

RESULTS

The board of directors (the “Board”) of Far East Pharmaceutical Technology Company Limited (the “Company”) is pleased to announce the unaudited condensed consolidated interim results of the Company and its subsidiaries (the “Group”) for the six months ended 31 December 2003 together with the comparative figures for the corresponding period in 2002 as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

FOR THE SIX MONTHS ENDED 31 DECEMBER 2003

		Six months ended 31 December	
	<i>Notes</i>	2003 (Unaudited) HK\$'000	2002 (Unaudited) HK\$'000
TURNOVER	2 & 3	559,525	458,656
COST OF SALES		(325,120)	(276,642)
GROSS PROFIT		234,405	182,014
Other revenue		10,766	3,127
Selling and distribution costs		(53,800)	(46,941)
Administrative expenses		(25,822)	(16,509)
PROFIT FROM OPERATING ACTIVITIES	2 & 4	165,549	121,691
Finance costs – interest expenses		(3,844)	–
PROFIT BEFORE TAXATION		161,705	121,691
TAXATION	5	(35,310)	(29,602)
PROFIT BEFORE MINORITY INTERESTS		126,395	92,089
MINORITY INTERESTS		(6,008)	(4,424)
NET PROFIT FROM ORDINARY ACTIVITY ATTRIBUTABLE TO SHAREHOLDERS		120,387	87,665
EARNINGS PER SHARE			
– basic	7	HK5.90 cents	HK4.31 cents
– diluted	7	HK5.60 cents	HK4.19 cents

CONDENSED CONSOLIDATED BALANCE SHEET

AS AT 31 DECEMBER 2003

		31 December 2003 (Unaudited) HK\$'000	30 June 2003 (Audited) HK\$'000
NON-CURRENT ASSETS			
Fixed assets	8	220,338	159,901
Goodwill	9	5,933	3,973
Intangible assets	10	138,605	77,238
Deposits for land use right and construction in progress	11	122,844	96,284
		487,720	337,396
CURRENT ASSETS			
Inventories		108,942	73,072
Accounts receivable	12	196,292	188,984
Prepayments, deposits and other receivable		77,928	51,262
Due from a minority shareholder of a subsidiary		5,763	–
Loans to officers		508	508
Cash and bank balances		610,286	644,207
		999,719	958,033
CURRENT LIABILITIES			
Accounts payable	13	85,155	61,525
Accrued liabilities, deposit received and other payables		70,201	57,870
Due to a related company		–	9,216
Bank loans, unsecured	14	37,791	2,648
Tax payable		23,251	11,535
		216,398	142,794
NET CURRENT ASSETS		783,321	815,239
TOTAL ASSETS LESS CURRENT LIABILITIES		1,271,041	1,152,635

CONDENSED CONSOLIDATED BALANCE SHEET (Continued)

AS AT 31 DECEMBER 2003

		31 December 2003 (Unaudited) HK\$'000	30 June 2003 (Audited) HK\$'000
CAPITAL AND RESERVES			
Share capital	15	53,794	50,894
Reserves		936,194	766,596
Proposed dividend		—	40,715
		989,988	858,205
MINORITY INTERESTS		46,668	22,185
DEFERRED TAX LIABILITIES		6,976	7,045
LONG-TERM BANK LOANS			
– UNSECURED	14	227,409	265,200
		1,271,041	1,152,635

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

FOR THE SIX MONTHS ENDED 31 DECEMBER 2003

	Six months ended 31 December	
	2003 (Unaudited) HK\$'000	2002 (Unaudited) HK\$'000
NET CASH INFLOW FROM OPERATING ACTIVITIES	86,099	76,327
NET CASH OUTFLOW FROM INVESTING ACTIVITIES	(124,855)	(66,230)
NET CASH INFLOW FROM FINANCING ACTIVITIES	4,835	—
(DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	(33,921)	10,097
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	644,207	465,483
CASH AND CASH EQUIVALENTS AT END OF PERIOD	610,286	475,580
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	610,286	475,580

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED) FOR THE SIX MONTHS ENDED 31 DECEMBER 2003

