## REVIEW OF OPERATIONS

The Group's turnover for the year ended 31st December, 2000 was approximately HK$157,875,000, representing a marginal increase of 1% as compared with the corresponding period of last year.

The following is a sales analysis of the Group's major products for the year under review with comparative figures for 1999:

| | **For the year ended 31st December, 2000** | For the year ended 31st December, 1999 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| **Health Products** | | |
| Tonic drinks: | | |
| Chrysanthemum tonic drink | **26,348** | 31,019 |
| Houtou mushroom tonic drink | **55,973** | 57,360 |
| Fendai beautify tonic drink | **3,065** | — |
| Others | **950** | 599 |
| Sub-total: | **86,336** | 88,978 |
| Storm Fat Loss Capsule | **33,173** | 27,654 |
| Duo Bu Gai | **13,205** | 2,077 |
| Chicken Essence | **599** | 2,295 |
| **Total for Health Products:** | **133,313** | 121,004 |
| **Health drinks:** | | |
| Tonic milk drink | **16,442** | 24,592 |
| Mineral water | **273** | 1,398 |
| Distilled water | **611** | 3,458 |
| **Total for Health Drinks** | **17,326** | 29,448 |
| **Pharmaceutical Product** | | |
| Fluconazole Injection | **6,840** | 5,541 |
| **Others** | **396** | 195 |
| **GRAND-TOTAL** | **157,875** | 156,188 |

During the year under review, the Group's turnover has gradually improved. The main reason was due to satisfactory performance of those new products (namely, the "Storm Fat Loss Capsule" and "Duo Bu Gai") which were launched in mid and late 1999 respectively. These new products recorded a total sales of approximately HK$46,378,000, representing 29% of the Group's turnover. Another reason was that the sales of existing tonic drinks products began to stabilise as it only recorded a mild decrease of 3% as compared with that of last year. Since the Group has focused its effort on products with higher profit margin, the sales of health drinks products (generally with a lower profit margin) has experienced a decrease of 41% as compared with last year.

The Group has committed itself to develop new products and has successfully launched a new health product "Fendai beautify tonic drink" in November 2000. It is a health product which focuses on females market and the preliminary response from the market was encouraging.

As a result of a change in product mix and the relatively higher profit margin in the new products, the overall gross profit margin has been increased from 56% in 1999 to 60% in 2000.

Although there were improvements in both turnover and gross profit margin for the year under review, the consolidated loss attributable to shareholders was extended to HK$117,224,000 in 2000 from HK$24,207,000 in 1999. This unsatisfactory results were mainly due to the following reasons:—

(1) additional promotional expenses incurred for launching new products in the sum of HK$35,000,000

(2) provision for bad and doubtful debts of accounts receivable in the sum of HK$6,700,000 (1999: Nil)

(3) obsolete inventory written off amounted to HK$6,000,000 (1999: Nil)

(4) provision for investments held for disposal in the sum of HK$6,459,000 (1999: Nil)

(5) provision for unrecoverable prepayments for fixed assets in the sum of HK$13,955,000 (1999: Nil)

## INVESTMENTS

In order to utilise part of our cash resources more efficiently, the Group has made two additional unlisted equity investments in the sum of approximately HK$17,073,000 during the year under review, details as follows:—

(1) In May 2000, the Group acquired 2.9 million shares (representing 0.7% equity interest) in Jian Bei Group Company Limited, a PRC company engaging in property development business in the PRC, at a consideration of approximately HK$9,281,000.

(2) The Group has made another investment by acquiring 45% equity interest in Data Logistics Limited, an investment holding company with an investment interest in a company engaged in global internet communication and global logistic settlement network, at a consideration of approximately HK$7,792,000 in May 2000.

The Directors consider that all the above investments will generate satisfactory returns for the Group.

## USE OF PROCEEDS

The net proceeds raised from the new issue in December 1995 amounted to HK$268 million (net of related expenses) and the majority of the proceeds have been applied as at 31st December, 2000, details as follow:—

- approximately HK$0.1 million has been applied to the development of the site in Dongguan;
- approximately HK$20.6 million has been applied to purchase new production equipment for the new products and to improve the production facilities for the existing products;
- approximately HK$5 million has been applied for the development of a new sales and distribution network for hospitals and clinics;

- approximately HK$55 million had been used for the marketing and promotion of new products;
- approximately HK$73 million had been applied to reduce existing borrowings of the Group;
- approximately HK$70 million had been used for additional general working capital of the Group.

The balance of the unused proceeds of approximately HK$44.3 million has been retained and placed on short term bank deposits and will be utilised in accordance with the progress of the Group's future business development and additional working capital for the Group.

## LIQUIDITY AND FINANCIAL RESOURCES

As at 31st December, 2000, the Group's total assets amounted to HK$543,344,000, representing a decrease of HK$121,644,000 or 18.3% as compared with that of last year.

As at 31st December, 2000, the Group had current assets of approximately HK$244,999,000 (1999: HK$331,591,000) and current liabilities of approximately HK$178,980,000 (1999: HK$178,705,000). The current ratio was still maintained at a satisfactory level of 1.37 at the year end date.

The Group's cash and bank balances as at 31st December, 2000 amounted to HK$45,326,000 (1999: HK$129,931,000).

The Group had an outstanding short term bank borrowings of approximately HK$53,932,000 as at 31st December, 2000, representing an increase of HK$12,903,000 as compared with that of last year. As a result of an increase in short term bank loans, the gearing ratio was increased from 9% in 1999 to 16% at the year end date.

In view of the Group's current cash and working capital position, the Directors are confident that the Group will have sufficient funds to meet its present requirements for business operations.

## EMPLOYEES

As at 31st December, 2000, the Group employed a total of 779 staff and workers in Hong Kong and the PRC. The staff number and their respective duties are set out in the following chart with comparative figures for the 1999 financial year:—

| | **2000** | 1999 |
|---|---|---|
| Manufacturing and quality control | 302 | 326 |
| Sales and marketing | 349 | 287 |
| Management, administration and clerical | 89 | 93 |
| Research and development | 39 | 35 |
| Total | 779 | 741 |

In addition to basic salaries, the Group also provides other staff benefits which include medical subsidies, retirement scheme contributions and year end double pay. The staff in Hong Kong has participated in Mandatory Provident Fund Scheme in December 2000 on schedule. Training programmes for staff are provided as and when required. The Group has a share option scheme for executive directors and senior employees and the number of share option granted is determined by the ranking and performance of the individual employees.