeting of the Company in respect of the financial year ended 31 December 2004 to be convened to, among other matters, consider and, if thought fit, approve the non-exempt Ongoing Connected Transactions
"associate"	has the meaning ascribed to it under the GEM Listing Rules
"Board"	the board of Directors
"Company"	Tong Ren Tang Technologies Co. Ltd., a joint stock company incorporated in the PRC with limited liability
"Directors"	directors of the Company
"GEM"	the Growth Enterprise Market of the Stock Exchange
"GEM Listing Rules"	Rules Governing the Listing of Securities on GEM (as amended from time to time)
"Group"	the Company and its subsidiaries
"Group Agents"	distributors of pharmaceutical products in which Tongrentang Holdings is directly or indirectly interested and which are either subsidiaries or associates of Tongrentang Holdings
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Independent Board Committee"	the independent board committee, comprising Messrs. Tam Wai Chu, Maria, Ting Leung Huel, Stephen and Jin Shi Yuan who are independent non-executive Directors, which advises the Independent Shareholders in relation to the terms and the annual caps of the Ongoing Connected Transactions
"Independent Shareholders"	Shareholders other than Tongrentang Holdings, Tongrentang Limited and their respective associates
"Latest Practicable Date"	11 March 2005, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
"Master Distribution Agreement"	a distribution agreement dated 21 February 2005 entered into between the Company and Tongrentang Holdings, pursuant to which the Company may sell its products to the Group Agents

"Ongoing Connected Transactions"	the continuing connected transactions of the Company as contemplated under the Renewal Raw Material Supply Agreement and the Master Distribution Agreement
"PRC"	the People's Republic of China
"Raw Material Supply Agreement"	an agreement dated 6 October 2000 entered into between the Company and Tongrentang Holdings (where appropriate, as amended by a supplemental agreement dated 17 May 2002), pursuant to which Tongrentang Holdings agreed to supply the Company with part of the Chinese medicinal raw materials required for the Company's production
"Renewal Raw Material Supply Agreement"	a renewal agreement dated 21 February 2005 entered into between the Company and Tongrentang Holdings in respect of the Raw Material Supply Agreement for a period up to 31 December 2007
"RMB"	Renminbi, the lawful currency of the PRC
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"Shareholder(s)"	the shareholder(s) of the Company
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Supervisor(s)"	the supervisor(s) of the Company
"Tai Fook"	Tai Fook Capital Limited, a licensed corporation under the SFO to carry out the Type 6 regulated activity (advising on corporate finance) appointed by the Company as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders on the terms and the annual caps of the Ongoing Connected Transactions
"Tongrentang Holdings"	China Beijing Tong Ren Tang Group Co. Ltd.(中國北京同仁堂(集團)有限責任公司), a state-owned enterprise established in the PRC under the laws of the PRC and the ultimate holding company of the Company and Tongrentang Limited
"Tongrentang Limited"	Beijing Tongrentang Company Limited(北京同仁堂股份有限公司), a joint stock limited company established in the PRC, the shares of which have been listed on the Shanghai Stock Exchange A Shares Market since 1997, and the holding company of the Company

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

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

Executive Directors:
Yin Shun Hai
Mei Qun
Bi Jie Ping

Non-executive Directors:
Li Lian Ying
Zhao Bing Xian
Tam Wai Chu, Maria #
Ting Leung Huel, Stephen #
Jin Shi Yuan #

Registered office and principal place of business in the PRC:
No. 10 Hong Da Bei Road
Beijing Economic and Technology Development Zone
Yi Zhuang
Beijing, the PRC

Business office in Hong Kong:
20/F, Park Avenue Tower
No. 5 Moreton Terrace
Causeway Bay
Hong Kong

Independent non-executive Directors

14 March 2005

To the Shareholders

Dear Sir or Madam,

ONGOING CONNECTED TRANSACTIONS

1. INTRODUCTION

On 21 February 2005, the Company announced, among other things, that it had entered into the Renewal Raw Material Supply Agreement and the Master Distribution Agreement with Tongrentang Holdings whereby (i) Tongrentang Holdings agreed to supply the Company with part of the Chinese medicinal raw materials that are required for the Company's production; and (ii) the Company agreed to sell its products to the Group Agents, respectively for a period up to 31 December 2007.

The above transactions constitute continuing connected transactions under Chapter 20 of the GEM Listing Rules and are subject to the approval of the Independent Shareholders at the AGM. The Independent Board Committee has been formed to advise the Independent Shareholders in relation to the terms and the annual caps of the Ongoing Connected Transactions. Tai Fook has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in relation to the terms and the annual caps of the Ongoing Connected Transactions.

The purpose of this circular is to provide you with information regarding, among other things, (i) the Renewal Raw Material Supply Agreement; (ii) the Master Distribution Agreement; and (iii) the opinions and recommendations of the Independent Board Committee and Tai Fook in relation to the terms and the annual caps of the Ongoing Connected Transactions.

2. THE RENEWAL RAW MATERIAL SUPPLY AGREEMENT

Background and nature of the transaction

On 6 October 2000, the Company entered into the Raw Material Supply Agreement with Tongrentang Holdings, pursuant to which Tongrentang Holdings agreed to supply the Company with part of the Chinese medicinal raw materials that are required for the Company's production for a term of three years. Under the agreement, Tongrentang Holdings is obliged to ensure the quality of the raw materials by screening them before they are supplied. The price of the raw materials is to be determined by negotiation between both parties and is required to fall within the range of market price. Tongrentang Holdings shall not supply the materials to the Company at a price higher than that of the same products sold to independent third parties or the average market price, whichever is lower. The Company is entitled to give Tongrentang Holdings six months' prior notice to terminate the agreement. The term of the agreement can be extended by agreement between the parties prior to the date of the expiry. By a supplemental agreement dated 17 May 2002 entered into between the parties, the term of the agreement has been extended to 31 December 2004 with the other terms of the agreement remaining unchanged.

The transactions contemplated by the Raw Material Supply Agreement constitute continuing connected transactions of the Company under the GEM Listing Rules. Pursuant to a resolution passed by the Independent Shareholders at the special general meeting held on 25 July 2002, the aggregate annual transaction value under the Raw Material Supply Agreement has been capped at RMB150 million up to 31 December 2004.

