

INTERVIEW WITH THE CEO




1. Please describe in brief the business model of the Group.

The Group's core business strategy is to be among the first to launch world class pharmaceutical products new to the PRC, either by acting as exclusive agents for European product brands (trading segment) or in promoting self manufactured products (pharmaceutical products segment).

Most of these products already have successful track records since their launch in developed countries by other pharmaceutical companies. However these products are still not available in the PRC, and we are working towards being the first to launch them in the PRC.

These products will be classified as "new drugs" under the definition of the SFDA. These new drugs will be protected from market competition by SFDA for a certain "monitoring period" or via patent registration in the PRC.




Critical success factors in implementing such a strategy include extensive research and development, versatile production capabilities, as well as a strong distribution network. The Group is strengthening its core competencies further in these areas.

2. Who are the major competitors of the Group?

Considering the Group's three different business segments and its broad product base, we cannot identify any particular competitor to the Group as a whole. Instead the Group performs competition analysis by individual product or product category. The Group's focus on maintaining a broad product base would allow it to survive as a whole despite adverse market conditions of individual products, and at the same time opportunity to improve margins via change of product mix towards higher margin items.

3. What is the reason for the increase in gearing ratio, from 19.7% to 28.7%?

The increase in gearing ratio was mainly due to the increase in bank loans which was used partly to finance the Group's construction of the new plant in Kunming and partly to reserve funds for possible acquisition opportunities that may arise. The gearing ratio was calculated based on the Group's total bank borrowings of approximately HK\$93.9 million (2003: approximately 35.8 million) over the Group's total assets of approximately HK\$327.4 million (2003: approximately HK\$182.0 million).



INTERVIEW WITH THE CEO

4. Why is the growth on net profit higher than that of turnover?

The significant increase in profit as compared to the rise in revenue was mainly the result of a change in sales mix in favor of higher margin products. During the Period, the Group placed a lot of effort not only to increase its distribution network but also to enhance the professional standard of its sales force. This results in both an absolute increase in sales revenue and also a more effective promotion on higher margin products. The Group's tight control over operating costs has also contributed to profits for the Group.

5. Will the recent price cut in antibiotics in the PRC affect the Group's performance?

China National Development and Reform Commission had recently reduced the official retail price of 24 antibiotics, which includes some of the Group's products. The price adjustment was mainly based on the tender price in different provinces and cities of the PRC. The Group's products being affected are mainly prescription drugs, which are mostly sold to hospitals by way of tender, and this reduction in price merely reflect the existing tender price, which we therefore believe would not affect our sales in a significant manner.

6. While both the PRC and Hong Kong imposed stricter regulatory controls for pharmaceutical and TCM, how can the Group benefit from such policies?

The entry barrier to the PRC pharmaceutical market would become higher when SFDA begin the enforcement of GMP compliance for all pharmaceutical manufacturers from 1 July 2004, as well as the relevant PRC authorities' intention to strengthen the legal framework for drug administration. The Group is in a good position to benefit from these increased and more stringent controls in the PRC, with its experienced management team, GMP certificates already in place, as well as the new state-of-the-art manufacturing plant.

While in Hong Kong, following official announcements of regulatory controls over TCM, the market will become more disciplined, resulting in improved consumer confidence. Cost of market entry will also increase. The Group's experience in product registration, quality control and production management would give it a clear competitive advantage.

7. The sales growth seems to be slowing down in the past two years, what will be the growth rate of revenue in the coming future?

Sales growth in recent years is mainly a result of increased market coverage. With only one new product being launched in the current financial year, the Group's effort was concentrated in changing sales mix in favour of higher margin items, instead of emphasizing revenue increase.

INTERVIEW WITH THE CEO



However things would start to change. During the current financial year, we have obtained very encouraging results in new product development. As at 31 March 2004, the Group has 13 new drugs under development. Among them, Loratadine and Loratadine tablets has already obtained production license in May 2004. A new traded product, synthetic salmon calcitonin, an effective drug for osteoporosis, was launched in June 2004.

The new products would definitely bring exciting growth in both revenue and profit for the Group in the coming future.

8. What will be the Group's dividend policy in future?

Having regard to the Group's imminent completion of the new production facilities in the PRC, the Board has decided on a policy of dividend payout ratio of not less than 25% with effect from the year ending 2005.

