

THE MISSION

We strive to be the leading pharmaceutical enterprise in the People's Republic of China by combining research and development expertise, state-of-the-art manufacturing technologies with the treasure of traditional Chinese medicines, and by so doing, to improve the quality of health for human life.

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Zhang Peter Y. (*Chairman*)

Mr. Xu Peng

Mr. Deng Jie

Mr. Long Xian Feng

Mr. Wu Xian Peng

Independent non-executive Directors

Professor Kung Hsiang-Fu

Professor Tso Wung-Wai

AUDIT COMMITTEE

Professor Kung Hsiang-Fu

Professor Tso Wung-Wai

COMPANY SECRETARY

Mr. Tang Siu Kun, Stephen

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Room 704, 7th Floor

Aon China Building

29 Queen's Road Central

Hong Kong

PRINCIPAL BANKERS

The Hong Kong and Shanghai Banking Corporation Limited

1 Queen's Road Central

Hong Kong

Bank of China

Guiyang Branch, Jiaxiu Sub-branch

Number 253 North Ruijing Road

Guiyang, Guizhou

PRC

LEGAL ADVISER

Chiu & Partners

41st Floor, Jardine House

1 Connaught Place

Central

Hong Kong

AUDITORS

Ernst & Young

Certified public accountants

15th Floor, Hutchison House

10 Harcourt Road

Central

Hong Kong

FINANCIAL ADVISER

Deloitte & Touche Corporate

Finance Ltd

21st Floor, Wing On Centre

111 Connaught Road Central

Hong Kong

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tengis Limited

28th Floor, BEA Harbour View Centre

56 Gloucester Road

Wanchai

Hong Kong

INTERIM RESULTS

The board (the “Board”) of directors (the “Directors”) of Hua Han Bio-Pharmaceutical Holdings Limited (the “Company”) is pleased to announce the unaudited consolidated interim financial results of the Company and its subsidiaries (together, the “Group”) for the six months ended 31st December 2002 (the “Period”) together with the comparative figures for the corresponding period in 2001 and the relevant explanatory notes set out below. The interim results for the Period are unaudited, but have been reviewed by the audit committee (the “Audit Committee”) of the Company.

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

	<i>Notes</i>	Six months ended	
		2002	2001
		(Unaudited)	(Unaudited)
		HK\$'000	HK\$'000
TURNOVER	3	99,817	85,198
Cost of sales		<u>(36,215)</u>	<u>(30,376)</u>
Gross profit		63,602	54,822
Other revenue		469	1,111
Selling and distribution costs		<u>(5,496)</u>	<u>(4,329)</u>
Administrative expenses		<u>(6,964)</u>	<u>(5,339)</u>
PROFIT FROM OPERATING ACTIVITIES	5	51,611	46,265
Finance costs	6	<u>(1,829)</u>	<u>(1,307)</u>
PROFIT BEFORE TAX		49,782	44,958
Tax	7	<u>(8,069)</u>	<u>(5,772)</u>
PROFIT BEFORE MINORITY INTERESTS		41,713	39,186
Minority interests		<u>(1,463)</u>	<u>(1,350)</u>
NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS		<u>40,250</u>	<u>37,836</u>
Dividend		—	—
Earnings per share	8		
- Basic		<u>HK8.4 cents</u>	<u>HK8.1 cents</u>
- Diluted		<u>N/A</u>	<u>N/A</u>

CONDENSED CONSOLIDATED BALANCE SHEET

		As at 31st December 2002 (Unaudited) HK\$'000	As at 30th June 2002 (Audited) HK\$'000
NON-CURRENT ASSETS			
Fixed assets		55,253	52,212
Interest in a jointly-controlled entity		—	—
Intangible assets		4,723	4,222
Long term deposits		2,294	1,920
		62,270	58,354
CURRENT ASSETS			
Inventories		5,246	2,677
Accounts receivable	9	68,180	58,515
Prepayments, deposits and other receivables		20,008	16,980
Cash and cash equivalents		147,209	59,652
		240,643	137,824
CURRENT LIABILITIES			
Accounts payable	10	3,754	2,250
Tax payable		3,613	14,703
Accrued liabilities and other payables		6,666	13,686
Due to a shareholder		1,382	1,382
Bank loans, secured		35,495	31,009
Finance lease payables		226	219
		51,136	63,249
NET CURRENT ASSETS		189,507	74,575
TOTAL ASSETS LESS CURRENT LIABILITIES		251,777	132,929
NON-CURRENT LIABILITIES			
Bank loans, secured		34,486	15,794
Finance lease payables		159	275
		34,645	16,069
MINORITY INTERESTS		5,629	3,414
		211,503	113,446
CAPITAL AND RESERVES			
Issued capital	11	56,800	200
Reserves		154,703	113,246
		211,503	113,446
		211,503	113,446