The Raw Material Supply Agreement expired on 31 December 2004. The Company has entered into the Renewal Raw Material Supply Agreement dated 21 February 2005 with Tongrentang Holdings for a period up to 31 December 2007, subject to the approval of the Independent Shareholders at the AGM. No material alteration to the terms and conditions of the Raw Material Supply Agreement has been made.

Annual cap

The Company's purchase volume of the raw materials from Tongrentang Holdings for each of the five years ended 31 December 2004 were as follows:

Year ended 31 December 2000	Year ended 31 December 2001	Year ended 31 December 2002	Year ended 31 December 2003	Year ended 31 December 2004 (unaudited)
RMB63,643,000	RMB74,968,000	RMB91,029,000	RMB14,796,000	RMB10,385,000

The average annual transaction volume for the three financial years ended 31 December 2004 amounted to approximately RMB39 million. As the Directors expect that there will be a stable growth in the turnover of the Company in the coming three years, the demand for raw materials necessary for the production of the Company's products will increase accordingly. In this connection, the Directors expect that the transaction volume will probably increase at a rate of about 20% per annum in the coming three years. Based on the aforesaid, the transaction volume for the financial year ending 31 December 2007 will be about RMB67,390,000. Accordingly, the Directors propose that the annual cap for transactions under the Renewal Raw Material Supply Agreement shall be RMB68 million for each of the three financial years ending 31 December 2007.

Despite the relatively low transaction volumes for the years 2003 and 2004, having considered the average transaction volume for the five years from 2000 to 2004, the Company considers that it will be more appropriate and accurate to take the average value of the transaction volumes for the three years from 2002 to 2004 (instead of taking the transaction value for the year 2004 alone) as the basis for estimating the projected transaction volume and the annual cap for the upcoming three years.

In light of the aforesaid, the Directors consider that the proposed annual cap for the Renewal Raw Material Supply Agreement is reasonable and practical for the interests of the Company and the Shareholders as a whole.

Reasons for the transaction

The raw materials necessary for the production of the Company's products are supplied by various suppliers including Tongrentang Holdings. The Directors consider that a long term and steady relationship with these suppliers are of importance to the Company as it enables a stable supply of necessary raw materials to the Company which in turn guarantees a smooth production of the Company's products. Further, the stable supply of raw materials, which are agricultural by-products, will be affected by natural disasters or other adverse environmental changes. In particular, due to the tightness in the supply of some of the raw materials in recent years, the Directors consider that the Company will continue to rely on these long term suppliers including Tongrentang Holdings for the provision of raw materials within the course of the next three years in order to secure a stable supplier channel. The Company also intends to increase its own reserves of raw materials as and when appropriate in order to secure a stable supply of raw materials. In this connection, the Directors anticipate that the transactions between the Company and these long term suppliers including Tongrentang Holdings will increase accordingly.

3. MASTER DISTRIBUTION AGREEMENT

Background and nature of the transaction

The Group is engaged in the business of Chinese patent medicines and currently sells its products to both independent third parties and connected parties. Such connected parties consist of, among others, the Group Agents, which are distributors of pharmaceutical products and are subsidiaries or associates of Tongrentang Holdings in which Tongrentang Holdings are directly or indirectly interested.

The sales to the Group Agents constitute continuing connected transactions under the GEM Listing Rules.

Pursuant to a resolution passed by the Independent Shareholders at the special general meeting held on 25 July 2002, the aggregate value of the annual transaction volume in respect of the sales to the subsidiaries and associates of Tongrentang Holdings and Tongrentang Limited has been capped at RMB400 million up to 31 December 2004.

With a view to formalise the transactions with the Group Agents, the Company entered into the Master Distribution Agreement dated 21 February 2005 with Tongrentang Holdings for a period up to 31 December 2007, subject to the approval of the Independent Shareholders at the AGM. Pursuant to the agreement, the Company may sell its products to the Group Agents. The purchase price of the products distributed under the Master Distribution Agreement shall be determined by the Company and the Group Agents in accordance with the normal commercial practice provided that the purchase price payable by the Group Agents shall be no less than that charged by the Company to other independent customers.

Reasons for the transactions

The Directors consider it to be in the best interests of the Company and the Shareholders to sell its products via the Group Agents on the following basis:

(i) the Group Agents are entities qualified to distribute pharmaceutical products. The Directors believe that the sale of the Company's products to these Group Agents would be beneficial to the development of the Company's business;

(ii) it would be a waste of resources for not utilising the sales network operating under the brand of "Tong Ren Tang" which is targeted to gain dominant position in respect of sales of pharmaceutical products; and

(iii) the sales and pricing policies of the Company in respect of the sales to its products to the Group Agents are the same as those for the independent network agents and hence the transactions are concluded fairly and on normal commercial terms in all respects.

Annual cap

The annual transaction volume in respect of the sale of the Company's products to the Group Agents for the three years ended 31 December 2004 were as follows:

Year ended 31 December 2002	Year ended 31 December 2003	Year ended 31 December 2004 (unaudited)
RMB126,202,000	RMB84,290,000	RMB80,188,500

With a view to increase the market share and the sales volume of the Company's products, the Company has been endeavoring to further expand the turnover in respect of the sale of the Company's products via ultimate retail distributors since 2005. In light of the aforesaid, the Company expects a substantial increase in the transaction volume with the Group Agents in the coming three years.

During the year ended 31 December 2004, the Company has distributed its products to over 30 Group Agents. The Directors intend to expand the market share of the Company's products through, among others, broadening the distribution network of the Group Agents. As far as the Directors are aware, there are currently approximately 400 Group Agents which can sell the Company's products. In this connection, the Company intends to increase its distribution network from the existing about 30 Group Agents to about 150 Group Agents by the year ending 31 December 2007.

Based on the transaction volume of over RMB80 million in respect of the sale of the Company's products to the Group Agents for the year ended 31 December 2004 and on the assumption that (i) there will be a more than fourfold increase in the transaction volume via the Group Agents in the next three years by virtue of the anticipated expansion of the Company's distribution network via the Group Agents based on the reasons as aforesaid, namely an anticipated increase from about 30 to 150 Group Agents, i.e. a more than fourfold increase; and (ii) the increase in the Group Agents will be proportional to the corresponding increase in the transaction volume, the Directors propose that the aggregate annual transaction volume for the distribution of products by the Company to the Group Agents shall be capped at RMB380 million for each of the three financial years ending 31 December 2007.

