FAR EAST

FAR EAST PHARMACEUTICAL TECHNOLOGY COMPANY LIMITED

(Incorporated in the Cayman Islands with limited liability)

INTERIM REPORT

For the six months ended 31 December 2001

遠東生物制藥

FAR EAST PHARMACEUTICAL

UNAUDITED INTERIM RESULTS

The board of directors (the "Board") of Far East Pharmaceutical Technology Company Limited (the "Company") is pleased to announce the unaudited condensed consolidated interim results of the Company and its subsidiaries (the "Group") for the six months ended 31 December 2001 as follows:

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

		For the six months ended 31 December	
		2001	2000
		(Unaudited)	(Unaudited)
	Notes	***HK$'000***	*HK$'000*
TURNOVER	*2&3*	**282,338**	200,996
Cost of sales		**(177,873)**	(127,012)
GROSS PROFIT		**104,465**	73,984
Other revenue		**1,150**	1,616
Selling and distribution costs		**(25,062)**	(14,366)
Administrative expenses		**(12,492)**	(7,265)
Other operating expenses		**(3,563)**	(2)
PROFIT FROM OPERATING ACTIVITIES	*4*	**64,498**	53,967
Finance costs — interest expenses		**(105)**	—
Share of losses of a jointly-controlled entity		**(131)**	—
PROFIT BEFORE TAX		**64,262**	53,967
Tax	*5*	**(9,079)**	(6,749)
PROFIT BEFORE MINORITY INTERESTS		**55,183**	47,218
Minority interests		**(601)**	—
NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS		**54,582**	47,218
EARNINGS PER SHARE			
— Basic	*7*	**HK15.3 cents**	HK15.9 cents
— Diluted	*7*	**HK14.1 cents**	N/A

Other than the net profit from ordinary activities attributable to shareholders for the period, the Group had no recognised gains or losses. Accordingly, a consolidated statement of recognised gains and losses is not presented.

CONDENSED CONSOLIDATED BALANCE SHEET

	Notes	As at 31 December 2001 (Unaudited) HK$'000	As at 30 June 2001 (Audited) HK$'000 (Restated)
NON-CURRENT ASSETS			
Fixed assets	*8*	**115,649**	103,099
Goodwill	*9*	**1,933**	2,164
Intangible asset		**17,256**	18,164
Interest in a jointly-controlled entity		**530**	131
		135,368	123,558
CURRENT ASSETS			
Inventories		**12,315**	10,910
Accounts receivable	*10*	**126,051**	79,597
Prepayments, deposits and other receivables		**7,856**	14,989
Due from a related company	*11*	**3,427**	—
Cash and bank balances		**207,474**	117,559
		357,123	223,055
CURRENT LIABILITIES			
Accounts payable	*12*	**29,350**	19,486
Accrued liabilities, deposits received and other payables		**29,071**	27,002
Due to a related company		**8,562**	5,567
Tax payable		**4,840**	4,130
		71,823	56,185
NET CURRENT ASSETS		**285,300**	166,870
TOTAL ASSETS LESS CURRENT LIABILITIES		**420,668**	290,428
NON-CURRENT LIABILITIES			
Redeemable convertible bonds — unsecured	*13*	**38,234**	—
MINORITY INTERESTS		**1,800**	1,199
		380,634	289,229
CAPITAL AND RESERVES			
Issued capital	*14*	**38,774**	34,400
Reserves	*15*	**341,860**	240,532
Dividends	*6*	**—**	14,297
		380,634	289,229

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	For the six months ended 31 December	
	2001	2000
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
NET CASH INFLOW FROM OPERATING ACTIVITIES	**41,617**	77,833
Net cash outflow from returns on investments and servicing of finance	**(13,531)**	(13,386)
Tax paid	**(8,369)**	(10,199)
Net cash outflow from investing activities	**(19,156)**	(16,399)
NET CASH INFLOW BEFORE FINANCING ACTIVITIES	**561**	37,849
Net cash inflow from financing activities	**89,354**	67,040
INCREASE IN CASH AND CASH EQUIVALENTS	**89,915**	104,889
Cash and cash equivalents at beginning of period	**117,559**	33,161
CASH AND CASH EQUIVALENTS AT END OF PERIOD	**207,474**	138,050
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	**207,474**	138,050

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION AND ACCOUNTING POLICIES

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 24 May 2000 under the Companies Law (Revised) of the Cayman Islands. Pursuant to a reorganisation scheme (the "Group Reorganisation") to rationalize the structure of the Group in preparation for the listing of the Company's shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company acquired, on 26 July 2000, the entire issued share capital of Far East Global Group Limited which is, at the date of this report, the intermediate holding company of the other subsidiaries within the Group. The unaudited condensed consolidated interim financial statements for the six months ended 31 December 2000 had been prepared using the merger basis of accounting in accordance with the Hong Kong Statement of Standard Accounting Practice ("SSAP") No. 2.127, "Accounting for group reconstructions", as a result of the Group Reorganisation. Under this basis, the Company had been treated as the holding company of its subsidiaries for the financial periods presented rather than from the date of their acquisition, except for Fujian Yannian Pharmaceutical Co., Ltd. (previously known as 福建閩清制藥廠) which was acquired subsequent to the completion of the Group Reorganisation and is therefore consolidated from its effective date of acquisition. Accordingly, the unaudited consolidated results of the Group for the six months ended 31 December 2000 included the results of the Company and its subsidiaries with effect from 1 July 2000 or since their respective dates of incorporation/establishment, where this is a shorter period.

The unaudited condensed consolidated interim financial statements of the Group are prepared in accordance with SSAP 25 "Interim Financial Reporting". The accounting policies and basis of presentation used in the preparation of the unaudited condensed consolidated interim financial statements are consistent with those adopted in the financial statements of the Group for the year ended 30 June 2001.

