

## RESULTS

For the financial year under review, the Group's turnover recorded a growth of HK\$4.4 million with net loss narrowed down to HK\$35.5 million. The improved results were largely attributable to profit contributed by the Group's finance operations and gains on disposal of certain non-core investments during the year.

The directors do not recommend the payment of a final dividend for the year.

## BUSINESS REVIEW

### Chinese Medicine, Health Products, Foodstuff and Pharmaceutical Products Operations

The operations recorded a sales growth of HK\$2.6 million for the year under review. The positive effect of such growth was however outweighed by the increased distribution costs and lowered profit margins due to keen market competition. The operations posted a HK\$61.6 million loss to the Group's results. Operational reviews were conducted on various business units aiming to cut cost and enhance profitability. During the year, a number of unprofitable outlets and concessionary counters in Hong Kong were closed down whereas the network of concessionary counters in the PRC was expanded to take advantage of the growing demand there.

The overall business environment of the operations is expected to remain difficult, particularly in view of the sluggish retail market in Hong Kong. Various business proposals are now under consideration by the Directors with the objective to reverse the operations' negative impact to the Group's results.

### Property Operations

Interest in various property projects were disposed of during the year and made available financial resources for new investments of the Group. As announced by the Company on 5th July, 2001, a loan facility of HK\$30 million has been arranged using certain of the Group's properties in the PRC as security. The Directors consider the loan arrangement a beneficial way of making use the properties in the PRC.

During the year, a further provision of HK\$41.1 million was made against the carrying value of the Group's properties due to fall of their market value.

### Securities Operations

The Group restructured its securities portfolio during the year and losses of securities previously held were recognized. Securities newly acquired during the year recorded an unrealized gains of HK\$4.3 million at the financial year end.

### Finance Operations

The money lending business contributed a profit of HK\$20.7 million to the Group's results. The improved results were largely due to the write back of provisions against certain doubtful loans in the current year and increased profitability of the operations.

## **Internet Operations**

Development of the Group's internet operations to promote the Group's Chinese medicine, health and pharmaceutical products was temporarily suspended following the dramatic slowdown in internet-related business around the world. The operations recorded a loss of HK\$13.7 million in the current financial year.

## **Acquisitions and Disposals**

With a view to enhance the Group's financial performance, positive steps have been taken by the Directors to rationalize the assets portfolio of the Group. Certain investments were disposed of during the year, including various property interests and securities as mentioned, and financial resources have been directed to new projects which are expected to add value to the Group.

In November 2000, the Company entered into an agreement to dispose of its 49% interest in Tung Fong Hung Investment Limited which holds the Group's business interests in Chinese medicine, health products, foodstuff, pharmaceutical products and internet business for a consideration of HK\$44.1 million. The Directors considered the disposal beneficial to the Group as it would enable the Group to realize part of its interest in a loss-making operations at a fair and reasonable consideration.

In February 2001, the Group announced its entering into agreements to acquire, subject to fulfillment of certain conditions, the entire equity interest of Henan Xingbang Pharmacy Limited ("Xingbang Pharmacy") for a consideration of HK\$136.7 million. Xingbang Pharmacy is a company principally engaged in the manufacture, processing, sale and export of traditional Chinese medicine in the PRC. Having considered the experience and knowledge of the management of Xingbang Pharmacy in the pharmaceutical industry and its diversified product range, the Directors consider the intended acquisition an ideal opportunity to expand the Group's business interests in the PRC and diversify its business. The acquisition is scheduled to be completed before end of 2001.

Moreover, the Group acquired equity interests in a financial services group and an investment holding company during the review period. The financial services group is principally engaged in the business of securities brokerage and corporate finance services whereas the investment holding company has investments in companies engaged in the development, marketing and distribution of computer application software.

During the year under review, the Group also subscribed for a convertible note issued by a technology holding company. The note bears interest and carries rights to convert into shares of the company.

## **Business Prospects**

It has always been the intention of the Group to expand its business into the PRC. In pursuit of this goal, the Group has entered into agreements to acquire the equity interests in Xingbang Pharmacy and expanded its retail network of medicine and pharmaceutical products in the PRC. Moreover, as stated in the Company's announcement on 17th July, 2001 in respect of its proposed rights issue exercise, the Directors also hold a positive view on the property market in the PRC and believe there is an investment potential there. The Directors consider the consumer market in the PRC will stand as the focus of the Group's future business expansion strategy.

## **Employees and Remuneration Policies**

At 31st March, 2001, the Group had approximately 510 employees. The Group's remunerates its employees based on their work performance and with reference to general conditions of labor markets. Review of remuneration policies are conducted on a regular basis. Remuneration packages, including the grant of share options, are structured to reward and motivate individual performance and contribution to the Group.

## **FINANCIAL REVIEW**

### **Liquidity and Financial Resources**

In June 2000, the Company redeemed all the outstanding convertibles notes issued by the Company in the principal sum of HK\$70 million and substantially reduced its debt position. At 31st March, 2001, the Group had a net surplus cash position of HK\$13.5 million made up of bank balances and cash of HK\$37.3 million and bank borrowings of HK\$23.8 million. As such, the Group's gearing ratio, measured on the basis of its total bank borrowings net of cash balances over the shareholders' funds is nil.

Except for a bank loan of HK\$8.5 million which was fully repaid subsequent to the financial year end as a result of the disposal of a property for which the loan was financed, the remaining bank borrowings were unsecured and short term in nature, and were largely utilized to finance working capital of the Group. These bank borrowings bore commercial interest at floating rates and were denominated in Hong Kong Dollars. At 31st March, 2001, the Group had unutilized bank credit facilities of approximately HK\$2 million.

### **Foreign Currency Management**

The Group's overseas operations in Canada, Singapore and Taiwan do not constitute a material part of the Group's business and exposure to exchange rate fluctuations of these countries is considered insignificant. As to the Group's operations in the PRC, the Directors consider that the exposure is also not significant as the exchange rate of Renminbi was not exceptionally volatile in the past few years. The Group will undertake appropriate hedging policy when exchange rate risks of these overseas operations become apparent.

## **Commitments**

At 31st March, 2001, the Group had contracted capital expenditure of HK\$24.4 million mainly for its pharmaceutical factory in Tai Po and an outstanding commitment of HK\$49.5 million in respect of the acquisition of Xingbang Pharmacy.

The Group is in the course of finalizing a bank credit facility for its capital expenditure of the pharmaceutical factory. As to the acquisition of Xingbang Pharmacy, the Group will utilize its existing financial resources to meet the outstanding commitment.

## **Shareholders' Funds**

The capital base of the Group has been strengthened through two private placements of the Company's shares in December 2000 and May 2001 which together raised a total of approximately HK\$39.4 million. The proceeds raised were used for repayment of bank loans and general working capital of the Group. Moreover, the exercises of share options by employees have added HK\$2.2 million to the capital of the Group.

At 31st March, 2001, the shareholders' funds of the Group was HK\$333.8 million. That equates to a net asset value per share of approximately HK39 cents.

## **APPRECIATION**

The overall business environment of the Group continued to be difficult for the year under review. The Board of Directors would like to take this opportunity to thank all management and staff for their hard work and dedicated effort throughout the year.

On behalf of the Board

**Kwong Wai Tim, William**

*Managing Director*

Hong Kong, 23rd July, 2001