

MANAGEMENT DISCUSSION AND ANALYSIS

Liquidity and Financial Resources

The Group generally finances its operations with internally generated cash flow. As at 31 December 2000, the Group had cash and bank balances of a total amount of HK\$138,050,000. At 31 December 2000, the Group had total assets of HK\$245,983,000, current liabilities of HK\$33,804,000 and shareholders' equity of HK\$212,179,000. The Group has consistently maintained a strong working capital during the period under review, with net current assets of HK\$172,726,000 at 31 December 2000.

As at 31 December 2000, the Group had no outstanding borrowings.

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

Business Review

The Group's turnover for the period under review was HK\$200,996,000. This represented an increase of 41.6% as compared with the corresponding period of 1999. The net profit attributable to shareholders for the period under review amounted to approximately HK\$47,218,000 and was increased by 50.7% to that of last period. Basic earnings per share for the current period was approximately HK15.9 cents (1999: HK13.1 cents).

The increase in turnover was mainly attributable to the increase in sales generated from the anti-viral drugs.

Anti-viral drugs

Sale of anti-viral drugs during the period under review was approximately HK\$88,105,000, accounting for 43.8% of the total turnover of the Group and representing approximately 37.0% increase when compared with the corresponding period of 1999. The increase was due to the increasing demand of the Jin Gang Cold (金剛感冒片) 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 principally used for the treatment of common cold, cough and influenza. On 16 November 2000, the State Pharmaceutical Supervision and Administration of China (國家藥品監督管理局) 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 (金剛感冒片), which is PPA-free.

Antibiotics

Sale of antibiotics shows approximately 8.4% increase when compared with the corresponding period of 1999. The slight increase was due to the tense competition from other competitors. But the Group will put effort in re-engineering the production process to raise cost efficiency and enhance the competitiveness of the products.

Vitamins

During the period under review, the Group had recognized a significant growth in turnover of Vitamins. With the demand of high quality and diverse variety of its Vitamins, the benefits of economies of scale become significant.

Analgesics

The sales of analgesics increased from approximately HK\$13,995,000 in the corresponding period of 1999 to HK\$21,024,000 during the period ended 31 December 2000, representing approximately 50.2% increase. This was attributable to the recognition of the Group's 塔山 (Ta Shan) brand-name products.

Chinese patent medicines

Turnover virtually doubled in the period under review, from last year's HK\$7,912,000 to approximately HK\$15,203,000. The sale of Chinese patent medicines achieved encouraging growth due to the effort of effective marketing strategy and market penetration through its relationship with wholesalers and distributors.

Chinese tonic liquor

During the period under review, the sales of Chinese tonic liquor increased from approximately HK\$10,100,000 to HK\$16,232,000, representing approximately 60.7% increase when compared with the corresponding period of 1999. This was attributable to the recognition of the Group's 塔山 (Ta Shan) brand-name products.

Due to the increase in turnover and the result of economies of scale, the gross profit margin of each of the six product segments had been improved. However, due to the changes in the composition of sales mix, the overall gross profit margin was 36.8% (1999: 37.2%), representing a decrease of 0.4% as compared with the corresponding period of last year.

Sales and marketing expenses amounted to HK\$14,366,000 (1999: HK\$10,695,000) which was comparable to last year's level at 7.1% of turnover. Administrative expenses had increased from last year's HK\$6,437,000 to the current period's HK\$7,265,000, due to the hiring of additional management professionals and related expenses, which accounted for 3.6% of the Group's turnover. When compared with the corresponding period of 1999, the administrative expenses had been less by approximately 0.9%. Such decrease is due to the effort of the tightened control on administration expenses during the period under review.

No finance cost was incurred during the period under review as bank loans had been fully repaid during the six months ended 31 December 1999.

Future prospects

Over the Counter ("the OTC") drugs market sales

Since urban medical and hygiene system reform in the PRC started in 1999, employees' medical expenditure of state bureaus, state-owned enterprises, have been no longer fully covered by the PRC Government. At the end of November 2000, 225 of the 349 cities in the PRC launched their own insurance schemes. The most popular one is that the employers cover 70% of the total medical expenses through insurance companies and employees have to pay the remaining 30%. Furthermore, the annual total claim amount has a limited ceiling.

The Board believes that when patient catch a common cold or cough, they will prefer to purchase OTC medicine instead of visiting a doctor to avoid paying expensive medical bills. As a result, the medical OTC market in the PRC will have a strong growth. Since most of the Group's products are OTC drugs, the Board believes that the turnover of the Group will also grow gradually.

GMP Standards

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 will be completed and the production facilities are being installed by the end of April 2001. The Board expects the new GMP plant will start trial production in May 2001. The Board believes that the Group will be able to achieve the GMP standards by the end of June 2001.

Withdrawal of PPA anti-viral drugs

To increase its sales revenue and snap additional market share in the PPA free products, the Group has played an active role by launching advertising campaigns and promotion programs to market its products such as Jin Gang Cold, which is PPA-free. The Board expects that the Group will benefit from the increase in sales of anti-viral drugs.

Product variety

The Group will continue to put great emphasis on research and development to improve the quality of the existing products. It is the Group's plan to accelerate the development of its new products, and will continue to further broaden the product variety by seeking for horizontal expansions by way of acquisition of other pharmaceutical companies in the PRC.

The directors continue to have optimistic view of its prospects for the coming years.

Charges on group assets

At 31 December 2000, none of the Group's assets pledged as security for liability.

Employee schemes

At 31 December 2000, the Group had 506 employees, of which 501 and 5 were based in the PRC and Hong Kong respectively.

The remuneration policy and package of the Group's employee are reviewed and approved by the Directors. Apart from provident funds and double pay, discretionary bonuses are linked to individual performance as recognition of and reward for value creation.