



# SHANXI CENTRAL PHARMACEUTICAL INTERNATIONAL LIMITED

正中藥業國際有限公司\*

(incorporated in Bermuda with limited liability)

## ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 MAY 2002

### RESULTS

The board of directors (the “Directors”) of Shanxi Central Pharmaceutical International Limited (the “Company”) is pleased to announce the audited consolidated annual results of the Company and its subsidiaries (the “Group”) for the year ended 31 May 2002 together with comparative figures for the previous year, as follows:

### CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the year ended 31 May 2002

		Year ended 31 May	
		2002	2001
	Notes	HK\$'000	HK\$'000
TURNOVER	1	280,066	235,359
Cost of sales		(162,218)	(123,492)
GROSS PROFIT		117,848	111,867
Other revenue		639	1,345
Selling and distribution costs		(59,313)	(35,427)
Administrative expenses		(15,155)	(10,563)
Other operating expenses		(14,477)	(17,555)
PROFIT FROM OPERATING ACTIVITIES	2	29,542	49,667
Finance costs	3	(387)	–
PROFIT BEFORE TAX		29,155	49,667
Tax	4	(7,535)	(9,132)
PROFIT BEFORE MINORITY INTERESTS		21,620	40,535
Minority interests		(293)	(440)
NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS		21,327	40,095
EARNINGS PER SHARE	5		
Basic		HK1.0 cent	HK2.1 cents
Diluted		N/A	N/A

Notes:

## 1. TURNOVER AND SEGMENT INFORMATION

Turnover represents the net invoiced value of goods sold, after allowance for returns and trade discounts, and services provided. All significant transactions among the companies comprising the Group have been eliminated on consolidation.

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

	Manufacturing		Trading		Hospital operation		Consolidated	
	2002	2001	2002	2001	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:								
Sales to external customers	<u>249,252</u>	<u>195,845</u>	<u>24,620</u>	<u>33,354</u>	<u>6,194</u>	<u>6,160</u>	<u>280,066</u>	<u>235,359</u>
Segment results	<u>36,394</u>	<u>54,460</u>	<u>224</u>	<u>973</u>	<u>120</u>	<u>(320)</u>	<u>36,738</u>	<u>55,113</u>
Interest income							639	1,326
Net unallocated expenses							<u>(7,835)</u>	<u>(6,772)</u>
Profit from operating activities							29,542	49,667
Finance costs							<u>(387)</u>	<u>–</u>
Profit before tax							29,155	49,667
Tax							<u>(7,535)</u>	<u>(9,132)</u>
Profit before minority interests							21,620	40,535
Minority interests							<u>(293)</u>	<u>(440)</u>
Net profit from ordinary activities attributable to shareholders							<u>21,327</u>	<u>40,095</u>

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 (the "PRC").

## 2. PROFIT FROM OPERATING ACTIVITIES

The Group's profit from operating activities is arrived at after charging/(crediting):

	<b>2002</b> <i>HK\$'000</i>	<b>2001</b> <i>HK\$'000</i>
Amortisation of deferred development costs*	2,329	1,464
Cost of inventories sold	157,557	118,518
Cost of services provided	4,661	4,974
Depreciation	3,207	1,362
Provision for impairment of deferred development costs*	5,277	–
Loss on disposal of fixed assets	77	35
Provision for impairment of long term investments*	4,597	–
Provision for bad and doubtful debts*	2,274	–
Research and development expenses*	–	16,091
Interest income on bank balances	<u>(639)</u>	<u>(1,326)</u>

\* Included in "Other operating expenses" on the face of the consolidated profit and loss account.

Costs of inventories sold and services provided include HK\$3,333,000 (2001: HK\$1,950,000) relating to staff costs and depreciation, which are also included in the respective total amounts disclosed separately above for these types of expenses.

## 3. FINANCE COSTS

	<b>2002</b> <i>HK\$'000</i>	<b>2001</b> <i>HK\$'000</i>
Interest expense on bank borrowings wholly repayable within five years	<u>387</u>	<u>–</u>

## 4. TAX

	<b>2002</b> <i>HK\$'000</i>	<b>2001</b> <i>HK\$'000</i>
Current year provision – outside Hong Kong	<u>7,535</u>	<u>9,132</u>

Hong Kong profits tax has not been provided (2001: Nil) as the Group had no assessable profits arising in Hong Kong during the year.