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	From 1st July 2002 to 31st December 2002					
	Share capital	Share premium	Statutory Fixed asset		Retained profits	Total
			reserve fund	revaluation reserve		
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
At 1st July 2002						
(Audited)	200	22,588	1,402	—	89,256	113,446
Issue of new shares						
(Unaudited)	9,940	66,598	—	—	—	76,538
Share issue expenses						
(Unaudited)	—	(21,761)	—	—	—	(21,761)
Capitalisation issue						
(Unaudited)	46,660	(46,660)	—	—	—	—
Revaluation surplus						
(Unaudited)	—	—	—	3,030	—	3,030
Profit for the period						
(Unaudited)	—	—	—	—	40,250	40,250
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31st December 2002						
(Unaudited)	<u>56,800</u>	<u>20,765</u>	<u>1,402</u>	<u>3,030</u>	<u>129,506</u>	<u>211,503</u>
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
	From 1st July 2001 to 31st December 2001					
	Share capital	Share premium	Statutory Fixed asset		Retained profits	Total
			reserve fund	revaluation reserve		
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
At 1st July 2001						
(Audited)	200	22,588	1,402	—	76,210	100,400
Profit for the period						
(Unaudited)	—	—	—	—	37,836	37,836
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31st December 2001						
(Unaudited)	<u>200</u>	<u>22,588</u>	<u>1,402</u>	<u>—</u>	<u>114,046</u>	<u>138,236</u>
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Six months ended	
	31st December	
	2002	2001
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
NET CASH FLOWS FROM OPERATING ACTIVITIES	11,702	1,258
Net cash used in investing activities	(2,743)	(13,099)
Net cash flows from financing activities	78,598	12,048
INCREASE IN CASH AND CASH EQUIVALENTS	87,557	207
Cash and cash equivalents at beginning of period	59,652	50,948
CASH AND CASH EQUIVALENTS AT END OF PERIOD	147,209	51,155
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	147,209	51,155

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

1. Group reorganisation and basis of preparation

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 28th August 2000 under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands and was listed on the main board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) on 10th December 2002.

Pursuant to a group reorganisation (the “Reorganisation”) to rationalise the Group structure for the listing of the ordinary shares (the “Shares”) of HK\$0.10 each in the share capital of the Company on the main board of the Stock Exchange, the Company became the holding company of the Group formed after completion of the Reorganisation on 20th September 2002. Details of the Reorganisation are set out in the prospectus (the “Prospectus”) dated 28th November 2002 and issued by the Company.

The condensed consolidated interim financial statements for the Period have been prepared using the merger basis of accounting. Under this basis, the condensed consolidated interim financial statements for the Period together with the comparative figures of the corresponding period in last year and the related notes thereto have been presented in these condensed consolidated interim financial statements on the basis that the Company is treated as the holding company of its subsidiaries for the financial periods presented rather than from the subsequent date of acquisition of the subsidiaries on 20th September 2002 or since their respective dates of incorporation, where this is a shorter period.

2. Principal accounting policies

The condensed consolidated interim financial statements are prepared in accordance with Hong Kong Statement of Standard Accounting Practice (“SSAP”) 25 (revised), “Interim Financial Reporting”.

The principal accounting policies adopted in the preparation of the condensed consolidated interim financial statements are consistent with those set out in the Prospectus, except for the revaluation of leasehold land and buildings and those as described below.

