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Hua Han Bio-Pharmaceutical Holdings Limited  
華瀚生物製藥控股有限公司  
(incorporated in the Cayman Islands with limited liability)

[Interim Report 2004 >>](#)

## **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-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

(*Chairman of audit committee*)

Professor Tso Wung-Wai

### **COMPANY SECRETARY**

Mr. Tang Siu Kun, Stephen

### **REGISTERED OFFICE**

Century Yard

Cricket Square

Hutchins Drive

P.O. Box 2681 GT

George Town

Grand Cayman

British West Indies

### **HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG**

Room 704, 7th Floor

Aon China Building

29 Queen's Road Central

Hong Kong

### **PRINCIPAL BANKERS**

The Hongkong 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 ADVISERS AS TO HONG KONG LAWS**

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

### **PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE**

Bank of Butterfield International

(Cayman) Ltd.

Butterfield House

68 Fort Street

P.O. Box 705

George Town

Grand Cayman

Cayman Islands

### **HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE**

Tengis Limited

28th Floor, Bank of East Asia

Harbour View Centre

56 Gloucester Road, Wanchai, Hong Kong

## UNAUDITED 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 31 December 2003 (the “**Period**”) together with the comparative figures for the corresponding period in 2002 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

|  |              | <b>Six months ended</b>   |                    |
|--|--------------|---------------------------|--------------------|
|  |              | <b>31 December</b>        |                    |
|  |              | <b>2003</b>               | 2002               |
|  |              | <b>(Unaudited)</b>        | (Unaudited)        |
|  | <i>Notes</i> | <b>HK\$'000</b>           | <i>HK\$'000</i>    |
| TURNOVER   | 3            | <b>237,310</b>            | 99,817             |
| Cost of sales  |              | <b>(165,804)</b>          | (36,215)           |
| Gross profit   |              | <b>71,506</b>             | 63,602             |
| Other revenue  |              | <b>6,493</b>              | 469                |
| Selling and distribution costs   |              | <b>(11,582)</b>           | (5,496)            |
| Administrative expenses  |              | <b>(12,672)</b>           | (6,964)            |
| PROFIT FROM OPERATING<br>ACTIVITIES                                    | 5            | <b>53,745</b>             | 51,611             |
| Finance costs  | 6            | <b>(2,432)</b>            | (1,829)            |
| PROFIT BEFORE TAX  |              | <b>51,313</b>             | 49,782             |
| Tax  | 7            | <b>(7,107)</b>            | (8,069)            |
| PROFIT BEFORE MINORITY<br>INTERESTS                                    |              | <b>44,206</b>             | 41,713             |
| Minority interests   |              | <b>(135)</b>              | (1,463)            |
| NET PROFIT FROM ORDINARY<br>ACTIVITIES ATTRIBUTABLE<br>TO SHAREHOLDERS |              | <b><u>44,071</u></b>      | <u>40,250</u>      |
| Dividend   |              | <u>–</u>                  | <u>–</u>           |
| Earnings per share   | 8            |                           |                    |
| – Basic  |              | <b><u>HK7.2 cents</u></b> | <u>HK8.4 cents</u> |
| – Diluted  |              | <b><u>HK7.0 cents</u></b> | <u>N/A</u>         |

## CONDENSED CONSOLIDATED BALANCE SHEET

|  |    | As at<br>31 December<br>2003<br>(Unaudited)<br>HK\$'000 | As at<br>30 June<br>2003<br>(Audited)<br>HK\$'000 |
|--|----|---|---|
| <b>NON-CURRENT ASSETS</b>                        |    |   |   |
| Fixed assets                                     | 9  | 123,659   | 102,133   |
| Investment in a jointly-controlled entity        |    | –   | –   |
| Investment in an associate                       |    | 1,000   | –   |
| Intangible assets                                |    | (17,673)  | (25,141)  |
| Long term deposits                               |    | 9,457   | 9,303   |
|  |    | <u>116,443</u>  | <u>86,295</u>                                     |
| <b>CURRENT ASSETS</b>                            |    |   |   |
| Inventories                                      |    | 44,438  | 15,406  |
| Trade receivables                                | 10 | 155,525   | 107,254   |
| Prepayments, deposits and other receivables      |    | 73,347  | 69,389  |
| Pledged bank deposits                            |    | 32,504  | –   |
| Cash and bank balances                           |    | 214,124   | 105,019   |
|  |    | <u>519,938</u>  | <u>297,068</u>                                    |
| <b>CURRENT LIABILITIES</b>                       |    |   |   |
| Trade and bills payable                          | 11 | 61,922  | 26,093  |
| Tax payable                                      |    | 5,818   | 5,721   |
| Accrued liabilities and other payables           |    | 24,069  | 10,523  |
| Other loans                                      |    | –   | 12,149  |
| Bank loans, secured                              |    | 66,468  | 52,169  |
| Finance lease payables                           |    | 159   | 234   |
|  |    | <u>158,436</u>  | <u>106,889</u>                                    |
| <b>NET CURRENT ASSETS</b>                        |    | <u>361,502</u>  | <u>190,179</u>                                    |
| <b>TOTAL ASSETS LESS<br/>CURRENT LIABILITIES</b> |    | <b>477,945</b>  | <b>276,474</b>                                    |
| <b>NON-CURRENT LIABILITIES</b>                   |    |   |   |
| Bank loans, secured                              |    | 57,831  | 18,692  |
| Finance lease payables                           |    | –   | 40  |
| Convertible bonds                                |    | 25,733  | –   |
|  |    | <u>83,564</u>   | <u>18,732</u>                                     |
| <b>MINORITY INTERESTS</b>                        |    | <u>37,795</u>   | <u>253</u>  |
|  |    | <u>356,586</u>  | <u>257,489</u>                                    |
| <b>CAPITAL AND RESERVES</b>                      |    |   |   |
| Issued capital                                   | 12 | 64,968  | 56,800  |
| Reserves   |    | 291,618   | 188,278   |
| Proposed final dividend                          |    | –   | 12,411  |
|  |    | <u>356,586</u>  | <u>257,489</u>                                    |