4. BENEFITS OF THE ONGOING CONNECTED TRANSACTIONS

The Directors consider that the terms of the Ongoing Connected Transactions are made on an arm's length basis in the ordinary and usual course of business of the Company and on normal commercial terms which are no less favourable than terms available to or from independent third parties. The Directors are of the view that the terms of the Ongoing Connected Transactions are fair and reasonable and in the interest of the Shareholders as a whole.

The Directors believe that it is in the best interest of the Company to enter into the above agreements and to fix the respective annual caps of the above transactions as they will facilitate the smooth operations of the Company's day-to-day production and sale business and will therefore enhance the growth of the sale volume and market share of the Company.

5. CONNECTION BETWEEN THE PARTIES IN THE ONGOING CONNECTED TRANSACTIONS

Tongrentang Holdings is the ultimate holding company of the Company which currently holds approximately 64.19% of the share capital of Tongrentang Limited. Tongrentang Limited is in turn interested in approximately 54.705% of the issued share capital of the Company. As such, each of Tongrentang Holdings and its associates is a connected party to the Company for the purposes of the GEM Listing Rules. Accordingly, the aforesaid transactions constitute Ongoing Connected Transactions for the Company under the GEM Listing Rules.

6. GEM LISTING RULES

Under the GEM Listing Rules, transactions in relation to the Renewal Raw Material Supply Agreement and the Master Distribution Agreement are considered to be non-exempt continuing connected transactions which are subject to the requirements of reporting, announcement, shareholders' approval and annual review under Chapter 20 of the GEM Listing Rules. Accordingly, the Directors propose to seek the approval from the Independent Shareholders in relation to the Ongoing Connected Transactions and their respective annual caps for each of the three years ending 31 December 2007 at the AGM.

7. FURTHER INFORMATION ABOUT THE GROUP

The Group is mainly engaged in the production and sale of Chinese patent medicine. Tongrentang Holdings is engaged in the processing, production and sale of Chinese medicinal raw materials, Chinese patent medicine, oral consumption medicine, healthcare products, medical food, cosmetic products and medical equipment.

8. THE AGM

A notice convening the AGM will be despatched, together with the proxy form and the reply slip for the AGM and the annual report of the Company for the year ended 31 December 2004, to the Shareholders as soon as possible. Ordinary resolutions will be proposed at the meeting to approve, among other things, the terms and the annual caps of the Ongoing Connected Transactions.

In accordance with the GEM Listing Rules, Tongrentang Limited and Tongrentang Holdings and their respective associates will abstain from voting on the resolutions to approve the terms and the annual caps of the Ongoing Connected Transactions at the AGM.

9. RECOMMENDATION

As set out in its letter to the Independent Shareholders, based on the advice of Tai Fook, the Independent Board Committee is of the view that the terms of the Renewal Raw Material Supply Agreement and the Master Distribution Agreement and the annual caps of the Ongoing Connected Transactions are fair and reasonable so far as the Independent Shareholders are concerned. The recommendations and advice from the Independent Board Committee and Tai Fook are set out on pages 9 to 10 and pages 11 to 20 of this circular respectively.

10. ADDITIONAL INFORMATION

Your attention is drawn to the additional information set out in Appendix to this circular.

Yours faithfully,
For and on behalf of the Board
Tong Ren Tang Technologies Co. Ltd.
Yin Shun Hai
Chairman

Tong Ren Tang Technologies Co. Ltd.

北京同仁堂科技發展股份有限公司

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

14 March 2005

To the Independent Shareholders

Dear Sir or Madam,

ONGOING CONNECTED TRANSACTION

INTRODUCTION

We refer to the circular dated 14 March 2005 (the "Circular") of the Company of which this letter forms part. Terms defined in the Circular shall have the same meanings when used herein unless the context requires otherwise.

Under the GEM Listing Rules, the terms of the Renewal Raw Material Supply Agreement and the Master Distribution Agreement and the annual caps of the Ongoing Connected Transactions are required to be approved by the Independent Shareholders at a general meeting of the Company. We being the independent non-executive Directors constituting the Independent Board Committee are writing to you to set out our opinion in respect of the terms of the Renewal Raw Material Supply Agreement and the Master Distribution Agreement and the annual caps of the Ongoing Connected Transactions. The Independent Board Committee was set up to advise you as a Shareholder whether in its view the terms of the Renewal Raw Material Supply Agreement and the Master Distribution Agreement and the annual caps of the Ongoing Connected Transactions are fair and reasonable and in the interests of the Shareholders as a whole.

We wish to draw your attention to the letter from the Board as set out on pages 3 to 8 of the Circular and the letter from Tai Fook as set out on pages 11 to 20 of the Circular which contains, inter alia, its advice and recommendation to us regarding the terms and the annual caps of the Ongoing Connected Transactions with the principal factors and reasons for its advice and recommendation.

RECOMMENDATION

Having taken into account the advice and recommendation of Tai Fook, we consider that the transactions contemplated in the Renewal Raw Material Supply Agreement and the Master Distribution Agreement are in the interests of the Company and the Shareholders as a whole and that the terms thereof and the annual caps of the Ongoing Connected Transactions are fair and reasonable as far as the interests of the Independent Shareholders are concerned. Accordingly, we recommend that the Independent Shareholders should vote in favour of the resolutions to be proposed to approve the terms of the Renewal Raw Material Supply Agreement and the Master Distribution Agreement and the annual caps of the Ongoing Connected Transactions.

Yours faithfully,
For and on behalf of
the Independent Board Committee
Tam Wai Chu, Maria
Ting Leung Huel, Stephen
Jin Shi Yuan
Independent non-executive Directors

The following is the text of a letter of advice from Tai Fook to the Independent Board Committee and the Independent Shareholders dated 14 March 2005 prepared for the purpose of incorporation in this circular:

大福融資有限公司
TAI FOOK CAPITAL LIMITED

25th Floor
New World Tower
16-18 Queen's Road Central
Hong Kong

14 March 2005

To the Independent Board Committee and the Independent Shareholders
Tong Ren Tang Technologies Co. Ltd.

Dear Sirs,

ONGOING CONNECTED TRANSACTIONS
RENEWAL RAW MATERIAL SUPPLY AGREEMENT AND
MASTER DISTRIBUTION AGREEMENT

We refer to our appointment as the independent financial adviser to the independent board committee (the "Independent Board Committee") and the independent shareholders (the "Independent Shareholders") of Tong Ren Tang Technologies Co. Ltd. (the "Company") with respect to the Renewal Raw Material Supply Agreement and the Master Distribution Agreement, details of which are set out in the "Letter from the Board" contained in the circular of the Company dated 14 March 2005 (the "Circular"), of which this letter forms part. Terms used in this letter shall have the same respective meanings as those defined in the Circular unless the context otherwise requires.