In the Period, the Group adopted, for the first time, a number of revised and new SSAPs issued by the Hong Kong Society of Accountants as follows:

SSAP 1 (revised)	:	Presentation of financial statements
SSAP 11 (revised)	:	Foreign currency translation
SSAP 15 (revised)	:	Cash flow statements
SSAP 34	:	Employee benefits

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS *(continued)*

2. Principal accounting policies *(continued)*

The adoption of these revised and new SSAPs has had no major impact on the Group's interim financial statements, except for SSAP 1 (revised) and SSAP 15 (revised) which are summarised as follows:

SSAP 1 (revised) prescribes the basis of presentation of financial statements and sets out guidelines for their structure and minimum requirements for the content thereof. The main revision to SSAP 1 (revised) is to change the requirements from presenting a statement of recognised gains and losses to a statement of changes in equity. The unaudited condensed consolidated statement of changes in equity for the Period and the comparative figures have been presented in accordance with SSAP 1 (revised) in the unaudited condensed interim financial report.

SSAP 15 (revised) prescribes the provision of information about the historical changes in cash and cash equivalents by means of a cash flow statement which classifies cash flows during the period into operating, investing and financing activities. The unaudited condensed consolidated cash flow statement for the Period and the comparative figures have been presented in accordance with SSAP 15 (revised) in the unaudited condensed interim financial report.

The adoption of these revised and new SSAPs has had no significant effect on the results for the Group's current or prior accounting periods. Accordingly, no prior period adjustment is required.

3. Turnover

Turnover represents the invoiced value of goods sold, net of trade discounts and returns and after elimination of all significant intra-Group transactions.

4. Segment information

An analysis of turnover, contribution to operating results, and assets and liabilities by business segment and by geographical market has not been presented as over 90% of the Group's turnover and results, and assets and liabilities were attributed to the sale of pharmaceutical products to customers based in the People's Republic of China (the "PRC").

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS *(continued)*

5. Profit from operating activities

Profit from operating activities is arrived at after charging/(crediting):

	(Unaudited)	
	Six months ended	
	31st December	
	2002	2001
	HK\$'000	HK\$'000
Cost of inventories sold	36,215	30,376
Staff costs	3,505	2,982
Depreciation	1,873	1,041
Amortisation of deferred development costs	389	389
Loss on disposal of fixed assets	2	2
Interest income on:		
Amount due from a related company	—	(473)
Bank balances	(408)	(260)
	<u> </u>	<u> </u>

6. Finance costs

	(Unaudited)	
	Six months ended	
	31st December	
	2002	2001
	HK\$'000	HK\$'000
Interest expense on:		
Bank loans wholly repayable within five years	1,814	1,286
Finance lease	15	21
	<u> </u>	<u> </u>
	<u>1,829</u>	<u>1,307</u>

7. Tax

	(Unaudited)	
	Six months ended	
	31st December	
	2002	2001
	HK\$'000	HK\$'000
Current period provision - PRC	<u>8,069</u>	<u>5,772</u>

Hong Kong profits tax has not been provided as the Group did not generate any assessable profits arising in Hong Kong for the Period (2001: Nil).

Taxes on the profits of subsidiaries operating overseas have been calculated at the rates of taxes applicable in the respective jurisdictions, based on existing legislation, interpretations and practices, in respect thereof during the Period.

Deferred tax has not been provided by the Group because there were no significant timing differences at the balance sheet date (2001: Nil).

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (continued)

8. Earnings per share

Basic earnings per Share

Basic earnings per Share was calculated based on the unaudited consolidated net profit from ordinary activities attributable to shareholders for the Period of approximately HK\$40,250,000 (2001: approximately HK\$37,836,000) and the weighted average number of 480,484,783 Shares in issue during the Period (2001: 468,600,000 in issue and issuable as are fully explained in Appendix IV to the Prospectus).

Diluted earnings per Share

No diluted earnings per Share amount has been shown for the Period because the exercise price of the PI Options (as defined and fully explained in Appendix IV to the Prospectus) outstanding was higher than the average market price of the Shares during the Period and, accordingly, there was no dilutive effect on the basic earnings per Share.

9. Accounts receivable

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

	As at 31st December 2002 (Unaudited) HK\$'000	As at 30th June 2002 (Audited) HK\$'000
Outstanding balances aged:		
Within 90 days	38,069	36,242
Between 91 - 180 days	24,089	15,833
Over 180 days	6,022	6,440
	<u>68,180</u>	<u>58,515</u>

It is the Group's policy to grant a normal term of credits period of 120 days to its customers.

