

LIQUIDITY AND FINANCIAL RESOURCES

During the Year, the Group's primary sources of funding were provided by operating activities, cash proceeds from the New Issue and Placing (as defined in the Company's prospectus dated 11 August 2000) and cash proceeds from the aforementioned placing of 20,000,000 and 60,000,000 shares of the Company and the issuance of US\$12,000,000 convertible bonds to CSFB. As at 30 June 2002, the Group had cash and bank balances of a total amount of HK\$465,483,000 (2001: HK\$117,559,000). At 30 June 2002, the Group had total assets of HK\$835,618,000 (2001: HK\$346,613,000), current liabilities of HK\$134,729,000 (2001: HK\$56,185,000) and shareholders' equity of HK\$695,857,000 (2001: HK\$289,229,000). The Group has consistently maintained a strong working capital during the Year, with net current assets of HK\$556,101,000 at 30 June 2002 (2001: HK\$166,870,000) and with a current ratio of 5.1 times at 30 June 2002 (2001: 4.0 times).

As at 30 June 2002, the Group had no outstanding borrowings (2001: Nil).

On 8 May 2002, the Company placed 60,000,000 shares at a price of HK\$2.45 per share. The net proceeds of the placing of 60,000,000 shares of the Company after deducting expenses, amounted to approximately HK\$141,000,000 and at present such amount is used (i) as to HK\$30,000,000 to finance the acquisition of Boomtown Ventures Limited ("BVL"). BVL wholly owned 廈門泰倫生物工程有限公 (Xiamen Talent Biotech Co. Ltd., "Xiamen Talent Biotech"). The Company and the existing shareholders of BVL had entered into a formal sales and purchase agreement whereby the Company agreed to acquire the entire issued share capital in BVL at a consideration of HK\$30,000,000 on 15 July 2002, (ii) as to approximately HK\$20,000,000 to finance the related re-engineering works of Xiamen Talent Biotech, (iii) as to approximately HK\$20,000,000 to finance the research and development projects of Xiamen Talent Biotech, (iv) as to approximately HK\$10,000,000 as marketing expenses of the Group and (v) as to the balance as the general working capital of the Group.

During the Year, Credit Suisse First Boston (Hong Kong) Limited ("CSFB") subscribed for Bonds with an aggregate principal amount of US\$12,000,000 and proceeds of approximately HK\$93,600,000, before issued expenses, were received by the Company. As disclosed in the Company's announcements dated 14 August 2001, 14 December 2001 and 10 January 2002, the proceeds will be used for capital expenditure in relation to the expansion of production and manufacturing facilities, research and development, expansion of sales and distribution network, acquisition and merging new projects and general working capital purposes.

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

As the operations of the Group are mainly denominated in Renminbi, and Hong Kong Dollars. In view of the stable exchange rate between the two currencies, the Group considers that its foreign exchange risk is minimal.

CONTINGENT LIABILITIES

As at 30 June 2002, the Group did not have contingent liabilities (2001: Nil).

CAPITAL COMMITMENT

As at 30 June 2002, the Group did not have any capital commitment (2001: HK\$12,339,000).

BUSINESS SEGMENTS

Anti-viral drugs

Sales of anti-viral drugs during the Year were approximately HK\$227,412,000, accounting for 31.8% of the total turnover of the Group and representing approximately 9.2% increase when compared with last year. The increase was due to the increase demand of the Jin Gang Cold 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 are principally used for the treatment of common cold, cough and influenza. 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.

Anti-hypotensive drugs

During the Year, the Group has launched one of the new products “复方降壓膠囊”, the sales of which was approximately HK\$84,769,000, accounting for 11.8% of the total turnover of the Group. The Group believes that “复方降壓膠囊” will become one of the major products of the Group in the future.

Chinese patent medicines

Turnover of Chinese patent medicines increased from last year's HK\$24,590,000 to approximately HK\$113,320,000 for the current year. The sale of Chinese patent medicines achieved encouraging growth due to the effort of effective marketing strategy and market penetration through the Group's well-established relationship with its wholesalers and distributors.

Antibiotics

Sales of antibiotics showed approximately 10.5% 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.

Analgesics

The sales of analgesics increased from approximately HK\$29,009,000 in last year to HK\$40,741,000 for the Year, representing approximately 40.4% increase. This was attributable to the recognition of the Group's Ta Shan brand products.

Chinese tonic liquor

During the Year, the sales of Chinese tonic liquor increased from approximately HK\$26,174,000 to HK\$29,591,000, representing approximately 13.1% 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 an increase of 0.1% as compared with last year.

Administrative expenses amounted to HK\$28,438,000 (2001: HK\$15,656,000) which was comparable to last year's level at 4.0% of turnover. Selling and distribution expenses had increased from last year's HK\$32,456,000 to the current year's HK\$71,150,000, due to the hiring of additional salesmen and related expenses, which accounted for 9.9% of the Group's turnover.

Finance cost amounted to HK\$520,000 was incurred during the Year (2001: HK\$236,000).

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.

Xiamen Talent Biotech originated from the Cancer Research Centre of Xiamen University. It turned to develop its research results for market release since 1994. The two technical platforms for Cancer analysing and alarm developed by it, namely, Enzyme Linked Immunosorbent Assay (ELISA) and Polymerase Chain Reaction (PCR) would be the major product projects of the Group. The Directors continue to have optimistic view of its prospects for the coming years.

CHARGES ON THE GROUP'S ASSETS

At 30 June 2002, none of the Group's assets was pledged as security for liability.

EMPLOYEES AND REMUNERATION POLICY

At 30 June 2002, the Group had 1,200 employees in Hong Kong and the PRC.

The remuneration policy and package of the Group's employees are reviewed and approved by the Board on a periodical basis. Besides provident funds and double pay, discretionary bonuses and share options may be rewarded to employees based on individual performance as recognition of and reward for their contribution.

Under the Company's existing share option scheme, options to subscribe for shares of the Company 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, 65,710,000 share options have been granted, of which 52,000,000 share options remained unexercised as at the date of this report.