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

|  | From 1 July 2002 to 31 December 2003 |  |   |  |  |                          |
|--|--------------------------------------|--|---|--|--|--------------------------|
|  | Issued<br>capital<br><i>HK\$'000</i> | Share<br>premium<br>account<br><i>HK\$'000</i> | Statutory<br>reserve<br>fund<br><i>HK\$'000</i> | Asset<br>revaluation<br>reserve<br><i>HK\$'000</i> | Retained<br>profits<br><i>HK\$'000</i> | Total<br><i>HK\$'000</i> |
| <b>At 1 July 2002</b>                                  |                                      |  |   |  |  |                          |
| (Audited)  | 200                                  | 22,588   | 1,402   | –  | 89,256                                 | 113,446                  |
| Issue of new shares                                    | 9,940                                | 66,598   | –   | –  | –                                      | 76,538                   |
| Share issue expenses                                   | –                                    | (21,761)                                       | –   | –  | –                                      | (21,761)                 |
| Capitalisation issue                                   | 46,660                               | (46,660)                                       | –   | –  | –                                      | –                        |
| Revaluation surplus                                    | –                                    | –  | –   | 3,030  | –                                      | 3,030                    |
| Profit for the period                                  | –                                    | –  | –   | –  | 40,250                                 | 40,250                   |
|  | <u>          </u>                    | <u>          </u>                              | <u>          </u>                               | <u>          </u>                                  | <u>          </u>                      | <u>          </u>        |
| <b>At 31 December 2002</b>                             |                                      |  |   |  |  |                          |
| (Unaudited)  | 56,800                               | 20,765   | 1,402   | 3,030  | 129,506                                | 211,503                  |
| Revaluation surplus                                    | –                                    | –  | –   | 353  | –                                      | 353                      |
| Profit for the period                                  | –                                    | –  | –   | –  | 45,633                                 | 45,633                   |
| Transfer to statutory<br>reserve fund                  | –                                    | –  | 11,215  | –  | (11,215)                               | –                        |
| Proposed final<br>dividend                             | –                                    | –  | –   | –  | (12,411)                               | (12,411)                 |
|  | <u>          </u>                    | <u>          </u>                              | <u>          </u>                               | <u>          </u>                                  | <u>          </u>                      | <u>          </u>        |
| <b>At 30 June 2003</b>                                 |                                      |  |   |  |  |                          |
| (Audited)  | 56,800                               | 20,765   | 12,617  | 3,383  | 151,513                                | 245,078                  |
| Exercise of share<br>options                           | 4,800                                | 32,160   | –   | –  | –                                      | 36,960                   |
| Share issue upon<br>conversion of<br>convertible bonds | 3,368                                | 33,271   | –   | –  | –                                      | 36,639                   |
| Share issue expenses                                   | –                                    | (6,162)  | –   | –  | –                                      | (6,162)                  |
| Profit for the period                                  | –                                    | –  | –   | –  | 44,071                                 | 44,071                   |
|  | <u>          </u>                    | <u>          </u>                              | <u>          </u>                               | <u>          </u>                                  | <u>          </u>                      | <u>          </u>        |
| <b>At 31 December 2003</b>                             |                                      |  |   |  |  |                          |
| (Unaudited)  | <u>64,968</u>                        | <u>80,034</u>                                  | <u>12,617</u>                                   | <u>3,383</u>                                       | <u>195,584</u>                         | <u>356,586</u>           |

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

|  | <b>Six months ended</b> |             |
|--|-------------------------|-------------|
|  | <b>31 December</b>      |             |
|  | <b>2003</b>             | 2002        |
|  | <b>(Unaudited)</b>      | (Unaudited) |
|  | <b>HK\$'000</b>         | HK\$'000    |
| NET CASH INFLOW FROM OPERATING ACTIVITIES            | <b>13,574</b>           | 11,702      |
| Net cash inflow (outflow) from investing activities  | <b>6,560</b>            | (2,743)     |
| Net cash inflow from financing activities            | <b>88,971</b>           | 78,598      |
| INCREASE IN CASH AND CASH EQUIVALENTS                | <b>109,105</b>          | 87,557      |
| Cash and cash equivalents at beginning of period     | <b>105,019</b>          | 59,652      |
| CASH AND CASH EQUIVALENTS<br>AT END OF PERIOD        | <b>214,124</b>          | 147,209     |
| ANALYSIS OF BALANCES OF CASH AND<br>CASH EQUIVALENTS |                         |             |
| Cash and bank balances                               | <b>214,124</b>          | 147,209     |



## 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 28 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 10 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 20 September 2002. Details of the Reorganisation are set out in the prospectus (the “**Prospectus**”) dated 28 November 2002 issued by the Company.

The condensed consolidated interim financial statements include the financial statements of the Company and its subsidiaries for the period ended 31 December 2003. The results of subsidiaries acquired or disposed of during the period are consolidated from or to their effective dates of acquisition or disposal, respectively. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

The condensed consolidated interim financial statements for the corresponding period last year have been prepared using the merger basis of accounting. Under this basis, the condensed consolidated interim financial statements for the corresponding period 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 20 September 2002 or since their respective dates of incorporation, where this is a shorter period.

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

### 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” issued by the Hong Kong Society of Accountants.

The principal accounting policies adopted in the preparation of the condensed consolidated interim financial statements are consistent with those set out in the Group’s audited financial statements for the year ended 30 June 2003, except that SSAP12 (Revised) “Income Taxes” has been adopted for the first time in the preparation of the current period’s interim financial statements.

#### *SSAP12 (Revised) “Income Taxes”*

SSAP12 (Revised) prescribes the basis for accounting for income taxes payable or recoverable, arising from the taxable profit or loss for the current period (current tax); and income taxes payable or recoverable in future periods, principally arising from taxable and deductible temporary differences and the carryforward of unused tax losses (deferred tax).

The adoption of this revised SSAP 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 net invoiced value of goods sold, after allowances for returns and trade discounts. All significant intra-group transactions have been eliminated on consolidation.

