

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **BUSINESS REVIEW**

The Group's unaudited consolidated net profit for the current period amounted to HK\$8,393,000, dropped by HK\$3,849,000 as compared with HK\$12,242,000 for the last period. Turnover decreased by HK\$7,615,000 from HK\$41,652,000 for the last period to HK\$34,037,000 for the current period. The Group also recorded a HK\$2,800,000 "Deficit on properties other than investment properties" for our Chaiwan production plant in the current period.

On the other hand, "Other revenue" surged HK\$1,442,000 from last period's HK\$232,000 to this period's HK\$1,674,000. "Raw materials and consumables used" has dropped HK\$2,757,000 from last period's HK\$9,317,000 to this period's HK\$6,560,000 in line with the reduced turnover. During the period, the Group's cash holding in foreign currencies (mainly British Sterling and Euro) produced a net exchange gain of HK\$1,124,000. While the Group's holding in investment in securities accounted for an unrealised gain of HK\$1,894,000 recorded in the current period.

### **Manufacturing and sales of Hoe Hin Brand of products**

Turnover decreased mainly because of the reduced export to PRC during the period. Both the amount of geographical segment revenue and segment results of "Other regions in the PRC" are reduced substantially. The reason is that last year's surge in export to PRC, amid renewal of our imported drug registration certificate (醫藥產品註冊証) during 2002, is not repeated in 2003. The said renewal had been completed in April 2003.

Sales for the local market were stable. Exports to Philippines improved for the first half of 2003 as compared with 2002. It led to the increment of geographical revenue of "Southeast Asia" from last period's HK\$2,368,000 to this period's HK\$5,415,000. Exports to Malaysia started in the 3rd quarter of 2003, turnover for this market for the second half of 2003 is yet to be observed.

Sales to USA for the second half of 2003 is expected to be affected by some counterfeit products appearing in the market this year. The Group will keep monitoring the development of the US market closely.

**Property investment**

During the current period, the Group had recovered HK\$1,400,000 rental plus legal costs from a liquidated former local tenant. Turning to the Group's UK investment properties, certain upward rental reviews previously implemented accounted for the increase in segment revenue from last period's HK\$3,152,000 to this period's HK\$4,178,000. In view of these contributions, the segment result has been improved by HK\$2,486,000 from last period's HK\$2,410,000 to this period's HK\$4,896,000.

**Treasury investment**

The increased segment revenue is the direct increase in interest income earned. Exchange gain recorded from foreign currency cash holding (mainly denominated in British Sterling and Euro), together with the unrealised holding gain on investments in securities, advanced the segment result from last period's HK\$3,190,000 to this period's HK\$4,936,000.

**Others**

It represents the sales of other healthcare goods. Segment revenue and result were not material comparing to other business segments.

**FINANCIAL RESOURCES AND TREASURY POLICIES**

The Group continues to adhere to prudent treasury policies. Gearing ratio (Non-current liabilities divided by total Shareholders funds) as at the interim date was 21.8% (31st December, 2002: 2.0%). In 2003, the Group had renewed the secured bank loans denominated in British Sterling for three years on a floating rate basis.

Current ratio (Current assets divided by Current liabilities) was 9.9 as at the interim date (31st December, 2002: 2.8). The improvement is due to the completion of renewal of the above-mentioned British Sterling bank loans.

The Group holds sufficient cash and marketable securities on hand to meet its liabilities, commitments and working capital demand.

**OUTLOOK**

The first half of 2003 had witnessed the most difficult time for the community as a whole. During these hard times, as a token to show our concern to the community, over 275,000 pieces of White Flower Embrocation charitable packs (Floral, Fruity scent) were donated to sponsor charitable campaigns to raise some HK\$1,800,000 in total for such charities. Considerable quantities of charitable packs were also donated directly to those in need within our society.

Whilst we are working towards opening of new markets such as Japan and United Kingdom. The time required to process registration of our products in such countries varies, the Group expects that our existing GMP certified production plant plus our ISO9001 accredited quality management system will facilitate our new product registration process.

Last but not the least, we wish to express our heartfelt appreciation to all people who have made different degree of sacrifices to combat SARS in the community.

By Order of the Board

**Gan Wee Sean**

*Chairman*

Hong Kong, 23rd September, 2003