The Group has adopted the following revised or new SSAPs issued by the Hong Kong Society of Accountants which are effective for accounting period commencing on or after 1 January 2001, except for SSAP 14 which is effective for accounting period commencing on or after 1 July 2000:

- SSAP 9 (Revised): "Events after the balance sheet date"
- SSAP 14 (Revised): "Leases"
- SSAP 28: "Provisions, contingent liabilities and contingent assets"
- SSAP 29: "Intangible assets"
- SSAP 30: "Business combinations"
- SSAP 31: "Impairment of assets"
- SSAP 32: "Consolidated financial statements and accounting for investments in subsidiaries"

SSAP 9 (Revised) prescribes which type of events occurring after the balance sheet date require adjustment to the financial statements, and which require disclosure, but no adjustment. Its principal impact on these unaudited condensed consolidated interim financial statements is that the proposed final dividend which is not declared and approved until after the balance sheet date, is no longer recognised as a liability at the balance sheet date, but is disclosed as an allocation of retained earnings on a separate line within the capital and reserves section of the balance sheet. The prior year adjustment arising from the adoption of this new SSAP is detailed in note 6.

SSAP 14 (Revised) prescribes the basis for lessor and lessee accounting for finance and operating leases, and the required disclosures in respect thereof. This has had no major impact on these unaudited condensed consolidated interim financial statements. This SSAP requires lessees under operating leases to disclose the total future minimum operating lease payments, rather than only the payments to be made during the next year.

SSAP 28 prescribes the recognition criteria and measurement bases to apply to provisions, contingent liabilities and contingent assets, together with the required disclosures in respect thereof. This has had no major impact on these unaudited condensed consolidated interim financial statements.

SSAP 29 prescribes the recognition and measurement criteria for intangible assets, together with the disclosure requirements. The adoption of this SSAP has resulted in no change to the previously adopted accounting treatment for intangible assets and the additional disclosures that it requires have not been significant for these unaudited condensed consolidated interim financial statements.

SSAP 30 prescribes the accounting treatment for business combinations, including the determination of the date of acquisition, the method for determining the fair values of the assets and liabilities acquired, and the treatment of goodwill or negative goodwill arising on acquisition. The SSAP requires the disclosure of goodwill in the non-current assets section of the consolidated balance sheet. It requires that goodwill is amortised to the profit and loss account over its estimated useful life.

SSAP 31 prescribes the recognition and measurement criteria for impairments of assets. The SSAP is required to be applied prospectively and therefore, has had no effect on amounts previously reported in prior year financial statements.

SSAP 32 prescribes the accounting treatment and disclosures for the preparation and presentation of consolidated financial statements, and has had no impact on the preparation of these unaudited condensed consolidated interim financial statements.

2. SEGMENTAL INFORMATION

The principal activities of the Group consisted of the manufacture and distribution of pharmaceutical products. The Group's turnover and contribution to profit from operating activities, which are all derived from the Group's operations in the People's Republic of China (the "PRC"), are further analysed as follows:

	For the six months ended 31 December			
	2001		2000	
	Turnover (Unaudited) ***HK$'000***	**Contribution to profit from operating activities (Unaudited)** ***HK$'000***	Turnover (Unaudited) *HK$'000*	Contribution to profit from operating activities (Unaudited) *HK$'000*
By principal activity:				
Manufacture and distribution of:				
Anti-viral drugs	**107,407**	**32,646**	88,105	31,121
Antibiotics	**54,697**	**10,703**	32,525	7,816
Vitamins	**29,301**	**1,986**	27,907	1,646
Analgesics	**22,537**	**1,792**	21,024	1,986
Chinese patent medicines	**17,894**	**5,232**	15,203	5,130
Chinese tonic liquor	**17,201**	**5,505**	16,232	6,268
Anti-hypotensive drugs	**24,518**	**4,818**	—	—
Gastrointestinal and Gastrohepatic	**4,734**	**772**	—	—
Others	**4,049**	**1,044**	—	—
	282,338	**64,498**	200,996	53,967

3. TURNOVER

Turnover represents the net invoiced value of goods sold, net of trade discount and returns.

4. PROFIT FROM OPERATING ACTIVITIES

The Group's profit from operating activities is arrived at after charging:

	For the six months ended 31 December	
	2001 (Unaudited) ***HK$'000***	2000 (Unaudited) *HK$'000*
Depreciation	**5,801**	2,175
Amortisation of intangible asset	**908**	—
Amortisation of goodwill	**231**	—
Write off of fixed assets	**275**	—

5. TAX

	For the six months ended 31 December	
	2001	2000
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Current period provision:		
Outside Hong Kong	**9,079**	6,749
Tax charge for the period	**9,079**	6,749

Hong Kong profits tax has not been provided as the Group did not generate any assessable profits arising in Hong Kong during the period under review (2000: Nil). Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

Tax has not been provided by a jointly-controlled entity of the Group as no assessable profits were derived during the period (2000: Nil).

Deferred tax has not been provided because there were no significant timing differences at 31 December 2001 (2000: Nil).

No deferred tax has been provided on the revaluation surplus of the Group's properties situated in the PRC because the Group presently does not have any intention to dispose of such properties.

6. DIVIDENDS

The Board does not recommend to pay any interim dividend in respect of the six months ended 31 December 2001 (2000: Nil).

During the period, the Group adopted the revised SSAP 9 "Events after the balance sheet date", as detailed in note 1. To comply with this revised SSAP, a prior year adjustment has been made to reclassify the proposed final dividend for the year ended 30 June 2001 of HK$14,297,000, which was recognised as a current liability at the prior year end, to the dividends account within the capital and reserves section of the balance sheet. The result of this has been to reduce the Group's current liabilities and increase the reserves previously reported as at 30 June 2001 by HK$14,297,000.

