

CHAIRMAN'S STATEMENT

To the shareholders

On 23 August 2000, Far East Pharmaceutical Technology Company Limited (the "Company") successfully listed on the Stock Exchange of Hong Kong Limited (the "Stock Exchange"). This is the first milestone for the Company not only raised fund for the future expansion, but also helped enhance the reputation and investor confidence of Company as well.

2001 is a year of decisive expansions and acquisition to which the Company and its subsidiaries (the "Group") targeted to further broaden the product variety by seeking for tremendous opportunities for the growth of the Group. The Company will continue to apply resources and funds for the maximization of the wealth of its shareholders.

FINANCIAL RESULTS

For the year ended 30 June 2001, the Group's turnover amounted to approximately HK\$409,633,000, representing a growth of 16.0% as compared with that of previous year. Consolidated net profit from ordinary activities attributable to shareholders was approximately HK\$94,541,000, an increase of 15.8% when compared with that of previous year. Meanwhile, basic earning per share were HK30 cents (2000: HK34 cents).



The Group has maintained a strong financial position throughout the year, with a liquidity ratio of 3.2 times as at 30 June 2001. At the same time, cash on hand amounted to approximately HK\$117,559,000 while working capital was about HK\$152,573,000.

DIVIDENDS

The board of directors (the "Board") of the Company recommends a final dividend of HK4 cents per share for the year ended 30 June 2001.

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USE OF PROCEEDS FROM ISSUE OF SHARES

On 23 August 2000, the Company has 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 Prospectus dated 11 August 2000). The net proceeds therefrom after deducting expenses, were amounted to approximately HK\$67 million. As at 30 June 2001, a substantial part of the net proceeds had been utilized in line with the terms stipulated in the Company's Prospectus, as follows:

- HK\$13 million for the establishment of the new production plant in the People's Republic of China (the "PRC");
- HK\$17 million for the purchase and installation of related production equipment and facilities in the new production plant in the PRC;
- 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 million for expanding the distribution and sales network of the Group.



To the extent that the proceeds from listing are not applied, they are currently placed at bank as short term deposits.

BUSINESS REVIEW

Sales of pharmaceutical products

Jin Gang Cold is the best selling medication under the Group's Ta Shan (塔山) brand. Sale of anti-viral drugs during the year was approximately HK\$208,282,000, accounting for 50.8% of the total turnover of the Group representing approximately 24.0% increase when compared with that 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 and due to the banning sales of 16 types of drugs with Phenylpropanolamine (PPA) which principally used for the treatment of common cold, cough and influenza.

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Also, the sales growth rates of the Group's antibiotics, vitamins, analgesics, Chinese patent medicines and Chinese tonic liquor under the brand name of Ta Shan (塔山) were about 2.6%, 13.7%, 12.0%, 28.2% and 2.2% respectively.

Sales Network

The Group's Ta Shan (塔山) products are marketed and distributed across 22 provinces, autonomous regions and cities. With the well developed and effective marketing strategies, the Group distributes its products to the wholesalers and distributors, who have established excellent relationship with the Group, which in turn distribute the Group's products to other dealers, retailers and end users including hospitals, clinics and drug stores.

Apart from making great efforts on providing high quality products and establishing a comprehensive sales network, the distribution team also visits pharmaceutical wholesalers and distributors on a regular basis for the purpose of market research and collecting feedback on its products. The Group will continue to promote its products through various media, such as television advertisement, vehicle advertisements and banners so as to enhance the market awareness of its product under the Ta Shan (塔山) brand.



GMP Standard

The Group's new production plant will meet the requirement of the Good Manufacturing Practices ("GMP"). Construction works of the Group's new production plant in Fujian province, PRC has been completed. According to the State Pharmaceutical Supervision and Administration of the PRC, the pharmaceutical manufactures should obtain a GMP compliance certificate within the specified deadline.

Acquisition of 福建閩清制藥廠 ("Minqing Factory")

The Group strategically acquired 85% interests in Minqing Factory, a pharmaceutical manufacturing company, for a consideration of HK\$9,688,000. The acquisition aimed at to broaden product variety and to maintain a higher profit margin of the Group's pharmaceutical products. The total consideration was financed from further issue of 20,000,000 shares of HK\$0.10 each at HK\$1.00 on 7 March 2001.

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PROSPECTS

The year 2001 marked the advent of a new century and, at the same time, presented an excellent development opportunity for the pharmaceutical industry in the PRC. With the steady growth of its economy, the ongoing reform of its public health system, and its imminent entry into the World Trade Organisation, the PRC will provide a golden opportunity for the domestic pharmaceutical producers. The Group will strive to capitalize on these favourable trends and to develop hi-tech Chinese medicines and biotechnology drugs, in order to enhance its competitiveness in both domestic and overseas markets.

In the past, the Group focused its efforts on the construction of a modern plant of 20,000 square metres. Meanwhile, the successful acquisition of Minqing Factory has brought the Group the right to manufacture more than 70 medical pharmaceutical products and the sales channels previously owned by Minqing Factory. The research and development project with its primary interests in genetic engineering has been set up in Pudong, Shanghai, and will soon start operation. New biotechnology drugs are expected to deliver and introduce to the market shortly afterwards. The Board believes that the new three products developed by the Group will continue to bring high growth rates of turnover and high gross profit margin to the Group. Therefore, the Group will continue its efforts in developing such business and will, when the opportunity arises, acquire pharmaceutical enterprises in order to further penetrate the huge pharmaceutical market in the PRC.



The Group is fully confident of its future and will put particular emphasis on the absorption of hi-tech research projects and professionals, with the aim of launching new product each and every year after 2002 and maintaining excellent development prospects for the Group. The Group will make great efforts in establishing its sales network by both reinforcing its market share in the local market and stretching its reach in overseas markets. Meanwhile, the Group will step up its efforts in enhancing its operating efficiency, making good use of the existing modern plants and advanced equipment in increasing the production volume and efficiency, reducing costs and improving returns. In addition, the Group will expand its production capacity and increase its capital investment to take advantage of the PRC's policy on developing the pharmaceutical industry in recent years. Besides, the Group will also strengthen its efforts in acquiring other pharmaceutical companies with quality assets and an impressive category of registered medical products, so as to expand its operation and enhance its cost effectiveness. It is the Group's ultimate goal to develop into one of the first-rate leading companies in the PRC in the shortest span of time.

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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 120 high-quality medical products in the existing sales network, and will step up its efforts in exploring new drugs via biotechnology. In order to increase the Group's profitability and the shareholders' wealth, the Group will continue to focus on developing hi-tech Chinese medicines and biotechnology drugs with its utmost effort in the coming year.

APPRECIATION

I would like to take this opportunity to express my appreciation to the members of the board of the directors for their leadership and to all the staff members for their commitment. In particular, I would like to express my sincere thanks for the continuous support of the shareholders towards the Company, especially during the recent weak market. We rely on the support of our shareholders to pursue our growth and development strategy and to assure you of the Group's determination to strive its best to achieve greater success in the future and add value for our shareholders.

Cai Chong Zhen

Chairman

Hong Kong

24 October 2001