Taxes on profits assessable elsewhere have been calculated at the applicable rates of tax prevailing in the jurisdictions in which the subsidiaries operated during the year based on existing legislation, interpretations and practices in respect thereof.

PRC income tax for all of the subsidiaries operating in the PRC is calculated at a unified tax rate of 33% (2001: 33%) on their taxable profits unless waivers are granted by relevant tax authorities during the year.

Shanxi Zhengzhong Pharmaceutical Co., Ltd. was exempted from PRC income tax for two years from its first profit-making year of operations, which was the year ended 31 December 1998, and thereafter is eligible for a 50% relief from PRC income tax for the following three years under the Income Tax Law of the PRC.

Deferred tax has not been provided (2001: Nil) because the Company and the Group had no significant timing differences at 31 May 2002.

## **5. EARNINGS PER SHARE**

The calculation of basic earnings per share is based on the net profit from ordinary activities attributable to shareholders for the year of HK\$21,327,000 (2001: HK\$40,095,000), and the weighted average number of 2,100,000,000 (2001: 1,874,452,055) ordinary shares, as adjusted for the subdivision of one ordinary share of HK\$0.10 each into five ordinary shares of HK\$0.02 each, of the Company during the year.

Diluted earnings per share for the years ended 31 May 2002 and 2001 have not been calculated as no dilutive events existed during the two years ended 31 May 2002.

## **DIVIDENDS**

The Directors do not recommend the payment of any dividend in respect of the year (2001: Nil).

## **CLOSURE OF REGISTERS**

The register of members of the Company will be closed from 20 November 2002 to 22 November 2002, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for attending the Company's forthcoming annual general meeting, all transfers, accompanied by the relevant share certificates, must be lodged with the Company's share registrar in Hong Kong, Tengis Limited, 4th Floor, Hutchison House, 10 Harcourt Road, Central, Hong Kong, no later than 4:00 p.m. on 19 November 2002.

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **Business Review**

- The Group achieved a consolidated turnover of HK\$280.1 million from the manufacturing of Chinese pharmaceutical products, trading business and operation of Taiyuan Hospital for the financial year ended 31 May 2002, representing an increase of 19.0% over that of last year.
- During the year, turnover attributable to the manufacturing of Chinese pharmaceutical products business, trading business and operation of Taiyuan Hospital accounted for approximately 89.0%, 8.8% and 2.2% (2001: 83.2%, 14.2% and 2.6%) of the Group's turnover respectively.
- Gross profit of the Group slightly rose by 5.3% and amounted to HK\$117.8 million (2001: HK\$111.9 million). The net profit from ordinary activities attributable to shareholders amounted to HK\$21.3 million (2001: HK\$40.1 million). The decline in net profit was mainly due to initial establishment costs and impairment loss in respect of investments in a portion of the rheumatic treatment centres were charged to the profit and loss account this year.

- During the first half of the year, the Group has decided to further extend its sales network and strengthen the strategic alliance with hospitals in the PRC. The Group has targeted more than 100 hospitals across the PRC and initiated discussions with them about forming “Rheumatic Treatment Centres” on a co-operative basis. In fall 2001, the Group has signed agreements with 94 hospitals for the formation of Rheumatic Treatment Centres and has invested about HK\$165.0 million under this plan.
- During the start up process, the Group closely monitor the operation of the Rheumatic Treatment Centres and based on the result of the evaluation, the Group perceived that the result of a portion of the Rheumatic Treatment Centres were not operating satisfactorily.
- During the period from August to October 2002, the Group terminated the co-operations with 36 hospitals and disposed its investments in 28 Rheumatic Treatment Centres to two independent third parties. The Group will continue its investment in the remaining 30 hospitals. As a result of the above events, the non-refundable initial establishment costs of HK\$20.4 million and impairment loss of HK\$4.6 million in respect of investments in those terminated/disposed centres were charged to the current year’s profit and loss account.