10. Accounts payable

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

	As at 31st December 2002 (Unaudited) HK\$'000	As at 30th June 2002 (Audited) HK\$'000
Outstanding balances aged:		
Within 90 days	2,958	1,821
Between 91 - 180 days	539	129
Over 180 days	257	300
	<u>3,754</u>	<u>2,250</u>

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS *(continued)*

11. Share capital

The following is a summary of the movements in the authorised and issued share capital of the Company:

	Number of authorised shares (<i>'000</i>)	Number of issued shares (<i>'000</i>)	Nominal value of shares issued <i>HK\$'000</i>
Share allotted and issued nil paid on incorporation	1,000	1,000	—
Increase in authorised share capital	1,999,000	—	—
Shares issued as consideration for the acquisition of the entire issued share capital of Intended Features Limited	—	1,000	100
Application of share premium to pay up nil paid shares issued on incorporation	—	—	100
Capitalisation issue credited as fully paid conditional on the share premium account of the Company being credited as a result of the issue of new shares to the public	—	466,600	—
Pro forma share capital as at 30th June 2002	2,000,000	468,600	200
New issue on public listing	—	99,400	9,940
Capitalisation of the share premium account at set out above	—	—	46,660
Share capital as at 31st December 2002	<u>2,000,000</u>	<u>568,000</u>	<u>56,800</u>

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS *(continued)*

11. Share capital *(continued)*

The changes in the Company's share capital during the period from the date of incorporation to 31st December 2002 are as follows:

- (i) The Company was incorporated with an authorised share capital of HK\$100,000 divided into 1,000,000 Shares, all of which were allotted and issued, nil paid, on 28th August 2000.
- (ii) Pursuant to resolutions in writing of the shareholders (the "Shareholders") of the Company passed on 20th September 2002:
 - the authorised share capital of the Company was increased to HK\$200,000 by the creation of a further 1,000,000 Shares; and
 - 1,000,000 Shares were issued and credited as fully paid at par, and the 1,000,000 Shares issued nil paid on 28th August 2000 were credited as fully paid at par, in exchange for the acquisition by the Company of the entire issued share capital of Intended Features Limited.
- (iii) Pursuant to resolutions in writing of the Shareholders passed on 25th November 2002:
 - for the purpose of the Share Offer (as defined in the Prospectus) of the Company, the authorised share capital of the Company was further increased from HK\$200,000 to HK\$200 million by the creation of 1,998 million Shares; and
 - conditional upon the share premium account being credited as a result of the New Issue (as defined in the Prospectus) of the Company, 466.6 million Shares were issued at par to the Shareholders whose names appear on the register of members at the close of business on 25th November 2002 (or as they may direct) in the proportion as agreed and directed by them by way of a capitalisation of a sum of HK\$46,660,000 standing to the credit of the share premium account of the Company.
- (iv) On 5th December 2002, pursuant to the New Issue (as defined in the Prospectus) of the Company, 99.4 million Shares were issued to the public and institutional investors at HK\$0.77 per Share for cash. The excess of the issued proceeds over the par value of the Shares issued were credited to the share premium account of the Company.

12. Operating lease commitments

At 31st December 2002, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due within one year amounting to approximately HK\$1,255,000 (30th June 2002: Nil).

Operating lease payments represent amounts payable by the Group for certain of its office properties during the Period. Leases were negotiated and rentals were fixed for an average term of two years.

MANAGEMENT DISCUSSION AND ANALYSIS

SUCCESSFUL LISTING

The successful listing of the Company on 10th December 2002 on the main board of the Stock Exchange was a major milestone for the Group. With the issue of a total of 99,400,000 Shares at a price of HK\$0.77 each by way of public offer and placing, raising net proceeds of approximately HK\$54.8 million, the Board is very pleased with the overwhelming support from the Shareholders. The Group is confident that the listing status of the Company will form a strong growth platform to accelerate its business development.

On behalf of the Board, I would like to take this opportunity to extend our sincere gratitude to all of the Shareholders.

BUSINESS REVIEW

The results of the Group for the Period were satisfactory. The growth of the Group's profits has remained steady despite the retarded recovery of the global economy. The attainment of such results is not only a recognition of the efforts of the Group's management and employees, but is also a confirmation of Group's direction of its operations and development.

