



Chairman's Statement

PERFORMANCE

The Board of Directors would like to report that for the year ended 31 December 2002, the Group achieved a consolidated turnover of approximately HK\$80,496,000, a decrease of 37% from the last financial year. Loss attributable to shareholders was approximately HK\$30,147,000 compared with approximately HK\$155,739,000 in 2001. Loss per share is 3.58 cents (2001: 19.1 cents per share).

FINAL DIVIDEND

The Directors do not recommend the payment of a final dividend for the year ended 31 December 2002 (2001: Nil).

CLOSURE OF REGISTER OF MEMBERS

The Register of Members will be closed from Wednesday, 21 May 2003 to Friday, 23 May 2003, both days inclusive, during which period no transfer of shares can be registered.

In order to qualify for attendance at the forthcoming Annual General Meeting, all completed transfers forms, accompanied by the relevant share certificates, must be lodged with the Company's share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at Room 1901-5, 19th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration by not later than 4:00 p.m. on Tuesday, 20 May 2003.

GENERAL REVIEW

The Group has a well-established brand in the market of health products in China and the products have been gaining a mass popularity in China. The Group has focused on the streamlining of operation, reduction of operation costs, market analysis and study on customers' needs with prudent approach. Consequently, we greatly reduce the production of low profit margin items or unprofitable items. As a result, we have a decrease in turnover in 2002 as compared to the turnover in 2001. Even though our health product has a certain degree of popularity and share of market in China, we are facing a very competitive market that makes the operating environment quite difficult. With an aim to solidify the foundation for the future growth of the Group, we have relocated part of the Group's resources to drug development. During the year, we have entered into the Joint Cooperation Agreement with Shanghai Institute of Materia Medica, Chinese Academy of Sciences ("SIMM") for a joint venture business for new drug discovery and the proprietary Integrated Drug Discovery Platform. In addition, the Group has acquired a new drug candidate targeted at the treatment of cardiovascular and cerebrovascular diseases in last year.

BUSINESS REVIEW

During the year, under the cost-control policy, we have reduced the production of unprofitable items such as "Tonic milk drink" and reduced the turnover of drug manufacturing business in Li Cheng Pharmaceutical Factory to RMB 3.8 million. For those products which were facing keen market competition, such as "Storm fat loss capsule", the Group has reduced the production for this product and the turnover of other health products has dropped 72%. The Group has been consolidating its strength on the production of 2 main products "Houtou Mushroom tonic drink" and "Chrysanthemum tonic drink" and other more profitable health products.

Operating under the philosophy of lower cost and higher profitability, and the recovery of some value from the revaluation on our properties in China, we have experienced great success in the improvement of our loss situation. During the year, we have 37% drop in turnover which brought our loss to an amount approximately HK\$30,147,000.

The Group has acquired a new drug which is under development for the treatment of cardiovascular diseases, thrombosis and stroke. The drug is in the stage of pre-clinical studies and is undergoing the necessary tests in North America. We are prepared to file for Investigational New Drug Application with the Food and Drug Administration in the United States of America. Regarding the protection of intellectual property, we have applied for patents in most of the major countries in the world and they are all currently under examination.



Chairman's Statement

OUTLOOK

In the coming years, the Group will continue to employ dual strategy of expanding market coverage and minimizing the operating cost to reach the goal of sales efficiency and profit maximization.

We believe that the opportunities are emerging in China after her entry into the World Trade Organization, particularly in the consumers market. The whole economy and business environment in China will be improved significantly which offers us the chance to expand our market. While we have demonstrated our strong performance in the market of health drink in the Southern part of China, we are actively seeking opportunities in the Northern part of China through launching new products, diversifying market channel and increasing marketing capabilities and we hope that these actions will result in the expansion of our customers base into other key provinces in China in the coming years.

We believe that with the good foundation and the market acceptance of our products in China, the Group could drive its sales up by launching more value-added product lines.

In view of the thin profit in the sub-contract works for drug manufacturing, the Group will slow down this business.

On the other hand, in view of the present poor global investment climate and the requirement of sufficient funds for drug development, the Group believes that it is appropriate to suspend the co-operation with SIMM to develop the new drug discovery and the proprietary Integrated Drug Discovery Platform which requires huge funds for the development. As such, the Group is able to reduce the financial burden.

In the future, the Group envisages to remain in a strong cash position, our emphasis will remain in the development of health product business in China. Product innovation and market penetration will remain as our crucial strategies for gaining more market share. Regarding the drug development for the treatment of cardiovascular and cerebrovascular diseases, the Group will continue to pursue the development and commercialisation of the drug. With the healthy financial position and a low gearing ratio of the Group, we are confident that we could take up the challenges in the coming year.

PURCHASE, SALE OR REDEMPTION OF OWN SECURITIES

There was no purchase, sale or redemption of the Company's listed securities by the Company or any of its subsidiaries during the year ended 31 December 2002.

ACKNOWLEDGEMENTS

I wish to thank the Board of Directors, our staff, our shareholders and our business partners for their valuable opinion, guidance and support.

I and the Board are looking forward to your continuing support and hope to share with you our prosperity of the future of our Group.

By order of the Board
LO Yuk Yee
Chairman

Hong Kong, 28 April 2003