

Chairman's Statement



The Traditional Formula and Scented Pak Fah Yeow are also available in Doll Shape bottle. The doll shape bottle was first launched as a premium item in the 1950's and 1960's.

White Flower Embrocation (all fragrances) and Hoe Hin Strain Relief are also Hong Kong Q-mark licenced products.

In 2002, we celebrated the 75th Anniversary of our flagship product: White Flower Embrocation. The success we have been enjoying to date inspires us to work towards further expansion to enlarge and strengthen our Group.

Our Hoe Hin product family now comprises of the following members:

White Flower Embrocation (Traditional Formula / Floral Scented / Fruity Scented)

White Flower Ointment

Hoe Hin Strain Relief

Hoe Hin Analgesic Cream

Hoe Hin Universal Oil

White Flower Embrocation is exported to many countries including Australia, Canada, Indonesia, Macau SAR, the People's Republic of China, Philippines, Singapore, South Africa and USA.

The Group owns investment properties located in London, Singapore, Shanghai and Hong Kong.

The Group's treasury investment comprises securities listed in Amsterdam, Bangkok, Frankfurt, Helsinki, Hong Kong, London, New York, Paris, Singapore, Stockholm, Tokyo and Zurich.

Our manufacturing facility has been GMP certified by Therapeutic Goods Administration, Australia, since 1996. Our quality system has just been upgraded to ISO9001:2000 in 2003.

Though much time, resources and effort have been utilised to achieve these accomplishments, we are most exhilarated when seeing customers benefiting from the use of our Hoe Hin Brand products. We will continue to strive to exceed our customers' expectation in quality for their satisfaction and good health.

MANAGEMENT DISCUSSION AND ANALYSIS

The Group's audited consolidated net profit for the year amounted to HK\$17,282,000, up by approximately 530.27% from last year's HK\$2,742,000. This turn around is largely the contribution from "Manufacturing and sales of Hoe Hin Brand of products", mainly contributed by the sales of White Flower Embrocation, and "Treasury Investment" as explained in more detail below.

Manufacturing and sales of Hoe Hin Brand of products

During 2002, the Group is more focused on sales-generated advertising/promotional campaigns. Assistance was also provided to local distributors to further strengthen our product presence and sales networking. Additional efforts from all staff in exercising cost cutting, managed to get greater values in all aspects. Altogether, turnover increased by HK\$8,543,000 from HK\$69,104,000 in 2001 to HK\$77,647,000 in 2002. Meanwhile, profit increased by an even greater margin of HK\$12,210,000 from HK\$8,523,000 in 2001 to HK\$20,733,000 in 2002 due to more effective advertising and cost savings.

Geographical wise, the local market was well established and stable. Sales to PRC recorded a significant increase of HK\$7,145,000 for the segment "Other regions in the PRC". These extra sales are accountable for the continual supply of White Flower Embrocation in the PRC amid going through the renewal of our imported drug registration certificate (醫藥產品註冊証) in 2002. The renewal had been completed in April 2003 and the extra sales generated in 2002 are not expected to be repeated in 2003. Nevertheless, the Group will continue to capture as much users as possible throughout the PRC.

Export to Philippines picked up during the third and the fourth quarter. It led the increment of turnover of "Southeast Asia" from HK\$4,752,000 in 2001 to HK\$6,123,000 in 2002.

Sales to Northern America were reduced because of the reduction in export to the USA in the first half of 2002 due to packing modifications. Such modifications have been completed near the year end date.

Export to other countries has been increased, we will grasp every opportunity to open new markets and to expand turnover, however difficult.

Property investment

Turnover decreased slightly from HK\$6,927,000 for 2001 to HK\$6,392,000 for 2002. It is because the disposal of investment property in 2001 was not repeated in 2002. As a consequence, profit from this segment also dropped a bit from 2001's HK\$5,734,000 to 2002's HK\$5,644,000. Rental income received from the two London properties continues to provide a steady stream of turnover and profit for this segment. Values of these London properties continue to appreciate in 2002, an upward valuation of HK\$15,007,000 (equivalent to GBP1,200,000) had been credited to "Investment properties revaluation reserve" in the balance sheet.