As referred to in the "Letter from the Board" of the Circular, the Renewal Raw Material Supply Agreement and the Master Distribution Agreement were entered into between the Company and Tongrentang Holdings. Tongrentang Holdings currently holds approximately 64.19% of the issued share capital of Tongrentang Limited, which is in turn interested in approximately 54.71% of the issued share capital of the Company. As such, (i) the Renewal Raw Material Supply Agreement and the transactions contemplated thereunder; and (ii) the Master Distribution Agreement and the transactions contemplated thereunder constitute continuing connected transactions for the Company under Chapter 20 of the GEM Listing Rules, and will be subject to the approval of the Independent Shareholders by poll at the AGM.

In our capacity as the independent financial adviser to the Independent Board Committee and the Independent Shareholders, our role is to provide you with an independent opinion and recommendations as to whether the terms of the Renewal Raw Material Supply Agreement and the Master Distribution Agreement are (i) on normal commercial terms; (ii) in the ordinary and usual course of business of the Group; and (iii) fair and reasonable so far as the Group and the Independent Shareholders are concerned and are in the interests of the Independent Shareholders and the Group as a whole. The Independent Board Committee, the composition of which is set out in the letter from the Independent Board Committee contained in the Circular, has been established to advise the Independent Shareholders in respect of the terms of the Renewal Raw Material Supply Agreement and the Master Distribution Agreement.

BASES AND ASSUMPTIONS

In formulating our recommendations, we have relied on the information and facts supplied and representations expressed by the Directors and/or the management of the Group. We have been advised by the Directors and/or the management of the Group that no material facts have been omitted from the information supplied and representations expressed to us and we are not aware of any facts or circumstances which would render such information and representations untrue, inaccurate or misleading. We have assumed that the information contained and representations made or referred to in the Circular were complete, true and accurate at the time they were made and continue to be so at the date of despatch of the Circular.

Our review and analyses were based upon the information provided by the Company as set out below:

(i) the terms and conditions under the Renewal Raw Material Supply Agreement and the Master Distribution Agreement;

(ii) the annual reports of the Company for the year ended 31 December 2002 and the year ended 31 December 2003;

(iii) the quarterly report of the Company for the three months ended 31 March 2004;

(iv) the interim report of the Company for the six months ended 30 June 2004;

(v) the quarterly report of the Company for the nine months ended 30 September 2004; and

(vi) the Circular.

In addition to the information provided by the Company, we have also reviewed official publications namely "China Statistical Yearbook – 2003"（中國統計年鑒 – 2003）and "China Statistical Yearbook – 2004"（中國統計年鑒 – 2004）issued by National Bureau of Statistics of China（中國國家統計局）.

We have also discussed with the Directors and/or the management of the Group with respect to the terms of and reasons for the terms of the Renewal Raw Material Supply Agreement and the Master Distribution Agreement, and consider that we have reviewed sufficient information to reach an informed view and have no reason to doubt the completeness, truth or accuracy of the information and facts provided and representations made to us. We have not, however, conducted an independent investigation into the business and affairs of the Group.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our recommendation in respect of the transactions contemplated under the Renewal Raw Material Supply Agreement and the Master Distribution Agreement, we have considered the following principal factors and reasons:

I. Background

Information on the Group, Tongrentang Holdings and the Group Agents

The Group is principally engaged in the production and sale of Chinese patent medicine while Tongrentang Holdings and its subsidiaries (excluding the Group) (collectively the "Holdings Group") are principally engaged in the processing, production and sale of Chinese medicinal raw materials, Chinese patent medicine, oral consumption medicine, healthcare products, medical foods, cosmetic products and medical equipment. Pursuant to an undertaking dated 19 October 2000 (the "October Undertaking") given by Tongrentang Limited and Tongrentang Holdings in favour of the Company, the businesses of each of Holdings Group and the Group are delineated in accordance with the differences in focus on the forms of medicine produced by each of the Holdings Group and the Group. Details of the October Undertaking are set out in the paragraph headed "Competing interest" of the Appendix to the Circular.

The Group Agents, being either subsidiaries or associates of Tongrentang Holdings, are distributors of pharmaceutical products.

Previous transactions between the Group and Tongrentang Holdings

Prior to the listing of the H shares of the Company on the Stock Exchange on 31 October 2000, the Group had entered into various ongoing transactions with Tongrentang Holdings which constituted continuing connected transactions for the Company under the GEM Listing Rules. In this regard, the Company had sought, and the Stock Exchange had granted various waivers from strict compliance with the GEM Listing Rules in relation to, among others, the transactions contemplated under the Raw Material Supply Agreement and the distribution of Chinese pharmaceutical products to the Group Agents. Since the Raw Material Supply Agreement expired on 31 December 2004, the Company has entered into the Renewal Raw Material Supply Agreement with Tongrentang Holdings on 21 February 2005 for a period up to 31 December 2007. In addition, with a view to formalising the distribution of Chinese pharmaceutical products to the Group Agents, the Company has entered into the Master Distribution Agreement with Tongrentang Holdings on 21 February 2005 for a period up to 31 December 2007.

Amounts of previous transactions

For each of the three years ended 31 December 2003, the amount of purchases by the Group from Tongrentang Holdings were approximately RMB75.0 million, RMB91.0 million and RMB14.8 million respectively, representing (i) approximately 15.1%, 13.7% and 1.7% of the audited turnover of the Group during the three years ended 31 December 2003 respectively; and (ii) approximately 31.1%, 29.7% and 3.8% of the cost of sales of the Group during the three years ended 31 December 2003 respectively. As advised by the Directors, the amount of purchases made by the Group from Tongrentang Holdings for the year ended 31 December 2004 was approximately RMB10.4 million.

For each of the three years ended 31 December 2003, the sales by the Group to the Group Agents amounted to approximately RMB131.4 million, RMB126.2 million and RMB84.3 million respectively, representing approximately 26.4%, 19.0% and 9.7% of the audited turnover of the Group during the three years ended 31 December 2003 respectively. As advised by the Directors, the sales by the Group to the Group Agents for the year ended 31 December 2004 was approximately RMB80.2 million.