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

**4. Segment information**

The following table presents revenue and profit information for the Group's business segments.

|  | <b>Manufacturing<br/>(Unaudited)<br/>Six months<br/>ended<br/>31 December<br/>2003<br/>HK\$'000</b> | <b>Trading<br/>(Unaudited)<br/>Six months<br/>ended<br/>31 December<br/>2003<br/>HK\$'000</b> | <b>Consolidated<br/>(Unaudited)<br/>Six months ended<br/>31 December<br/>2003      2002<br/>HK\$'000      HK\$'000</b> |                      |
|--|---|---|--|----------------------|
| Segment revenue  |   |   |  |                      |
| Sales to external customers                                      | <u>118,369</u>  | <u>118,941</u>  | <u>237,310</u>   | <u>99,817</u>        |
| Segment profits  | <u>51,946</u>   | <u>4,408</u>  | <u>56,354</u>  | <u>53,616</u>        |
| Interest income  |   |   | 1,528  | 408                  |
| Net unallocated expenses   |   |   | <u>(4,137)</u>   | <u>(2,413)</u>       |
| Profit from operating activities                                 |   |   | 53,745   | 51,611               |
| Finance costs  |   |   | <u>(2,432)</u>   | <u>(1,829)</u>       |
| Profit before tax  |   |   | 51,313   | 49,782               |
| Tax  |   |   | <u>(7,107)</u>   | <u>(8,069)</u>       |
| Profit before minority interests                                 |   |   | 44,206   | 41,713               |
| Minority interests   |   |   | <u>(135)</u>   | <u>(1,463)</u>       |
| Net profit from ordinary activities attributable to shareholders |   |   | <u><u>44,071</u></u>   | <u><u>40,250</u></u> |

The trading business was acquired after June 2003 and did not contribute any revenue and operating results to the Group for the period ended 31 December 2002. The Group's results for the six months ended 31 December 2002 were only attributable to the manufacturing segment.

**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 |                 |
|  | 31 December      |                 |
|  | 2003             | 2002            |
|  | <i>HK\$'000</i>  | <i>HK\$'000</i> |
| Cost of inventories sold               | 165,804          | 36,215          |
| Staff costs                            | 6,665            | 3,505           |
| Depreciation                           | 2,374            | 1,873           |
| Loss on disposal of fixed assets       | 178              | 2               |
| Amortisation of intangible assets, net | (2,590)          | 389             |
| Interest income on bank balances       | <u>(1,528)</u>   | <u>(408)</u>    |

**6. Finance costs**

|   | (Unaudited)      |                 |
|---|------------------|-----------------|
|   | Six months ended |                 |
|   | 31 December      |                 |
|   | 2003             | 2002            |
|   | <i>HK\$'000</i>  | <i>HK\$'000</i> |
| Interest expense on:                          |                  |                 |
| Bank loans wholly repayable within five years | 2,220            | 1,814           |
| Finance lease                                 | 7                | 15              |
| Convertible bonds                             | <u>205</u>       | <u>—</u>        |
|   | <u>2,432</u>     | <u>1,829</u>    |

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

**7. Tax**

|  | <b>(Unaudited)</b>      |                 |
|--|-------------------------|-----------------|
|  | <b>Six months ended</b> |                 |
|  | <b>31 December</b>      |                 |
|  | <b>2003</b>             | 2002            |
|  | <b>HK\$'000</b>         | <i>HK\$'000</i> |
| Current period provision – outside Hong Kong | <u>7,107</u>            | <u>8,069</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 (2002: 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 temporary differences at the balance sheet date (2002: Nil).

**8. Earnings per share**

The calculation of earnings per share of the Group for the Period is as follows:

|   | <b>(Unaudited)</b>        |                    |
|---|---------------------------|--------------------|
|   | <b>Six months ended</b>   |                    |
|   | <b>31 December</b>        |                    |
|   | <b>2003</b>               | 2002               |
|   | <b>HK\$'000</b>           | <i>HK\$'000</i>    |
| <u>Basic</u>  |                           |                    |
| Profit attributable to shareholders                                   | 44,071                    | 40,250             |
|   | <b>No. of shares</b>      | No. of shares      |
|   | <b>('000)</b>             | <b>('000)</b>      |
| Weighted average number of ordinary shares in issue during the Period | <u>610,833</u>            | <u>480,485</u>     |
| Basic earnings per share  | <u><b>HK7.2 cents</b></u> | <u>HK8.4 cents</u> |

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (continued)

8. Earnings per share (continued)

|   | (Unaudited)          |               |
|---|----------------------|---------------|
|   | Six months ended     |               |
|   | 31 December          |               |
|   | 2003                 | 2002          |
|   | HK\$'000             | HK\$'000      |
| <u>Diluted</u>  |                      |               |
| Profit attributable to shareholders before interest paid for convertible bonds  | 44,276               | N/A           |
|   | <b>No. of shares</b> | No. of shares |
|   | ('000)               | ('000)        |
| Weighted average number of ordinary shares in issue during the Period   | 610,833              | N/A           |
| <i>Add:</i> Number of ordinary shares deemed to be issued on full conversion of convertible bonds at fixed conversion price | 11,155               | N/A           |
| <i>Add:</i> Number of ordinary shares deemed to be issued at nil consideration on exercise of all outstanding share options | 8,194                | N/A           |
|   | <u>630,182</u>       | <u>N/A</u>    |
| Diluted earnings per share  | <u>HK7.0 cents</u>   | <u>N/A</u>    |

No diluted earnings per share amount has been shown for the period ended 31 December 2002 because the exercise price of the PI Options (as defined in Appendix IV to the Prospectus) outstanding was higher than the average market price of the shares during that period and, accordingly, there was no dilutive effect on the basic earnings per share for the period ended 31 December 2002.