	Share capital HK\$'000	Share premium HK\$'000	Statutory surplus reserve HK\$'000	Statutory public welfare reserve HK\$'000	Fixed assets revaluation reserve HK\$'000	Currency translation reserve HK\$'000	Capital reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1 July 2002, as previously reported	50,893	323,588	27,687	7,554	11,303	1,583	11,022	262,227	695,857
Effect of adoption SSAP 12 (revised)	-	-	-	-	(2,656)	-	-	-	(2,656)
At 1 July 2002, as restated	50,893	323,588	27,687	7,554	8,647	1,583	11,022	262,227	693,201
Transfer from retained profits to reserves	-	-	8,834	-	-	-	-	(8,834)	-
Net profit for the period	-	-	-	-	-	-	-	87,665	87,665
Effect of adoption SSAP 12 (revised)	-	-	-	-	69	-	-	-	69
Dividends – note 6	-	-	-	-	-	-	-	(22,902)	(22,902)
At 31 December 2002, as restated	<u>50,893</u>	<u>323,588</u>	<u>36,521</u>	<u>7,554</u>	<u>8,716</u>	<u>1,583</u>	<u>11,022</u>	<u>318,156</u>	<u>758,033</u>
At 1 January 2003, as previously reported	50,893	323,588	36,521	7,554	11,303	1,583	11,022	318,156	760,620
Effect of adoption SSAP 12 (revised)	-	-	-	-	(2,587)	-	-	-	(2,587)
At 1 January 2003, as restated	50,893	323,588	36,521	7,554	8,716	1,583	11,022	318,156	758,033
Transfer from retained profits to reserves	-	-	9,362	-	-	-	-	(9,362)	-
Net profit for the period	-	-	-	-	-	-	-	87,375	87,375
Revaluation surplus	-	-	-	-	18,000	-	-	-	18,000
Minority interests thereon	-	-	-	-	(755)	-	-	-	(755)
Effect of adoption SSAP 12 (revised)	-	-	-	-	(4,458)	-	-	-	(4,458)
Issue of shares	1	9	-	-	-	-	-	-	10
At 30 June 2003, as restated	<u>50,894</u>	<u>323,597</u>	<u>45,883</u>	<u>7,554</u>	<u>21,503</u>	<u>1,583</u>	<u>11,022</u>	<u>396,169</u>	<u>858,205</u>
At 1 July 2003, as previously reported	50,894	323,597	45,883	7,554	28,548	1,583	11,022	396,169	865,250
Effect of adoption SSAP 12 (revised)	-	-	-	-	(7,045)	-	-	-	(7,045)
At 1 July 2003, as restated	50,894	323,597	45,883	7,554	21,503	1,583	11,022	396,169	858,205
Transfer from retained profits to reserves	-	-	13,036	174	-	-	-	(13,210)	-
Net profit for the period	-	-	-	-	-	-	-	120,387	120,387
Issue of shares	2,900	49,142	-	-	-	-	-	-	52,042
Deferred tax movement	-	-	-	-	69	-	-	-	69
Dividends – note 6	-	-	-	-	-	-	-	(40,715)	(40,715)
At 31 December 2003	<u>53,794</u>	<u>372,739</u>	<u>58,919</u>	<u>7,728</u>	<u>21,572</u>	<u>1,583</u>	<u>11,022</u>	<u>462,631</u>	<u>989,988</u>

NOTES TO CONDENSED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 31 DECEMBER 2003

1. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

The unaudited condensed consolidated interim financial statements of the Group have been prepared in accordance with Statement of Standard Accounting Practice ("SSAP") 25 "Interim Financial Reporting" issued by the Hong Kong Society of Accountants ("HKSA"). The accounting policies adopted are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 30 June 2003 except that the Group has adopted the revised SSAP 12 "Income Taxes" issued by HKSA which is effective for accounting periods commencing on or after 1 January 2003. The changes to the Group's accounting policy and the effect of adopting the new policy is as follows:

Deferred taxation is accounted for using the balance sheet liability method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. The principal temporary differences arise from depreciation on fixed assets, revaluations of properties, general provision for bad and doubtful debts and tax losses carried forward. Taxation rates enacted or substantively enacted by the balance sheet date used to determine deferred taxation.