Bonus issue of warrants

The Board proposed a bonus issue of warrants to be distributed among the shareholders of the Company whose names were in the Register of Members of the Company on 29 April 2002 on the basis of one warrant for every five ordinary shares then held by them. Further details are set out in note 19.

7. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the net profit from ordinary activities attributable to shareholders of approximately HK$54,582,000 (2000: HK$47,218,000) and weighted average number of 356,646,043 ordinary shares (2000: 296,956,522 shares) in issue during the six months ended 31 December 2001.

The calculation of diluted earnings per share is based on the adjusted net profit attributable to shareholders for the six months ended 31 December 2001 of HK$54,687,000 after adding back interest on redeemable convertible bonds and weighted average number of 388,248,615 ordinary shares. The weighted average number of ordinary shares used in the calculation of diluted earnings per share is the sum of 356,646,043 ordinary shares in issue during the period, as used in the basic earnings per share calculation; the weighted average of 11,510,057 ordinary shares assumed to have been issued at no consideration on the deemed exercise of all share options outstanding during the period; and the weighted average of 20,092,515 ordinary shares assumed to have been issued upon the conversion of all the redeemable convertible bonds since their respective dates eligible to be converted.

A diluted earnings per share amount for the six months ended 31 December 2000 has not been disclosed as no diluting events existed during that period.

8. FIXED ASSETS

The changes in fixed assets for the six months ended 31 December 2001 are analysed as follows:

	HK$'000
At 30 June 2001	103,099
Addition of leasehold land and buildings and plant and machinery in respect of the establishment of a new production plant and installation of related production equipment and facilities	18,565
Additions of other fixed assets	61
Write off of other fixed assets	(275)
Depreciation	(5,801)
At 31 December 2001	115,649

9. GOODWILL

The changes in goodwill for the six months ended 31 December 2001 are analysed as follows:

	HK$'000
At 30 June 2001	2,164
Amortisation	(231)
At 31 December 2001	1,933

10. ACCOUNTS RECEIVABLE

The aged analysis of the Group's accounts receivable is as follows:

	As at 31 December 2001 (Unaudited) *HK$'000*	As at 30 June 2001 (Audited) *HK$'000*
Outstanding balances aged:		
30 days or less	**64,887**	40,687
31 days to 60 days	**47,188**	35,104
61 days to 180 days	**10,825**	1,125
Over 180 days	**3,151**	2,681
Total	**126,051**	79,597

Trading terms with customers are largely on credit, except for new customers, where payment in advance is normally required. Invoices are normally payable within 60 days of issuance, except for established customers when the terms are extended to 90 days. Each customer has a maximum credit limit, which is granted and approved by senior management. The Group seeks to maintain strict control over its outstanding receivables and overdue balances are regularly reviewed by senior management. Accounts receivable are recognised and carried at their original invoiced amounts less any provisions for doubtful debts when collection of the full amount is no longer probable. Bad debts are written off as incurred.

11. DUE FROM A RELATED COMPANY

Particulars of the amounts due from a related company of the Group disclosed pursuant to Section 161B of the Hong Kong Companies Ordinance are as follows:

Name	**Balance at 31 December 2001 (Unaudited)** *HK$'000*	**Maximum amount outstanding during the period (Unaudited)** *HK$'000*	**Balance at 30 June 2001 (Audited)** *HK$'000*
福建德勝廣告有限公司	3,427	3,427	—

福建德勝廣告有限公司 is beneficially owned by Mr. Cai Chong Zhen, a director of the Company.

The balance with the related company is unsecured, interest-free, and has no fixed terms of repayment.

12. ACCOUNTS PAYABLE

The aged analysis of the Group's accounts payable is as follows:

	As at 31 December 2001 (Unaudited)	As at 30 June 2001 (Audited)
	HK$'000	*HK$'000*
Outstanding balances aged:		
30 days or less	**26,674**	17,261
Over 30 days	**2,676**	2,225
	29,350	19,486

13. REDEEMABLE CONVERTIBLE BONDS

On 14 August 2001, the Company and Credit Suisse First Boston (Hong Kong) Limited ("CSFB"), an independent third party, entered into a subscription agreement in relation to the subscription of unlisted and unsecured redeemable convertible bonds of the Company ("Subscription Agreement").

Under the Subscription Agreement, inter alia: (i) the Company agreed to issue and CSFB agreed to purchase convertible bonds with an aggregate principal amount of US$4,000,000 (equivalent to approximately HK$31,200,000) ("Original Tranche 1 Bonds"); (ii) the Company granted to CSFB an option during a limited period, to require the Company to issue additional convertible bonds with an aggregate principal amount of up to US$4,000,000 on substantially the same terms as in the Original Tranche 1 Bonds ("Additional Tranche 1 Bonds"); and (iii) CSFB granted to the Company an option during a limited period after the conversion of the last Original Tranche 1 Bond, to issue and to require CSFB to subscribe and pay for convertible bonds with an aggregate principal amount of up to US$4,000,000 on substantially the same terms as in the Original Tranche 1 Bonds ("Tranche 2 Bonds"). All the convertible bonds bear interest at the rate of 2.5% per annum and are due on 14 August 2004.

The unsecured redeemable convertible bonds of the Company are convertible into ordinary shares of HK$0.10 each in the Company (the "Shares") at a conversion price per Share equal to, at the option of CSFB, (i) 125% of the average closing price per Share for the 30 business days immediately prior to the date of the Subscription Agreement in respect of the Original Tranche 1 Bonds and the Additional Tranche 1 Bonds, and HK$1.91 in respect of the Tranche 2 Bonds, both subject to adjustment; or (ii) 93% of the average of any four consecutive closing prices per Share as selected by CSFB during the 30 business days immediately prior to the date on which the conversion notice of CSFB is received by the Company in respect of the Original Tranche 1 Bonds and the Additional Tranche 1 Bonds, and 91% of the average of any four consecutive closing prices per Share as selected by CSFB during the 30 business days immediately prior to the date on which the conversion notice of CSFB is received by the Company in respect of the Tranche 2 Bonds.