Turnover

Despite the increasing competition in the PRC pharmaceutical industry during the Period, turnover of the Group still recorded a growth of approximately 17.2% to approximately HK\$99,817,000 as compared to the corresponding period in 2001 and the gross profit margin was maintained at approximately 64% for the Period. This demonstrated the management's effort in attaining growth without compromising margins. The turnover of the Group's Chinese pharmaceutical products increased from approximately HK\$51,664,000 for the six months ended 31st December 2001 to approximately HK\$60,197,000 for the Period, representing an increase of approximately 16.5%. The turnover of naturally-sourced anti-tumour medicines for the Period amounted to approximately HK\$29,038,000, representing an increase of approximately HK\$3,624,000 or 14.3% from that of the corresponding period in the previous year. For the Period, the Group's turnover of the western pharmaceutical products reached approximately HK\$10,582,000, representing an increase of approximately 30.3% as compared to the corresponding period in the previous year.

Gross Profit

Gross profit for the Period increased by approximately 16.0% to approximately HK\$63,602,000 (2001: approximately HK\$54,822,000). Gross profit margin for the Period remained fairly stable at approximately 64%. This reflected the management's efforts in maintaining gross profit margin by controlling the production and distribution costs.

Net Profit

Net profit from ordinary activities attributable to Shareholders for the Period amounted to approximately HK\$40,250,000, representing an increase of approximately HK\$2,414,000 from the corresponding period in the previous year.

PROSPECTS

The Group's mission is to become one of the leading pharmaceutical enterprises in the PRC, focusing primarily on the research and development, manufacture and sale of Chinese pharmaceutical products for women and the elderly, naturally-sourced anti-tumour medicines and western pharmaceutical products. The Group aims to provide excellent returns for the Shareholders and the community.

Adhering to the Group's business development plans and strategies adopted earlier this year, the Group has progressed as scheduled to achieve its targets. The continuous growth and development of its anti-tumour pharmaceutical products with high profit margin not only provide the Group with a better growing revenue, but also provide the Group with resources to pursue its strategic alliance with, and investment in biopharmaceutical companies and pharmaceutical distributors in the PRC. The Directors believe that with the continuous support from the Shareholders and our staff, the business objectives of the Group for the year, as set out in the Prospectus will be achieved.

Continue to launch new products

In order to further increase the market share of the Group's pharmaceutical products and to expand and improve its mixture of products that are currently manufactured and sold, from the beginning of 2003 the Group has launched **Matrine Injection** (苦參素注射液), **Etoposide Injection** (足葉乙甙注射液) and **Sbunbo Injection** (金順鉍注射液), all of which are anti-tumour medicines. The launch of these three products, in addition to the existing major product - topotecan hydrochloride for injection - **Jin Xi Su** (金喜素), enlarges the category of anti-tumour medicines and improves the choice of clinical anti-tumour medicines available to doctors to complement the course of cancer treatment, which the Directors anticipate, will promote the sales of the Group's anti-tumour medicines.

Strengthen the Group's research and development capabilities

The strengthening of the Group's research and development capabilities is expected to play an important role in maintaining the Group's competitive edge to ensure the continuous growth of the Group's business. In the beginning of 2003, the Group's **Zbitong Jiangu Capsules** (止痛健骨膠囊), a Chinese pharmaceutical product for the treatment of arthritis which is expected to be classified as a third category new medicine, passed the pre-clinical research review by the State Drug Administration of the PRC and obtained approval to conduct clinical trial. At the same time, the research and development of other new medicines conducted through strategic alliances with research institutes are underway as planned.

Enhance brand awareness and expand distribution network

In order to explore the Over-the-Counter (“OTC”) market and to enhance brand awareness of the Group’s products, since the beginning of 2003, the Group has through cooperation with distributors and advertisers started advertising campaigns to promote the Group’s *Huangqi Granules* (黃芪顆粒) and other Chinese pharmaceutical products in the provinces of **Guizhou**, **Hubei**, **Guangxi** and **Guangdong**. The Group will assess the results of these promotional campaigns and will, at appropriate time, expand the promotion of such products to other regions in the PRC. With these efforts, the Directors believe the Group will be able to enhance its brand awareness in order to achieve the goal of expanding into the OTC market steadily and speedily.

In order to further explore the sales and distribution network of the Group’s existing products, the Group has commenced to set up sales offices in **Harbin**, **Shanghai**, **Chengdu** and **Wuhan** since early 2003. The Directors believe that the plan for establishing 10 sales offices in the PRC during the current year will be completed on time.

