

Hong Kong Pharmaceutical Holdings Limited



香港藥業

**Hong Kong Pharmaceutical
Holdings Limited**

香港藥業集團有限公司*

(Incorporated in Bermuda with limited liability)

**ANNOUNCEMENT OF RESULTS FOR
THE YEAR ENDED 31 MARCH 2003**

Hong Kong Pharmaceutical Holdings Limited

The Board of Directors (the “Board”) of Hong Kong Pharmaceutical Holdings Limited (the “Company”) announces the audited consolidated results of the Company and its subsidiaries (the “Group”) for the year ended 31 March 2003, with comparative figures for the previous year, as follows:

	<i>Notes</i>	2003 HK\$'000	2002 HK\$'000
TURNOVER	3	108,321	71,063
Cost of sales		(73,679)	(40,470)
Gross profit		34,642	30,593
Other revenue		3,104	11,303
Selling and distribution costs		(35,142)	(26,482)
Administrative expenses		(29,036)	(26,338)
Other operating expenses		(45,793)	(6,300)
LOSS FROM OPERATING ACTIVITIES	4	(72,225)	(17,224)
Finance costs	5	(6,683)	(6,385)
LOSS BEFORE TAX		(78,908)	(23,609)
Tax	6	(1)	433
LOSS BEFORE MINORITY INTERESTS		(78,909)	(23,176)
Minority interests		19,646	3,617
NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS		(59,263)	(19,559)
LOSS PER SHARE – BASIC	7	(4.27) cents	(1.42) cents

Notes:

1. BASIS OF PRESENTATION

At 31 March 2003, the Group had consolidated net current liabilities of approximately HK\$107,763,000 (2002: consolidated net current assets of approximately HK\$1,051,000) and consolidated net assets of approximately HK\$8,466,000 (2002: HK\$65,377,000). The Group also incurred a net loss from ordinary activities attributable to shareholders of approximately HK\$59,263,000 (2002: HK\$19,559,000) and reported a decrease in cash and cash equivalents for the year ended 31 March 2003 of approximately HK\$16,213,000 (2002: HK\$32,326,000).

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During the current year and up to the date of approval of the financial statements, the Group has defaulted on the repayment of certain bank and other borrowings. The Group has initiated discussions with the banks and other lenders with a view to arranging a rescheduling and/or refinancing of its bank and other borrowings (the “Debt Restructuring Arrangements”). Up to the date of approval of the financial statements, certain fixed terms or binding agreements in respect of the Debt Restructuring Arrangements have been agreed upon or executed as further explained below.

The details of the terms of the Debt Restructuring Arrangements with banks and other lenders are as follows:

- (a) Pursuant to clause 7 of the loan agreement dated 29 March 2000 entered into between China Vantage Limited (“China Vantage”), a wholly-owned subsidiary of the Company, and Sin Hua Bank Limited, now known as Bank of China (Hong Kong) Limited (the “Bank”), an instalment repayment of approximately HK\$3,999,000 was due on 27 April 2003. China Vantage defaulted on the repayment of such instalment. In accordance with clause 17 of the aforementioned loan agreement, in the event of default, the Bank can declare the total outstanding sum payable under the loan agreement of approximately HK\$39,987,000 as immediately due and payable. China Vantage has subsequently been negotiating with the Bank firstly, to waive its rights under clause 17 and secondly, to defer the repayment of such instalment, together with another instalment, amounting to approximately HK\$7,997,000 that falls due on 27 April 2004, to 30 June 2004. As the negotiation to obtain the extension has not yet been agreed by the Bank, the total loan balance of approximately HK\$39,987,000 becomes immediately due and payable and, accordingly, it is classified as a current liability in the balance sheet.
- (b) Pursuant to clause 5(a) of the HK\$40,000,000 convertible note (the “Note”) issued by the Company in favour of the Bank on 27 April 2000, the second and third instalment repayments of the principal amount of HK\$2,000,000 and HK\$4,000,000 fell due on 27 April 2003 and 27 October 2003, respectively. The Company defaulted on the repayments of both instalments. In accordance with clause 10 of the Note, in the event of default, the Bank can declare the then total outstanding sum payable under the Note of HK\$38,000,000 as immediately due and payable. The Company has subsequently been negotiating with the Bank firstly, to waive its rights under clause 10 and secondly, to defer the repayment of the second and third instalments, together with the fourth instalment, amounting to HK\$4,000,000 that falls due on 27 April 2004, to 30 June 2004. As the negotiation to obtain the extension has not yet been agreed by the Bank, the total balance of HK\$38,000,000 is immediately due and payable and, accordingly, it is classified as a current liability in the balance sheet.
- (c) On 29 October 2003, Shanghai Hua Xin High Biotechnology Inc. (“Hua Xin”), a subsidiary of the Company, defaulted on the full repayment of a loan from Shenzhen Development Bank Co., Ltd. (“Shenzhen Dev. Bank”), amounting to approximately HK\$28,200,000. On 31 October 2003, Shenzhen Dev. Bank agreed, in writing, its approval to defer the repayment to 8 May 2004.

