Chairman's Statement

The Company has successfully maintained the GMP and ISO certified status and in addition, our products Hoe Hin Pak Fah Yeow and Hoe Hin Strain Relief have both been awarded the Hong Kong Q-Mark licence, a label for product quality. It is indeed very gratifying as very few companies in Hong Kong can maintain all these three certificates at the same time. Year 2002 is the 75th anniversary of our flagship product Hoe Hin Pak Fah Yeow, I wish that our quality achievements will become an integral part of our traditions in the next Jubilee celebration.

On the other hand, 2001 is a year of hard time for many people, our Company is of no exception. Our export business to the Southeast Asia hits the lowest mark in the last decade. Currency depreciation, political unstability, environmental disasters are the contributing factors. For example, the currency of Philippines Peso has been depreciated by almost 50% in the past two to three years. Yet the selling price of our Hoe Hin Pak Fah Yeow could not be changed much in order to prevent parallel trading across different markets. This is an unavoidable dilemma for prime brand manufacturers like us. In this connection, we diversified into alternatives to capture new segments and spending power group. In April 2001, two new products were launched, Hoe Hin Strain Relief and Hoe Hin Analgesic Cream, which are also the attention of our recent promotional campaigns. At the time of writing this statement, we have just launched the Hoe Hin Universal Oil which is known as White Flower Analgesic Oil in the States, in both Hong Kong and the United States of America. We anticipate that in late 2002 or early 2003, more new products will hit the market as well. Financial resources are not a restricting factor here but the pressure on the margin of new products is. It would represent there would be time lag between the initial promotional investment and the pay back time.

It is noteworthy that all the above-mentioned new members of the Hoe Hin product family were developed in-house by our research and development team, and are all made in Hong Kong locally.

On behalf of the board of directors, I would like to thank all our staff from the management level to manual labour who have worked with great effort and contributed greatly.

Also I would like to thank our auditors, bankers, advertising agency, media representatives and everyone connected to the business for their co-operation and support; and to our distributors Edward Keller Ltd, Guangzhou Pharmaceutical Co Ltd, Janta International Company, Firma Chun Cheong LDA. and all our other distributors. Last but not least, Mr. Leung Ka Yan, Bryan（梁家仁先生）and Mr. Tang Ho Kwong, Anthony（鄧浩光先生）who played in the great television commercials for our new products. On behalf of our shareholders, I thank all for their effort to promote our Hoe Hin Pak Fah Yeow and other Hoe Hin products. We hope they will contribute to make 2002 a better year for us.

MANAGEMENT DISCUSSION AND ANALYSIS

The Group's audited consolidated net profit for the year amounted to HK$2,742,000, down by approximately 88.5% from last year. Apart from the direct effect of general slowdown of global economy, the incidence happened in the United States of America on 11th September, 2001 worsened an already bleak global economy.

Manufacture of Hoe Hin Brand of products

The Group's profit was dragged by the biggest fall in exports to Southeast Asia in the last ten years, from last year's HK$18,015,000 down to HK$4,752,000, representing a 73.6% slide of HK$13,263,000. Sales in the region of Southeast Asia was badly affected, the markets of Philippines and Indonesia were almost idle during the second half of 2001 due to continuous weakening currencies after the Asia financial crisis, further aggravated by unstable political turmoil and environmental climate disaster.

Business condition in the local market, which contributes around 49% of the total revenue, shows sign of shrinking spending power at retail level. Pressuring our margins is the increased advertising and promotional expenditure to maintain sales volume.

Another significant unfavourable factor affecting the profit of the Group is the revaluation deficit of properties other than investment properties. It mainly stands for the drop in value of our Chaiwan factory and Causeway Bay office by HK$4,322,000, up by more than 717% from last year's comparative deficit of HK$529,000.

In the mean time, two new products: Hoe Hin Analgesic Cream was launched in Hong Kong and Hoe Hin Strain Relief was launched in Hong Kong and Macau. Gratitude is expressed to our in-house research and development team for these new harvest. Considerable effort has been spent at their introductory stage since April 2001 and it is expected that continuous marketing support is required in 2002 to open overseas markets.

In view of the development costs connected with these expanded product lines and respective demand for promotional resources, the increase in other operating expenses of HK$6,415,000 for 2001 is thereby justified.

