

On behalf of the Board of Directors (the "Directors"), I present to the shareholders the annual report of the Company for the year ended December 31, 2000.

RESULTS

The Group reported turnover of HK\$995,096,000 for the year ended December 31, 2000, representing an increase of 21% over the previous year. The increase was mainly attributable to the expanded production capacity of the vitamin C series, the production at full capacity of the cephalosporin series and the consolidation of the whole year results of the ampicillin and amoxicillin series. Profit

attributable to shareholders for the year ended December 31, 2000 amounted to HK\$80,473,000, a decrease of 43% as compared with the previous year. Apart from the drop in selling price, the decrease was also attributable to impairment loss of certain fixed assets due to plant relocation and the significant increase in profit tax provision due to expiry of the tax exemption period of most of the subsidiaries in China.

REVIEW AND PROSPECTS

Production and sales

With the exception of the theobromine series, the production of all the Group's products has attained full capacity in the year 2000. The output of the vitamin C series reached 10,507 tonnes, an increase of 59% over previous year. The output of 7-ACA reached 206 tonnes, an increase of 29% over previous year, while its downstream product, cefazoline, increased 94% to 99 tonnes. The output of the penicillin G products reached 2,492 tonnes, an increase of 13% over previous year, while its downstream products, ampicillin and amoxicillin, increased 332% to 964 tonnes.

The market condition of the year 2000 was difficult with the selling prices under great pressure. The price of 7-ACA and cefazoline has experienced the most acute downward adjustment with a drop of 38% as compared with previous year. For the other products of the Group, the drop in selling price ranged from 4% to 10%. In face of such difficult market condition, the Group managed to maintain growth in turnover by enhancing the product mix with increased proportion of those higher value-added downstream products.

Product costs and profit margin

Effective control over production costs has always been a major concern of the Group. In the year under review, the costs of all products have been lowered by different degrees. The most significant are 7-ACA and cefazoline with their costs reduced by 25%, whereas the production costs of the vitamin C and penicillin G products were reduced by 11%. With the effective control over production cost, the Group managed to achieve a gross profit margin of 25% even though the selling prices of most products have dropped significantly during the year.



Development of new products

The development of the new drug, butylphthalide, has reached the final stage of clinical trial. It is expected that approval could be obtained from the State Drug Administration in 2001. The initial clinical trial has confirmed that the new drug is very effective in treating and preventing elderly diseases such as apoplexy with no toxic side effects. It is believed that the market potential of this new drug is enormous.

In addition, the Group has made solid progress in the natural drug business with certain potential drugs identified and initial sales network established.

Outlook

The year 2001 will be another year of challenges and opportunities. With the mandatory implementation of GMP in China and the prospects of China's accession to the World Trade Organisation, the pharmaceutical industry in China is undergoing a new wave of consolidation. The Directors will closely monitor the development and changes in the market in order to seize any opportunity that may arise. On the other hand, the Group will also continue to enhance its product quality, control its production cost and develop new markets in order to secure its leading position in the industry.

LIQUIDITY AND FINANCIAL RESOURCES

During the year, the Group generated net cash inflow of HK\$121,143,000 (1999: HK\$66,490,000) from its operating activities. As at December 31, 2000, the Group's current ratio was 1.3 (1999: 1.2) and its gearing ratio was 38% (1999: 39%), which was expressed as a percentage of the Group's total interest bearing borrowings over its net assets.

ACKNOWLEDGEMENT

On behalf of the Directors, I would like to take this opportunity to express our sincere thanks to our shareholders for their support and to our staff for their commitment and diligence during the year.

By order of the Board
CAI Dong Chen
Chairman

Hong Kong, April 19, 2001