Deferred tax is charged or credited in the income statement except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax liabilities are provided in full on all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences can be utilised.

In prior year, deferred taxation was provided at the current taxation rates in respect of timing differences between profit as computed for taxation purposes and profit as stated in the income statement to the extent that a liability or an asset was expected to be payable or recoverable in the foreseeable future. The adopted of the revised SSAP 12 represents a change in accounting policy, which has been applied retrospectively so that the comparative presented have been restated to conform to the changed policy.

As detailed in the condensed consolidated statement of changes in equity, fixed assets revaluation surplus at 1 July 2002 and 2003 have been decreased by approximately HK\$2,656,000 and HK\$4,389,000 respectively which represent the unprovided net deferred tax liabilities. The adoption of these revised and new accounting policies had no significant effect on the results for the current or prior accounting periods.

2. SEGMENT INFORMATION

(i) Business segments

The Group reports its primary segment information on its principal business segments and details for the six months ended 31 December 2003 together with comparative figures for the corresponding period in 2002 are as follows:

	Manufacture and distribution of pharmaceutical products		Corporate and others		Consolidated total	
	2003	2002	2003	2002	2003	2002
	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000
External sales	559,525	458,656	-	-	(a) 559,525	458,656
Segment results	163,010	123,781	409	(4,631)	(b) 163,419	119,150
Interest income	2,129	2,525	1	16	(b) 2,130	2,541
Interest expense	-	-	(3,844)	-	(3,844)	-
Taxation	(35,310)	(29,602)	-	-	(35,310)	(29,602)
Minority interest					(6,008)	(4,424)
Profit attributable to shareholders					120,387	87,665

2. SEGMENT INFORMATION (Continued)

(i) Business segments (Continued)

(a) Turnover

	Six months ended 31 December	
	2003 (Unaudited) HK\$'000	2002 (Unaudited) HK\$'000
Manufacture and distribution of:		
Anti-viral drugs	150,438	127,993
Chinese patent medicines	80,459	83,569
Antibiotics	72,661	72,181
Anti-hypotensive drugs	51,874	48,733
Analgesics	34,857	36,165
Staple pharmaceuticals	30,023	–
Alimentary system agents	25,247	14,754
Vitamins	22,948	27,659
Diagnostic kits	19,883	14,139
Protein polysaccharide	16,695	16,338
Others	54,440	17,125
	<u>559,525</u>	<u>458,656</u>

(b) Profit from operation activities

	Six months ended 31 December	
	2003 (Unaudited) HK\$'000	2002 (Unaudited) HK\$'000
Manufacture and distribution of:		
Anti-viral drugs	47,564	40,895
Chinese patent medicines	24,120	24,491
Antibiotics	23,538	15,360
Anti-hypotensive drugs	19,073	13,461
Analgesics	6,329	7,424
Staple pharmaceuticals	3,602	–
Alimentary system agents	7,985	3,830
Vitamins	3,123	6,778
Diagnostic kits	10,402	5,750
Protein polysaccharide	6,022	3,372
Others	13,381	4,945
	<u>165,139</u>	<u>126,306</u>
Corporate and others	410	(4,615)
	<u>165,549</u>	<u>121,691</u>

2. SEGMENT INFORMATION (Continued)

(ii) Geographical segment

In determining the Group's geographical segment, revenues and results are attributed to the segments based on the location of the customers. No geographical segment information is presented as over 90% of the Group's revenue and results are derived from customers based in the People's Republic of China ("PRC").

3. TURNOVER

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

4. PROFIT FROM OPERATING ACTIVITIES

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

	Six months ended 31 December	
	2003 (Unaudited) HK\$'000	2002 (Unaudited) HK\$'000
Depreciation	11,099	8,394
Amortisation of intangible asset	6,557	2,866
Amortisation of goodwill	612	513
	<u>18,268</u>	<u>11,773</u>

5. TAXATION

	Six months ended 31 December	
	2003 (Unaudited) HK\$'000	2002 (Unaudited) HK\$'000
Overseas taxation charge	<u>35,310</u>	<u>29,602</u>

No provision for Hong Kong profits tax or overseas has been provided for the period in respect of certain companies of the Group because these companies did not generate any assessable profits during the period. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

Tax has not been provided by a jointly controlled entity of the Group as no assessable profits were generated during the period (2002: Nil).