## **Segment Information**

### *(A) Manufacturing of Chinese Pharmaceutical Products*

- For the year ended 31 May 2002, the development, manufacturing and provision of medicinal preparations and anti-rheumatoid capsules for the treatment of rheumatoid and/or arthritic conditions contributed approximately 89.0% (2001: 83.2%) and 99.1% (2001: 98.8%) of the Group’s turnover and operating result respectively.
- Turnover of the manufacturing business reported an upsurge of 27.3% when compared to that of previous year. The growth in turnover of the manufacturing business was primarily due to the increase in sales derived as a result of the newly established hospital network.

### *(B) Trading Business*

- For the year ended 31 May 2002, the trading business accounted for 8.8% (2001: 14.2%) of the Group’s turnover.
- The turnover and operating result of the trading business were both lower than previous year. The Group’s trading business is targeted on the Beijing region. As a result of severe competition in the trading of pharmaceutical industry in the PRC this year, turnover and operating result both decreased when compared with previous year.

### *(C) Operation of Taiyuan Hospital*

- For the year ended 31 May 2002, the Group’s turnover attributable to the provision of medical treatment, including clinical and medical fees and sales of medicines with symptoms associated with rheumatoid and/or arthritis condition of the Taiyuan Hospital accounted for approximately 2.2% (2001: 2.6%) of the Group’s total turnover.

- Due to the continued growth in the number of patients, the operation of the Taiyuan Hospital reported increase in both of its turnover and operating result over previous year.

## **PROSPECTS**

- In order to secure our influence and leadership in the treatment of rheumatism, the Group will continue to strengthen its clinical and technological cooperation with hospitals, medical institutions and universities.
- Capitalising on the expanded sales network with co-operative hospitals, high recognition of “Hou’s Therapy” and high curative effects of its manufactured anti-rheumatoid pharmaceutical products, the Group will focus, in the coming year, on providing training and technical assistance to the newly formed Rheumatoid Treatment Centres so as to strengthen quality of their services and treatments. This, in turn, will create selling opportunities to the Group.

## **USE OF NET PROCEEDS FROM THE ISSUANCE OF SHARES**

To the date of this report, the net proceeds of approximately HK\$48 million raised in the Company’s initial public offering in July 2000 have been applied as follows:

- approximately HK\$7 million for upgrading the existing production plant and acquisition of additional machinery;
- approximately HK\$3 million for marketing and advertising campaigns in the PRC;
- approximately HK\$2.8 million used for general working capital purposes; and
- the remaining balance was placed with banks if no requirement for immediate use.

## **LIQUIDITY AND FINANCIAL RESOURCES**

The Group continues to maintain a strong financial position and is confident that it has sufficient funds to meet its daily business operation requirements and future expansion. As at 31 May 2002, the Group’s cash and cash equivalents was HK\$53 million, (2001: HK\$135 million) and its working capital was HK\$124 million, (2001: HK\$134 million). The gearing ratio, defined as long-term liabilities to shareholders’ fund, was 0.14 (2001: not applicable) as there was long-term bank loan drawn down during the first half of the year. The Group finances its operations with internally generated cash flow and banking facilities. The Group’s cash balances at 31 May 2002, which accounted for approximately 23.1% of the total current assets, amounted to HK\$53 million.

The Group’s bank borrowings amounted to HK\$37 million (2001: Nil) as at 31 May 2002 which are all charged at floating interest rate. The bank borrowings were repayable as to HK\$19 million, HK\$12 million and HK\$6 million within one year, in the second year and in the third year, respectively. The banking facilities of the Group were supported by corporate guarantees executed by the Company and a subsidiary of the Company together with personal guarantees executed by two executive directors of the Company.

Most of the Group's monetary assets and borrowings are denominated in Renminbi and Hong Kong dollar. The foreign exchange fluctuation between Hong Kong dollar and Renminbi is not material. Thus, the exchange rate risk of the Group is considered to be minimal.

As at 31 May 2002, the Group had no significant contingent liabilities (2001: Nil).

## **EMPLOYEES**

As of 31 May 2002, the Group has a workforce of approximately 280 in both the PRC and Hong Kong. Remuneration policies of the staffs are reviewed annually and certain staffs are entitled to commission and bonus. During the year, there was no significant change in the Company's employees remuneration policies.