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- (d) On 11 November, 2003, Hua Xin defaulted on the full repayment of a loan from the Bank of Shanghai Co., Ltd., amounting to approximately HK\$7,520,000. On 11, 12 and 20 November 2003, the defaulted amount was fully repaid by Hua Xin and the guarantor of the aforementioned loan, Shenzhen Weiji Investment & Development Co., Ltd., amounting to HK\$978,000 and HK\$6,542,000, respectively.
- (e) The Company has issued HK\$12,254,400 of other convertible notes (the "Other Notes") to independent third parties in the prior year as a consideration for the acquisition of a subsidiary in Mainland China. According to the terms of the Other Notes, on 30 March 2003, the noteholders were entitled to require the Company to redeem one-third of the principal amounts of the Other Notes amounting to approximately HK\$4,085,000; or exercise the conversion right to convert the same amounts into new ordinary shares of the Company. On 30 March 2004, the noteholders would then be entitled to require the Company to redeem the remaining two-thirds of the principal amounts of the Other Notes amounting to approximately HK\$8,169,000; or to exercise the conversion rights to convert the same amounts into new ordinary shares of the Company. On 20 November 2003, the holders of the Other Notes agreed, in writing, with the Company to defer the redemption of the first instalment of the principal amounts of approximately HK\$4,085,000 to 1 April 2004. As a result of this extension arrangement, this amount will not be repayable within one year, and, accordingly, they are classified as non-current liabilities in the balance sheet. Save as the above, the repayment schedule of the second instalment otherwise remains unchanged.
- (f) Hua Xin defaulted on the repayments of certain other loans, amounting to approximately HK\$7,341,000, that were due both during the current and prior years. On 31 March 2003, the lenders of loan balances of HK\$1,974,000 agreed, in writing, their approval to defer the repayment to 31 December 2004. As a result of the loan extension arrangements, the balances of HK\$1,974,000 will not be repayable within one year and, accordingly, are classified as non-current liabilities in the balance sheet.
- (g) Hua Xin had other loans amounting to approximately HK\$10,574,000 falling due on 31 December 2003. On 31 March 2003, the lenders of such other loans agreed, in writing, their approval to defer the repayments to 31 December 2004. As a result of the loan extension arrangements, the balances of HK\$10,574,000 will not be repayable within one year and, accordingly, are classified as non-current liabilities in the balance sheet.
- (h) Guizhou Ensure Medical Company Limited, a subsidiary of the Company, had an other loan amounting to approximately HK\$2,820,000 falling due on 9 June 2003. On 31 March 2003, the lender of such other loan agreed, in writing, its approval to defer the repayment to 31 December 2004. As a result of this extension arrangement, this amount will not be repayable within one year and, accordingly, it is classified as a non-current liability in the balance sheet.

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The directors have prepared the financial statements on a going concern basis as they believe that:

- (a) there will be continuing financial support from the Group's banks and other lenders;
- (b) there will be new capital injected by independent third parties; and
- (c) the Group will have sufficient working capital for its operational requirements.

Should the Group be unable to achieve the above and continue in business as a going concern, adjustments would have to be made to restate the values of assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets and liabilities as current assets and liabilities, respectively.

2. IMPACT OF REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE ("SSAPs")

The following revised SSAPs are effective for the first time for the current year's financial statements:

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

These revised SSAPs prescribe new accounting measurement and disclosure practices. The major effects on the Group's accounting policies and on the amounts disclosed in the financial statements of adopting these SSAPs are summarised in the notes to the financial statements in the annual report.

3. TURNOVER AND SEGMENT INFORMATION

Turnover represents the net invoiced value of goods sold, after allowances for returns and trade discounts; the value of services rendered; and gross rental income received and receivable from investment properties during the year.

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(a) Business segments

The following table presents revenue and profit/(loss) for the Group's business segments.