6. DIVIDENDS

	Six months ended 31 December	
	2003	2002
	(Unaudited)	(Unaudited)
	<i>HK\$'000</i>	<i>HK\$'000</i>
Final dividend for year ended 30 June 2003 at HK8 cents (year ended 30 June 2002: HK4.5 cents) per ordinary share	40,715	22,902

The Board does not recommend to pay any interim dividend in respect of the six months ended 31 December 2003 (2002: Nil).

7. EARNINGS PER SHARE

The calculation of basic and fully diluted earnings per share is based on the net profit from ordinary activity of the Group attributable to shareholders of HK\$120,387,000 (2002: HK\$87,665,000) and the weighted average number of ordinary shares in issued during the period of 2,039,764,139 shares (2002: 2,035,728,000 shares after adjusted for the effect of the share subdivision).

The calculation of fully diluted earnings per share is based on the weighted average number of ordinary shares in issued during the period of 2,039,764,139 shares (2002: 2,035,728,000 shares after adjusted for the effect of share subdivision) plus the weighted average of ordinary shares deemed to be issued at no consideration of 110,293,561 shares (2002: 56,181,628 shares after adjusted for the effect of share subdivision) if all outstanding options have been exercised.

8. FIXED ASSETS

The changes in fixed assets for the six months ended 31 December 2003 are analysed as follows:

	(Unaudited)
	<i>HK\$'000</i>
At 1 July 2003	159,901
On acquisition of subsidiaries	64,625
Additions	6,911
Depreciation	(11,099)
At 31 December 2003	220,338

9. GOODWILL

The changes in goodwill for the six months ended 31 December 2003 are analysed as follows:

	(Unaudited) HK\$'000
At 1 July 2003	3,973
On acquisition of subsidiaries	2,572
Amortisation	(612)
At 31 December 2003	5,933

10. INTANGIBLE ASSETS

The changes in intangible assets for the six months ended 31 December 2003 are analysed as follows:

	(Unaudited) HK\$'000
At 1 July 2003	77,238
On acquisition of subsidiaries	67,924
Amortisation	(6,557)
At 31 December 2003	138,605

11. DEPOSITS FOR LAND USE RIGHT AND CONSTRUCTION IN PROGRESS

The Group has entered into an agreement with the Land Administrative Bureau of the Qingpu District, Shanghai City, the PRC (the "LAB") in respect of the purchase of a parcel of land in Qingpu District, Shanghai City, the PRC for the purposes of establishment of drug production facilities and its related auxiliary facilities. The cost payment amounting to approximately HK\$56,540,000 (At 30 June 2003: approximately HK\$56,540,000) of the land use right was paid. The land use right certificate of the land has not been obtained as certain legal and registration procedures are still in progress. The deposit payments for construction on the relevant production facilities and its related auxiliary facilities were amounted to approximately HK\$66,304,000 (At 30 June 2003: approximately HK\$39,744,000).

12. ACCOUNTS RECEIVABLE

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

	31 December 2003 (Unaudited) HK\$'000	30 June 2003 (Audited) HK\$'000
Outstanding balances aged:		
30 days or less	109,708	98,771
31 days to 60 days	69,703	70,157
61 days to 180 days	5,027	19,467
181 days to 1 year	7,818	589
1 year to 2 years	3,541	-
Over 2 years	495	-
Total	196,292	188,984

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

13. ACCOUNT PAYABLE

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

	31 December 2003 (Unaudited) HK\$'000	30 June 2003 (Audited) HK\$'000
Outstanding balances aged:		
30 days or less	63,885	49,062
31 Days to 60 days	1,569	1,433
61 days to 180 days	3,254	2,279
181 days to 1 year	3,117	2,174
1 year to 2 years	6,761	4,162
Over 2 years	6,569	2,415
	85,155	61,525