9. Fixed assets

|                             | HK\$'000       |
|-----------------------------|----------------|
| Balance at 1 July 2003      | 102,133        |
| Acquisition of subsidiaries | 1,647          |
| Other additions             | 22,474         |
| Disposals                   | (221)          |
| Depreciation (note 5)       | <u>(2,374)</u> |
| Balance at 31 December 2003 | <u>123,659</u> |

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

**10. Trade receivables**

The aging analysis of the Group's trade receivables is as follows:

|                            | <b>As at<br/>31 December<br/>2003<br/>(Unaudited)<br/>HK\$'000</b> | <b>As at<br/>30 June<br/>2003<br/>(Audited)<br/>HK\$'000</b> |
|----------------------------|--|--|
| Outstanding balances aged: |  |  |
| Within 90 days             | 106,624  | 70,572   |
| 91 – 180 days              | 38,101   | 31,839   |
| 181 – 365 days             | 10,698   | 4,843  |
| Over 1 year                | 102  | –  |
|                            | <u>155,525</u>   | <u>107,254</u>   |

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

**11. Trade and bills payable**

|                          | <b>As at<br/>31 December<br/>2003<br/>(Unaudited)<br/>HK\$'000</b> | <b>As at<br/>30 June<br/>2003<br/>(Audited)<br/>HK\$'000</b> |
|--------------------------|--|--|
| Trade and bills payable: |  |  |
| Trade payables           | 39,917   | 26,093   |
| Bills payable            | 22,005   | –  |
|                          | <u>61,922</u>  | <u>26,093</u>  |

The aging analysis of the Group's trade and bills payable is as follows:

|                            | <b>As at<br/>31 December<br/>2003<br/>(Unaudited)<br/>HK\$'000</b> | <b>As at<br/>30 June<br/>2003<br/>(Audited)<br/>HK\$'000</b> |
|----------------------------|--|--|
| Outstanding balances aged: |  |  |
| Within 90 days             | 45,323   | 19,837   |
| 91 – 180 days              | 11,995   | 2,932  |
| 181 – 365 days             | 4,079  | 1,578  |
| Over 1 year                | 525  | 1,746  |
|                            | <u>61,922</u>  | <u>26,093</u>  |

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

**12. Share capital**

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

|  | <b>Number of<br/>authorised<br/>Shares</b> | <b>Number of<br/>issued<br/>Shares</b> | <b>Nominal<br/>value of<br/>issued Shares<br/>which<br/>have been<br/>paid up or<br/>credited as<br/>paid up</b> |
|--|--|--|--|
| <i>Notes</i>   | <i>('000)</i>                              | <i>('000)</i>                          | <i>HK\$'000</i>  |
| On incorporation, Shares allotted and issued nil paid  | 1,000                                      | 1,000                                  | –  |
| Share capital as at 30 June 2002   | 1,000                                      | 1,000                                  | –  |
| Increase in authorised share capital   | 1,999,000                                  | –                                      | –  |
| On acquisition of Intended Features Limited:   |  |  |  |
| Shares issued as consideration   | –  | 1,000                                  | 100  |
| Application of share premium to pay up nil paid Shares   | –  | –                                      | 100  |
| Capitalisation issue credited as fully paid conditional on the share premium account of the Company to be credited as a result of new Shares offered to the public | –  | 466,600                                | –  |
| Pro forma share capital as at 30 June 2002   | 2,000,000                                  | 468,600                                | 200  |
| New issue on public listing  | –  | 99,400                                 | 9,940  |
| Capitalisation of the share premium account as set out above   | –  | –                                      | 46,660   |
| Share capital as at 31 December 2002 and 30 June 2003  | 2,000,000                                  | 568,000                                | 56,800   |
| Exercise of share options  | <i>(a)</i> –                               | 48,000                                 | 4,800  |
| Share issue upon conversion of convertible bonds   | <i>(b)</i> –                               | 33,684                                 | 3,368  |
| <b>Share capital as at 31 December 2003</b>  | <b><u>2,000,000</u></b>                    | <b><u>649,684</u></b>                  | <b><u>64,968</u></b>   |



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

**12. Share capital** *(continued)*

The changes in the Company's share capital during the Period are as follows:

- (a) During the Period, certain PI Options (as defined in the Prospectus) were exercised and 48,000,000 Shares were issued, credited as fully paid.
- (b) During the Period, part of convertible bonds were converted into 33,684,000 Shares by Credit Suisse First Boston (Hong Kong) Limited ("CSFB"), resulting in the issue of 33,684,000 Shares, credited as fully paid.

**13. Operating lease commitments**

*As lessee*

The Group leases certain land and buildings under operating lease arrangements. Leases for properties are negotiated for terms ranging from one year to ten years.

At 31 December 2003, the Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

|   | <b>31 December<br/>2003<br/>(Unaudited)<br/>HK\$'000</b> | 30 June<br>2003<br>(Audited)<br>HK\$'000 |
|---|--|--|
| Within one year                         | <b>1,233</b>   | 1,019                                    |
| In the second to fifth years, inclusive | <b>2,129</b>   | –  |
| After five years                        | <b>1,673</b>   | –  |
|   | <b><u>5,035</u></b>                                      | <b><u>1,019</u></b>                      |

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

**14. Commitments**

The Group had the following commitments as at the balance sheet date:

- a) contracted commitments of HK\$3,099,000 (30 June 2003: HK\$3,099,000) in respect of purchases of technical knowhow; and
- b) contracted commitments of HK\$2,398,000 (30 June 2003: HK\$2,467,000) in respect of purchases of plant and machinery.

**15. Contingent liabilities**

As at 31 December 2003, the Group did not have any material contingent liabilities (30 June 2003: Nil).

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **BUSINESS REVIEW**

For the Period, the Group recorded satisfactory operating results. Facing the structural reform of the pharmaceutical industry in the People's Republic of China (the "PRC") after the PRC's accession into the World Trade Organisation, in order to capture the market share of its products, expand its sales network and provide a national trading platform as part of the Group's strategies of business growth, following a successful acquisition of a state-owned pharmaceutical distribution enterprise in the southwestern region of the PRC last year. During the Period, the Group acquired other two pharmaceutical distribution enterprises situated at Hubei and Guizhou respectively. These three pharmaceutical distribution enterprises have obtained the GSP Certification issued by the State Food and Drug Administration ("SFDA") of the PRC. Through the above acquisitions, the Group can expand its sales points and distribution channels rapidly, reduce operating costs and utilise the operating resources more efficiently by way of vertical integration, which will in turn enhance the competitiveness of the Group and help the Group maintain a steady growth in profit.