Pursuant to the Subscription Agreement, the Company has also granted a subscription right (the "Subscription Right") to CSFB, pursuant to which CSFB is entitled to subscribe for up to 4,741,641 Shares at a subscription price of HK$1.645 per Share. The Subscription Right is exercisable by CSFB at any time from 14 August 2001 to 14 August 2004, inclusive.

On 14 August 2001 and 17 December 2001, CSFB subscribed for Original Tranche 1 Bonds and Additional Tranche 1 Bonds with an aggregate principal amount of US$8,000,000 and proceeds of HK$62,400,000, before issued expenses, were received by the Company. The Company issued 23,744,000 (note 14) Shares thereafter at various prices ranging from HK$0.977 to HK$1.214 per Share as a result of the conversion by CSFB on part of the Original Tranche 1 Bonds for an aggregate amount of US$3,100,000 (approximately HK$24,166,000) during the six months ended 31 December 2001. The excess of the conversion price over the nominal value of Shares issued, amounting to approximately HK$21,792,000, before related expenses, had been credited to the share premium account.

Subsequent to 31 December 2001, the remaining Original Tranche 1 Bonds and all the Additional Tranche 1 Bonds were converted into Shares. Further details are set out in note 19.

In addition, Tranche 2 Bonds were issued on 10 January 2002 upon the exercise of option granted by CSFB to the Company pursuant to the Subscription Agreement. Further details are set out in note 19.

14. SHARE CAPITAL

	Number of shares	Nominal value
	'000	*HK$'000*
Authorised:		
Ordinary shares of HK$0.10 each as at 1 July 2001 and 31 December 2001	**1,000,000**	100,000
Issued and fully paid:		
Ordinary shares of HK$0.10 each as at 1 July 2001	**344,000**	34,400
Shares issued on placement*	**20,000**	2,000
Shares issued on conversion of redeemable convertible bonds *(note 13)*	**23,744**	2,374
Ordinary shares of HK$0.10 each as at 31 December 2001	**387,744**	38,774

* On 27 November 2001, the Company, Great Wall Investment Group Limited ("Great Wall") (the holding company of the Company) and Guotai Junan Securities (Hong Kong) Limited (an independent third party) entered into a placing and subscription agreement in respect of the placing of 20,000,000 Shares beneficially owned by Great Wall to independent investors at a price of HK$1.36 per share. On completion of the placement, Great Wall subscribed for 20,000,000 new Shares. The said new Shares were issued on 7 December 2001 and proceeds of approximately HK$27,200,000, before related expenses, were received by the Company. The excess of the consideration received for Shares issued over their nominal value, amounting to approximately HK$25,200,000, before related expenses, was credited to the share premium account.

Share option scheme

Pursuant to a share option scheme adopted by the Company on 26 July 2000 (the "Original Share Option Scheme"), the Board may, on or before 25 July 2010, at its discretion invite any full-time employees, including executive directors, of the Company or any of its subsidiaries, to take up options to subscribe for Shares. The subscription price shall not be less than the higher of (i) 80% of the average of the official closing prices of the Shares on the Stock Exchange for the five trading days immediately preceding the date of the grant of the option; and (ii) the nominal value per Share. HK$1 is payable by the grantee upon acceptance of the grant of an option.

The maximum number of Shares in respect of which options may be granted under the Original Share Option Scheme may not exceed, in nominal amount, 10% of the issued share capital of the Company from time to time excluding the aggregate number of Shares which have been duly allotted and issued pursuant to the Original Share Option Scheme. The maximum number of Shares in respect of which options may be granted to any one employee or director may not exceed 25% of the aggregate number of Shares in respect of which options are issued and issuable under the Original Share Option Scheme.

On 23 August 2001, the Stock Exchange has announced amendments to Chapter 17 of the Listing Rules in respect of share option schemes, which has come into effect on 1 September 2001. To comply with the amendments to the Listing Rules and the announcement of the Stock Exchange, the Company has terminated the Original Share Option Scheme and adopted a new share option scheme (the "New Share Option Scheme"). An ordinary resolution was passed at the Company's annual general meeting held on 29 November 2001 for the approval of the New Share Option Scheme and termination of the Original Share Option Scheme.

Pursuant to the New Share Option Scheme, the Board may, at its discretion invite any eligible employees (including executive directors), any non-executive directors, shareholders, suppliers and customers of the Group and any other parties having contributed or may contribute to the development of the Group to take up options to subscribe for Shares. The subscription price shall be a price determined by the directors, but shall not be less than the highest of (i) the closing price of the Shares on the date of the offer; (ii) the average closing price of the Shares for the five trading days immediately preceding the date of the offer; and (iii) the nominal value of a Share.

The maximum number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the New Share Option Scheme must not exceed 30% of the total issued share capital of the Company from time to time. The total number of shares which may be issued upon exercise of all options to be granted under the New Share Option Scheme shall not in aggregate exceed 10% of the total number of Shares in issue as at 29 November 2001. The Company may seek approval of the Company's shareholders in general meeting for refreshing the 10% limit under the New Share Option Scheme save that the total number of Shares which may be issued upon exercise of all options to be granted under the New Share Option Scheme under the limit as "refreshed" shall not exceed 10% of the total number of Shares in issue as at the date of approval of the limit.

The total number of Shares issued and to be issued upon exercise of the options granted to each participant (including both exercised and outstanding options) in any 12-month period shall not exceed 1% of the total number of Shares in issue. Where any further grant of options to a participant would result in the total number of Shares issued and to be issued upon exercise of all the options granted and to be granted to such person (including exercised, cancelled and outstanding Options) in the 12-month period up to and including the date of such further grant representing in aggregate over 1% of the total number of Shares in issue, such further grant must be separately approved by the shareholders of the Company in general meeting with such participant and his associates abstaining from voting.