	Sum yung and pharmaceutical products		Biotechnological and transgenic products		Property investment		Corporate and others		Eliminations		Consolidated	
	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002
	<i>HKS'000</i>	<i>HKS'000</i>	<i>HKS'000</i>	<i>HKS'000</i>	<i>HKS'000</i>	<i>HKS'000</i>	<i>HKS'000</i>	<i>HKS'000</i>	<i>HKS'000</i>	<i>HKS'000</i>	<i>HKS'000</i>	<i>HKS'000</i>
Segment revenue:												
Sales to external customers	99,179	53,953	5,426	12,989	2,396	2,356	1,320	1,765	-	-	108,321	71,063
Intersegment sales	212	187	-	-	-	-	59	-	(271)	(187)	-	-
Other revenue	544	11	470	156	-	159	-	8,137	-	-	1,014	8,463
Total	<u>99,935</u>	<u>54,151</u>	<u>5,896</u>	<u>13,145</u>	<u>2,396</u>	<u>2,515</u>	<u>1,379</u>	<u>9,902</u>	<u>(271)</u>	<u>(187)</u>	<u>109,335</u>	<u>79,526</u>
Segment results	<u>(8,964)</u>	<u>(7,307)</u>	<u>(38,678)</u>	<u>(5,465)</u>	<u>77</u>	<u>1,951</u>	<u>(22,408)</u>	<u>(7,507)</u>			<u>(69,973)</u>	<u>(18,328)</u>
Interest and dividend income											2,090	2,840
Unallocated expenses											<u>(4,342)</u>	<u>(1,736)</u>
Loss from operating activities											<u>(72,225)</u>	<u>(17,224)</u>
Finance costs											<u>(6,683)</u>	<u>(6,385)</u>
Loss before tax											<u>(78,908)</u>	<u>(23,609)</u>
Tax											<u>(1)</u>	<u>433</u>
Loss before minority interests											<u>(78,909)</u>	<u>(23,176)</u>
Minority interests											<u>19,646</u>	<u>3,617</u>
Net loss from ordinary activities attributable to shareholders											<u>(59,263)</u>	<u>(19,559)</u>

(b) Geographical segments

The following table presents revenue for the Group's geographical segments.

	Hong Kong		Mainland China		Eliminations		Consolidated	
	2003	2002	2003	2002	2003	2002	2003	2002
	<i>HKS'000</i>	<i>HKS'000</i>	<i>HKS'000</i>	<i>HKS'000</i>	<i>HKS'000</i>	<i>HKS'000</i>	<i>HKS'000</i>	<i>HKS'000</i>
Segment revenue:								
Sales to external customers	<u>56,575</u>	<u>57,936</u>	<u>51,746</u>	<u>13,127</u>	<u>-</u>	<u>-</u>	<u>108,321</u>	<u>71,063</u>

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4. LOSS FROM OPERATING ACTIVITIES

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

	2003 HK\$'000	2002 HK\$'000
Cost of inventories sold	73,073	39,628
Cost of services provided	491	732
Depreciation	10,259	5,449
Amortisation of a patent	172	—
Amortisation of know-how	1,899	786
Impairment of know-how	9,696	—
Impairment of deferred development costs	6,337	—
Impairment of goodwill	5,147	—
Amortisation of goodwill	1,511	396
Loss on disposal of fixed assets, net	498	129
Provision for doubtful trade receivables	5,674	1,974
Provision for prepayments and other receivables	3,086	—
Provision for amount due from a related company	1,061	—
Provision for obsolete and slow-moving inventories	1,266	569
Provision for an amount due from an associate	1,728	1,034
Impairment of a long term unlisted investment	3,000	—
Unrealised loss on revaluation of short term listed investments	1,687	1,736
Loss on disposal of short term listed investments	1,279	—
Deficit on revaluation of investment properties	2,000	200
Net rental income	(2,281)	(2,246)
Dividend income from listed investments	(229)	(229)
Interest income	(1,861)	(2,611)
	<u> </u>	<u> </u>

5. FINANCE COSTS

	2003 HK\$'000	2002 HK\$'000
Interest on bank loans and other borrowings wholly repayable within five years	6,639	6,349
Interest on finance leases	32	36
Others	12	—
	<u>6,683</u>	<u>6,385</u>

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6. TAX

No Hong Kong profits tax has been provided for as the Group had no assessable profits arising in Hong Kong during the year (2002: Nil). 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.

	2003 HK\$'000	2002 HK\$'000
Provision for the year – elsewhere	1	1
Overprovision in prior years	–	(434)
Tax charge/(credit) for the year	<u>1</u>	<u>(433)</u>

There was no significant unprovided deferred tax in respect of the year (2002: Nil).

