

BUSINESS REVIEW

The Group's turnover for the year ended 31 December 2001 was approximately HK\$127,152,000, representing a decrease of 19% as compared with that of last financial year.

The following is a sales analysis of the Group's major products for the year under review with comparative figures for 2000:

	For the year ended 31 December 2001	For the year ended 31 December 2000
	<i>HK\$'000</i>	<i>HK\$'000</i>
Health Products		
Tonic drinks		
Chrysanthemum tonic drink	21,598	26,348
Houtou mushroom tonic drink	48,212	55,973
Fendai beautify tonic drink	1,312	3,065
Others	608	950
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Sub-total	71,730	86,336
Storm fat loss capsule	15,369	33,173
Duo Bu Gai	9,205	13,205
Brilliance fat loss capsule	5,269	—
Changing capsule	7,950	—
Chicken essence	—	599
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Total for Health Products	109,523	133,313
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Health drinks		
Tonic milk drink	10,092	16,442
Mineral water / distilled water	157	884
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Total for Health Drinks	10,249	17,326
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Pharmaceutical Product		
Fluconazole injection	6,676	6,840
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Others	704	396
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GRAND — TOTAL	127,152	157,875
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During the financial year under review, the sales of the Group's existing tonic drink products (including Houtou Mushroom tonic drink and Chysanthemum tonic drink) continued to drop and had recorded a decrease of 17% as compared with last year. The reason for this decrease was mainly attributable to the consolidation stage of the product life cycle of these two major products of the Group.

In April 2001, the PRC authorities has imposed some new regulatory restrictions on the advertising of health products in the PRC, in particular on the functions and effectiveness of health products in advertisements. This has created some negative impact on the health products market, especially by hampering consumers' confidence in buying health products. This kind of measures has led to the temporary suspension or slowdown of the Group's promotional plans on our new health products (including "Storm fat loss capsule" and "Duo Bu Gai") which were launched in last year. As a result, the sale of these two products were decreased by 47% as compared with last year.

The Group has committed to develop high quality health products with higher profit margin and thus two new health products called "CHANGING" Capsule and "BRILLIANCE" Fat Loss Capsule were launched in January 2001 and April 2001 respectively. The preliminary response to these two new products was encouraging with a combined turnover of approximately RMB14 million, representing 11% of the Group's total turnover.

Since the Group has focused its effort on products with higher profit margin and a change in product mix, the overall gross profit margin has been increased from 60% in 2000 to 63% in 2001.

Although the Group's total operating expenses (including distribution expenses and administration expenses) has been reduced by approximately HK\$37,435,000 for the year under review, the consolidated loss attributable to shareholders has been extended to HK\$155,739,000 in 2001 from HK\$117,224,000 in 2000 which were mainly attributable to the following provisions:-

- (1) provision for impairment losses of fixed assets (mainly land use rights and buildings) amounting to HK\$71,161,000 (2000 : Nil)
- (2) provision for impairment loss of investments held for disposal in the sum of HK\$19,028,000 (2000 : HK\$6,459,000)
- (3) provision for impairment in value of investment in an associate for HK\$5,370,000 (2000 : NIL)

FINANCIAL RESOURCES AND LIQUIDITY

As at 31 December 2001, the Group's total assets amounted to HK\$377,088,000, representing a decrease of HK\$166,256,000 or 31% as compared with that of last financial year end date.

As at 31 December 2001, the Group had current assets of approximately HK\$175,829,000 (2000: HK\$244,999,000) and current liabilities of approximately HK\$175,748,000 (2000: HK\$178,980,000). The current ratio was still maintained at an acceptable level of 1.00 at the year end date.

The Group's cash and bank balances as at 31 December 2001 amounted to HK\$90,562,000 (2000: HK\$45,326,000), of which 24% were denominated in Hong Kong Dollars, 73% in Renminbi and 3% in US Dollars.

As at 31 December 2001, the Group had outstanding short-term bank loans of approximately HK\$51,575,000 (2000 : HK\$53,932,000) in total, all of which were in Renminbi and granted by local banks in the PRC. The interest rates charged by the banks ranged from 6.435% to 7.722% per annum. These bank loans were pledged by buildings of the Group with a net book value of approximately HK\$62,852,000 (2000 : HK\$49,236,000). The Group's gearing ratio, measured by bank borrowings as a percentage of shareholders' equity, was increased from 16% in 2000 to 27% at the year end date.

Since the Group's principal activities are in the PRC and the financial resources available, including cash on hand and bank borrowings, are mainly in Renminbi and Hong Kong Dollars, the exposure to exchange fluctuation is relatively low.

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 requirements for business operations.

EMPLOYEES

As at 31 December 2001, the Group employed a total of 627 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 2000 financial year:—

	<u>2001</u>	<u>2000</u>
Manufacturing and quality control	289	302
Sales and marketing	243	349
Management, administration and clerical	62	89
Research and development	33	39
Total	<u>627</u>	<u>779</u>

The total staff remuneration (mainly representing basic salaries) for the year ended 31 December 2001 was approximately HK\$23,000,000.

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 Group provides appropriate training programmes to staff when required in order to upgrade the knowledge and skills of its staff. The Group has a share option scheme for executive directors and senior employees but no share option was granted during the year under review.

CONTINGENT LIABILITIES

As at 31 December 2001, the Group had issued guarantee to a bank to secure certain bank loans of approximately HK\$7,300,000 borrowed by a subcontractor.

AUDIT COMMITTEE

The Audit Committee of the Company is comprised of three independent Non-executive Directors, Mr. Goh Gen Cheung, Mr. Ho Kwok Wah, George and Mr. Yuen Kin. The main function of the Audit Committee is to review the Group's internal control procedures and financial reporting matters including a review and discussion with the external auditors in relation to the Group's consolidated financial statements for the year ended 31 December 2001.