All options granted under the Original Share Option Scheme and outstanding prior to the termination of the Original Share Option Scheme shall continue to be valid and exercisable in accordance therewith.

Pursuant to the Original Share Option Scheme, the Company has granted options on the Shares in favour of certain directors, the summary details of which during the period are as follows:

	Number of share options				
Name of director	**At 30 June 2001**	**Granted during the period**	**Exercised/ cancelled/ lapsed during the period**	**At 31 December 2001**	**Exercise price** *HK$*
Mr. Cai Cong Yi	1,000,000	—	—	1,000,000	0.6520
	7,500,000	—	—	7,500,000	0.7696
Mr. Cai Chong Zhen	3,000,000	—	—	3,000,000	0.6520
	5,500,000	—	—	5,500,000	0.7696
Mr. Wong Sui Kwong	8,000,000	—	—	8,000,000	0.7696
	25,000,000	—	—	25,000,000	

The above share options with exercise price of HK$0.6520 per Share were granted on 19 January 2001 of which the vesting period and exercise period are from 19 January 2001 to 18 January 2011, both days inclusive. Whereas the share options with exercise price of HK$0.7696 per Share were granted on 27 March 2001 of which the vesting period and exercise period are from 27 March 2001 to 26 March 2011, both days inclusive.

No options had been granted to the participants (including the employees of the Group, the suppliers of goods or services and all other participants under the New Share Option Scheme) pursuant to the New Share Option Scheme for the period from the date of adoption of the New Share Option Scheme (i.e. 29 November 2001) to 31 December 2001. Accordingly, no options had been granted to any participant under the New Share Option Scheme in excess of the individual limit set out in the Listing Rules of the Stock Exchange (i.e. 1% of the total issued share capital of the Company in any 12-month period).

The exercise in full of the outstanding 25,000,000 share options would, under the present capital structure of the Company, result in the issue of 25,000,000 additional Shares at a total consideration, before issue expenses, of approximately HK$18,770,000.

On 21 January 2002, 28,000,000 share options were granted by the Company under the New Share Option Scheme. Further details are set out in note 19.

Subscription right

CSFB is entitled to subscribe for up to 4,741,641 Shares at a subscription price of HK$1.645 per Share pursuant to the Subscription Right. The Subscription Right is exercisable by CSFB at any time from 14 August 2001 to 14 August 2004, inclusive.

Subsequent to 31 December 2001, the Subscription Right was fully exercised by CSFB. Further details are set out in note 19.

15. RESERVES

	Share premium account	Statutory surplus reserve Note (a)	Statutory public welfare reserve Note (b)	Fixed assets revaluation reserve	Capital reserve Note (c)	Retained profits	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 July 2001	55,478	15,605	7,554	11,303	11,022	139,570	240,532
Issue of shares (notes 13 and 14)	46,992	–	–	–	–	–	46,992
Share issue expenses	(246)	–	–	–	–	–	(246)
Transfer from retained profits to reserves	–	6,313	–	–	–	(6,313)	–
Net profit for the period	–	–	–	–	–	54,582	54,582
At 31 December 2001	102,224	21,918	7,554	11,303	11,022	187,839	341,860

Notes:

(a) Subsidiaries of the Company established in the PRC are required to transfer 10% of their profits after tax calculated in accordance with the PRC accounting regulations to the statutory surplus reserve until the reserve reaches 50% of their respective registered capital, upon which any further appropriation will be at the directors' recommendation. Such reserve may be used to reduce any losses incurred by the subsidiaries or be capitalised as paid-up capital of the subsidiaries.

(b) Subsidiaries of the Company established in the PRC are required to transfer 5% to 10% of their profits after tax calculated in accordance with the PRC accounting regulations to the statutory public welfare reserve. The use of this reserve is restricted to capital expenditure incurred for staff welfare facilities. The statutory public welfare reserve is not available for distribution, except upon liquidation of the subsidiaries.

(c) The capital reserve of the Group represents the nominal value of the share/registered capital of the subsidiaries acquired pursuant to the Group Reorganisation set out in note 1 over the nominal value of the share capital of the Company issued in exchange therefor.

16. RELATED PARTY TRANSACTIONS

During the six months ended 31 December 2001, the Group had the following transactions with related companies:

		For the six months ended 31 December	
		2001	2000
		(Unaudited)	(Unaudited)
	Notes	***HK$'000***	*HK$'000*
Advertising expenses	(i)	**7,251**	2,930
Purchases of packing materials	(ii)	**33,268**	23,330
Rental expenses	(iii)	**670**	670

Notes:

(i) The advertising expenses were charged by 福建德勝廣告有限公司, a related company beneficially owned by Mr. Cai Chong Zhen, a director of the Company, based on the actual costs incurred by 福建德勝廣告有限公司 plus a mark-up of 10%.

The balance with 福建德勝廣告有限公司 is unsecured, interest-free and has no fixed terms of repayment.

(ii) The directors consider that the purchases of packing materials from 福州德勝印刷有限公司， a related company beneficially owned by Mr. Chen Ching Ken, a director of the Company, were made on similar terms obtained from other suppliers of the Group and were carried out in the ordinary and usual course of business of the Group. The amount due to 福州德勝印刷有限公司 is unsecured, interest-free and has no fixed terms of repayment.

(iii) The rental expenses were charged by 福建德勝實業有限公司 (the "Landlord"), a related company beneficially owned by Mr. Cai Chong Zhen. The rental was determined between the Landlord and the Group with reference to the prevailing market conditions.

During the period, the Group advanced HK$530,000 to a jointly-controlled entity. The amount with the jointly-controlled entity is unsecured, interest-free and has no fixed terms of repayment.