Investing in pharmaceutical distribution enterprises

The opening up of the PRC pharmaceutical distribution industry to foreign companies after the PRC’s accession to the WTO has created intense competition in the industry. Together with the revolution that has already been rapidly taking place in the entire pharmaceutical industry in the PRC, the traditional pharmaceutical distribution enterprises are facing a rising trend of reorganisation through mergers and acquisitions. The Group wishes to take advantage of this opportunity to quickly expand its business by acquiring pharmaceutical distribution companies in order to strengthen its distribution channels and take control over its sales points. In addition, through such acquisitions, the Group can consolidate and bring out synergistic effects between the Group’s manufacturing and distribution functions so as to improve the Group’s profitability and make better use of resources. The Group is currently exploring the possibility of acquiring two to three pharmaceutical sales and distribution enterprises in the PRC with solid asset backings and excellent growth potentials by means of a full take-over or acquiring a controlling interest during 2003. The Directors believe that investments in such enterprises will be complementary to the Group’s existing business and will accelerate the growth of the Group’s business in the pharmaceutical industry in the PRC.

LIQUIDITY AND FINANCIAL RESOURCES

The Group generally finances its operations with internally generated cash flows and banking facilities provided by banks in the PRC. As at 31st December 2002, the Group had cash and bank balances of approximately HK\$147.2 million (30th June 2002: approximately HK\$59.7 million). Its gearing ratio calculated as a ratio of total debt to equity was approximately 33.1% (30th June 2002: approximately 41.3%). Net current assets was approximately HK\$189.5 million (30th June 2002: approximately HK\$74.6 million) and the current ratio was maintained at the healthy level of approximately 4.7 (30th June 2002: approximately 2.2).

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

COMMITMENTS

At the balance sheet date, the Group had contracted commitments in respect of purchases of technical know-how of approximately HK\$3,411,000 (30th June 2002: approximately HK\$4,626,000).

CONTINGENT LIABILITIES

The Group did not have any significant contingent liabilities at the balance sheet date (30th June 2002: Nil).

BANK BORROWINGS

As at 31st December 2002, the Group had outstanding bank loans of approximately HK\$70.0 million (30th June 2002: approximately HK\$46.8 million), approximately 50.7% (30th June 2002: approximately 66.3%) of which were short term bank loans from the banks in the PRC with maturity within one year. All the bank loans of the Group were denominated in Renminbi.

As at 31st December 2002, the Group's bank borrowings were secured by (i) plant and machinery of the Group; (ii) certain buildings of the Group; and (iii) corporate guarantees from three unrelated companies.

SEASONAL OR CYCLICAL FACTORS

The Group's business operations are not significantly affected by any seasonal and cyclical factors.

FOREIGN EXCHANGE EXPOSURE

The Group mainly earns revenue and incurs costs in Renminbi. Foreign exchange exposure of the Group is minimal.

TREASURY POLICIES

During the Period, the Group generally financed its operations with internally generated resources and credit facilities provided by banks in the PRC. Interest rates of most of these were calculated by reference to the PRC bank rates. Both bank deposits and borrowings were mainly denominated in Renminbi.

USE OF PROCEEDS

The Company was listed on the main board of the Stock Exchange on 10th December 2002 by way of placing and public offer. The net proceeds from such placing and public offer amounted to approximately HK\$54.8 million. As at 31st December 2002, the Group had not spent any of the proceeds and such proceeds were placed on short-term deposits with banks in Hong Kong and the PRC. The Board intends to use the net proceeds in the manner and for such purposes as disclosed in the Prospectus.

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

EMPLOYEES, TRAINING AND REMUNERATION POLICIES

As at 31st December 2002, the Group had a total of 598 employees (2001: 416), of whom 591 were based in the PRC, with the rest working in Hong Kong. The employees of the Group were remunerated based on their experience, qualifications, the Group's performance as well as market conditions. During the Period, the Group participated in retirement benefit schemes for both the staff in Hong Kong and the PRC.

The Group has developed its training programmes in a structured and systematic manner for its management and employees. The Group provided regular management and technical related courses to its employees during the Period.

SHARE OPTION SCHEME

The Company operates a share option scheme (the "Scheme") for the purpose of providing incentives and/or rewards to eligible participants who contribute to the success of the Group's operations. The Scheme became effective on the listing date of the Shares on the main board of the Stock Exchange on 10th December 2002 and unless otherwise cancelled or amended, will remain in force for a period of 10 years from 25th November 2002, the date on which the Scheme was conditionally adopted.