### **FINANCIAL PERFORMANCE**

During the Period, the Group recorded a turnover of approximately HK\$237,310,000, representing a growth of 137.7% over the corresponding period last year, which amounted to HK\$99,817,000. Gross profit during the Period was HK\$71,506,000, representing an increase of approximately 12.4% over the corresponding period last year. Net profit from ordinary activities attributable to shareholders during the Period was approximately HK\$44,071,000, with an increase of approximately 9.5% compared with that of the corresponding period last year.

The growth in turnover was mainly attributable to the Group's strategic acquisitions on sales and distribution network. The three newly acquired pharmaceutical distribution enterprises contributed 50% to the Group's turnover during the Period and it is expected that the sales volume of these enterprises will continue to rise.

### **PROSPECTS**

The Group has always committed to striving to be one of the leading pharmaceutical enterprises specialising in the production and sales of pharmaceutical products for women and the elderly, nursing products, healthcare products for women and keep-fit products for women in the PRC.

## MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

### **Integrating pharmaceutical business resources and realising synergistic advantages of the Group**

In the coming years, the development of a modern logistics distribution system for large-scale pharmaceutical retail enterprises and pharmaceutical chain stores would be the new direction in the pharmaceutical business in the PRC. In view of the growth of the business of the Group, the Group will foster the integration of its existing business and fully realise its respective business advantages in order to cope with the rapid changes in the pharmaceutical industry in the PRC. It would also focus on the development of the front-end and end-user pharmaceutical product markets to expand its market share and to form an intensive and sizable operation rapidly, enabling the Group to become a leading national pharmaceutical distribution enterprise with regional competitive strengths.

In the meantime, in order to further expand the sales and distribution network of the Group's existing products, to develop the over-the-counter ("OTC") market and to enhance the brand awareness of the Group's products, the Group will establish additional sales representative offices in Chongqing, Kunming, Shenzhen, Beijing, Tianjing, Xian, Lanzhou and Changsha. The Group also plans to establish and expand its existing product sales network and the business connections with its business partners and thus enlarge the customer network and national trading platform.

The Directors believe that the Group would, through the abovementioned efforts, establish an extensive marketing network by integrating points of sales of market coverage and build up a sales network and create pharmaceutical distribution channels, which are of regional competitive advantages, covering hospital sales and extensive OTC markets. Therefore, the aims of integrating resources of both upstream and downstream in the pharmaceutical industry, reducing operating costs, increasing economies of scale and raising profitability would be achieved.

### **Continued introduction of new products**

In order to maintain the growth of business of the Group and to strengthen and improve its production and sales of its existing product mix, the Group intends to introduce three to five new pharmaceutical products, including Leigongtengduodai Tablet (雷公滕多忒片), Qinghuo Yangyuan Capsule (清火養元膠囊) and Kushen Shuan (苦參栓), progressively during the year. The Directors expect that the product mix and source of income would be further widened by the introduction of the above new products.

## MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

### **Strengthen the research and development capabilities of the Group**

It is of utmost importance to strengthen the research and development capabilities of the Group in maintaining its competitive edges and assuring the Group's continued business growth. In early 2004, through its technical expertise and research and development capabilities, the Group led the research and development of Secmidazole (塞克硝唑), which is expected to be classified as the Category IV new medicine of chemical pharmaceutical products. Secmidazole has passed the pre-clinical research examination carried out by SFDA and obtained the approval for clinical trials. Secmidazole is an anti-Amoebiasis and Genitourinary hair trichomoniasis pharmaceutical product. It is applied generally for clinical use, with remarkable curative effects, in curing gynecological diseases such as Amoebiasis, Giardiasis, Genitourinary hair trichomoniasis and bacterial vaginitis, and the application is well recognised by doctors and patients. The Directors expect that successful development of this pharmaceutical product will not only strengthen the competitiveness of the Group's pharmaceutical products for women, but also consolidate and expand its sales of products in such category in hospitals. In addition, the research and development projects of other new medicines carried out by the strategic alliances with other research institutes, are currently in progress.

### **LIQUIDITY AND FINANCIAL RESOURCES**

The Group generally finances its operations with internally generated cash flows and banking facilities provided by banks in the PRC and Hong Kong. As at 31 December 2003, the Group had cash and bank balances of approximately HK\$214 million (30 June 2003: approximately HK\$105 million). Its gearing ratio calculated as a ratio of total debt to equity was approximately 42.1% (30 June 2003: approximately 27.6%). Net current asset value was approximately HK\$362 million (30 June 2003: approximately HK\$190 million) and the current ratio was maintained at the healthy level of approximately 3.3 (30 June 2003: approximately 2.8).

### **COMMITMENTS**

The Group had the following commitments as at 31 December 2003:

- a) contracted commitments of HK\$3,099,000 (30 June 2003: HK\$3,099,000) in respect of purchases of technical knowhow; and
- b) contracted commitments of HK\$2,398,000 (30 June 2003: HK\$2,467,000) in respect of purchases of plant and machinery.

### **CONTINGENT LIABILITIES**

As at 31 December 2003, the Group did not have any material contingent liabilities (30 June 2003: Nil).

## MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

### BANK BORROWINGS

As at 31 December 2003, the Group had outstanding bank loans of approximately HK\$124 million from the banks in the PRC and Hong Kong (30 June 2003: approximately HK\$71 million), approximately 53.5% (30 June 2003: approximately 73.6%) of which were short term bank loans with maturity within one year. All the bank loans of the Group were denominated in Renminbi and Hong Kong Dollar.

As at 31 December 2003, the Group's bank borrowings were secured by (i) certain plant and machinery of the Group; (ii) certain buildings of the Group; (iii) pledge of fixed deposits; and (iv) corporate guarantees from the Company.