## **PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY**

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

## **COMPLIANCE WITH THE CODE OF BEST PRACTICE**

In the opinion of the directors, the Company has complied with the Code of Best Practice (the "Code") as set out in Appendix 14 of the Listing Rules throughout the year covered by this report, except that the independent non-executive directors of the Company are not appointed for specific terms as required by paragraph 7 of the Code, but are subject to retirement by rotation at the annual general meeting in accordance with the Company's bye-laws.

## **AUDIT COMMITTEE**

The Company has established an Audit Committee (the "Committee") since 2000, with written terms of reference, for the purpose of reviewing and providing supervision over the Group's financial reporting process and internal control system of the Group. The Committee comprises two independent non-executive directors, namely Dr. Ko Siu Shing, Patrick and Mr. Chan Bo Ching. The Group's financial statements for the year ended 31 May 2002 have been reviewed by the Committee, which was of the opinion that such statements complied with the applicable accounting standards, and stock exchange and legal requirements, and that adequate disclosures had been made.

## **PUBLICATION OF ANNUAL RESULTS ON THE WEBSITE OF THE STOCK EXCHANGE OF HONG KONG LIMITED**

A detailed results announcement containing all information required by paragraphs 45(1) to 45(3) of Appendix 16 of the Listing Rules will be published on the website of the Stock Exchange in due course.

By Order of the Board  
**Hou Li Ping**  
*Chairman*

Hong Kong, 29 October 2002

## NOTICE OF ANNUAL GENERAL MEETING

**NOTICE IS HEREBY GIVEN** that the annual general meeting of Shanxi Central Pharmaceutical International Limited (the “**Company**”) will be held at 10:00 a.m. on 22 November, 2002 at Plaza I-III, Lower Lobby, Novotel Century Hong Kong Hotel, 238 Jaffe Road, Wanchai, Hong Kong to transact the following ordinary business:

1. to receive and consider the audited consolidated financial statements and reports of the directors and auditors for the year ended 31 May, 2002;
2. to re-elect the retiring director and to authorise the board of directors to fix the re-elected director’s remuneration; and
3. to re-appoint the Company’s auditors and to fix their remuneration at the discretion of the board of directors;

and, as special business, to consider and, if thought fit, pass the following resolutions as ordinary resolutions:

### ORDINARY RESOLUTIONS

4. **THAT:–**

conditional on the Listing Committee of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) granting the approval for the listing of and permission to deal in the shares of the Company to be issued pursuant to the exercise of any options granted under the 2002 share option scheme of the Company (the “**New Share Option Scheme**”), a copy of which has been produced to this meeting marked “A” and signed by the chairman of the meeting for the purpose of identification, the existing share option scheme of the Company adopted on 25 July, 2000 be and is hereby terminated and the New Share Option Scheme be and is hereby approved and adopted and the directors (the “**Directors**”) of the Company be and are hereby authorized, at their absolute discretion, to grant options and to allot and issue shares of the Company thereby.

5. **THAT:–**

- (a) subject to paragraph (c) below, pursuant to the Rules Governing the Listing of Securities on the Stock Exchange (the “**Listing Rules**”), the exercise by the Directors during the Relevant Period (as hereinafter defined) of all the powers of the Company to allot, issue and deal with unissued shares in the capital of the Company and to make or grant offers, agreements and options which might require the exercise of such powers be and the same is hereby generally and unconditionally approved;
- (b) the approval in paragraph (a) above shall authorise the Directors during the Relevant Period to make or grant offers, agreements and options (including warrant, bonds and debentures convertible into shares of the Company) which might require the exercise of such powers during or after the end of the Relevant Period; and



- (c) the aggregate nominal amount of share capital allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to options or otherwise) by the Directors pursuant to the approval in paragraph (a) and (b) above, otherwise than pursuant to (i) a Rights Issue (as hereinafter defined); or (ii) the exercise of any option under any share option scheme of the Company; or (iii) any scrip dividend or similar arrangement providing for the allotment of shares in lieu of the whole or part of a dividend on shares in accordance with the bye-laws of the Company in force from time to time shall not exceed 20 per cent. of the aggregate nominal amount of the share capital of the Company in issue on the date of the passing of this Resolution and the said approval shall be limited accordingly.