Chinese medicine market in the PRC

According to "China Statistical Yearbook - 2003"（中國統計年鑒 – 2003）and "China Statistical Yearbook – 2004"（中國統計年鑒 – 2004）issued by National Bureau of Statistics of China（中國國家統計局）, the total sales of traditional Chinese medicine of enterprises above designated size in the wholesale and retail businesses in the PRC increased from approximately RMB42.5 billion in 2001 to approximately RMB59.8 billion in 2003, representing a compounded annual growth rate of approximately 18.5% per annum.

With the robust growth momentum in the Chinese medicine market in the PRC and in light of the expected increase in disposable income and medicine-related expenditures of the consumers in the PRC, we concur with the Directors' views that the prospects of the Group's business in the PRC are positive in the coming years.

II. The Renewal Raw Material Supply Agreement and the Master Distribution Agreement

(A) Terms of the Renewal Raw Material Supply Agreement and the Master Distribution Agreement

Renewal Raw Material Supply Agreement

Apart from the proposed annual cap of the Renewal Raw Material Supply Agreement which will be more fully explained in section III of this letter, the principal terms of the Renewal Raw Material Supply Agreement are as follows:

(i) Tongrentang Holdings agreed to supply the Group with part of the Chinese medicinal raw materials which are required for the Group's production for a period up to 31 December 2007;

(ii) Tongrentang Holdings is obliged to ensure the quality of the raw materials by screening them before they are supplied to the Group; and

(iii) Tongrentang Holdings shall not supply the raw materials to the Group at a price higher than that of the same products sold to independent third parties or the average market price, whichever is lower.

In reviewing the terms of the Renewal Raw Material Supply Agreement, we have compared, on random basis, the purchase prices of the raw materials purchased by the Group from Tongrentang Holdings with the purchase prices of the raw

materials purchased by the Group from other independent suppliers during the three years ended 31 December 2004. We found that the purchase prices charged to the Group by Tongrentang Holdings were not higher than those charged to the Group by other independent suppliers.

Master Distribution Agreement

The Group mainly distributes its products to its customers via (i) the Group's own distribution network; (ii) independent network agents; and (iii) the Group Agents, being either subsidiaries or associates of Tongrentang Holdings.

Apart from the proposed annual cap of the Master Distribution Agreement which will be more fully explained in section III of this letter, the principal terms of the Master Distribution Agreement are as follows:

(i) the Group may sell its products to the Group Agents; and

(ii) the purchase price of the Group's products distributed under the Master Distribution Agreement shall be determined by the Company and the Group Agents in accordance with the normal commercial practice provided that the purchase price payable by the Group Agents shall be no less than that charged by the Group to other independent customers.

As advised by the Directors, the goods to be sold by the Group under the Master Distribution Agreement would include all types of goods manufactured by the Group. The flagship products of the Group include Liuwei Dihuang Pill (六味地黃丸), Niuhuang Jiedu Tablet（牛黃解毒片） and Ganmao Qingre Granule（感冒清熱顆粒）.

In reviewing the terms of the Master Distribution Agreement, we have compared, on random basis, the prices of the products sold by the Group to the Group Agents with the prices of the products sold by the Group to other independent third parties during the three years ended 31 December 2004. We found that the prices of the distributed products sold by the Group to the Group Agents were not lower than the prices of the distributed products sold by the Group to other independent third parties.

(B) Reasons for the entering into of the Renewal Raw Material Supply Agreement and the Master Distribution Agreement

Renewal Raw Material Supply Agreement

As advised by the Directors, the entering into of the Renewal Raw Material Supply Agreement will allow the Group to source raw materials via Tongrentang Holdings at a price not higher than that from other independent suppliers.

Furthermore, the Directors consider that a stable and steady supply of raw materials is crucial to the Group's operations. Given that the supply and purchase price of raw materials, being primarily agricultural by-products, are and will be subject to fluctuations due to various climatic factors including natural disasters and/

or other abrupt environmental changes and the Group had experienced tightness in supply of certain raw materials in the past, the Directors consider that it is justifiable to continue to source raw materials from suppliers with long established relationship (including Tongrentang Holdings) to ensure stable supply of raw materials in the long run.

For these reasons, the Directors consider that it is beneficial for the Group to enter into the Renewal Raw Material Supply Agreement, which was entered into under normal commercial terms and in the ordinary and usual course of business of the Group, and is fair and reasonable so far as the Group and the Independent Shareholders are concerned and in the interests of the Group and the Independent Shareholders as a whole.

Based on the above, we are of the view that it is fair and reasonable for the Group to enter into the Renewal Raw Material Supply Agreement.

Master Distribution Agreement

The Group Agents are entities qualified to distribute pharmaceutical products and are members of the sales network of Tongrentang Holdings. Currently, there are approximately 400 Group Agents located in various places which are qualified to distribute the Group's products.

As stated in the prospectus of the Company dated 24 October 2000 and as advised by the Directors, the Group will continue to utilise the existing distribution network of the Group Agents. In addition, the Directors consider that the utilisation of the sales network of the Group Agents (most of which are operating under the branding of "Tong Ren Tang") would enable the Group to gain a dominant position in respect of sales of pharmaceutical products. As advised by the Directors, the new Group Agents which would distribute the Group's products during the three years ending 31 December 2007 are situated in the PRC and other countries, such as Australia, Singapore, Thailand and Vietnam. The Directors consider that such new Group Agents would bring strategic and marketing benefits to the Group as they would facilitate the Group's geographical expansion and market penetration.

For these reasons, the Group will, in the foreseeable future, continue to choose the Group Agents as one of its channels of distribution and the Directors therefore consider that it is beneficial for the Group to enter into the Master Distribution Agreement, which was entered into under normal commercial terms and in the ordinary and usual course of business of the Group, and is fair and reasonable so far as the Group and the Independent Shareholders are concerned and in the interests of the Group and the Independent Shareholders as a whole.

Based on the above, we are of the view that it is fair and reasonable for the Group to enter into the Master Distribution Agreement.

III. Bases of the Cap Amounts

The proposed cap of the transactions contemplated under the Renewal Raw Material Supply Agreement for each of the three years ending 31 December 2007 is RMB68 million, whilst the proposed cap of the transactions contemplated under the Master Distribution Agreement for each of the three years ending 31 December 2007 is RMB380 million.