### ACQUISITION OF PHARMACEUTICAL ENTERPRISES

On 30 July 2003 and 3 November 2003, the Group acquired 51% equity interest in each of 貴州鴻邦藥品有限公司 (Guizhou Hongbang Pharmaceuticals Company Limited ("**Guizhou Hongbang**")) and 深圳市新創生物醫藥創業投資有限公司 (Shenzhen Xinchuang Bio-Pharmaceutical Pioneering Investment Company Limited\* ("**Shenzhen Xinchuang**")) respectively, from certain independent third parties. Shenzhen Xinchuang is an investment holding company whose sole investment is the holding of approximately 51.72% equity interest in the entire registered capital of 湖北康萊醫藥有限公司 (Hubei Kanglai Medicine Company Limited\* ("**Kanglai Medicine**")). Guizhou Hongbang and Kanglai Medicine are both engaged in the trading of pharmaceutical products, healthcare products, and medical appliances and equipment.

### SEASONAL OR CYCLICAL FACTORS

During the Period, the Group's business operations were not significantly affected by any seasonal and cyclical factors.

### FOREIGN EXCHANGE EXPOSURE

During the Period, the Group mainly earned revenue and incurred costs in Renminbi. Renminbi was relatively stable during the Period. The Directors considered that the Group's exposure to fluctuation in foreign exchange rate was minimal, and accordingly, the Group did not employ any financial instruments for hedging purpose.

### TREASURY POLICIES

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

\* *for identification purpose only*

## MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

### USE OF PROCEEDS FROM NEW ISSUE

The net proceeds from the placing and public offer of new Shares by the Company in December 2002 (“**New Issue**”) amounted to approximately HK\$54.8 million, of which HK\$48.5 million were applied before 30 June 2003 and fully explained in the annual report for the year ended 30 June 2003. During the Period, the Group had utilised the remaining HK\$6.3 million as follows:–

- approximately HK\$1.3 million for the Group’s research and development centre and relocation of the Group’s head office in the PRC;
- approximately HK\$3.0 million for the establishment of 10 sales offices in the PRC to expand the Group’s sales and distribution network; and
- for the remaining HK\$2.0 million which originally planned for, investing in a joint venture with a pharmaceutical company in Hong Kong for the manufacture and sale of products developed by the Company in the PRC as set out in the Prospectus, as the joint venture agreement was lapsed during the Period and the intended use is not applicable, the proceeds of HK\$2.0 million are retained and used as working capital of the Group.

### EMPLOYEES, TRAINING AND REMUNERATION POLICIES

As at 31 December 2003, the Group had a total of 1,061 employees (2002: 598), of whom 1,054 were based in the PRC, with the rest working in Hong Kong. The substantial growth in the number of employees was mainly contributed from the newly acquired subsidiaries. The employees of the Group were remunerated based on their experience, qualifications, the Group’s performance as well as market conditions. During the Period, staff costs (including Directors’ remunerations) amounted to approximately HK\$6,665,000 (2002: approximately HK\$3,505,000). The Group participated in retirement benefit schemes for its staff both 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 (“**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 25 November 2002, and unless otherwise cancelled or amended, will remain in force for a period of 10 years from that day.

Options carrying the rights to subscribe for a total of 56,600,000 Shares were granted under the Scheme, which are exercisable at the exercise price of HK\$1.19 per Share during the period from 16 May 2003 to 15 May 2005. No option lapsed or was cancelled during the Period. As at 31 December 2003, options carrying the rights to subscribe for 56,600,000 Shares were outstanding.

## MANAGEMENT DISCUSSION AND ANALYSIS (continued)

### SHARE OPTION SCHEME (continued)

Details of the movement during the Period of options granted under the Scheme are as follows:

#### Number of underlying Shares

| Class of grantee            | Date of grant | Outstanding as at 1 July 2003 | Granted during the Period | Exercised during the Period | Lapsed during the Period | Outstanding as at 31 December 2003 | Exercise price per share (HK\$) | Exercise period                |
|-----------------------------|---------------|-------------------------------|---------------------------|-----------------------------|--------------------------|------------------------------------|---------------------------------|--------------------------------|
| Directors<br>(Note 1)       | 16/05/2003    | 17,000,000                    | -                         | -                           | -                        | 17,000,000                         | 1.19                            | 16/05/2003<br>to<br>15/05/2005 |
| Other employees<br>(Note 2) | 16/05/2003    | 25,100,000                    | -                         | -                           | -                        | 25,100,000                         | 1.19                            | 16/05/2003<br>to<br>15/05/2005 |
| Advisers to<br>the Group    | 16/05/2003    | 14,500,000                    | -                         | -                           | -                        | 14,500,000                         | 1.19                            | 16/05/2003<br>to<br>15/05/2005 |
|                             |               | <u>56,600,000</u>             | <u>-</u>                  | <u>-</u>                    | <u>-</u>                 | <u>56,600,000</u>                  |                                 |                                |

#### Notes:

1. Details of options granted to each of the Directors are set out in the paragraph headed "Directors' rights to acquire shares or debentures" in this report below.
2. Other employees include employees of the Group (other than the Directors) working under employment contracts with the Group which are regarded as "continuous contracts" for the purpose of the Employment Ordinance (Cap.57, Laws of Hong Kong).

### INTERIM DIVIDEND

The Directors do not recommend the payment of any interim dividend for the Period (2002: Nil).