Chairman's Statement

Turning to the local market, the values of our Chaiwan factory and Causeway Bay office dropped by a larger margin as compared with last year. For 2002, the amount of "Revaluation deficit in respect of properties other than investment properties" charged to the Consolidated Income Statement was HK\$5,613,000 comparing to HK\$4,322,000 charged in 2001.

The Group will consider additional investment when suitable opportunities arise.

Treasury investment

In 2002, a large exchange gain of HK\$4,233,000 was recorded from the Group's holding in GBP and EUR denominated treasury assets (other than investments in securities). For instance, the exchange rates of GBP and EUR currencies against HKD, our reporting currency, had appreciated by 11% and 18% respectively. It resulted a net improvement of HK\$6,612,000 from 2001's exchange loss of HK\$2,379,000 to 2002's exchange gain of HK\$4,233,000.

On the side of investments in securities, most of our holdings are denominated in GBP and EUR. For the year 2002, there was favourable exchange gain movements on GBP and EUR against unfavourable share price movements at the local and overseas Stock Exchange. As a result, a net loss of HK\$1,775,000 was recorded as "Net unrealised holding loss on investments in securities" for 2002, in a lesser extent than last year's net loss of HK\$3,237,000.

Turnover for treasury investment, which represents interest income, decreased slightly due to weakening interest rates.

In view of the above-mentioned reasons, overall performance for "Treasury investment" improved from the loss of HK\$1,117,000 for 2001 to a gain of HK\$5,417,000 for 2002. A net improvement of HK\$6,534,000. Such improvement had bettered the profit of the "Southeast Asia" and "Others" geographical segments correspondingly.

Other business activities

Contribution from this segment is limited. Nevertheless, further provision is made on the unsold healthcare materials on hand as at the year end date, resulting in a loss of HK\$91,000 for the "Others" business segment.

FINANCIAL RESOURCES AND TREASURY POLICIES

The Group continues to adhere to prudent treasury policies. Gearing ratio (the amount of Non-current liabilities divided by total Shareholders' fund) as at the year end date was only 2.0% as compared with last year's 21.0% because of the falling due of last year's non-current liabilities, secured bank borrowings HK\$50,022,000 (2001: HK\$45,250,000), in June 2003. These bank borrowings, which are denominated in GBP, were borrowed to finance the Group's two London properties. The Group had already received solid indications from the bank to renew these loans for another three years on more favourable terms.

Current ratios for 2002 and 2001 are 2.8 and 20.0 respectively. The decrease is due to the falling due of the above mentioned long-term secured bank borrowings. In spite of that, the Group holds sufficient cash and marketable securities on hand to meet its liabilities, commitments, and working capital needs. As at the year end date, the Group held HK\$83,878,000 in cash deposits and HK\$26,847,000 investments in securities.

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, 2002, the Group's investment in London investment properties were financed by a GBP4,000,000 bank loans for an amount equivalent to HK\$50,022,000 (2001: HK\$45,250,000).

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

OUTLOOK

2003 is going to be a challenging year for the world. At the time of writing, there is war going on in the Gulf, there is also a fight against SARS (Severe Acute Respiratory Syndrome) in Hong Kong and around the world.

On 30th April, 2003, the licensing of trade members under the Chinese Medicine Ordinance will come into operation. Such licensing system will mark a new era for Hong Kong's traditional Chinese medicines industry.

Chairman's Statement

Despite these challenges, our team spirit remains high. We are prepared to put in extra effort to accomplish tasks and to maintain quality.

As philanthropic support, we have appropriated certain quantity of White Flower Embrocation to be given away to charitable houses and organisations in 2003.

Last but not the least, we wish our shareholders, customers, suppliers, business partners, staff and the public to have a peaceful heart and healthy physique.

STAFF

The Group employed 103 staff as at 31 December 2002. Salaries are adjusted annually on a performance-related basis and fringe benefits such as tuition subsidies and medical insurance 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 February, 2003, the Group had recruited an experienced Chief Technical Officer from the PRC under Immigration Department's Admission of Talents Scheme to provide comprehensive technical support to the Group.

By Order of the Board

GAN Wee Sean

Chairman

Hong Kong, 15 April 2003