

Management's Discussion and Analysis

Under a fast growing economic environment but increasingly challenging pharmaceutical business environment in the PRC, the Group has experienced a strong growth in profitability through sound business strategies and rationalisation on product focuses and resource allocations and controls.

The Group's attributable profit of approximately HK\$20.5 million is a 46.4% growth compared to approximately HK\$14.0 million in the previous year. Turnover rose to approximately HK\$135.1 million from approximately HK\$127.0 million in the previous year.

Gross profit margin has improved to 45.4% (2000: 33.0%) mainly due to higher growth in manufacturing segment which generally enjoy higher margin and the management's focus on high margin imported products.

The Group achieved significant improvement in key financial indicators. As at 31 March 2001, the Group had total assets of approximately HK\$203.6 million as compared to approximately HK\$176.1 million in last year. Current ratio is 2.1 (2000: 1.8) and gearing ratio (non-current liabilities to equity) of 7.6% (2000: 9.2%).

Review of Performance by Segment

Imported Products Distribution

A recovery in import distribution sector saw operating profits improved by 7.5% from approximately HK\$12.0 million in last year to approximately HK\$12.9 million in the current year. Contribution from imported pharmaceutical products improved by 18.6% from approximately HK\$8.6 million in last year to approximately HK\$10.2 million in the current year. The management has focused on high margin and high growth products, which resulted in higher gross margin. Higher profit contributions were

recorded in the Group's blockbuster pharmaceutical product in the therapeutic areas of the Central Nervous System. In addition, the management has been successful in improving the operational efficiency by rationalizing operating procedures and controls, streamlining of management and administrative structure and improvement in marketing performance through extended market coverage and cross selling.

Manufacturing

The sector recorded strong growth of 106.8% to approximately HK\$58.1 million (2000: HK\$28.1 million) in turnover and 204.9% to approximately HK\$12.5 million (2000: HK\$4.1 million) in profit before tax respectively. Products in the Immunologicals and Cerebrovasculars therapeutic group and Anti-thrombotics launched in the year 2000 are major contributors to the growth in turnover and profit in this sector.

During the year, the management has implemented a number of measures to improve the performance of the manufacturing sector;

- Continual review of operating procedures, upgrading process and documentation of workflows throughout the year according to the requirements of GMP standard and prepare for the GMP standard compliance review in future.
- Implementation of efficiency improvement and cost cutting measures.
- Increase in market penetration efforts and rural area coverage for the Group's owned-manufactured products.

Business outlook

The directors believe the Group is well positioned to benefit from China's entry into WTO with increase openness in trading policies and import barriers. The Group sees this as an opportunity to introduce new and advanced overseas products into the PRC market while enjoying a relatively lower import duty and distribute local manufacturers' products.

The marketing departments in both imported products distribution, manufacturing sector will intensify their efforts by organizing more product launching, training seminars and symposiums for the medical profession.

Significant investment will also be made in the area of staff training and customer relations to ensure continuing growth.

Liquidity and financial resources

The Group generally finances its operations with internally generated cash flow and facilities granted by its three principal bankers. As at the balance sheet date, the Group has banking facilities of HK\$41.0 million of which HK\$22.0 million were utilized. The Group's banking facilities were supported by fixed deposits of approximately HK\$13.3 million and corporate guarantees from Company and certain subsidiaries of the Company.

Staff

As at 31 March 2001, the Group had 369 employees from its various offices located in Australia, Malaysia, Hong Kong and the PRC.

Compliance with the Code of Best Practice

In the opinion of the directors, the Company has complied with the Code of Best Practice, as set out in Appendix 14 of the Listing Rules throughout the accounting period covered by the annual report.

Audit committee

To comply with the Code of Best Practice as set out in Appendix 14 of the Listing Rules, the Company set up an Audit Committee (the "Committee") in 1999, with written terms of reference, for the purpose of reviewing and providing supervision on the financial reporting process and internal control of the Group. The Committee comprises three independent non-executive directors. The Group's financial statements for the year ended 31 March 2001 have been reviewed by the Committee. The Committee is of the opinion that such statements comply with the applicable accounting standards, and stock exchange and legal requirements, and that adequate disclosures have been made.

It is informed that Mr. Ong Cheng Heang will retire from his post as an independent non-executive director of the Company and will not offer himself for re-election on the Annual General Meeting scheduled on 2 August 2001.

Publication of the Annual Results on the Internet Website of the Stock Exchange

The financial and other information required by Paragraphs 45(1) to 45(3) of Appendix 16 to the Listing Rules will be published on the website of the Stock Exchange in due course.

Purchase, Redemption or Sale of Listed Securities

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year.

Closure of Register of Members

The register of members will be closed from Tuesday 31 July 2001 to Thursday 2 August 2001, both days inclusive, during which period no transfer of shares will be effected. Tengis Limited is the Company's Registrar for registration and is located at 4th Floor, Hutchison House, 10 Harcourt Road, Central, Hong Kong.