

Management Discussion and Analysis

BUSINESS REVIEW

The Group's turnover for the year ended 31 December 2002 was approximately HK\$80,496,000, representing a decrease of 37% 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 2001:

	For the year ended 31 December 2002 HK\$'000	For the year ended 31 December 2001 HK\$'000
Health Products		
Tonic drinks:		
Chrysanthemum tonic drink	18,331	21,598
Houtou mushroom tonic drink	40,205	48,212
Others	905	1,920
Sub-total:	<u>59,441</u>	<u>71,730</u>
Duo Bu Gai	7,537	9,205
Brilliance and Storm fat loss capsule and Changing capsule	1,289	28,588
Others	1,930	—
Total for Health Products:	<u><u>70,197</u></u>	<u><u>109,523</u></u>
Health drinks:		
Tonic milk drink	6,712	10,092
Mineral water/distilled water	4	157
Total for Health Drinks:	<u><u>6,716</u></u>	<u><u>10,249</u></u>
Pharmaceutical Product:		
Fluconazole injection	<u><u>3,583</u></u>	<u><u>6,676</u></u>
Others	<u><u>—</u></u>	<u><u>704</u></u>
GRAND — TOTAL	<u><u><u>80,496</u></u></u>	<u><u><u>127,152</u></u></u>

During the financial year under review, the sales of the Group's existing tonic drink products (including Houtou Mushroom tonic drink and Chrysanthemum tonic drink) continued to drop and had recorded a decrease of 17% or HK\$12,289,000 as compared with last year. The sales of other health products (including Duo Bu Gai, Brilliance and Storm fat loss capsule and Changing capsule) also recorded a tremendous drop of approximately HK\$27,037,000 or 72% as compared with last year.



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Although the Group's turnover has been dropped by 37% as compared with last year, the operating losses have been decreased from HK\$155,739,000 in 2001 to HK\$30,147,000 for the year under review which were mainly due to the following reasons:

- (1) As a result of stringent cost control measures implemented by the Group throughout the year, the total operating expenses (including distribution costs and administrative expenses) were decreased by HK\$27,986,000 or 19% as compared with the corresponding period last year;
- (2) A reversal of the provision for impairment losses of fixed assets (mainly land use rights and buildings) amounting to HK\$29,466,000 (2001: a provision for HK\$71,161,000);
- (3) A write back of cost of investments held for disposal in the sum of HK\$8,768,000 (2001: a write down of HK\$19,028,000).

However, if the above reversals of the provision for impairment losses and write back of assets amounting to HK\$38,234,000 were excluded, the normal operating results would be losses of HK\$68,381,000 as compared with last year for losses of HK\$65,550,000 (excluding the provision for impairment losses and write down of assets for HK\$90,189,000).

FINANCIAL RESOURCES AND LIQUIDITY

As at 31 December 2002, the Group's total assets amounted to HK\$393,877,000, representing an increase of HK\$16,789,000 or 4.5% as compared with that of last financial year end date.

As at 31 December 2002, the Group had current assets of approximately HK\$136,756,000 (2001: HK\$175,829,000) and current liabilities of approximately HK\$153,573,000 (2001: HK\$175,748,000). The current ratio was decreased from 1.00 at 31 December 2001 to the level of 0.89 at the year end date.

The Group's cash and bank balances and time deposits as at 31 December 2002 amounted to HK\$70,096,000 (including bank overdrafts) (2001: HK\$90,562,000), of which 12% were denominated in Hong Kong Dollars, 85% in Renminbi and 3% in US Dollars.

As at 31 December 2002, the Group had outstanding short-term bank loans of approximately HK\$48,746,000 in total, (2001: HK\$51,575,000) all of which were in Renminbi and granted by banks in the PRC. The interest rates charged by the banks ranged from 5.7525% to 6.372% per annum. These bank loans were pledged by properties of the Group with a net book value of approximately HK\$90,040,000 (2001: HK\$62,852,000). The Group's gearing ratio, measured by bank borrowings as a percentage of shareholders' equity was 26.6% at the year end date (2001: 27.3%).

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.

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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 2002, the Group employed a total of 530 staff and workers in Hong Kong and the PRC. The existing staff number at the year end date with their respective duties are set out in the following table together with comparative figures for the last financial year:

	2002	2001
Manufacturing and quality control	255	289
Sales and marketing	180	243
Management, administration and clerical	61	62
Research and development	34	33
Total	530	627

The total staff remuneration (mainly representing basic salaries) for the year ended 31 December 2002 was approximately HK\$26,011,000.

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 Company has adopted a new share option scheme on 17 May 2002 and a total number of 32,150,000 shares option were granted to executive directors and employees during the year under review.

CONTINGENT LIABILITIES

The Group has no significant contingent liabilities as at 31 December 2002.

AUDIT COMMITTEE

The Audit Committee of the Company is comprised of two independent Non-executive Directors, 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 2002.