14. BANK LOANS

	31 December 2003 (Unaudited) HK\$'000	30 June 2003 (Audited) HK\$'000
Unsecured bank loans		
– Amounts repayable within 1 year	3,335	2,648
– Amounts repayable within 2 to 5 years	20,065	23,400
	<u>23,400</u>	<u>26,048</u>
Unsecured syndicated loan		
– Amounts repayable within 1 year	34,456	–
– Amounts repayable within 2 to 5 years	207,344	241,800
	<u>241,800</u>	<u>241,800</u>
Total bank loans	<u>265,200</u>	<u>267,848</u>
Short-term bank loan	–	2,648
Current portion of bank and syndicated loans	37,791	–
Non-current portion of bank and syndicated loans	227,409	265,200
	<u>265,200</u>	<u>267,848</u>

15. SHARE CAPITAL

	Number of share (Unaudited)	Nominal value (unaudited) HK\$'000
Authorised:		
Ordinary shares of HK\$0.10 each as at 1 July 2003	1,000,000,000	100,000
Share subdivision	3,000,000,000	–
	<u>4,000,000,000</u>	<u>100,000</u>
Ordinary shares of HK\$0.025 each as at 31 December 2003		
Issued and fully paid:		
Ordinary shares of HK\$0.10 each as at 1 July 2003	508,935,600	50,894
Share subdivision	1,526,806,800	–
Shares issued on exercise of share options	116,000,000	2,900
	<u>2,151,742,400</u>	<u>53,794</u>
Ordinary shares of HK\$0.025 each as at 31 December 2003		

16. ACQUISITION

The assets and liabilities arising from the acquisition of the subsidiaries during the period are analysed as follows:

	Six months ended 31 December 2003 (Unaudited) HK\$'000
Fixed assets and construction in progress	64,625
Intangible assets	67,924
Minority interests	(18,475)
Other assets less liabilities	5,947
	<hr/>
Fair value of net assets	120,021
Goodwill	2,572
	<hr/>
Total purchase consideration	122,593

17. COMMITMENTS

As at 31 December 2003, the Group had the following commitments:

	31 December 2003 (Unaudited) HK\$'000	30 June 2003 (Audited) HK\$'000
(a) Capital commitments contracted but not provided for in respect of		
– construction contracts on production plant and facilities	120,672	133,010
– purchase of machinery and equipment	30,330	15,287
	<hr/>	<hr/>
	151,002	148,297
	<hr/>	<hr/>
(b) Capital commitments authorised but not contracted in respect of purchase of land use right	84,810	84,810
	<hr/>	<hr/>
(c) Future aggregate minimum lease payments under operating leases in respect of land and buildings		
– within one year	2,083	2,230
– in the second to fifth year inclusive	–	968
	<hr/>	<hr/>
	2,083	3,198
	<hr/>	<hr/>

18. CONTINGENT LIABILITIES

	31 December 2003 (Unaudited) HK\$'000	30 June 2003 (Audited) HK\$'000
Guarantees for banking and loan facilities granted to third parties	<u>–</u>	<u>4,523</u>

19. FUTURE MINIMUM LEASE PAYMENTS RECEIVABLE

As at 31 December 2003, the Group had future minimum lease payments receivable in respect of granting the rights to manufacture and sale of pharmaceutical products as follows:

	31 December 2003 (Unaudited) HK\$'000	30 June 2003 (Audited) HK\$'000
Within one year	<u>17,000</u>	16,500
In the second to fifth year inclusive	<u>12,750</u>	<u>21,250</u>
	<u>29,750</u>	<u>37,750</u>

20. RELATED PARTY TRANSACTIONS

During the six months ended 31 December 2003, the Group had the following transactions with related companies:

		Six months ended 31 December 2003 (Unaudited) HK\$'000	2002 (Unaudited) HK\$'000
Advertising expenses	(i)	<u>–</u>	5,668
Purchases of packing materials	(ii)	<u>6,975</u>	33,433
Rental expenses	(iii)	<u>680</u>	<u>676</u>