17. OPERATING LEASE COMMITMENTS

The Group leases certain of its office properties under operating lease commitments. Leases for properties are negotiated for a term of 3 years.

At 31 December 2001, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	As at 31 December 2001 (Unaudited) *HK$'000*	As at 30 June 2000 (Audited) *HK$'000*
Within one year	**2,276**	1,510
In the second to fifth years, inclusive	**4,374**	3,351
	6,650	4,861

18. CAPITAL COMMITMENTS

In addition to the operating lease commitments detailed in note 17 above, the Group had the following commitments:

	As at 31 December 2001 (Unaudited) *HK$'000*	As at 30 June 2001 (Audited) *HK$'000*
Contracted, but not provided for	**—**	12,339

19. POST BALANCE SHEET EVENTS

(i) Subsequent to 31 December 2001, the Company issued 30,154,000 Shares at a price of HK$1.267 per Share as a result of the conversion by CSFB on the remaining Original Tranche 1 Bonds and Additional Tranche 1 Bonds for an aggregate amount of US$900,000 (approximately HK$7,020,000) and US$4,000,000 (approximately HK$31,200,000), respectively.

(ii) On 14 December 2001, the Company exercised an option granted by CSFB as detailed in note 13 to require CSFB to subscribe and pay for Tranche 2 Bonds with an aggregate principal amount of US$4,000,000. Proceeds of approximately HK$31,200,000, before issued expenses, were received by the Company. Tranche 2 Bonds were issued on 10 January 2002. The Company issued 4,220,000 Shares thereafter at the prices ranging from HK$1.846 to HK$1.8484 per Share as a result of the conversion by CSFB on part of the Tranche 2 Bonds for an aggregate amount of US$1,000,000 (approximately HK$7,800,000).

(iii) On 21 January 2002, 28,000,000 share options were granted by the Company under the New Share Option Scheme to the Group's employees, which entitled the holders thereof to subscribe for Shares at any time up to 8 January 2012 at an exercise price of HK$2.185 per Share.

(iv) On 16 January 2002, the Subscription Right was exercised by CSFB and resulted in the issue of 4,740,000 Shares and proceeds of approximately HK$7,800,000 had been received by the Company.

(v) On 21 March 2002, the Board proposed a bonus issue of warrants to be distributed among the shareholders of the Company whose names were in the Register of Members of the Company on 29 April 2002 on the basis of one warrant for every five Shares then held by them. Each warrant will entitle the holder thereof to subscribe for new Shares at an initial subscription price of HK$2.62 per Share, subject to adjustment, at any time between the date when dealings in the warrants on the Stock Exchange commence (expected to be 7 May 2002) and 6 May 2003 (both days inclusive).

20. COMPARATIVE AMOUNTS

As further explained in note 1, due to the adoption of certain new and revised SSAPs during the current period, the accounting treatment and presentation of certain items and balances have been revised to comply with the new requirements. Accordingly, certain prior year adjustments have been made and certain comparative amounts have been reclassified to conform with the current period's presentation.

21. APPROVAL OF THE INTERIM FINANCIAL STATEMENTS

The condensed consolidated interim financial statements were approved and authorised for issue by the Board on 21 March 2002.

MANAGEMENT DISCUSSION AND ANALYSIS

Liquidity and Financial Resources

At 31 December 2001, the Group had total assets of HK$492,491,000, current liabilities of HK$71,823,000, non-current liabilities of HK$38,234,000 and shareholders' equity of HK$380,634,000. The borrowings of the Group amounted to HK$38,234,000 which was represented by the Bonds (as defined below) due on 14 August 2004. The gearing ratio is 28.9%, which was computed by dividing the current liabilities and debts by shareholders' equity. The Group has consistently maintained a strong working capital during the period under review, with net current assets of HK$285,300,000 at 31 December 2001, with the current ratio of about 4.97 times. The net assets of the Group increased from HK$289,229,000 as at 31 December 2000 to approximately HK$380,634,000 as at 31 December 2001.

The Group had not exposed to any material exchange rate fluctuation or any related hedges during the period under review.

The Board believes that the Group had sufficient liquidity to satisfy its commitments and working capital requirements.

Capital Structure

The Group generally finances its operations with internally generated cash flow. As at 31 December 2001, the Group had cash and bank balances of a total amount of HK$207,474,000.

On 14 August 2001, the Company and Credit Suisse First Boston (Hong Kong) Limited ("CSFB"), an independent third party, entered into a subscription agreement in relation to CSFB's subscription of unlisted and unsecured redeemable convertible bonds (the "Bonds") of the Company with an aggregate principal amount of US$12,000,000. All the Bonds bear interest at the rate of 2.5% per annum and are due on 14 August 2004. Pursuant to the subscription agreement, the Company has also granted a subscription right (the "Subscription Right") to CSFB, pursuant to which CSFB is entitled to subscribe for up to 4,741,641 shares of the Company at a subscription price of HK$1.645 per share. Subsequent to 31 December 2001, CSFB exercised the Subscription Right to subscribe for a total of 4,740,000 shares of the Company at a price of HK$1.645 per share. Accordingly, an aggregate amount of approximately HK$7.8 million was received by the Company.

During the period under review, CSFB subscribed for Bonds with an aggregate principal amount of US$8,000,000 and proceeds of approximately HK$62,400,000, before issued expenses, were received by the Company. At 31 December 2001, Bonds for an aggregate amount of US$4,900,000 (equivalent to approximately HK$38,234,000) were outstanding. During the period under review, Bonds for an aggregate amount of US$3,100,000 have been converted into ordinary shares of HK$0.10 each in the Company at various prices ranging from HK$0.977 to HK$1.214 per share, giving rise to the issue of 23,744,000 new ordinary shares of the Company. Subsequent to 31 December 2001, CSFB further subscribed for Bonds with an aggregate principal amount of US$4,000,000. The Company issued 4,220,000 shares thereafter at the prices ranging from HK$1.846 to HK$1.8484 per share as a result of the conversion by CSFB for an aggregate amount of US$1,000,000 (approximately HK$7,800,000).