6. **THAT:-**

- (a) subject to paragraph (b) below, the exercise by the Directors during the Relevant Period of all powers of the Company to purchase its own shares on the Stock Exchange, subject to and in accordance with the rules and regulations of the Securities and Futures Commission, the Stock Exchange, the Companies Act 1981 of Bermuda and all other applicable laws in this regard, be and the same is hereby generally and unconditionally approved; and
- (b) the aggregate nominal amount of shares which may be purchased by the Company pursuant to the approval in paragraph (a) during the Relevant Period shall not exceed 10 per cent. of the aggregate nominal amount of the issued share capital of the Company as at the date of the passing of this Resolution and the authority pursuant to paragraph (a) of this Resolution shall be limited accordingly.

For the purposes of Resolutions numbered 5 and 6:-

**“Relevant Period”** means the period from the date of the passing of this Resolution until whichever is the earliest of:

- (i) the conclusion of the next annual general meeting of the Company;
- (ii) the expiration of the period within which the next annual general meeting of the Company is required by the bye-laws of the Company, the Companies Act 1981 of Bermuda or any other applicable law of Bermuda to be held; or
- (iii) the passing of an ordinary resolution by the shareholders of the Company in general meeting revoking or varying the authority given to the Directors by the relevant Resolution.

**“Rights Issue”** means an offer of shares open for a period fixed by the Directors to holders of shares on the register of members on a fixed record date in proportion to their then holdings of such shares (subject to such exclusions or other arrangements as the Directors may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws of any relevant jurisdiction, or the requirements of any recognized regulatory body or any stock exchange).

7. **THAT** subject to the passing of Resolutions numbered 5 and 6 set out in the notice convening this meeting, the aggregate nominal amount of shares which are to be purchased by the Company pursuant to the authority granted to the Directors as mentioned in Resolution numbered 6 shall be added to the aggregate nominal amount of share capital of the Company that may be allotted and issued or agreed to be allotted and issued by the Directors pursuant to Resolution numbered 5.

By Order of the Board  
**Hou Li Ping**  
Chairman

Hong Kong, 29 October 2002

*Head office and principal place of business:*

Rooms 3710-3714  
Sun Hung Kai Centre  
30 Harbour Road  
Wanchai  
Hong Kong

*Notes:*

1. A member entitled to attend and vote at the meeting convened by the above notice is entitled to appoint one or more proxy to attend and, subject to the provisions of the bye-laws of the Company, vote in his stead. A proxy need not be a member of the Company.
2. In order to be valid, the form of proxy must be deposited together with a power of attorney or other authority, if any, under which it is signed or a notarially certified copy of that power or authority, at the offices of the Company's Hong Kong branch registrar and transfer office, Tengis Limited, 4th Floor, Hutchison House, 10 Harcourt Road, Central, Hong Kong not less than 48 hours before the time for holding the meeting or adjourned meeting.
3. In relation to proposed resolutions nos. 5 and 7 above, approval is being sought from the shareholders for the grant to the Directors of a general mandate to authorise the allotment and issue of shares under the Listing Rules. The Directors have no immediate plans to issue any new shares other than shares which may fall to be issued under the share option scheme of the Company or any scrip dividend scheme which may be approved by shareholders.
4. In relation to proposed resolution no. 6 above, the Directors wish to state that they will exercise the powers conferred thereby to repurchase shares in circumstances which they deem appropriate for the benefit of the shareholders. An explanatory statement containing the information necessary to enable the shareholders to make an informed decision to vote on the proposed resolution as required by the Listing Rules will be set out in a separate document to be despatched to the shareholders with the annual report for the year ended 31 May, 2002.

5. The register of members of the Company will be temporarily closed from 20 November, 2002 to 22 November, 2002 (both days inclusive) during which period no transfer of shares will be registered. In order to qualify for attending the proposed annual general meeting, all completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's share registrar in Hong Kong, Tengis Limited, 4th Floor, Hutchison House, 10 Harcourt Road, Central, Hong Kong, no later than 4:00 p.m. on 19 November, 2002.

\* *for identification only*

“Please also refer to the published version of this announcement in The Standard”.