Notes:

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

20. RELATED PARTY TRANSACTIONS (Continued)

- (ii) The directors consider that the purchases of packing materials from 福州德勝印刷有限公司, a related company beneficially owned by Mr. Chen Ching Ken, a director of the Company, were made on similar terms obtained from other third party suppliers of the Group and were carried out in the ordinary course of business of the Group. The balance due to 福州德勝印刷有限公司 is unsecured, interest-free and has no fixed terms of repayment.
- (iii) The rental expenses were paid to 福建德勝實業有限公司 (the "Landlord"), a related company beneficially owned by Mr. Cai Chong Zhen. The rental was determined between the Landlord and the Group with reference to the prevailing market conditions.

21. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the current year's presentation.

MANAGEMENT DISCUSSION AND ANALYSIS

Liquidity and Financial Resources

At 31 December 2003, the Group had total assets of HK\$1,487,439,000, current liabilities of HK\$216,398,000, non-current liabilities of HK\$234,385,000 and shareholders' equity of HK\$989,988,000. The gearing ratio is 45.53%, which was computed by dividing the current liabilities and debts by shareholders' equity. The Group has consistently maintained a strong working capital during the period under review, with net current assets of HK\$783,321,000 at 31 December 2003, with a current ratio of about 4.62 times. Net total assets of the Group was increased from HK\$858,205,000 as at 30 June 2003 to approximately HK\$989,988,000 as at 31 December 2003.

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

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

Contingent Liabilities

As at 31 December 2003, the Group did not have contingent liabilities (2002: HK\$2,262,000).

Financial Review

The Group's turnover for the period under review was HK\$559,525,000, that represented an increase of 21.99% as compared with the corresponding period of 2002. The gross profit margin was slightly increased to 41.89% compared with the corresponding period of 2002. The net profit from ordinary activity attributable to shareholders for the period under review amounted to approximately HK\$120,387,000 and was increased by 37.33% to that of the corresponding period of 2002. Basic earnings per share for the current period was approximately HK5.90 cents (2002: HK4.31 cents, after adjusted for the effect of Share Subdivision). Diluted earnings per share for the current period was approximately HK5.60 cents (2002: HK4.19 cents, after adjusted for the effect of Share Subdivision).

Capital Structure

The Group's primary sources of funding were provided by internally generated cash flow. As at 31 December 2003, the Group had cash and bank balances of a total amount of HK\$610,286,000.

Analysis of Turnover

(1) *Anti-viral drugs*

Sale of anti-viral drugs during the period under review was approximately HK\$150,438,000, accounting for 26.89% of the total turnover of the Group and representing approximately 17.54% increase when compared with the corresponding period of last year. Increase of the turnover was due to the increased cases of viral flu during the winter of 2002, the outbreak of SARS and the increase of public awareness in the anti-viral aspects in the People's Republic of China.

(2) *Chinese Patent Medicines*

Sale of Chinese patent medicines, during the period under review was approximately HK\$80,459,000, accounting for 14.38% of the total turnover of the Group.

(3) *Antibiotics*

Sale of antibiotics during the period under review was approximately HK\$72,661,000, accounting for 12.99% of the total turnover of the Group.

(4) *Anti-hypotensive drugs*

Sale of anti-hypotensive drugs, during the period under review was approximately HK\$51,874,000, accounting for 9.27% of the total turnover of the Group and representing approximately 6.45% increase when compared with the corresponding period of last year.

Expenses

Selling and distribution costs for the period under review amounted to HK\$53,800,000 (2002: HK\$46,941,000), accounting for 9.62% of turnover, increased by 14.61% when compared with the corresponding period of 2002. Such increase was due to the rise in advertising cost for expanding the distribution and sales network of the Group. Administrative expenses increased from the corresponding period of last year's HK\$16,509,000 to the current period's HK\$25,822,000. Such increase is due to the hiring of additional management professionals and related expenses, the increase in depreciation charge for the new manufacturing plant and the increase in amortization of goodwill and intangible assets.

