

Management Discussion and Analysis

BUSINESS REVIEW

The Group's turnover for the year ended 31 December 2003 was approximately HK\$66,404,000, representing a decrease of 17.5% 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 2002:

	For the year ended 31 December 2003 HK\$'000	For the year ended 31 December 2002 HK\$'000
Health Products		
Tonic drinks:		
Chrysanthemum tonic drinks	14,916	18,331
Houtou mushroom tonic drinks	32,062	40,205
Others	2,873	905
Sub-total:	<u>49,851</u>	<u>59,441</u>
Duo Bu Gai	6,747	7,537
Brilliance fat loss capsule and Changing capsule	3,474	1,289
Others	180	1,930
Total for Health Products:	<u><u>60,252</u></u>	<u><u>70,197</u></u>
Health Drinks		
Tonic milk drinks	4,787	6,712
Mineral water	2	4
Total for Health Drinks:	<u><u>4,789</u></u>	<u><u>6,716</u></u>
Pharmaceutical Products		
Fluconazole injection	<u><u>1,363</u></u>	<u><u>3,583</u></u>
GRAND TOTAL	<u><u><u>66,404</u></u></u>	<u><u><u>80,496</u></u></u>

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During the financial year under review, the sales of the Group's existing tonic drinks products (including Houtou Mushroom tonic drinks and Chrysanthemum tonic drinks) continued to drop and had recorded a decrease of 16% or HK\$9,590,000 as compared with last year. The decrease was mainly because the above two major products of the Group reached the consolidation stage of their product life cycle.

Although the Group's total operating expenses (including distribution expenses and administrative expenses) has been reduced by approximately HK\$19,288,000 for the year under review, the consolidated loss attributable to shareholders has been increased from HK\$30,147,000 in 2002 to HK\$88,156,000 in 2003 which were mainly attributable to the following reasons:—

- (1) There was a provision for impairment losses of fixed assets (mainly land use rights and buildings) in the sum of HK\$998,000 in 2003 (2002: a net reversal of impairment losses of fixed assets for HK\$29,466,000);
- (2) A write back of cost of investments held for disposal in the sum of HK\$1,516,000 (2002: HK\$8,768,000);
- (3) Unrealised holding loss on investment in unlisted securities of HK\$5,863,000 in 2003 (2002: Nil);
- (4) Amortisation of intangible assets on acquired proprietary rights of chemical compound and diagnostic technology amounting to HK\$10,703,000 (2002: HK\$2,375,000);
- (5) Loss on disposal of 76% effective equity interest in Guangdong Apollo Li Cheng Pharmaceutical Factory of HK\$6,975,000; and
- (6) Goodwill written off in an associate in the PRC of HK\$14,369,000.

FINANCIAL RESOURCES AND LIQUIDITY

At 31 December 2003, the Group's total assets amounted to HK\$413,614,000, representing an increase of HK\$19,737,000 or 5.0 % as compared with that of last financial year end date.

At 31 December 2003, the Group had current assets of approximately HK\$115,620,000 (2002: HK\$136,756,000) and current liabilities of approximately HK\$160,921,000 (2002: HK\$153,573,000). The current ratio was decreased from 0.89 at 31 December 2002 to the level of 0.72 at the year end date.

The Group's cash and bank balances and time deposits at 31 December 2003 amounted to HK\$43,670,000 (including bank overdrafts) (2002: HK\$70,096,000), of which 0.4% were denominated in US Dollars, 12.3% in Hong Kong Dollars and 87.3% in Renminbi.

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At 31 December 2003, the Group had outstanding short-term bank loans of approximately HK\$49,972,000 (2002: HK\$48,746,000) in total, all of which were in Renminbi and granted by banks in the PRC. The interest rates charged by the banks ranged from 5.040% to 6.372% per annum. These bank loans were pledged by properties of the Group with a net book value of approximately HK\$83,633,000 (2002: HK\$90,040,000). The Group's gearing ratio, measured by bank borrowings as a percentage of shareholders' equity was 35.1% at the year end date (2002: 26.6%).

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.

Pursuant to an announcement made by the Company on 19 April 2004, the Company proposed to raise approximately HK\$16.57 million (before expenses) by way of an Open Offer on the basis of provisional allotment, on an assured basis, of three Open Offer Shares for every Adjusted Share held by the Qualifying Shareholders at the subscription price of HK\$0.08 per Open Offer Share.

In view of the Group's current cash and working capital position as well as the proposed Open Offer, the Directors are confident that the Group will have sufficient funds to meet its requirements for business operations.

EMPLOYEES

At 31 December 2003, the Group employed a total of 338 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:

	2003	2002
Manufacturing and quality control	133	255
Sales and marketing	142	180
Management, administration and clerical	45	61
Research and development	18	34
Total	338	530

The total staff remuneration (mainly representing basic salaries) for the year ended 31 December 2003 was approximately HK\$17,275,000.

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 share option scheme on 17 May 2002. Details of the share options are set out in Note 29 to the financial statements.



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CONTINGENT LIABILITIES

The Group has no significant contingent liabilities at 31 December 2003.

AUDIT COMMITTEE

The Audit Committee of the Company comprised two Independent Non-executive Directors, Mr. FONG Chi Wah and Mr. WONG Wai 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 2003.