7. LOSS PER SHARE

The calculation of basic loss per share is based on the net loss from ordinary activities attributable to shareholders for the year of approximately HK\$59,263,000 (2002: HK\$19,559,000), and the weighted average number of 1,389,411,493 (2002: 1,374,136,424) ordinary shares in issue during the year.

Diluted loss per share amounts for the years ended 31 March 2003 and 2002 have not been presented because the effects of the assumed conversion of the share options and convertible notes of the Company during these years were anti-dilutive.

8. DIVIDEND

The directors do not recommend the payment of any dividend for the year (2002: Nil).

SUMMARY OF THE AUDITORS' REPORT

Fundamental uncertainty relating to going concern basis

In forming the opinion, the auditors have considered the adequacy of the disclosures made in note 1 above concerning the adoption of the going concern basis on which the financial statements have been prepared. As explained in note 1 above, the Group is currently undertaking a number of measures to relieve its current liquidity problems. The financial statements have been prepared on a going concern basis, the validity of which depends upon the successful outcome of the proposed debt restructuring plan of the Group, the ongoing support of the Group's principal banks and other lenders, the availability of additional external funding and the attainment of profitable and positive cash flow operations. The financial statements do not include any adjustment that may be necessary should the implementation of such measures be unsuccessful. The auditors consider that appropriate disclosures have been made, but the fundamental uncertainty relating to whether the going concern basis is appropriate is so extreme that they have disclaimed their opinion.

Disagreement about accounting treatment – insufficient provisions against amounts due from intermediate holding companies

As more fully explained in notes to the financial statements in the annual report, the Group's receivables from intermediate holding companies included in current assets in the balance sheet comprise an aggregate amount of approximately HK\$13,378,000, inclusive of interest of approximately HK\$864,000, due from Tin Ming Management Limited and Hong Tau Investment Ltd. The repayment dates of these receivables have been revised on a number of occasions, and have been further extended to 31 March 2004. Only HK\$700,000 has been settled subsequent to the balance sheet date. Notwithstanding the revised repayment terms, the auditors consider that, in the absence of any security for these debts or other reliable financial information about these intermediate holding companies and their ability to settle these overdue amounts, the auditors believe that the Group is unlikely to recover the remaining balance of approximately HK\$12,678,000 in full and a provision should have been made against these receivables. However, due to the absence of sufficient information, it is also impracticable to quantify the amount of the provision to be made. If such provision had been made, the Company's and the Group's net loss from ordinary activities attributable to shareholders for the year ended 31 March 2003 would have been increased and the Company's and Group's net assets as at 31 March 2003 would have been reduced by the amounts thereof.

Disclaimer of opinion

Because of the significance of the fundamental uncertainty relating to the going concern basis, the auditors are unable to form an opinion as to whether the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 March 2003 and of the loss and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Had they not disclaimed their opinion, they would have qualified their report with respect to their disagreement with the Group's accounting treatment under the heading "Disagreement about accounting treatment – insufficient provisions against amounts due from intermediate holding companies" above.

BUSINESS REVIEW

During the year 2003, the management of the Group continued to focus on the rationalisation of existing operations, and actively conducted the market research and formulation of business plan for the development of its pharmaceutical distribution business in the PRC.

Following its successful acquisition of Guizhou Ensure Chain Pharmacy Co., Ltd. ("Ensure"), the Group became the first foreign company engaged in pharmaceutical distribution in China. Being the largest pharmaceutical retail enterprise in Guizhou, Ensure had 75 pharmacy chain stores each with a retailing area ranging from 80 sq. m. to 100 sq. m. before the acquisition. Since becoming member of the Group, Ensure has reshaped its vision and business strategies, focusing and re-formulate its model with the objectives of maximising revenue and increase of market share. During the year, three pharmaceutical mega-stores with a retailing area of 300-800 sq. m. were added to the chain. On top of prescription and non-prescription drugs, more daily necessities, cosmetics and healthcare products were put on shelf. This has effectively boosted the turnover of Ensure and consolidated its leading position in the pharmaceutical retail market in Guizhou. The opening of mega stores will be Ensure's major means of organic expansion in the short term.

Subsequent to the end of this financial year, the Group signed a term sheet with Super-Pharm (Israel) Limited of Israel on 12 June 2003 in relation to the proposed strategic partnership arrangement for the development of chain pharmacy business in China. The Group allied with Super-Pharm (Israel) Limited, a prestigious pharmacy retail enterprise in the world, in order that its business management and competitiveness in the focused sector of pharmaceutical distribution could be enhanced by the introduction of advanced business models and management concepts into pharmaceutical retailing industry in China.