Future Prospects

Product Development

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

Horizontal and Vertical Integration of Business

With the steady growth of economy and the ongoing reform of the public health system in the PRC and its entry into the World Trade Organisation, the PRC market continues to provide a golden business opportunity for pharmaceutical producers. With the strong financial position of the Group, it will strive to capitalize on these favourable trends in acquiring other pharmaceutical companies with quality assets and an impressive category of registered medical products, similar to the strategical acquisition and re-engineering of 德勝藥業(宿州)有限公司, 德勝(湖南湘藥)制藥有限公司及江西新余瑞欣生物藥業有限公司 during the period.

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

Charges on the Group's Assets

As at 31 December 2003, none of the Group's assets was pledged as security for liability.

Share Subdivision

In order to make the shares of the Company more assessable to a wider range of investors and improve the liquidity in trading of the shares of the Company, the Board proposed the subdivision of shares of the Company. Pursuant to the ordinary resolution passed at the extraordinary general meeting of the Company held on 27 October 2003, each of the issued and unissued share of HK\$0.10 each in the share capital of the Company was subdivided (the “Share Subdivision”) into four shares of HK\$0.025 each (the “Subdivided Shares”). All the Subdivided Shares rank pari passu in all respects with the then existing shares of the Company.

Employees

As at 31 December 2003, the Group had 4,090 employees, of which 4,085 were based in the PRC and 5 stationed in Hong Kong.

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

SHARE OPTION SCHEME

At the Company's annual general meeting held on 29 November 2001, the shareholders of the Company approved the termination of the share option scheme adopted by the Company on 26 July 2000 (the "Original Share Option Scheme") and the adoption of a new share option scheme (the "New Share Option Scheme") so as to comply with the new Chapter 17 of the Listing Rules. The New Share Option Scheme is designed for the purpose of providing incentives or rewards to eligible participants who contribute to the success of the Group's operations and to enable the Group to recruit and retain high calibre employees and attract human resources that are valuable to the Group and any invested entity in which the Group holds any equity interest. Eligible participants of the New Share Option Scheme include the directors of the Company, including non-executive directors, other employees of the Group and other categories as set out in the New Share Option Scheme.

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

Details of the movements of the outstanding share options granted under the Original Share Option Scheme during the period under review are summarised as follows:

Name of category of participant	Balance at 1/7/2003*	Date of grant	Exercise period (dd/mm/yy)	Exercise price per share* HK\$	Granted during the period	Exercised during the period	Lapsed/Cancelled during the period	Balance at 31/12/2003
Director								
Mr. Cai Cong Yi	4,000,000	19/1/2001	19/1/2001 to 18/1/2011	0.163	-	-	-	4,000,000
	30,000,000	27/3/2001	27/3/2001 to 26/3/2011	0.1924	-	-	-	30,000,000
Mr. Cai Chong Zhen	12,000,000	19/1/2001	19/1/2001 to 18/1/2011	0.163	-	-	-	12,000,000
	22,000,000	27/3/2001	27/3/2001 to 26/3/2011	0.1924	-	-	-	22,000,000
Mr. Wong Sui Kwong**	32,000,000	27/3/2001	27/3/2001 to 26/3/2011	0.1924	-	(32,000,000)	-	-
	<u>100,000,000</u>				<u>-</u>	<u>(32,000,000)</u>	<u>-</u>	<u>68,000,000</u>

* after adjustment of the Share Subdivision

** Mr. Wong Sui Kwong has resigned as an executive director of the Company on 18 December 2003 but remains as an employee of the Company.

Details of the movements of outstanding share options granted under the New Share Option Scheme during the period under review are summarised as follows:

Name of category of participant	Balance at 1/7/2003*	Date of grant	Exercise period (dd/mm/yy)	Exercise price per share* HK\$	Granted during the period	Exercised during the period	Lapsed/Cancelled during the period	Balance at 31/12/2003
Employees**	108,000,000	21/1/2002	9/1/2002 to 8/1/2012	0.54625	-	(84,000,000)	-	24,000,000

* after the adjustment of Share Subdivision

** Employees working under employment contracts that were regarded as “continuous contracts” for the purpose of the Hong Kong Employment Ordinance.