Property investment

Revenue from property investment remains steady for 2001. However, a drop of segment profit of HK$2,029,000 is noted. The fall in gain on disposal of investment properties of HK$3,675,000 largely accounted for this observation. In fact, the London property purchased in mid 2000 started to contribute for a full year income in 2001 and the associated acquisition outlays were not repeated in 2001. This offset some HK$1,646,000 from the fall in gain on disposal mentioned above. At the balance sheet date, the aggregate value of prime London investment properties held by the Group was HK$74,663,000 and its value continues to appreciate. The amount of revaluation gain credited to investment property revaluation reserve for the year amounted to HK$5,656,000 (representing an appreciation of GBP500,000 in 2001). The Group will consider additional investment when suitable opportunities arise.

Treasury investment

The successive interest-rate cuts in 2001 explained the decrease in treasury investment turnover from HK$4,660,000 to HK$2,980,540 for 2001. However, segment profit dropped for an even larger degree from a gain of HK$4,373,000 last year to a loss of HK$1,117,000 for this year. The fall in profit is the aggregate result of an increase in unrealised loss in investment in securities of HK$3,226,000 plus the fall in profit on disposals of investment securities of HK$2,016,000. Again, this segment (the investment market) was badly affected by the global economy downturn and especially the "911 incidence". Therefore, outlook for 2002 remains to be conservative.

Other business activities

The segment loss has been greatly reduced from last year's HK$723,000 to this year's HK$27,000. A low turnover is expected to prevail as from 2001 until all the residual stock of healthcare goods are sold.

AWARDS

On 2nd November, 2001, our executive director, Mr. Gan Fock Wai, Stephen, was awarded one of the "2001 Youth Industrialist Awards of Hong Kong" by the Federation of Hong Kong Industries to give recognition to his outstanding achievements amongst young industrialists.

FINANCIAL RESOURCES AND TREASURY POLICIES

The Group continues to adhere to prudent treasury policies. Gearing ratio stays low at 19.4%, by dividing the total non-current liabilities of HK$45,250,000 to the total shareholders' fund of HK$233,290,000, as at 31st December, 2001. There is almost no change from last year's comparative data of 19.5% because the Group has no new long-term loans during the year. Current ratios for 2001 and 2000 are 13.1 and 13.7 respectively, showing that the Group is highly capable to meet all its current liabilities when they fall due. With sufficient cash and marketable securities on hand, the Group has strong liquidity to meet commitments and working capital needs.

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.

Significant long-term assets denominated in foreign currencies are generally financed by borrowings of a matching currency. As at 31st December, 2001, The Group's investment in London investment properties were financed by bank loans denominated in Great Britain Pounds for an amount equivalent to HK$45,250,000 (2000: HK$46,600,000).

As a whole, the strong and steady net cash inflow generated from operations, together with a low gearing ratio, offers the Group flexibility in formulating business plans to stay competitive.

OUTLOOK

Year 2001 has been particularly challenging, as the world is still suffering from the downturn of the global economy, what happened on 11th September, 2001 in the United States of America really affected everyone. And of course, there is no exception for us.

There has always been debate on whether we should cut our investment like many other companies in the world or choose to be more aggressive.

"Be positive and know when to plant your seeds for the future", opportunities are "if we can maintain a sustaining effect during this downfall, we would have done a pretty good job in registering (building) our brand or at least receiving a good brand recall."

Having said that, we have successfully launched our latest new product, Hoe Hin Universal Oil in Hong Kong and the United States of America, in March 2002. There are also a few new products undergoing research and development which are expected to be launched in late 2002 or early 2003.

The latest new member of the Hoe Hin product family is the Hoe Hin Universal Oil. It is a traditional Chinese medicinal oil for the relief of discomfort associated with headache, travel sickness, insect and mosquito bite and muscular pain. The purpose of launching the Hoe Hin Universal Oil is market segment diversification in terms of capturing different level of spending power. Due to the slowdown of global economy especially in economies where currency has been devaluated or depreciated in the past years, like the territories of Philippines and Indonesia where the Company has experienced drastic downturns in 2001, the Company sees the need to offer alternative, that is the specially formulated Hoe Hin Universal Oil bearing a more competitive price for these markets.

Finally, besides developing new products, we are working towards the potentials of opening new markets like Japan & Europe and expanding the existing market size by creating new usages and capturing new customers.

STAFF

The Group employed 110 staff as at 31st December, 2001. Salaries are adjusted annually on a performance related basis and fringe benefits such as tuition subsidies and medical allowance are offered to most employees. The Company has a share option scheme for the benefit of its directors and eligible employees of the Group. No option has been granted under the Scheme since its adoption in 1991 and the Scheme was duly expired on 27th November, 2001. A new Share Option Scheme will be proposed to the shareholders for approval in a special general meeting to be convened in June 2002.

By Order of the Board

GAN Wee Sean
Chairman

Hong Kong, 22nd April, 2002