As Yangzhou Genetic Engineering Ltd. ("Yangzhou Genetic ") would take a long time to generate profits and the disposal of interest in this company could help the Group focus on its pharmaceutical distribution business, the Group signed an agreement in relation to the disposal of 34.43% shareholding interest in Yangzhou Genetic to Jiangsu Lianhuan Pharmaceutical Co., Ltd. at a cash consideration of RMB7 million on 26 November 2003.

PROSPECTS

Leveraging on its early entry to the market, the Group is expanding the pharmaceutical distribution, as one of its key strategies, with the support from the PRC government's active rationalisation and integration of pharmaceutical enterprises. The Group focuses its efforts on seeking strategic collaborations with internationally renowned enterprises in the pharmaceutical distribution industry, as well as introduction of advanced management concepts and business models in order to enhance its management standards and competitive strengths. Through acquisitions of leading pharmaceutical distribution projects in Southern, Eastern and South-western China, increase of the number of pharmacy mega-stores, and selectively recruitment of promising franchisees, the Group aims to quickly expand its pharmaceutical distribution business across the country in a bid to become one of China's leading enterprises in the pharmaceutical industry. Supported and fuelled by the rapid developments of its retail networks, the Group's pharmaceutical distribution business in China will provide significant impetus to the sales growth in the future financial period.

While boosting the development of our pharmaceutical distribution in China, the effort will be continuously made to expand the retail network of Chinese drugs and health food for Nam Pei Hong of the Group in Hong Kong. The Group will strengthen the cooperation in product and management between the distribution networks of Nam Pei Hong in Hong Kong and China to enhance the synergy effect.

For the research and development, production and sale of biotech drugs, Shanghai Hua Xin High Biotechnology Inc., the subsidiary, will further boost the marketing of four existing pharmaceutical products, namely Interlukin-2, IFN, GM-CSF and IFN (water injection). In the meantime, the Group will devote to collaboration in the fields of technology as well as products and market development with renowned biotech enterprises from Europe and the US; meanwhile explore opportunities for geographical expansion in the biotech drug markets in developing countries in South America, India and South-east Asia.

The management of the Group firmly believes that the pharmaceutical industry is one of the most promising industries in China. The Group will strive to expand and enhance the scale and management of its distribution network, and continuously launch advanced-biotech drugs, thus bringing good health and quality living to the public and bestow best return to our shareholders.

On behalf of the Board of Directors, I express my utmost gratitude to all our shareholders and customers for their understanding, support and to our staff for their contribution during the year.

ANALYSIS OF FINANCIAL RESULTS

The Group recorded a turnover of HK\$108.3 million for the year ended 31 March 2003, representing an increase of approximately 52.3% as compared to HK\$71.1 million of last year. The increase has been attributable to the inclusion of the financial results of Guizhou Ensure Chain Pharmacy Co., Ltd. and its subsidiary company, 貴州一樹醫藥有限公司 Guizhou Ensure Medical Co. Ltd., after becoming members of the Group in March last year, contributing approximately 43% to this year's turnover of the Group. Also, despite prevailing economic downturn and competitive market conditions in the Hong Kong market, the Group has been able to sustain its revenue level of the Hong Kong business segment as a direct result from its continuing effort in rationalizing and consolidation of its operations. Turnover from the Hong Kong segment, which includes sales of sum yung products, provision of Chinese clinical services and rental income from investment properties, amounted to HK\$56.6 million, a slight reduction of approximately 2% compared to that of last year at HK\$57.9 million. The sustained level of sales from the Hong Kong business segment together with the outstanding sales contribution from the newly acquired subsidiaries in Guizhou have helped to mitigate the impact of the reduction in turnover of the biotechnological and transgenic products segment in the PRC on the turnover of the Group.

For the year under review, the loss from operating activities for the Group increased from HK\$17.2 million last year to HK\$72.2 million this year, and with net loss from ordinary activities attributable to shareholders amounted to approximately HK\$59.3 million compared to that of last year at HK\$19.6 million. The increase in the losses have been mainly attributable to the substantial increase in the operating loss in the business segment of biotechnological and transgenic products in the PRC, which amounted to approximately HK\$38.6 million, and constitute approximately 53% of the total loss from operating activities of the Group for the year.