DIRECTORS' INTERESTS IN THE SHARES

As at 31 December 2003, the interests of the directors of the Company in the shares and underlying shares of the Company which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the Securities and Futures Ordinance (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or which were recorded in the register required to be kept by the Company under Section 352 of the SFO; or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") to be notified to the Company and the Stock Exchange, were as follows:

I. Ordinary shares of the Company

Name of director	Long/short position	Capacity	Number of ordinary shares of the Company interested	Approximate Percentage of shareholding
Mr. Cai Chong Zhen	Long	Beneficiary of a discretionary trust	1,227,376,000 (<i>Note</i>)	57.04%
Mr. Chen Ching Ken	Long	Founder of a discretionary trust	1,227,376,000 (<i>Note</i>)	57.04%

Note: These shares were held by Great Wall Investment Group Limited as the trustee of The Great Wall Unit Trust, a unit trust of which all of the units in issue are owned by Ansbacher (BVI) Limited in its capacity as the trustee of The C&C Trust, a discretionary family trust of which the objects include Mr. Cai Chong Zhen and his spouse and the family member of Mr. Chen Ching Ken.

Accordingly, Mr. Chen Ching Ken, as founder of The C&C Trust, and Mr. Cai Chong Zhen, as one of the discretionary objects of The C&C Trust, were deemed to be interested in the shares owned by Great Wall Investment Group Limited in its capacity as the trustee of The Great Wall Unit Trust under Part XV of the SFO.

II. Underlying shares of the Company

Name of director	Long/short position	Capacity	Number of underlying shares under the share options granted by the Company
Mr. Cai Chong Zhen	Long	Beneficial owner	34,000,000
Mr. Cai Cong Yi	Long	Beneficial owner	34,000,000

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

Save as disclosed above, none of the directors or the chief executives of the Company had, as at 31 December 2003, any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporation (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or which were recorded in the register required to be kept by the Company under Section 352 of the SFO or which were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

INTERESTS OF SUBSTANTIAL SHAREHOLDERS

As at 31 December 2003, the following interests in the shares and underlying shares of the Company were recorded in the register required to be kept by the Company under Section 336 of the SFO:

Name of substantial shareholder	Long/short position	Capacity	Number of ordinary shares/ underlying shares of the Company interested	Notes	Approximate percentage of shareholding
Great Wall Investment Group Limited	Long	Trustee	1,227,376,000	1	57.04%
Ansbacher (BVI) Limited	Long	Trustee	1,227,376,000	1	57.04%
Ms. Chen Lin Mei Mei	Long	Interest of spouse	1,227,376,000	2	57.04%
Ms. Zhang Xiuqiong	Long	Interest of spouse	1,261,376,000	3	58.62%

Notes:

- Such interest was also disclosed as the interest of Mr. Cai Chong Zhen and Mr. Chen Ching Ken in the above section headed "Directors' interests in the shares".
- Ms. Chen Lin Mei Mei was deemed to be interested in the 1,227,376,000 shares of the Company through interests of her spouse, Mr. Chen Ching Ken.
- Ms. Zhang Xiuqiong was deemed to be interested in the 1,261,376,000 shares/underlying shares of the Company through interests of her spouse, Mr. Cai Chong Zhen.

Save as disclosed above, as at 31 December 2003, no person, other than the directors of the Company whose interests are set out in the section headed "Directors' interests in the shares" above, had registered an interest or a short position in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO.

PURCHASE, SALE OR REDEMPTION OF SHARES

During the six months ended 31 December 2003, neither the Company, nor any of its subsidiaries purchased, sold or redeemed any of the Company's shares.

AUDIT COMMITTEE

The Audit Committee of the Company presently comprises two independent non-executive directors of the Company, namely Ms. Hu Ling Po and Mr. Yu Er Feng. The Audit Committee has reviewed the unaudited interim report for the six months ended 31 December 2003 and discussed with the Board on the internal control and financial reporting matters.

CODE OF BEST PRACTICE

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

On behalf of the Board

Cai Chong Zhen

Chairman

Hong Kong, 26 March 2004