

MATRIX

White Flower Embrocation, commonly known as Hoe Hin Pak Fah Yeow (“Pak Fah Yeow”), is a blend of several essential oils like eucalyptus, peppermint, lavender together with menthol, camphor and methyl salicylate. Most ingredients are natural, imported from France, China and Australia. All materials are purchased in compliance with the standards and guidelines set forth by British Pharmacopoeia, Chinese Pharmacopoeia, International Fragrance Association or Research Institute of Fragrance Material.

The “character” of Pak Fah Yeow goes beyond its ingredients to what underlies the relation of the Company’s input and customer expectations.



Latest award: Hong Kong
Q-Mark

The matrix that represents Pak Fah Yeow’s “character” is clear and evident since 1996, when the Group’s flagship subsidiary, Hoe Hin Pak Fah Yeow Manufactory Limited (the “Company”), was awarded the Australian Code of Good Manufacturing Practice (GMP) for Therapeutic Goods – Medicinal Products (the “GMP certificate”) and in 1999, the ISO9002 certificate was achieved for the effort to establish a quality system based on requirements set forth by the ISO9002: 1994(E). Also in 1999, Pak Fah Yeow was accredited one of the Hong Kong Top Ten Brandnames by The Chinese Manufacturers’ Association of Hong Kong. Additionally, in year 2000, Pak Fah Yeow was also awarded the certificate of Hong Kong Q-Mark by The Federation of Hong Kong Industries.

Turning into the 21st century, the concept of traditional Chinese medicines (“TCM”) are rapidly changing. We are looking forward to the implementation of control of the manufacture and distribution of TCM through legislation. In fact, we are calling-out TCM manufacturers to study, understand and verify the pharmacology and medicinal effects of their products.

In early 2000, a clinical study on Pak Fah Yeow was commissioned by the Company. The study was carried out by Xiyuan Hospital, a State recognised and renowned clinical centre in Beijing, China. Results show that Pak Fah Yeow can safely alleviate pathogenic wind-heat headaches and headaches caused by blood stasis, with a therapeutic action much superior to its competitor. The preliminary results of this clinical test was released at the press conference held at the SPACE center of the University of Hong Kong on 5th September, 2000.



GMP certified factory in Chaiwan, Hong Kong

The “character” of Pak Fah Yeow is ever changing. It interacts with customer expectations and market conditions. Some time in the future, I wish Hong Kong’s TCM industry could be viewed with the degree of importance it well deserves.

BUSINESS REVIEW

The Group’s audited consolidated net profit for the year amounted to HK\$23,787,000 (1999: HK\$24,899,000) for the year ended 31st December, 2000, a decrease of 4.5% from previous year.

Manufacture of White Flower Embrocation

Profit from this segment dropped by 22.5% to this year’s HK\$20,255,000 from last year’s HK\$26,127,000. The decrease is due to the extensive advertising campaigns held throughout the Mainland China market on brand building and extending distribution networks. Consequently, a loss from operation of

HK\$1,280,000 is recorded for 2000 in comparison to last year’s profit of HK\$3,148,000 in this market. The Group believes that such brand name investment will ripe fruitful rewards after China’s successful assertion to the World Trade Organisation in the near future. The promotion effort planned for the Mainland China market in 2001 will concentrate to major metropolitan areas where it is to generate more sales. The Group will benefit from the change in accounting estimate in relation to a revision of the useful lives of its factory plant and equipment resulting in a reduction of depreciation charge by HK\$2,728,000 for the year.



Giant “Pak Fah Yeow” outdoor display in Chengdu, China

realised upon the disposal of an investment property located at United Kingdom during the year.

Interest income

Due to an increase in the average cash deposit balance throughout 2000 and interest income from investment in securities, interest income increased from HK\$3,676,000 in previous year to HK\$4,660,000 for 2000.