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In spite of careful planning, sales strategies and cost cutting measures implemented by the management, difficult trading conditions, intense market competition and unexpected delays in the production and marketing of new drugs were the responsible factors for the significant decline in the trading and financial performance and hence the resultant level of operating loss in the biotechnological and transgenic products segment. In addition, in the light of its current performance and in order to prepare a platform for future trading and financial success, the management of the Group has adopted a prudent approach and considered appropriate to write down the values of certain of its assets to reflect their economic value to the Group. This entailed substantial impairment losses being made against some of its intangible assets to the tune of approximately HK\$16 million. In connection to this, the Group has also written off the remaining amount of the goodwill arose on the acquisition of the biotechnology subsidiary, namely, Shanghai Hua Xin High Biotechnology Inc. ("Hua Xin"), amounted to HK\$5.1 million. These significant impairment losses were key factors in the increase in operating loss of the biotechnological and transgenic products segment in the PRC and further deteriorated the overall financial performance of the Group for the year.

Besides the fore-mentioned, the Group has also made significant impairment losses and provisions on various assets of the Hong Kong business segment this year. These included provision being made against an investment, to the tune of HK\$3 million, on the grounds of lack prospect for future return, and revaluation deficit on investment properties of HK\$2 million. Collectively, these provisions and impairment losses made further added pressure and increased substantially the operating loss in the Hong Kong business segment, and hence the overall increase in the loss from operating activities of the Group this year.

The significant impairment losses and provisions made this year has directly led to the corresponding increase in the level of other operating expenses of the Group, from approximately HK\$6.3 million last year to approximately HK\$45.8 million this year, as shown on the face of the profit and loss account, and consequently, the net loss attributable to shareholders for the year increased from HK\$19.6 million last year to this year's HK\$59.3 million.

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During the year, the management of the Group continues to devote its effort in the implementation of retrenchment, rationalization and consolidation of the Group's operations, particularly, in the sum yung and pharmaceutical products segment of the Group since the joining of Guizhou Ensure Chain Pharmacy Co., Ltd. from the start of the financial year, expanding the Group's retail networks covering both Hong Kong and the PRC. Despite sustaining loss for the year of HK\$8.9 million compared to HK\$7.3 million last year, the operational efficiency and competitiveness of the retail networks of this business segment have been enhanced and the benefit of the Group's efforts in rationalizing their operations and networks began to pay dividends and this has been reflected through this year's relatively small increase of approximately HK\$1.6 million in the operating loss of the segment.

Through persistent effort of rationalizing existing operations, pursuit of both new product and market developments in the business segment of biotechnological and transgenic products, together with the cautious geographical market expansion strategies for the sum yung and pharmaceutical products segment of the Group, management believes that the financial performance, both liquidity and profitability, of the Group will be revived and significantly improved in the ensuing year.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 31 March 2003, the Group's total bank and other borrowings amounted to HK\$157.1 million (2002: HK\$154.7 million), representing an increase of 1.5% as compared to that of last year. During the year, substantial part of the bank borrowings owing to one of the creditor banks became immediately due and payable. Approximately HK\$137.6 million (2002: HK\$68.5 million) of the total bank and other borrowings are due within one year and of which, approximately HK\$87.5 million (2002: HK\$85.2 million) are secured. In order to improve the financial position and liquidity, the Group is currently in negotiation with one of its creditor banks in relation to a debt restructuring plan. In addition, the Group is in discussions with certain potential investors with regard to making investments in the Group. The successful completion of a debt restructuring arrangement with the creditor bank and new fundings from investors will help alleviate current liquidity pressure and necessary for future expansion plans.

The current ratio of the Group decreased from 1 time last year to 0.48 time this year. This is mainly attributable to the bank borrowings becoming repayable subsequent to the year end as referred to above and the decrease in current assets resulting from disposal of short term investment and decrease in cash and bank balances.

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The gearing ratio (total borrowings over total assets) rose from 0.49 time last year to 0.63 time this year. The increase in gearing ratio has been mainly attributable to the decrease of total assets as a result of the significant net loss from ordinary activities of HK\$59.3 million incurred for the year.

Approximately HK\$64.7 million (2002: HK\$57.1 million) of the total borrowings are denominated in Reminbi and re-translated accordingly at the appropriate exchange rate at the balance sheet date. The balance of the borrowings are denominated in Hong Kong dollars.

In view of the stability of Reminbi, management of the Group did not consider necessary to hedge against foreign exchange exposure. During the year, the Group did not engage in the use of any other financial instruments for hedging purposes and there is no hedging instrument outstanding at 31 March 2003.

