

MANAGEMENT DISCUSSION AND ANALYSIS

LIQUIDITY AND FINANCIAL RESOURCES

During the year, the Group's primary sources of funding were cash provided by operating activities, cash proceeds from the issue of New Issue and Placing (as defined in the Company's prospectus dated 11 August 2000) and cash proceeds from placing of 20,000,000 shares of the Company. As at 30 June 2001, the Group had cash and bank balances of a total amount of HK\$117,559,000 (2000: HK\$33,161,000). At 30 June 2001, the Group had total assets of HK\$346,613,000 (2000: HK\$148,911,000), current liabilities of HK\$70,482,000 (2000: HK\$50,990,000) and shareholders' equity of HK\$274,932,000 (2000: HK\$97,921,000). The Group has consistently maintained a strong working capital during the year, with net current assets of HK\$152,573,000 at 30 June 2001 (2000: HK\$72,692,000) and with a liquidity ratio of 3.2 times at 30 June 2001 (2000: 2.4 times).

As at 30 June 2001, the Group had no outstanding borrowings (2000: Nil).

On 14 August 2001, the Company issued US\$4,000,000 convertible bonds to Credit Suisse First Boston (Hong Kong) Limited and the proceeds therefrom, before expenses, amounted to approximately HK\$31,200,000.

The Board believes that the Group had sufficient liquidity to satisfy its commitments and working capital requirements.

CONTINGENT LIABILITIES

As at 30 June 2001, the Group did not have contingent liabilities. (2000: Nil)

FINANCIAL REVIEW

The Group's turnover for the year was HK\$409,633,000 (2000: HK\$353,116,000). This represented an increase of 16.0% as compared with the corresponding year of 2000. The net profit from ordinary activities attributable to shareholders for the year amounted to approximately HK\$94,541,000 and was increased by 15.8% to that of last year. Basic earning per share for the current year was approximately HK30 cents (2000: HK 34 cents). Decrease in basic earnings per share is mainly attributable to the issue of 80 million shares to the general public upon the listing of the Company in the Stock Exchange on 23 August 2000. The overall net profit margin remained constant when compared with last year.

The increase in turnover was mainly attributable to the increase in sales generated from the anti-viral drugs.

Anti-viral drugs

Sale of anti-viral drugs during the year was approximately HK208,282,000, accounting for 50.8% of the total turnover of the Group and representing approximately 24.0% increase when compared with last year. The increase was due to the increase demand of the Jin Gang Gold which has an excellent therapeutic effect to the treatment of common cold, cough and influenza and due to the banning sales of 16 types of drugs with Phenylpropanolamine (PPA) which principally used for the

MANAGEMENT DISCUSSION AND ANALYSIS

Anti-viral drugs *(continued)*

treatment of common cold, cough and influenza. On 16 November 2000, the State Pharmaceutical Supervision and Administration of China has announced to ban sales of 16 types of drugs with PPA. Some major competitors' products have been banned in the above-mentioned announcement. As a result, the Board believes the Group has grabbed a golden opportunity to expand its market share in the anti-viral drugs such as Jin Gang Cold, which is PPA-free.

Antibiotics

Sale of antibiotics shows approximately 2.6% increase when compared with the last year. The slight increase was due to the tense competition from other competitors. But the Group will put effort in re-engineering the production process to raise cost efficiency and enhance the competitiveness of the products.

Vitamins

With the increasing demand of the Group's high quality Vitamins, the Group had recognized a steady growth in turnover of its Vitamins.

Analgesics

The sales of analgesics increased from approximately HK\$25,911,000 in last year to HK\$29,009,000 for the year ended 30 June 2001, representing approximately 12.0% increase. This was attributable to the recognition of the Group's Ta Shan brand products.

Chinese patent medicines

Turnover of Chinese patent medicines from last year's HK\$19,178,000 to approximately HK\$24,590,000. The sale of Chinese patent medicines achieved encouraging growth due to the effort of effective marketing strategy and market penetration through its relationship with wholesalers and distributors.

Chinese tonic liquor

During the year, the sales of Chinese tonic liquor increased from approximately HK\$25,622,000 to HK\$26,174,000, representing approximately 2.2% increase when compared with last year. This was attributable to the recognition of the Group's Ta Shan brand products.

Due to the increase in turnover and the results of economies of scale, the overall gross profit margin had improved. The overall gross profit margin was 38.0%, representing a increase of 0.2% as compared with last year.

MANAGEMENT DISCUSSION AND ANALYSIS

Chinese tonic liquor *(continued)*

Administrative expenses amounted to HK\$15,656,000 (2000:HK\$13,588,000) which was comparable to last year's level at 3.8% of turnover. Selling and distribution costs had increased from last year's HK\$26,839,000 to the current year HK\$32,456,000, which was due to the hiring of additional salesmen and related expenses, and accounted for 7.9% of the Group's turnover.

Finance cost amounted to HK\$236,000 was incurred during the year.(2000: HK\$148,000)

FUTURE PROSPECTS

Over the Counter ("the OTC") drugs market sales

Since urban medical and hygiene system reform in the PRC started in 1999, employees' medical expenditure of state bureaus, state-owned enterprises, have been no longer fully covered by the PRC government. The Group believes that when patient catch a common cold or cough, they will prefer to purchase OTC medicine instead of visiting a doctor to avoid paying expensive medical bills. As a result, the medical OTC market in the PRC will have a strong growth. Since most of the Group's products are OTC drugs, the Board believes that the turnover of the Group will also grow gradually.

Product variety

The Group will continue to put great emphasis on research and development to improve the quality of the existing products. It is the Group's plan to accelerate the development of its new products, and will continue to further broaden the product variety by seeking for horizontal expansions by way of acquisition of other pharmaceutical companies in the PRC.

The directors continue to have optimistic view of its prospects for the coming years.

CHARGES ON GROUP ASSETS

At 30 June 2001, none of the Group's assets pledged as security for liability.

EMPLOYEES AND REMUNERATION POLICY

At 30 June 2001, the Group had 816 employees in Hong Kong and China.

The remuneration policy and package of the Group's employee are reviewed and approved by the Board. Besides provident funds and double pay, discretionary bonuses based on individual performance will be paid to employee as recognition of and reward for value creation.

Under the Company's existing share option scheme, options to subscribe for shares can be granted to full-time employees (including executive directors) of the Company and its subsidiaries. For the period up to the date of this report, 29,000,000 share options have been granted, of which 25,000,000 share options remained unexercised as at the date of this report.