During the Period, no options had been granted or agreed to be granted under the Scheme.

INTERIM DIVIDEND

The Directors do not recommend the payment of any interim dividend for the Period (2001: Nil).

ADDITIONAL INFORMATION

DIRECTORS' INTERESTS IN SHARES

As at 31st December 2002, the interests of the directors in the share capital of the Company and its associated corporations, as recorded in the register maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance"), were as follows:

(A) Interests of the Directors in the share capital of the Company

Name of directors	Type of interests			Percentage of shares outstanding
	Personal interests	Family interests	Corporate interests	
Mr. Zhang Peter Y.	—	—	291,497,024 (<i>Note</i>)	51.32%
Mr. Xu Peng	—	—	291,497,024 (<i>Note</i>)	51.32%

Note: These Shares were held by Bull's-Eye Limited, the entire issued share capital of which is beneficially owned as to about 63.15% by Mr. Zhang Peter Y. and as to about 36.85% by Mr. Xu Peng.

(B) Interests of the Directors in the registered capital of the associated corporations

Mr. Deng Jie has beneficial interests in the registered capital of each of the following associated corporations (within the meaning of the SDI Ordinance):

Company name	Percentage of the equity interest	Amount of the registered capital
Guizhou Hanfang Medicine Manufacture Co., Ltd.	3.35%	RMB904,500
Guizhou Hanfang Xifeng Medical Industry Co., Ltd.	5%	RMB150,000

Note: These equity interests were held by Guiyang Headboy Kids Accessories Company Limited, which is beneficially owned as to 95% by Mr. Deng Jie and as to the remaining 5% by Mr. Long Xian Feng.

Mr. Zhang Peter Y. and Mr. Xu Peng beneficially owned 4,159 and 2,427 shares of US\$1 each in Bull's-Eye Limited respectively, an associated corporation (within the meaning of the SDI Ordinance) of the Company, representing approximately 63.15% and 36.85% of the entire issued share capital of Bull's-Eye Limited.

Save as disclosed above, the Company had no notice of any interests required to be recorded under Section 29 of the SDI Ordinance as at 31st December 2002.

ADDITIONAL INFORMATION (continued)

SUBSTANTIAL SHAREHOLDERS

As at 31st December 2002, the following interest of 10% or more of the issued share capital of the Company were recorded in the register of interests in Shares required to be kept by the Company pursuant to section 16 (1) of the SDI Ordinance:

Name	Number of issued shares	Percentage holding
Bull's-Eye Limited (<i>Note</i>)	291,497,024	51.32%

Note: Bull's-Eye Limited is a company incorporated in the British Virgin Islands, the entire issued share capital of which is beneficially owned as to about 63.15% by Mr. Zhang Peter Y. and as to about 36.85% by Mr. Xu Peng. Both Mr. Zhang Peter Y. and Mr. Xu Peng are executive Directors.

Save as disclosed above, no person, other than certain Directors, whose interests are set out in the paragraph headed "Directors' interests in Shares" above, had registered an interest of 10% or more in the issued share capital of the Company that was required to be recorded under Section 16 (1) of the SDI Ordinance as at 31st December 2002.

PURCHASE, SALE OF REDEMPTION OF SHARES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the listed securities of the Company during the Period.

AUDIT COMMITTEE

The Company established the Audit Committee on 20th September 2002 and formulated written terms of reference for the Audit Committee in accordance with the requirements of the Stock Exchange. The members of the Audit Committee are Professor Kung Hsiang-Fu and Professor Tso Wung-Wai, both are independent non-executive Directors. The primary duties of the Audit Committee are to review the Company's annual and interim reports and to review and supervise the Company's financial reporting and internal control procedures.

The Audit Committee has reviewed the accounting principles and practices adopted by the Group and discussed the auditing, internal controls and financial reporting matters, including the review of the unaudited interim financial statements of the Group.

COMPLIANCE WITH THE CODE OF BEST PRACTICE

None of the Directors is aware of any information which would indicate that the Company was not in compliance with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") at any time during the Period, save that the two independent non-executive Directors are not appointed for a fixed term but are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the provisions of the Company's articles of association.

On behalf of the Board

Zhang Peter Y.

Chairman and Chief Executive

Hong Kong, 18th March 2003