MATERIAL ACQUISITIONS AND DISPOSALS

After the completion of acquisition of 51% interest in Guizhou Ensure on 30 March 2002, the operating results of which had been included in the Group's operating results for the year. Apart from this, the Group did not have any material acquisitions during the year. As discussed earlier, the Group has contracted to dispose of its 34.43% equity interest in Yangzhou Genetic Engineering Ltd subsequent to the year end on 26 November 2003. The disposal is conducive to the Group's objective of improving future financial performance and to preserve resources for other areas of operations of the Group.

CHARGE OF ASSETS

As at 31 March 2003, certain of the Group's investment properties with an aggregate carrying value of HK\$38,550,000 were charged to a bank to secure general banking facilities and convertible note issued to a bank, and a building of the Group with a carrying value of approximately HK\$45,868,000 was pledged to secure banking facilities granted to the Group. The Group's trust receipts loans were secured by one of the Group's investment properties with an aggregate carrying value of HK\$2,400,000 as at 31 March 2003. Further details are disclosed in the notes to financial statements.

CONTINGENT LIABILITIES

Save as disclosed in the notes to financial statements, the Group did not have any significant contingent liabilities as at 31 March 2003.

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

Other than the issue of 20,000,000 new shares at the price of HK\$0.10 per share in December 2002 pursuant to the conversion of a bank convertible note by the Bank and the issue of an aggregate of 400,000 new shares at the price of HK\$0.88 per share pursuant to the exercise of share options by option holders in June and July 2002, neither the Company nor any of its subsidiaries had purchased, redeemed or sold any of the Company's listed securities during the year.

CODE OF BEST PRACTICE

In the opinion of the directors, the Company complied with the Code of Best Practice (the "Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), throughout the accounting period covered by the annual 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 and re-election at the annual general meeting of the Company in accordance with the provision of the Company's bye-laws.

PUBLICATION OF RESULT ON THE STOCK EXCHANGE'S WEBSITE

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

By Order of the Board
Hong Kong Pharmaceutical Holdings Limited
Sun Hiu Lu
Chairman

Hong Kong, 12 December 2003

* *For identification purpose only*

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that an Annual General Meeting of Hong Kong Pharmaceutical Holdings Limited (the “Company”) will be held at Salon II, 1st Floor, The Harbour Plaza, 20 Tak Fung Street, Hung Hom, Kowloon, Hong Kong on Friday, 16 January 2004 at 10:00 a.m. for the following purposes:

1. To receive and adopt the audited consolidated financial statements and the reports of the Directors and auditors for the year ended 31 March 2003.
2. To re-elect the retiring Directors and to authorise the board of Directors to fix the Directors’ remuneration for the ensuing year.
3. To determine the maximum number of Directors and to authorise the board of Directors to appoint additional Directors up to the maximum number.
4. To appoint auditors of the Company for the ensuing year and to authorise the board of Directors to fix their remuneration.
5. As special business, to consider and, if thought fit, pass with or without amendments the following resolutions as ordinary resolutions and special resolution respectively:

ORDINARY RESOLUTIONS

(1) “**THAT:**

- (a) subject to paragraph (c) below, the exercise by the Directors during the Relevant Period (as hereinafter defined) of all the powers of the Company to allot, issue, dispose of and deal with additional shares of HK\$0.10 each in the capital of the Company and to make or grant offers, agreements and options (including bonds, notes, warrants, debentures and securities convertible into shares of the Company) which would or might require the exercise of such powers be and is hereby generally and unconditionally approved;
- (b) the approval in paragraph (a) above shall authorise the Directors during the Relevant Period (as hereinafter defined) to make or grant offers, agreements and options (including bonds, notes, warrants, debentures and securities convertible into shares of the Company) which would or might require the exercise of such powers after the end of the Relevant Period;

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- (c) the aggregate nominal amount of share capital allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to an option or otherwise) and issued by the Directors pursuant to the approval in paragraph (a) above, otherwise than pursuant to (i) a Rights Issue (as hereinafter defined); (ii) the exercise of rights of subscription or conversion under the terms of any warrants issued by the Company or any bonds, notes, debentures or securities; (iii) an issue of shares under any option scheme or similar arrangement for the time being adopted for the grant or issue to directors and/or employees of the Company and/or any of its subsidiaries of shares or rights of the Company; and (iv) an issue of shares as scrip dividend pursuant to the Bye-laws of the Company from time to time, shall not exceed 20% of the aggregate nominal amount of the share capital of the Company in issue as at the date of passing this Resolution and the said approval shall be limited accordingly; and
- (d) for the purposes of this Resolution,

“Relevant Period” means the period from 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 or the laws of Bermuda or any other applicable law to be held; or
- (iii) the date on which the authority set out in this Resolution is revoked or varied by an ordinary resolution of the shareholders in general meeting of the Company;

“Rights Issue” means an offer of shares open for a period fixed by the Directors to the holders of shares of the Company on the register on a fixed record date in proportion to their then holdings of such shares as at that date (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, or the requirements of any recognised regulatory body or any stock exchange in, any territory outside Hong Kong applicable to the Company).”