Renewal Raw Material Supply Agreement

In arriving at the proposed cap of RMB68 million in respect of the Renewal Raw Material Supply Agreement, the Directors have considered, among others, the following factors:

(i) the average annual transaction amount in respect of the Raw Material Supply Agreement of approximately RMB38.7 million during the three years ended 31 December 2004; and

(ii) the anticipated annual growth rate of approximately 20% per annum in respect of the transaction amount of the Renewal Raw Material Supply Agreement for each of the three years ending 31 December 2007.

Based on the aforesaid bases, the Directors estimate that the transaction amount in respect of the Renewal Raw Material Supply Agreement would increase to approximately RMB67.3 million for the year ending 31 December 2007. As such, the Directors propose that the annual cap of the Renewal Raw Material Supply Agreement should be RMB68 million for each of the three years ending 31 December 2007.

We noted that the transaction amounts of the Raw Material Supply Agreement for the two years ended 31 December 2004 were significantly lower than those of the previous years. As advised by the Directors, the fluctuations in the transaction amounts of the Raw Material Supply Agreement in the past were attributable to, among other factors, (i) the differences in the cultivation cycles of raw materials supplied by Tongrentang Holdings, which caused a shortage of supply of certain raw materials required by the Group; and (ii) the Group had increased the purchase of raw materials from other independent suppliers.

Although the transaction amounts of the Raw Material Supply Agreement for the two years ended 31 December 2004 were significantly lower than the proposed cap of RMB68 million and the transaction amounts of the previous years, we consider that the proposed annual cap of the Renewal Raw Material Supply Agreement is fair and reasonable because of the following reasons:

(i) the proposed cap of RMB68 million is significantly lower than the existing cap of the Raw Material Supply Agreement for each of the three years ended 31 December 2004 of RMB150 million albeit the magnitude of the Group's business had grown considerably during the past years as evidenced by a compounded annual growth rate of the Group's turnover for the four years ended 31 December 2003 of approximately 36.7% per annum;

(ii) the average transaction amount in respect of the Raw Material Supply Agreement for the five years ended 31 December 2004 amounted to approximately RMB51.0 million;

(iii) the anticipated annual growth rate of the transaction amount in respect of the Renewal Raw Material Supply Agreement for each of the three years ending 31 December 2007, being 20% per annum, is lower than the compounded annual growth rate of the Group's cost of sales for the four years ended 31 December 2003 of approximately 31.4% per annum; and

(iv) let alone the significant reduction in transaction amount in respect of the Raw Material Supply Agreement for the two years ended 31 December 2004, the proposed cap of RMB68 million is lower than the average transaction amount in respect of the Raw Material Supply Agreement for the three years ended 31 December 2002 of approximately RMB76.5 million.

Master Distribution Agreement

The proposed cap of the Master Distribution Agreement of RMB380 million for each of the three years ending 31 December 2007 represents approximately 3.9 times of the average transaction amounts in respect of the Group's sales to the Group Agents for the three years ended 31 December 2004 of approximately RMB96.9 million. In arriving at the proposed cap of RMB380 million in respect of the Master Distribution Agreement, the Directors have considered, among others, the following factors:

(i) the Group has been endeavouring to further boost the Group's turnover via retail distributors since 2005;

(ii) with a view to broadening the Group's distribution network, the Group intends to expand its utilisation of the Group Agents by increasing the distribution of the Group's products through the Group Agents from around 30 in 2004 to around 150 by the year ending 31 December 2007; and

(iii) an anticipated more than fourfold increase in the transaction amount in respect of the Master Distribution Agreement in the next three years.

Based on the aforesaid bases, the Directors propose that the annual cap of the Master Distribution Agreement should be RMB380 million for each of the three years ending 31 December 2007.

Although the proposed cap of the Master Distribution Agreement is RMB380 million for each of the three years ending 31 December 2007, which is significantly higher than the average transaction amounts in respect of the Group's sales to the Group's Agents for the three years ended 31 December 2004 of approximately RMB96.9 million, we consider that it is reasonable for the Company to set a higher cap of the Master Distribution Agreement for the following reasons:

(i) it is advantageous for the Group to utilise the Group Agents as its principal distribution arm as explained in section II of this letter;

(ii) the current utilisation of the Group Agents by the Group is relatively low, as only around 30 Group Agents out of around 400 available Group Agents distributed the Group's products in 2004, it is therefore not unreasonable for the Group to increase its utilisation of the Group Agents for the three years ending 31 December 2007, given that the utilisation of the Group Agents as the Group's distribution arm would bring strategic and marketing benefits to the Group as explained in section II of this letter;

(iii) the favourable prospects of China's patent medicine markets as explained in section I of this letter;

(iv) a higher cap of the Master Distribution Agreement could accommodate the Group's future business development.

In addition, we consider that the business growth of the Group would be hindered if the proposed cap of the Master Distribution Agreement cannot not provide adequate buffer to cater for the anticipated increase in the utilisation of the Group Agents for the three years ending 31 December 2007.

In light of the above, we consider that proposed cap of the Master Distribution Agreement of RMB380 million for each of the three years ending 31 December 2007 is justifiable, given that the Group's sales to the Group Agents are (i) on normal commercial terms; (ii) in the ordinary and usual course of business of the Group; and (iii) fair and reasonable so far as the Group and the Independent Shareholders are concerned and are in the interests of the Group and the Independent Shareholders as a whole.

RECOMMENDATION

Having considered that:

(i) the advantages of each of the Renewal Raw Material Supply Agreement and the Master Distribution Agreement as mentioned above;

(ii) the fact that the Directors consider that the terms of each of the Renewal Raw Material Supply Agreement and the Master Distribution Agreement are on normal commercial terms, in the ordinary and usual course of business of the Group and on terms no less favourable than those available from independent third parties; and

(iii) the bases in arriving at the respective caps of the Renewal Raw Material Supply Agreement and the Master Distribution Agreement,

we consider that the terms of each of the Renewal Raw Material Supply Agreement and the Master Distribution Agreement are (i) on normal commercial terms; (ii) in the ordinary and usual course of business of the Group; and (iii) fair and reasonable so far as the Group and the Independent Shareholders are concerned and are in the interests of the Group and the Independent Shareholders as a whole. We also consider that the proposed caps of the Renewal Raw Material Supply Agreement and the Master Distribution Agreement are fair and reasonable so far as the Group and the Independent Shareholders are concerned.