On 27 November 2001, the Company issued a total of 20,000,000 new shares at an issue price of HK$1.36 per share pursuant to the placing and subscription agreement entered into among the Company, Great Wall Investment Group Limited (the Company's holding company) and Guotai Junan Securities (Hong Kong) Limited (an independent third party acting as placing agent). The net proceeds therefrom after deducting expenses, amounted to approximately HK$27 million of which HK$23 million will be used for the acquisition and development of pharmaceutical products namely, Finasteride (非那雄胺原料藥) and Finasteride Tablet (非那雄胺片劑).

As at 31 December 2001, the Group had no outstanding bank borrowing and no financial instruments had been used for hedging purposes. No foreign currency net investments are hedged by currency borrowings and other hedging instruments.

As at 31 December 2001, the number of outstanding employee's share options remained the same as that as at 30 June 2001.

Contingent liabilities

As at 31 December 2001, the Group did not have contingent liabilities (2000: Nil).

Business Review

The Group's turnover for the period under review was HK$282,338,000 which represented an increase of 40.5% as compared with the corresponding period of 2000. The increase in turnover was mainly attributable to the launch of the new products "勝紅抗炎素膠囊" which is classified under the category of "Antibiotics" and "复方降壓膠囊" which is classified under the category of "Anti-hypotensive drugs". The overall gross profit margin was kept constant at approximately 37.0% when compared with last period. The net profit from ordinary activities attributable to shareholders for the period under review amounted to approximately HK$54,582,000 and was increased by 15.6% to that of last period. The Group's net profit margin was 19.33%, representing a decrease of 4.16% as compared to 23.49% for the corresponding period of 2000. The decrease was mainly attributable to the increase in the advertising cost in the newly developing districts and regions in the PRC, increase in depreciation charge for the new manufacturing plant and increase in amortization of goodwill and intangible assets, and professional costs. Basic earnings per share for the current period was approximately HK15.3 cents (2000: HK15.9 cents). Diluted earnings per share for the current period was approximately HK14.1 cents (2000:N/A).

Analysis of turnover

Anti-viral drugs

Sale of anti-viral drugs during the period under review was approximately HK$107,407,000, accounting for 38.04% of the total turnover of the Group and representing approximately 21.91% increase when compared with the corresponding period of 2000. The increase was due to the increasing demand of the Jin Gang Cold, which has an excellent therapeutic effect to the treatment of common cold, cough and influenza.

Antibiotics

Sale of antibiotics shows approximately 68.17% increase when compared with the corresponding period of 2000. The increase was due to the launch of new product "勝紅抗炎素膠囊" in Fujian Yannian Pharmaceutical Co., Ltd which was strategically acquired in March 2001. This new product is effective in curing throat, auditory, respiratory, urogenital, venereal and skin diseases. The Board is optimistic that this new product will continue to contribute to the turnover of the Group.

Vitamins

With the increasing demand of the Group's high quality Vitamins, the Group had recognized a 5.00% steady growth in turnover of its Vitamins when compared with the corresponding period of 2000.

Analgesics

With the effect of the recognition of the Group's "Ta Shan" brand-name products, a 7.20% steady growth in sales of analgesics drugs was recorded when compared with last period.

Chinese patent medicines

Turnover of Chinese patent medicines increased from last period's HK$15,203,000 to approximately HK$17,894,000 for the current period. The sale of Chinese patent medicines achieved encouraging growth due to the effort of effective marketing strategy and market penetration through the Group's well-established relationship with its wholesalers and distributors.

Chinese tonic liquor

During the period under review, the sales of Chinese tonic liquor increased from approximately HK$16,232,000 to HK$17,201,000, representing an increase of approximately 5.97% when compared with the corresponding period of 2000. This was attributable to the recognition of the Group's "Ta Shan" brand-name products.

Anti-hypotensive drugs

During the period under review, the Group has launched one of the new products "复方降壓膠囊", the sales was approximately HK$24,518,000, accounting for 8.68% of the total turnover of the Group. It is expected that, with the excellent therapeutic effect to the treatment of high blood pressure and the competitive pricing over other similar products, 复方降壓膠囊 will become one of the major products of the Group in the future.

Gastrointestinal and Gastrohepatic

During the period under review, the Group has also launched a variety of new products. The sales of Gastrointestinal and Gastrohepatic amounted to approximately HK$4,734,000, accounting for 1.68% of the total turnover of the Group.

Expenses

Selling and distribution costs for the period under review amounted to HK$25,062,000 (2000: HK$14,366,000), accounting for 8.88% of turnover, increased by 1.73% when compared with the corresponding period of 2000. Such increase was due to the rise in advertising cost for expanding the distribution and sales network of the Group. Administrative expenses, accounting for 4.42% of the Group's turnover, increased from last period's HK$7,265,000 to the current period's HK$12,492,000. Such increase is due to the hiring of additional management professionals and related expenses, the increase in depreciation charge for the new manufacturing plant and the increase in amortization of goodwill and intangible assets. Finance costs amounted to HK$105,000 (2000: Nil) which was incurred and derived from the Bonds issued during the period under review.

Future prospects

Product development

The Group will put emphasis on the absorption of hi-tech research projects and professionals, with the aim of launching new products each and every year after 2002 and maintaining excellent development prospects for the Group.

Vertical and horizontal integration

With the steady growth of economy and the ongoing reform of the public health system in the PRC and its entry into the World Trade Organisation, the PRC market continues to provide a golden business opportunity for pharmaceutical producers. With the strong financial position of the Group, it will strive to capitalize on these favourable trends in acquiring other pharmaceutical companies with quality assets and an impressive category of registered medical products, similar to the strategical acquisition and re-engineering of Fujian Yannian Pharmaceutical Co., Ltd.

