

*To the shareholders*

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

2002 is a year of decisive expansions and acquisition to which the Company and its subsidiaries (the "Group") targeted to further broaden the product variety by seeking for tremendous opportunities for the growth of the Group. The Company will continue to apply resources and funds for the maximization of the wealth of its shareholders.

**FINANCIAL RESULTS**

The Group's turnover for the Year was HK\$715,717,000 (2001: HK\$409,633,000). This represented an increase of 74.7% as compared with the corresponding year of 2001. The net profit from ordinary activities attributable to shareholders for the Year amounted to approximately HK\$134,739,000 and was increased by 42.5% to that of last year. Basic earnings per share for the Year was approximately HK33.5 cents (2001: HK30.0 cents).

The increase in turnover was mainly attributable to the increase in sales generated from the Chinese patent medicines and Anti-hypotensive drugs, and diversification of products.

**DIVIDENDS**

The Board recommended the payment of a final dividend of HK4.5 cents per share for the Year (2001: HK4 cents per share), payable to the shareholders of the Company whose names appear on the Register of Members of the Company on 18 December 2002.

**USE OF PROCEEDS FROM ISSUE OF SHARES**

On 23 August 2000, the Company has issued a total of 80,000,000 new shares at an issue price of HK\$1.00 each pursuant to the New Issue and Placing (as defined in the Prospectus dated 11 August 2000). The net proceeds therefrom after deducting expenses, were amounted to approximately HK\$67 million. As at 30 June 2002, a substantial part of the net proceeds had been utilized in line with the terms stipulated in the Company's Prospectus, as follows:

- HK\$13 million for the establishment of the new production plant in the PRC;
- HK\$17 million for the purchase and installation of related production equipment and facilities in the new production plant in the PRC;
- HK\$1.5 million for research and development of new pharmaceutical formulae and improvement of the Group's existing production technology, production rate and product quality; and
- HK\$13 million for expanding the distribution and sales network of the Group.

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

## BUSINESS REVIEW

### Anti-viral drugs

Sales of anti-viral drugs during the Year were approximately HK\$227,412,000, accounting for 31.8% of the total turnover of the Group and representing approximately 9.2% increase when compared with last year. The increase was due to the increase demand of the Jin Gang Cold which has an excellent therapeutic effect to the treatment of common cold, cough and influenza and due to the banning sales of 16 types of drugs with Phenylpropanolamine (PPA) which are principally used for the treatment of common cold, cough and influenza. On 16 November 2000, the State Pharmaceutical Supervision and Administration of China has announced to ban sales of 16 types of drugs with PPA. Some major competitors' products have been banned in the above-mentioned announcement. As a result, the Board believes the Group has grabbed a golden opportunity to expand its market share in the anti-viral drugs such as Jin Gang Cold, which is PPA-free.

### Anti-hypotensive drugs

During the Year, the Group has launched one of the new products, “复方降壓膠囊”, the sales of which was approximately HK\$84,769,000, accounting for 11.8% of the total turnover of the Group. “复方降壓膠囊” will become one of the major products of the Group in the future.

### Chinese patent medicines

Turnover of Chinese patent medicines increased from last year's HK\$24,590,000 to approximately HK\$113,320,000 for the current year. The sale of Chinese patent medicines achieved encouraging growth due to the effort of effective marketing strategy and market penetration through the Group's well-established relationship with its wholesalers and distributors.

### Sales Network

The Group's Ta Shan (塔山) products are marketed and distributed across 29 provinces, autonomous regions and cities. With the well developed and effective marketing strategies, the Group distributes its products to the wholesalers and distributors, who have established excellent relationship with the Group, which in turn distribute the Group's products to other dealers, retailers and end users including hospitals, clinics and drug stores.

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

### **GMP Standard**

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

### **PROSPECTS**

The year 2002 is the first year after the accession of China into the World Trade Organization, which marked an excellent development opportunity with both challenges and opportunities for the pharmaceutical industry in the PRC. With the steady growth of its economy, the ongoing reform of its public health system, the PRC will provide a golden opportunity for the domestic pharmaceutical producers. As the PRC Government requires all domestic pharmaceutical producers to obtain GMP certificates before June 2004, which would mean a heavy financial burden to many State-owned enterprises and small scale pharmaceutical factories. However, it will accelerate the integration of the presently scattered PRC pharmaceutical production industry and will create and provide a golden opportunity for enterprises with sound financial and operational upstanding' horizontal expansion of business. The Group will strive to capitalize on these favourable trends and to acquire and merge with pharmaceutical enterprises and to develop hi-tech Chinese medicines and biotechnology drugs, in order to enhance its competitiveness in both domestic and overseas markets.

In the past, the Group focused its efforts on the construction of a modern plant of 20,000 square metres. Meanwhile, the successful acquisition of Minqing Factory has brought the Group the right to manufacture more than 70 medical pharmaceutical products and the sales channels previously owned by Minqing Factory. The research and development project with its primary interests in genetic engineering has been set up in Shanghai, and will soon start operation. New biotechnology drugs are expected to deliver and introduce to the market shortly afterwards. This year, the Group's formal anabasis into the biotechnology drugs area was marked by the acquisition of the technological know-how and patents of two products namely, Finasteride (非那雄胺原料藥) and Finasteride Tablet (非那雄胺片劑) from Fuzhou Jiudu Medical Technology Development Company Limited (福州九都醫藥技術公司) and the acquisition of and merger with Xiamen Talent Biotech, a company engages the development and production of Cancer genes diagnosis testers. Sales of three key products, namely, Jin Gang Cold, "复方降壓膠囊" and "勝紅抗炎膠囊" were satisfactory. Therefore, the Group will continue its efforts in developing such business and will, when the opportunity arises, continue to acquire medicine production, sales and biotechnology drugs enterprises in order to further penetrate the huge pharmaceutical market in the PRC.

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

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.

### APPRECIATION

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

### **Cai Chong Zhen**

*Chairman*

Hong Kong, 21 October 2002