(2) **“THAT:**

- (a) subject to paragraph (b) below, the exercise by the Directors during the Relevant Period (as hereinafter defined) of all the powers of the Company to repurchase shares of HK\$0.10 each in the capital of the Company on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”), or on any other stock exchange on which the Shares of the Company may be listed and recognised by the Securities and Futures Commission of Hong Kong and the Stock Exchange for this purpose, subject to and in accordance with all applicable laws and the requirements of the Rules Governing the Listing of Securities on the Stock Exchange, or of any other recognised stock exchange as amended from time to time, be and is hereby generally and unconditionally approved;

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- (b) the aggregate nominal amount of shares of the Company to be repurchased by the Company pursuant to the approval in paragraph (a) above shall not exceed 10% of the aggregate nominal amount of the share capital of the Company in issue as at the date of the passing of this Resolution and the said approval shall be limited accordingly; and
- (c) for the purposes of this Resolution, “Relevant Period” means the period from 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 or the laws of Bermuda or any other applicable law to be held; or
 - (iii) the date on which the authority set out in this Resolution is revoked or varied by an ordinary resolution of the shareholders in general meeting of the Company.”
- (3) “**THAT** subject to the passing of Resolutions Nos. (1) and (2) set out in item 5 of the notice convening this meeting, the general mandate granted to the directors of the Company to allot, issue, dispose of and deal with additional shares pursuant to Resolution No. (1) set out in item 5 of the notice convening this meeting be and is hereby extended by the addition thereto of an amount representing the aggregate nominal amount of shares in the capital of the Company repurchased by the Company under the authority granted pursuant to Resolution No. (2) set out in item 5 of the notice convening this meeting, provided that such amount of shares so repurchased shall not exceed 10% of the aggregate nominal amount of the share capital of the Company in issue as at the date of passing Resolution No. (2) set out in item 5 of the notice convening this meeting.”

SPECIAL RESOLUTION

- (4) “**THAT** the existing Bye-laws of the Company be and are hereby amended in the following manner:
 - (a) by deleting the words “a recognised clearing house within the meaning of Section 2 of the Securities and Futures (Clearing House) Ordinance of Hong Kong or” appearing in the definition of “clearing house” in Bye-law 1.

The amended definition of “clearing house” in Bye-law 1 will be as follow:

“clearing house” shall mean a clearing house recognized by the laws of the jurisdiction in which the shares of the Company are listed or quoted on a stock exchange in such jurisdiction;

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- (b) by adding the words “deemed to have been duly authorised without further evidence of the fact and be” before the words “entitled to exercise the same rights and powers” in the second sentence of Bye-law 84(2).

The amended Bye-law 84(2) will be as follow:

84. (2) If permitted by the Act, a clearing house (or its nominee) if a corporation being a Member, may authorise such persons as it thinks fit to act as its proxies or as its representatives at any meeting of the Company or at any meeting of any class of Members provided that the authorisation shall specify the number and class of shares in respect of which each such representative is so authorised. Each person so authorised under the provisions of this Bye-law shall be deemed to have been duly authorised without further evidence of the fact and be entitled to exercise the same rights and powers as if such person was the registered holder of the shares of the Company held by the clearing house (or its nominee).”

By Order of the Board
Hong Kong Pharmaceutical Holdings Limited
Sun Hiu Lu
Chairman

Hong Kong, 12 December 2003

Notes:

- 1 Any member of the Company entitled to attend and vote at the annual general meeting (or at any adjournment thereof) is entitled to appoint one or more person(s) as his proxy to attend and vote instead of him. A proxy need not be a member of the Company.
- 2 To be valid, proxy form, together with any power of attorney or other authority (if any) under which it is signed or the certified copy thereof, must be deposited at the principal place of business of the Company at Room 2603, 26th Floor, China Merchants Tower, Shun Tak Centre, 200 Connaught Road Central, Hong Kong not less than 48 hours before the time appointed for holding the annual general meeting (or any adjournment thereof).
- 3 Completion and return of the form of proxy will not preclude members from attending and voting at the annual general meeting (or at any adjournment thereof).

Please also refer to the published version of this announcement in The Standard dated on 15-12-2003.