



On behalf of the Board of Directors (the “Directors”), I am pleased to present the annual report of the Company for the year ended December 31, 2001.

## **RESULTS**

The Group reported turnover of HK\$1,168,244,000 for the year ended December 31, 2001, representing an increase of 17% over the previous year. Profit attributable to shareholders for the year amounted to HK\$140,006,000, representing an increase of 74% as compared with the previous year. The growth in turnover and profit was a combined result of our expanded production of 7-ACA series, the upturn in the market of penicillin series as well as our efforts in controlling production costs.

## **DIVIDEND**

The Directors recommends the payment of a final dividend of HK3.6 cents per share for the year ended December 31, 2001 (2000: Nil)

## **BUSINESS REVIEW AND PROSPECTS**

### **Production and sales**

All the production lines of the Group have attained full capacity in the year. The output of the three major series of the Group has reached record high with equally strong sales figures. Products under the three major series have been further diversified with as many as 15 products. Currently the sales of the Group are widely distributed with no single product accounting for more than 20% of total sales, thus greatly minimizing the risk of the Group on the reliance of a particular product.

### **Penicillin series**

The output of penicillin for the year reached 2,787 tonnes, an increase of 12% over the previous year. Sales increased by 19%, reflecting the increment of the product prices of the series. The series continued to be the largest revenue contributor of the Group and accounted for 44% of the Group's sales for the year.

We believe that the favourable market conditions of the series will sustain in the year 2002.

**7-ACA series**

The output of 7-ACA for the year reached 295 tonnes, which is the first time for the output to reach the original designed capacity. The output increased by 43% as compared with the previous year. The output of cefazolin, a downstream product, reached 146 tonnes, an increase of 47% over the previous year. The sales of the series increased by 53% as compared with the previous year, accounting for 30% of the Group's sales. In addition, there are a number of cephalosporin products under development, among which cefoperazone and cefradine have already been put into production.

With the completion of the expansion project of the 7-ACA production lines during the year, the Group's production capacity of 7-ACA has reached 800 tonnes per annum. The Group has now become the largest manufacturer of 7-ACA in Asia as well as a major supplier of the product in the markets of China, East Asia and India. We believe that with the expanded production capacity, our advantage in the market will be further strengthened and the series will become the major source of the growth in the Group's revenue and profit.

**Vitamin C series**

The output of vitamin C increased 7% to 11,222 tonnes this year, whereas product prices declined by approximately 20% on average. Sales decreased by 10% over previous year and contribution of the series to the Group's sales was furthered lowered to 25%. The market of the vitamin C products has been undergoing a profound consolidation. The Company will monitor the development closely and act responsively to adjust the product mix in order to minimize the impact of the market consolidation.

**Product cost and profit margin**

Through adopting effective cost control measures and making use of new technology and equipment, the costs of all our products have been lowered by different degrees. Among which the cost of cefazolin has been lowered by 25%, whereas the costs of 7-ACA, vitamin C and amoxicillin have been lowered by more than 10%. This reduction in production costs coupled with the improved market conditions of 7-ACA and penicillin series enabled the Group to attain a gross profit margin of 28%, an increase of 3% over last year.

**Acquisition and disposal of assets**

On April 22, 2002, the Company has entered into an agreement to acquire certain preparation production lines. After completion of the acquisition, the Group's product portfolio will diversify from bulk pharmaceutical products to both bulk and preparation pharmaceutical products. With the additions of preparation products, the market realm of the Group will be significantly expanded and that will be greatly beneficial to the development of new products in the future. The acquisition will also strengthen the Group's capital base and earning base and generate substantial revenue.

The Group has disposed of its theobromine business during the year in order to eliminate its non-core loss-making business.

**Development of new drug**

The development of butylphthalide, a category one new drug in the PRC, by the Group has passed the third phase of clinical trial. Application for approval has been made to the State Drug Administration. Due to the stringent requirement for the approval of category one new drug, it is anticipated that approval for production will be obtained in the second or third quarter of 2002. The Group has already been working on the establishment of the production line for the product, so that the product could be introduced to the market once approval is obtained.

**Outlook**

In the year 2002, the Group will concentrate on:

1. Production and sale: Production of existing products will be maintained at full capacity, with focus on the 7-ACA series and other new products. With the expansion of the production capacity of the 7-ACA series, it is believed that the turnover and profit of the Group for the year 2002 will have substantial increment.
2. Market expansion: More effort will be put to the market development of the preparation products in order to swiftly secure a strong position in the new market realm. Once the approval is granted, butylphthalide will be introduced to the market. It is hoped that satisfactory sales can be achieved from the new business in the year 2002.
3. Acquisition and development: The Group will closely look for good acquisition opportunities with a view to expanding its asset and business base. At the same time, the Group is considering the possibility of re-structuring a portion of its assets and business to be listed in the "A Share" stock market in the PRC. The Company will make announcement about the related development as and when appropriate.

**FINANCIAL REVIEW**

As at December 31, 2001, the Group's total bank borrowings was HK\$469 million, an increase of HK\$26 million as compared to HK\$443 million at the last year end date, and the maturity profile spread over a period of four years with HK\$303 million repayable within 1 year and HK\$166 million within 2 to 4 years.

Gearing ratio was 22%, which was calculated on the basis of the Group's net bank borrowings (after deducting cash and bank balances of HK\$180 million) over shareholders' funds at the year end date.

The majority of the Group's bank borrowings, approximately 71% at the year end date, was in Renminbi with the balance in Hong Kong dollars. As the Group derives its revenue mainly in Renminbi, its exposure to foreign exchange rate fluctuations is not significant.

**EMPLOYEES**

At the year end date, the Group has approximately 4,310 employees, the majority of them are employed in the PRC. They are remunerated at market level with benefits such as medical, retirement benefit and share option scheme.

**AUTHORISED SHARE CAPITAL**

The Directors proposes to increase the authorised share capital of the Company from HK\$150,000,000 to HK\$300,000,000 by the creation of an additional 1,500,000,000 new shares of HK\$0.10 each in the capital of the Company so that a sufficient number of unissued shares are available for future purpose.

**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.

**CAI Dong Chen**  
*Chairman*

Hong Kong, April 22, 2002