## ADDITIONAL INFORMATION

### DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2003, the interests and short positions of the Directors and chief executive of the Company in the shares or underlying shares or, as the case may be, the equity interest and debentures of the Company or its associated corporations (within the meaning of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) ("**SF Ordinance**")) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SF Ordinance (including interests and short positions which he was taken or deemed to have under such provisions of the SF Ordinance), or which were required, pursuant to section 352 of the SF Ordinance, to be entered in the register maintained by the Company referred to therein; or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Rules Governing the Listing of Securities on the Stock Exchange ("**Listing Rules**"), to be notified to the Company and the Stock Exchange were as follows:

| <b>Name of Directors</b> | <b>The Company/name of associated corporation</b> | <b>Capacity</b>                    | <b>Number and class of Securities/percentage in equity interest</b><br><i>(Note 1)</i> |
|--------------------------|---|------------------------------------|--|
| Zhang Peter Y.           | The Company                                       | Interest of controlled corporation | 291,497,024 Shares (L)<br><i>(Note 2)</i>  |
|                          | The Company                                       | Beneficial owner                   | 500,000 Shares (L)<br><i>(Note 4)</i>  |
|                          | Bull's-Eye Limited                                | Beneficial owner                   | 4,159 ordinary shares of US\$1 each (L) <i>(Note 2)</i>                                |
| Xu Peng                  | The Company                                       | Interest of controlled corporation | 291,497,024 Shares (L)<br><i>(Note 2)</i>  |
|                          | The Company                                       | Beneficial owner                   | 500,000 Shares (L)<br><i>(Note 4)</i>  |
|                          | Bull's-Eye-Limited                                | Beneficial owner                   | 2,427 ordinary shares of US\$1 each (L) <i>(Note 2)</i>                                |

## ADDITIONAL INFORMATION *(continued)*

### DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES *(continued)*

| Name of Directors | The Company/name of associated corporation        | Capacity                           | Number and class of Securities/percentage in equity interest<br><i>(Note 1)</i> |
|-------------------|---|------------------------------------|---|
| Deng Jie          | The Company                                       | Beneficial owner                   | 5,000,000 Shares (L)<br><i>(Note 4)</i>   |
|                   | Guizhou Hanfang Xifeng Medical Industry Co., Ltd. | Interest of controlled corporation | 5% (L) <i>(Note 3)</i>  |
| Long Xian Feng    | The Company                                       | Beneficial owner                   | 5,000,000 Shares (L)<br><i>(Note 4)</i>   |
| Wu Xian Peng      | The Company                                       | Beneficial owner                   | 5,000,000 Shares (L)<br><i>(Note 4)</i>   |
| Kung Hsiang-Fu    | The Company                                       | Beneficial owner                   | 500,000 Shares (L)<br><i>(Note 4)</i>   |
| Tso Wung-Wai      | The Company                                       | Beneficial owner                   | 500,000 Shares (L)<br><i>(Note 4)</i>   |

#### *Notes:*

1. The letter "L" represents the Director's interests in the share and underlying shares or, as the case may be, the percentage in the equity interest of the Company or its associated corporations.
2. These Shares were held by Bull's-Eye Limited, the entire issued share capital of which is beneficially owned as to approximately 63.15% (represented by 4,159 shares of US\$1 each) by Zhang Peter Y. and as to approximately 36.85% (represented by 2,427 shares of US\$1 each) by Xu Peng.
3. These equity interests were held by Guiyang Headboy Kids Accessories Company Limited, which is beneficially owned as to 95% by Deng Jie and as to the remaining 5% by Long Xian Feng.
4. These Shares were the respective number of Shares which would be allotted and issued upon exercise in full of the options granted to each of Zhang Peter Y., Xu Peng, Deng Jie, Long Xian Feng, Wu Xian Peng, Kung Hsiang-Fu and Tso Wung-Wai under the Scheme. These options, all of which remained exercisable as at 31 December 2003, are exercisable at the subscription price of HK\$1.19 per Share at any time during a period of two years commencing from and including 16 May 2003 to 15 May 2005.

## ADDITIONAL INFORMATION *(continued)*

### DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES *(continued)*

Save as disclosed above, as at 31 December 2003, none of the Directors and the chief executive of the Company had any interest and short positions in the shares, underlying shares or, as the case may be, the equity interest and debentures of the Company or its associated corporations (within the meaning of the SF Ordinance) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of part XV of the SF Ordinance (including interests and short positions which he was taken or deemed to have under such provisions of the SF Ordinance), or which were required, pursuant to section 352 of the SF Ordinance, to be entered in the register maintained by the Company referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules, to be notified to the Company and the Stock Exchange.

### DIRECTORS' RIGHT TO ACQUIRE SHARES OR DEBENTURES

Particulars of the options granted to the Directors under the Scheme and outstanding as at 31 December 2003 were as follows:

| Name of Directors | Date of grant | Number of<br>underlying shares<br>of the Company | Exercise price<br>per Share<br>(HK\$) | Exercise period          |
|-------------------|---------------|--|---------------------------------------|--------------------------|
| Zhang Peter Y.    | 16/05/2003    | 500,000  | 1.19                                  | 16/05/2003 to 15/05/2005 |
| Xu Peng           | 16/05/2003    | 500,000  | 1.19                                  | 16/05/2003 to 15/05/2005 |
| Deng Jie          | 16/05/2003    | 5,000,000  | 1.19                                  | 16/05/2003 to 15/05/2005 |
| Long Xian Feng    | 16/05/2003    | 5,000,000  | 1.19                                  | 16/05/2003 to 15/05/2005 |
| Wu Xian Peng      | 16/05/2003    | 5,000,000  | 1.19                                  | 16/05/2003 to 15/05/2005 |
| Kung Hsiang-Fu    | 16/05/2003    | 500,000  | 1.19                                  | 16/05/2003 to 15/05/2005 |
| Tso Wung-Wai      | 16/05/2003    | 500,000  | 1.19                                  | 16/05/2003 to 15/05/2005 |

Other than as disclosed above, at no time during the Period was the Company, or any of its holding companies, fellow subsidiaries or subsidiaries a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

## ADDITIONAL INFORMATION *(continued)*

### SUBSTANTIAL SHAREHOLDERS AND OTHER PERSONS WHO ARE REQUIRED TO DISCLOSE THEIR INTERESTS PURSUANT TO PART XV OF THE SF ORDINANCE