Looking ahead, the Group is fully confident of the prospects for its operation in the PRC pharmaceutical market. It will continue to push forward with the Group's over 120 high-quality medical products in the existing sales network, and will step up its efforts in exploring new drugs via biotechnology.

Charges on the Group's assets

At 31 December 2001, none of the Group's assets was pledged as security for liability.

Employees

At 31 December 2001, the Group had 816 employees, of which 810 were based in the PRC and 6 stationed in Hong Kong.

The remuneration policy and package of the Group's employees are reviewed and approved by the Board on a periodical basis. Besides provident funds and double pay, discretionary bonuses and share options may be rewarded to employees based on individual performance as recognition of and reward for their contribution.

USE OF PROCEEDS

Initial Public Issue

On 23 August 2000, the Company issued a total of 80,000,000 new shares at an issue price of HK$1.00 each pursuant to the New Issue and Placing (as defined in the Company's prospectus dated 11 August 2000 (the "Prospectus")). The net proceeds therefrom after deducting expenses amounted to approximately HK$67 million. As at 30 June 2001, the proceeds of approximately HK$35.5 million had been utilized which has been disclosed in the Company's annual report for the year ended 30 June 2001. For the six months ended 31 December 2001, the proceeds had been further utilized in line with the terms stipulated in the Prospectus, as follows:

HK$0.5 million for research and development of new pharmaceutical formulae and improvement of the Group's existing production technology, production rate and product quality; and

HK$5.6 million for expanding the distribution and sales network of the Group.

Placing of 20,000,000 Shares on 27 November 2001

The net proceeds from the placing of the Company's 20,000,000 shares, after deducting expenses, amounted to approximately HK$27 million of which HK$7 million had been paid for the acquisition of pharmaceutical products namely, Finasteride（非那雄胺原料藥）and Finasteride Tablet (非那雄胺片劑). Such application is in line with the terms disclosed in the announcement of the Company dated 27 November 2001.

Redeemable Convertible Bonds

During the period, CSFB subscribed for Bonds with an aggregate principal amount of US$8,000,000 and proceeds of approximately HK$62,400,000, before issued expenses, were received by the Company. As disclosed in the Company's announcements dated 14 August 2001 and 14 December 2001, the proceeds will be used for capital expenditure in relation to the expansion of production and manufacturing facilities, research and development, expansion of sales and distribution network and general working capital purposes. As at 31 December 2001, the Company had utilized HK$16 million for expansion of production and manufacturing facilities.

There is no change in the proposed application of the unused proceeds from all of the above capital raising as previously stated. These unused proceeds are currently placed at banks.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

During the six months ended 31 December 2001, neither the Company, nor any of its subsidiaries purchased, sold or redeemed any of the Company's securities.

AUDIT COMMITTEE

The Audit Committee of the Company presently comprises two independent non-executive directors of the Company, namely Ms. Hu Ling Po and Mr. Yu Er Feng. The Audit Committee has reviewed this unaudited interim report for the six months ended 31 December 2001 and discussed with the Board on the internal control and financial reporting matters.

DIRECTORS' INTERESTS IN SHARE CAPITAL

As at 31 December 2001, the interests of the directors of the Company in the share capital of the Company as recorded in the register (the "Register") that was maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance") were as set out below:

Name	**Type of interest**	**Number of shares of the Company interested**
Mr. Chen Ching Ken	Other *(Note)*	249,800,000

Note: These shares are held by Great Wall Investment Group Limited as the trustee of The Great Wall Unit Trust, a unit trust of which all the units in issue are owned by Ansbacher (BVI) Limited in its capacity as the trustee of The C&C Trust, a discretionary family trust of which the objects include the spouse of Mr. Chen Ching Ken. All of the issued share capital of Great Wall Investment Group Limited is beneficially owned by Mr. Chen Ching Ken.

The interests of the directors in the share options of the Company are separately disclosed in the paragraph headed "Share Option Scheme" under Note 14 of this interim report.

In addition, Mr. Cai Cong Yi, a director of the Company, is holding a share in a subsidiary of the Company, in a non-beneficial capacity which is solely for the purpose of complying with minimum company membership requirements.

Save as disclosed above, none of the directors, chief executives or their associates, had any personal, family, corporate or other interests in the issued share capital of the Company or any of its associated corporations (as defined in the SDI Ordinance) recorded in the Register or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2001, the following persons had registered an interest of 10% or more of the issued share capital of the Company according to the Register required to be kept by the Company pursuant to Section 16(1) of the SDI Ordinance:

Name	**Number of shares**	**Percentage of holding**
Great Wall Investment Group Limited	249,800,000 *(Note)*	64.42%
Ansbacher (BVI) Limited	249,800,000 *(Note)*	64.42%

Note: These shares are held by Great Wall Investment Group Limited as the trustee of The Great Wall Unit Trust, a unit trust of which all of the units in issue are owned by Ansbacher (BVI) Limited in its capacity as the trustee of The C&C Trust, a discretionary family trust of which the objects include the spouse of Mr. Chen Ching Ken. The interests of Great Wall Investment Group Limited and Ansbacher (BVI) Limited in the 249,800,000 Shares therefore duplicate each other.

These interests have also been disclosed as "other interest" of Mr. Chen Ching Ken in the section headed "Directors' interests in share capital".

Save as disclosed above, no other party was recorded in the Register as having an interest of 10% or more in the issued share capital of the Company.

CODE OF BEST PRACTICE

None of the directors of the Company is aware of any information that would reasonably indicate that the Company is not, or was not for any part of the accounting period covered by this interim report, in compliance with the Code of Best Practice as set out in Appendix 14 of the Listing Rules of the Stock Exchange.

On behalf of the Board
Cai Chong Zhen
Chairman

Hong Kong, 21 March 2002