Yours faithfully,
For and on behalf of
Tai Fook Capital Limited

Derek C. O. Chan	**Marcus Ho**
Deputy Managing Director	*Director*

1. RESPONSIBILITY STATEMENT

This document, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the GEM Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief:

(a) the information contained in this document is accurate and complete in all material respects and not misleading;

(b) there are no other matters the omission of which would make any statement in this document misleading; and

(c) all opinions expressed in this document have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

2. DISCLOSURE OF INTERESTS

Directors and Supervisors

As at the Latest Practicable Date, the interests and short positions of the Directors, the Supervisors 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 SFO) as required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO) or 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 to 5.67 of the GEM Listing Rules, were as follows:

(a) Long position in the Company

Name	Type of interests	Capacity	Number of shares *(Note)*	Percentage of domestic shares	Percentage of total registered share capital
Mr. Yin Shun Hai	Personal	Beneficial owner	500,000	0.455%	0.274%
Mr. Mei Qun	Personal	Beneficial owner	500,000	0.455%	0.274%
Mr. Zhao Bing Xian	Personal	Beneficial owner	5,000,000	4.546%	2.735%
Mr. Tian Da Fang	Personal	Beneficial Owner	500,000	0.455%	0.274%

Note: All represented domestic shares.

(b) Long position in associated corporations

Tongrentang Limited

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

Note: All represented A shares.

Beijing Tong Ren Tang International Co., Limited

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

Beijing Tongrentang Nature-Pharm Co. Ltd.

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

Save as disclosed above:

(i) as at the Latest Practicable Date, none of the Directors, the Supervisors and chief executives of the Company had 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 required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO) or 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 to 5.67 of the GEM Listing Rules;

(ii) as at the Latest Practicable Date, none of the Directors had any interest in any assets which have been, since 31 December 2003, being the date to which the latest published audited accounts of the Company were made up, acquired, disposed of or leased to any member of the Group;

(iii) there is no contract or arrangement subsisting at the date of this circular in which any of the Directors is materially interested and which is significant in relation to the business of the Group.

Substantial Shareholders

As at the Latest Practicable Date, the following persons (other than the Directors, the Supervisors 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 the Shares

Name of shareholder	Capacity	Number of shares	Percentage of domestic shares	Percentage of H shares	Percentage of total registered share capital
Tongrentang Limited	Beneficial owner	100,000,000	90.909%	–	54.705%
Tongrentage Holdings *(Note 1)*	Interest of a controlled corporation	100,000,000	90.909%	–	54.705%
	Beneficial owner	2,900,000	2.636%	–	1.586%
Capital International, Inc.	Investment manager	8,648,000	–	11.879%	4.731%
Capital Group International, Inc. *(Note 2)*	Interest of a controlled corporation	8,648,000	–	11.879%	4.731%
The Capital Group Companies, Inc. *(Note 2)*	Interest of a controlled corporation	8,648,000	–	11.879%	4.731%
First State Investments (Hong Kong) Limited	Investment manager	5,931,000	–	8.147%	3.245%
First State (Hong Kong) LLC *(Note 3)*	Interest of a controlled corporation	5,931,000	–	8.147%	3.245%
First State Investments (Bermuda) Ltd *(Note 3)*	Interest of a controlled corporation	5,931,000	–	8.147%	3.245%

Name of shareholder	Capacity	Number of shares	Percentage of domestic shares	Percentage of H shares	Percentage of total registered share capital
First State Investment Managers (Asia) Ltd *(Note 3)*	Interest of a controlled corporation	5,931,000	–	8.147%	3.245%
Colonial First State Group Ltd *(Note 3)*	Interest of a controlled corporation	5,931,000	–	8.147%	3.245%
The Colonial Mutual Life Assurance Society Ltd *(Note 3)*	Interest of a controlled corporation	5,931,000	–	8.147%	3.245%
Colonial Holding Company (No.2) Pty Limited *(Note 3)*	Interest of a controlled corporation	5,931,000	–	8.147%	3.245%
Colonial Holding Company Pty Ltd *(Note 3)*	Interest of a controlled corporation	5,931,000	–	8.147%	3.245%
Colonial Ltd *(Note 3)*	Interest of a controlled corporation	5,931,000	–	8.147%	3.245%
Commonwealth Bank of Australia *(Note 3)*	Interest of a controlled corporation	5,931,000	–	8.147%	3.245%

Notes:

(1) Such Shares were held through Tongrentang Limited. As at the Latest Practicable Date, Tongrentang Limited 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 Limited.

(2) The Capital Group Companies, Inc. owns 100% of Capital Group International, Inc. while Capital Group International, Inc. owns 100% of Capital International, Inc. Accordingly, The Capital Group Companies, Inc. and Capital Group International, Inc. are deemed by Part XV of the SFO to be interested in the 8,648,000 Shares held by Capital International, Inc.

(3) Commonwealth Bank of Australia owns 100% of Colonial Ltd. Colonial Ltd owns 100% of Colonial Holding Company Pty Ltd. Colonial Holding Company Pty Ltd owns 100% of Colonial Holding Company (No.2) Pty Limited. Colonial Holding Company (No.2) Pty Limited owns 100% of The Colonial Mutual Life Assurance Society Ltd. The Colonial Mutual Life Assurance Society Ltd owns 100% of Colonial First State Group Ltd. Colonial First State Group Ltd owns 100% of First State Investment Managers (Asia) Ltd. First State Investment Managers (Asia) Ltd owns 100% of First State Investments (Bermuda) Ltd. First State Investments (Bermuda) Ltd owns 100% of First State (Hong Kong) LLC. First State (Hong Kong) LLC owns 100% of First State Investments (Hong Kong) Limited. Accordingly, Commonwealth Bank of Australia, Colonial Ltd, Colonial Holding Company Pty Ltd, Colonial Holding Company (No.2) Pty Limited, The Colonial Mutual Life Assurance Society Ltd, Colonial First State Group Ltd, First State Investment Managers (Asia) Ltd, First State Investments (Bermuda) Ltd and First State (Hong Kong) LLC are deemed by Part XV of the SFO to be interested in the 5,931,000 Shares held by First State Investments (Hong Kong) Limited.

Save as disclosed above, as at the Latest Practicable Date, the Directors were not aware of any other person (other than the Directors, Supervisors 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.

3. INDEPENDENT FINANCIAL ADVISOR'S INTERESTS

Tai Fook did not have any interests in any class of securities of the Company or any other company in the Group (including options or rights to subscribe for such securities) as at the Latest Practicable Date.

4. COMPETING INTEREST

Direct competition with Tongrentang Limited 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 Limited.