Property investment

Profit is bettered by 74.1%, i.e. HK\$3,820,000, from last year’s profit of HK\$5,152,000 to this year’s HK\$8,972,000. The key lies with the gain of HK\$3,928,000



Featured sightseeing bus in Shanghai

Other principal activities

This segment represents activities other than those listed above. Losses flowing from this arm increased by HK\$2,153,000 of which HK\$1,566,000 was mainly due to the unrealised exchange loss generated from the re-translation of Euro and British Pound Sterling ("GBP") bank balances on the balance sheet date. The remaining HK\$587,000 consists mainly of the one-time full provision made for the slow moving inventories of certain cosmetics, healthcare and household products. It is the Group's intention that more resources will be allocated to the other profitable segments away from the trading and distribution of these lines.

FINANCIAL RESOURCES AND TREASURY POLICIES

The Group adheres to prudent treasury policies. Gearing ratio continues to stay at a low level. The increase of gearing ratio of total long-term liabilities to total shareholders' fund to 20.3% at the end of 2000 from 17.5% at the end of 1999, based on the Group's long-term liabilities of HK\$46,600,000 (1999: HK\$38,872,000) and net assets of HK\$229,981,000 (1999: HK\$221,679,000). The change is mainly due to the increase in GBP borrowings to finance the new properties purchased in United Kingdom during the year.

With sufficient cash and marketable securities on hand at the year end date, the Group has strong liquidity to satisfy its commitments and working capital requirements. Current ratio has improved from the previous 5.2 to the current 7.4, based on the Group's current assets of HK\$145,017,000 (1999: 138,980,000) and current liabilities of HK\$19,650,000 (1999: HK\$26,824,000).

Bank loans, which are secured by certain investment properties, bank deposits and securities, comprise term loans as well as revolving credit facilities. All the Group's borrowings are principally on a floating rate basis.

Long-term assets denominated in foreign currencies are generally financed by borrowings of a matching currency. The Group has HK\$46,600,000 and HK\$38,872,000 non-current bank borrowings as at the end of 2000 and 1999 respectively, these borrowings are denominated in GBP financing the investment properties purchased in United Kingdom.

OUTLOOK

Investment properties

In contrast to the unfavourable climate surrounding the local property market, the Group's investment properties at United Kingdom keep on creating remarkable profit in terms of capital appreciation and rental return. The Group will consider additional investment when suitable opportunities arise.

New products

In the next few months, the Group will launch two new products in the local market. In view of the long-established “Hoe Hin Pak Fah Yeow” brandname, bearing nearly 75 years history in Hong Kong, backed by the general confidence consumers confer on the Group’s products; the two new comers have been named “Hoe Hin Analgesic Cream” and “Hoe Hin Strain Relief” respectively. The Group will take advantage of utilising its existing wide and extensive distribution network, coped with embracing promotions, when distributing these new products to the public.

Potential impact of the proposed legislative control over the manufacture and distribution of traditional Chinese medicines

The Group is looking forward to the proposed legislative control over the manufacture and distribution of TCM. The Group believes that an extensive and comprehensive



New product: Hoe Hin Strain Relief

control will upgrade the standard of local labelled product in the long run, though the majority of trade counterparts see it as an obstacle. Moreover, Hong Kong is already lagging behind from the neighbouring on the control of TCM. As a disciplined and responsible pharmaceutical manufacturer, the Group put product quality, safety and efficacy as top of the priority list. This is also the reason why the Group has been improving the product quality and manufacturing facilities and is already geared to the forthcoming control.



New product: Hoe Hin Analgesic Cream

STAFF AND APPRECIATION

The Group employed 111 staff at the year end date. Salaries are adjusted annually on a performance related basis and fringe benefits such as tuition subsidies and medical insurance are offered to most employees. The Company has a share option scheme for the benefit of its directors and eligible employees of the Group which may be granted at the discretion of the directors. No option has been granted under this scheme since its adoption in 1991.



Automatic filling and capping machine

The Board of Directors would like to take this opportunity to thank members of our staff for their consistent effort and loyalty.

By Order of the Board

GAN Wee Sean

Chairman

Hong Kong, 24th April, 2001