



Ho Yu Ling
Executive Director

Executive Director's Report

(A) Business Review

The global pharmaceutical market enjoyed a memorable year with double digit growth throughout year 2000 as reported in the IMS Health Monitor Digest. China was reported to be one of the top ten markets worldwide. Total pharmaceutical sales by industrial enterprises in China increased by 18.4% to RMB175.0 billion (US\$21.2 billion) in calendar year 2000, while sales through marketing operations rose by 19.4% to RMB113.5 billion (US\$13.7 billion). The gross output value of the industry at RMB233.2 billion (US\$28.1 billion) is an increase of 20% as compared to last year, according to State Economic and Trade Commission data quoted by Xinhua News Agency. China exported pharmaceutical products worth US\$3.8 billion last year, a rise of 13.8%, while the value of imports climbed by 18.7% to US\$2.6 billion, creating a trade surplus of US\$1.2 billion.

Under a fast growing economic environment but increasingly challenging pharmaceutical business environment in the PRC, I am pleased to report that the Group's overall financial results for year ended 31 March 2001 through sound business strategies and controls effected by the management have produced some strong key financial indicators as highlighted under "Management's Discussion and Analysis."

(a) Imported pharmaceutical, medical appliances and equipment distribution

The profit before tax for the imported products distribution rebounded this year growing by 7.5% to HK\$12.9 million from HK\$12.0 million in last year.

New benchmarks in areas of cost reduction, human resources alignment and efficiency procedures for the imported pharmaceutical distribution division have seen a reduction in administration cost. These cost savings were directed to extensive marketing and promotional activities in holding symposiums and nationwide tours to key opinion leaders in hospitals, wholesalers and pharmacists. 15 major nationwide symposiums were held throughout the PRC during the year under review.

The nutritional distribution overcame supply disruptions of its fresh milk distribution from its Australian manufacturer earlier this year and contributed positively to the Group's results. Turnover for nutritional distribution was HK\$6.5 million and profit before tax was HK\$1.9 million. The Group's Auscow brand of fresh milk has been recently ranked one of the top three imported milk brands in Shenzhen, the PRC, by the Shenzhen Economic Daily.

(b) Own manufactured products

This segment recorded strong growth of 106.8% in turnover at HK\$58.1 million (2000: HK\$28.1 million) and 204.9% in profits before tax at HK\$12.5 million (2000: HK\$4.1 million), which is mainly contributed by CEP. The significant growth of CEP helped level off the less satisfactory results of JECP.

CEP is now reaping the profits of efficiency and capital outlay. CEP turnover rose by 69.4% to HK\$47.6 million against last year's turnover of HK\$28.1 million. Net operating profits before tax of HK\$15.2 million is 204.0% growth against last year of HK\$5.0 million.

The growth in operating profit is mainly attributable to increase in sales and effective controls over costs. The continuous streamlining of production processes and productivity and compliance to Good Manufacturing Practices ("GMP") requirements have helped contained production costs as well as improvement in product quality.

JECP is in its first year of full scale operation. Sales for JECP for the year ended 31 March 2001 was HK\$10.5 million and its operating loss before tax was HK\$2.7 million. JECP is adopting the step-by-step approach to develop market awareness for its products through product education seminars and promotion activities.

(B) Business Outlook

China's entry into World Trade Organization ("WTO") is expected to increase openness in trading policies. The Group sees this as an opportunity to work with other local and foreign manufacturers to market their products in the PRC.

The import distribution segment will continue to intensify their marketing and promotional activities in this upcoming year. More symposium functions will be held in the upcoming year to disseminate the potency and efficacy of the imported quality drugs brought into the PRC market by the Group. Strong market relationships with wholesalers, retailers and competent staff delivering professional services will continue to play a big role in this year's marketing strategies.

We have engaged in negotiations with two manufacturing principals, one in Italy for an Anti-depressant ethical drug and the other in Switzerland for a Central Nervous System product for sole distributorship in the PRC market.

In addition, we have secured contracts for a Dermatological product and an Appetite Stimulant manufactured in Spain. Both products are in the process of registration with the PRC regulatory authorities.

For nutritional products, new product line, "Hi Calcium Milk" will come under the Group's own trademark of "Auscow" for distribution and sale to the PRC. To overcome over-reliance on a single manufacturer, we are in the midst of negotiating with another manufacturer for product line extension and sourcing new quality Australian products to add to the umbrella of products under the "Auscow" brand.

On the manufacturing segment, both joint venture factories of CEP and JECP will be operated in accordance with GMP standards by 2002.

CEP will build a new factory at an estimated cost of HK\$32.7 million. The new factory to be built on a 20,000 square meters area house manufacturing, packaging, warehousing, conference rooms and administrative rooms on the same site and will be in accordance with GMP standards. This state-of-the-art architecture will further propel CEP's image and the Group's presence in Changchun, Jilin Province, as committed long-term business partner and a preferred business partner in the pharmaceutical manufacturing and distribution industry. Funding for this project will be partly from profits generated by CEP and partly from short term borrowings from banks.



JECP will continue to increase production efficiency, intensify brand recognition amongst its prescribers and make applications to the State Drug Administration to grant dual registration for all its products in both prescription and dispensing OTC markets to enlarge the customer base for its products.

With these goals in mind, we will endeavour to continue sustainable growth and deliver positive contributions in this upcoming year.

Ho Yu Ling

Executive Director

Hong Kong, 29 June 2001