The Company, Tongrentang Limited 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 Limited mainly produces Chinese patent medicine in forms such as large pill, powder, ointment 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 Limited's main products include Angong Niuhuang Pills (安宮牛黃丸), Tongren Wuji Baifen Pills (同仁烏雞白鳳丸), Tongren Dahuolo Pills (同仁大活絡丸) and Guogong Wine (國公酒).

In order to ensure that the business delineation between the Company and Tongrentang Holdings and Tongrentang Limited are properly documented and formalized, pursuant to an undertaking dated 19 October 2000 given by Tongrentang Holdings and Tongrentang Limited in favor of the Company ("October Undertaking"), Tongrentang Holdings and Tongrentang Limited undertook that, except for Angong Niuhuang Pills (安宮牛黃丸), Tongrentang Holdings, Tongrentang Limited 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 the products, Angong Niuhuang Pills (安宮牛黃丸), would be manufactured by both the Company and Tongrentang Limited in the future.

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

First right of refusal

Although the Company, Tongrentang Limited 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 Limited 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 Limited have granted to the Company a first right of refusal to manufacture and sell any of the new products developed by Tongrentang Holdings, Tongrentang Limited 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 Limited 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 Limited 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 Limited 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 Limited 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 the independent non-executive Directors, one of whom being a reputable person in the Chinese medicine industry, will determine whether to exercise the first right of refusal granted by Tongrentang Holdings or Tongrentang Limited 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 Limited 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 Limited in the Company falls below 30%.

5. LITIGATION

As at the Latest Practicable Date, neither the Company nor any of its subsidiaries is engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is known to the Directors to be pending or threatened by or against the Company or any of its subsidiaries.

6. MATERIAL ADVERSE CHANGE

The Directors are not aware of any material adverse change in the financial or trading positions of the Group since 31 December 2003, the date to which the latest audited financial statements of the Group were made up.

7. SERVICE CONTRACTS

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

Save as disclosed above, none of the Directors or Supervisors has any service contract with the Company that is not terminable by the Company within one year without payment of compensation other than statutory compensation.

8. CONSENT

Tai Fook, a registered investment adviser registered under the SFO, has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter and references to its name in the form and context in which it appears.

9. RIGHT TO DEMAND A POLL

Pursuant to the GEM Listing Rules, any vote taken at a meeting held to seek approval of a connected transaction must be taken by poll. Accordingly, the resolutions to be proposed at the AGM in respect of the Ongoing Connected Transactions shall be decided on poll. Set out below is the procedure by which the Shareholders may demand a poll pursuant to the constitutional document of the Company:

Pursuant to Article 67 of the articles of association of the Company, a resolution put to the vote of the meeting shall be decided on a show of hands unless (before or on the declaration of the result of the show of hands) a poll is demanded by:

(i) the chairman of the meeting;

(ii) at least two Shareholders present in person or by proxy for the time being entitled to vote at the meeting; or

(iii) any Shareholder or Shareholders present in person or by proxy and representing one-tenth or more of the total voting rights of all Shareholders having the right to vote at the meeting.

Unless a poll is duly demanded, a declaration by the chairman of the meeting that a resolution has been passed on a show of hands and an entry to that effect made in the minute book of the Company, shall be conclusive evidence of the fact without proof of the number or proportion of the votes recorded for or against the resolution. The demand for a poll could be withdrawn by the person(s) who make(s) such demand.

10. GENERAL

(a) The share registrar and transfer office of the Company in Hong Kong is Hong Kong Registrars Limited, Rooms 1901-1905, 19/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

(b) As at the Latest Practicable Date, the Board comprised Yin Shun Hai (executive Director), Mei Qun (executive Director), Bi Jie Ping (executive Director), Li Lian Ying (non-executive Director), Zhao Bing Xian (non-executive Director), Tam Wai Chu, Maria (independent non-executive Director), Ting Leung Huel, Stephen (independent non-executive Director) and Jin Shi Yuan (independent non-executive Director).

(c) The secretary and qualified accountant of the Company is Mr. Chan Ngai Chi, who is a member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants of the United Kingdom.

(d) The compliance officer of the Company is Mei Qun.

(e) The Company has established an audit committee in accordance with the GEM Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control system of the Company. The audit committee of the Company comprises three independent non-executive Directors, namely Ms. Tam Wai Chu, Maria, Mr. Ting Leung Huel, Stephen and Mr. Jin Shi Yuan. Set out below are their background and directorships (present and past) of other companies listed on GEM, the Main Board or other stock exchanges:

Ms. Tam Wai Chu, Maria, GBS, JP, LL. D (Honoris Causa), LL. B (Honours), barrister, is a non-executive director of four listed companies, namely, Guangnan (Holdings) Limited, ONFEM Holdings Limited, Sinopec Kantons Holdings Limited and Wing On Company International Limited respectively. She is also a member of the Hong Kong Airport Authority, Urban Renewal Authority and Advisory Committee on Corruption of the ICAC. Her other public offices include being member of the Basic Law Committee of Hong Kong and a delegate to the 10th National People's Congress. She was appointed as an independent non-executive Director on 11 October 2000 and was re-elected at the annual general meeting in 2003.

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

Mr. Jin Shi Yuan, aged 78, chief pharmacist, is an expert serving the investigation team for the state secret technology of the State Science Commission, and a member of the Committee for Clinical Medicine Appraisal Experts of the Chinese Medicine Society of China. He is also a consultant to the Eighth Council of the Beijing Chinese Medicine Society, visiting professor of Chinese medicine at the Chinese Medical Institute of the Beijing Union of University and consultant to the Fourth Expert Committee of the Chinese Health Food Association. He was appointed as an independent non-executive Director on 16 October 2000 and was re-elected at the annual general meeting in 2003.

(f) The English text of this circular shall prevail over the Chinese text.

11. DOCUMENTS FOR INSPECTION

Copies of the following documents will be available for inspection during normal business hours at the Company's business office in Hong Kong from the date of this circular up to and including 31 March 2005:

(a) the Renewal Raw Material Supply Agreement;

(b) the Master Distribution Agreement;

(c) the service contracts referred to in paragraph 7 of this appendix;

(d) the letter from the Independent Board Committee, the text of which is set out on pages 9 to 10 of this circular;

(e) the letter of advice from Tai Fook, the text of which is set out on pages 11 to 20 of this circular; and

(f) the written consent of Tai Fook referred to in paragraph 8 of this Appendix.