As at 31 December 2003, the following persons and entities, other than a Director or chief executive of the Company, had an interest or a short position in the shares and underlying shares in the Company as recorded in the register required to be kept under section 336 of the SF Ordinance:

| <b>Name of shareholder</b>                  | <b>Number of ordinary shares <i>(Note 1)</i></b> | <b>Nature of interest</b>          | <b>Approximate percentage of interest</b> |
|---|--|------------------------------------|---|
| Bull's-Eye Limited <i>(Note 2)</i>          | 291,497,024 (L)                                  | Beneficial owner                   | 45%                                       |
| Liu Yu <i>(Note 3)</i>                      | 291,997,024 (L)                                  | Interest of spouse                 | 45%                                       |
| Liu Jie <i>(Note 4)</i>                     | 291,997,024 (L)                                  | Interest of spouse                 | 45%                                       |
| Kertwell Investment Limited <i>(Note 5)</i> | 50,929,759 (L)                                   | Beneficial owner                   | 8%  |
| Zhang Hongye <i>(Note 5)</i>                | 50,929,759 (L)                                   | Interest of controlled corporation | 8%  |
| Zhou Wu Feng <i>(Note 6)</i>                | 50,929,759 (L)                                   | Interest of spouse                 | 8%  |
| J.P. Morgan Chase & Co <i>(Note 7)</i>      | 34,192,000(L)                                    | Interest of controlled corporation | 5%  |

#### *Notes:*

1. The letter "L" represents the person's or the entity's interests in Shares.
2. The entire issued share capital of Bull's-Eye Limited is beneficially owned as to approximately 63.15% (represented by 4,159 shares of US\$1 each) by Zhang Peter Y. and as to approximately 36.85% (represented by 2,427 shares of US\$1 each) by Xu Peng. By virtue of the provisions of Divisions 2 and 3 of part XV of the SF Ordinance, each of Zhang Peter Y. and Xu Peng, both being executive Directors, is deemed to be interested in all the Shares held by Bull's-Eye Limited.
3. Liu Yu is the wife of Zhang Peter Y., an executive Director, and is deemed to be interested in the shares and underlying shares in the Company in which Zhang Peter Y. is interested under the provisions of Divisions 2 and 3 of part XV of the SF Ordinance.
4. Liu Jie is the wife of Xu Peng, an executive Director, and is deemed to be interested in the shares and underlying shares in the Company in which Xu Peng is interested under the provisions of Divisions 2 and 3 of part XV of the SF Ordinance.

## **ADDITIONAL INFORMATION** *(continued)*

### **SUBSTANTIAL SHAREHOLDERS AND OTHER PERSONS WHO ARE REQUIRED TO DISCLOSE THEIR INTERESTS PURSUANT TO PART XV OF THE SF ORDINANCE** *(continued)*

*Notes: (continued)*

5. The entire issued shares capital of Kertwell Investment Limited is beneficially owned by Zhang Hongye. By virtue of the provisions of Divisions 2 and 3 of part XV of the SF Ordinance, Zhang Hongye is deemed to be interested in all the Shares held by Kertwell Investment Limited.
6. Zhou Wu Feng is the husband of Zhang Hongye and is deemed to be interested in the Shares in which Zhang Hongye interested under the provisions of Divisions 2 and 3 of part XV of the SF Ordinance.
7. Of these Shares, 11,500,000, 19,692,000 and 3,000,000 Shares were registered under the name of JPMorgan Chase Bank, JF Asset Management Limited and JF International Management Inc. respectively. JF Asset Management Limited and JF International Management Inc. are owned as to 99.99% and 100% respectively by J.P. Morgan Fleming Asset Management (Asia) Inc. which is in turn wholly owned by J.P. Morgan Fleming Asset Management Holdings Inc. J.P. Morgan Fleming Asset Management Holdings Inc. and JPMorgan Chase Bank are wholly owned by J.P. Morgan Chase & Co. By virtue of the provisions of Divisions 2 and 3 of Part XV of the SF Ordinance, J.P. Morgan Chase & Co. is deemed to be interested in the Shares held by JPMorgan Chase Bank, JF Asset Management Limited and JF International Management Inc.

According to the register, 22,692,000 Shares were held by J.P. Morgan Chase & Co. in its capacity of an investment manager and 11,500,000 Shares formed part of a lending pool.

Save as disclosed above, as at 31 December 2003, no person or entity other than a Director or chief executive of the Company, had an interest or a short position in the shares and underlying shares in the Company as recorded in the register required to be kept under section 336 of the SF Ordinance.

### **PURCHASE, SALE OR REDEMPTION OF SHARES**

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

## **ADDITIONAL INFORMATION** *(continued)*

### **AUDIT COMMITTEE**

The Company established the Audit Committee on 20 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 results 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 Company and discussed the auditing, internal controls and financial reporting matters, including the review of the unaudited interim financial statements of the Group for the Period.

### **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 to 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.

### **DISCLOSURE PURSUANT TO PRACTICE NOTE 19 OF THE LISTING RULES**

Under the facility letter ("**Facility Letter**") from a licensed bank ("**Bank**") in Hong Kong granting a term loan facility ("**Facility**") of HK\$50,000,000 for a term of one year, extendable on annual basis subject to the approval of the Bank. During the subsistence of the Facility, (i) Bull's-Eye Limited ("**BEL**"), the controlling shareholder of the Company holding approximately 45% of all the issued shares in the Company as at 31 December 2003, is required to remain interested in not less than 45% of the issued share capital of the Company and (ii) BEL and Kertwell Investment Limited, a shareholder of the Company holding more than 5% of all the issued shares in the Company as at 31 December 2003, together are required to remain interested in an aggregate of not less than 50% of the issued share capital of the Company. A breach of any of such conditions constitutes an event of default under the Facility Letter and all outstanding amounts of the Facility shall become repayable by GHMM to the Bank on demand.

Since BEL, being the Company's controlling shareholder, is required under the Facility Letter to maintain a specified minimum holding in the issued share capital of the Company, the Company is required to disclose in this report certain particulars of the Facility as disclosed in this paragraph under paragraph 3.7.1 of Practice Note 19 to the Listing Rules.

On behalf of the Board  
**Zhang Peter Y.**  
*Chairman and Chief Executive*

Hong Kong, 15 March, 2004