

FINANCIAL RESULTS

During the financial year under review, the Group's turnover was HK\$91,195,462 (2002: HK\$81,476,126), representing an increase of 11.9% as compared with that of last year. Profit attributable to shareholders for the year under review amounted to HK\$15,550,969 and basic earnings per share was HK2.9 cents. In the last financial year, profit attributable to shareholders was HK\$26,678,547 and basic earnings per share was HK5.93 cents.

PRODUCTS

As a result of the effectiveness and good reputation of the product together with successful advertising campaigns and high-standing brand reputation of 「龍發製藥」(Long Far), the sales of the Group's flagship product Beauty and Healthy (排毒美顏寶) recorded a growth of 6.6% in turnover as compared with last year. To expand its customer base, an associated product of Beauty and Healthy (排毒美顏寶), B&H-24's (輕盈版排毒美顏寶) with an improved formula and a new 24-tablet packaging, was introduced to the market in January 2003. Buoyed by its strong brand reputation and successful advertising and promotion campaigns, the Group has been pleased with the positive responses received from young consumers. The Group believes that this product will not only expand the customer base for Beauty and Healthy (排毒美顏寶), but also diversify its customer portfolio to the younger generation.

With its well-established reputation, the Group is committed to diversifying its product range under the brand name 「龍發製藥」(Long Far) with the aim to generate stable revenues for the Group. Leveraging on its established reputation and extensive distribution networks, the Group also successfully launched two new products, Female Essence (補氣養血寶) and Super Vitality (填精生力寶), in May and October 2002 respectively. As at 31 March 2003, four products under the brand name of 「龍發製藥」(Long Far) were available in the Hong Kong market.

Female Essence (補氣養血寶) is a product developed specifically for women to improve overall body strength, while Super Vitality (填精生力寶) helps to replenish and promote vitality and restore body functions. Both products have received acceptable responses from the market since their launch, and are expected to make a more substantial contribution to the Group's turnover in the next financial year.

GEOGRAPHICAL SEGMENTS

During the year under review, the satisfactory achievement in turnover was attributable to the successful market expansion, well-established distribution market, popularity of the Group's products under the brand name 「龍發製藥」(Long Far), and effective sales and marketing strategies for the Group's products.

Hong Kong

Hong Kong is the core market for the Group's products. The turnover in Hong Kong market accounted for approximately 74.7% of the Group's turnover for the year under review (2002: 73.7%).

The turnover in Hong Kong market for the year under review was HK\$68,106,102 (2002: HK\$60,034,296), representing an increase of approximately 13.4% as compared with that of last year.

Such growth was due to the continuous increase in sales of the Group's flagship product, Beauty and Healthy (排毒美顏寶), and the launch of three new products: Female Essence (補氣養血寶), Super Vitality (填精生力寶) and B&H-24's (輕盈版排毒美顏寶) in May 2002, October 2002 and January 2003 respectively. The increase in the turnover in Hong Kong market was attributable to the Group's successful advertising campaigns through the mass communication media.

Southeast Asia

The distribution network for Beauty and Healthy (排毒美顏寶) under the Group's brand name 「龍發製藥」(Long Far) has been extended to Southeast Asia. The turnover in these markets accounted for approximately 9.3% of the Group's turnover for the year (2002: 25.7%).

The turnover in the Southeast Asia markets for the year under review amounted to HK\$8,473,360 (2002: HK\$20,935,310), representing a decrease of 59.5% as compared with that of last year. The reason for the decrease was that the Group's overseas distributors in Southeast Asia decided to terminate their agreements with some unsatisfactory local distributors. The Group will be working closely with its overseas distributors to reorganise a better distribution network in these regions with reputable local distribution agents. The turnover started to improve in the second half of the year, and the directors of the Company (the "Directors") are confident that the sales in these regions will improve in the future.

Japan

Japan is a new market for the Group's products. The turnover in Japan market accounted for approximately 16.0% of the Group's turnover for the year under review.

The turnover in Japan market for the year under review amounted to HK\$14,616,000. It was from the satisfactory sales of the Group's flagship product, Beauty and Healthy (排毒美顏寶) in Japan since the Group introduced it in Japan through a renowned authorised distributor in March 2002.

RESEARCH AND DEVELOPMENT

During the financial year under review, the Group identified a few suitable proprietary Chinese medicinal products for research and development.

On 16 September 2002, the Group entered into two research and development agreements with Yunnan Provincial Chinese Medicine Research Institute (雲南省中醫中藥研究所), an independent third party, to develop the medicinal formulae for two new products with a total contract sum of HK\$5,850,000, and these two research and development projects were completed during the year. One of the products is developed specifically for strengthening the functions of the kidney and the liver, while the other is specifically for curing sleeping disorder, nourishing the heart and spleen, calming the nerves and promoting relaxation. Such research and development projects enable the Group to diversify its product range and to keep abreast of the research and development techniques applied in the development of the Chinese medicinal formulae, and the latest development in the field of Chinese medicines.

The Group has contracted with a university in Hong Kong to carry out the pharmacological studies on Beauty and Healthy (排毒美顏寶). The study result indicated a promising pharmacological functions.

ADVERTISING AND PROMOTION

During the year under review, the Group spent HK\$21,120,355 (2002: HK\$15,329,143) on advertising and marketing activities through placing advertisements on television, newspapers and magazines as well as sponsorship on concerts, movies and television programmes in order to strengthen the Group's leading position in the pharmaceutical industry and generate greater demand for the Group's products. The results of these advertising and marketing activities were satisfactory. In addition, the Group appointed a local pop singer as the spokesperson for its new product, B&H-24's (輕盈版排毒美顏寶). This promotional campaign was successful and the sales of B&H-24's (輕盈版排毒美顏寶) recorded a satisfactory result in the first three months since its launch in January 2003.

At the same time, after a strict selection process from 1,000 local companies, the Group was one of 138 companies chosen to receive critical acclaim with "The SuperBrands Awards" from a worldwide organisation. Fulfilling the criteria in five areas including market dominance, continuing of high level of acceptance, goodwill, customer loyalty and overall market acceptance, the award demonstrates that the Group's long-established brand name is highly recognised in the region. Besides, the Group was awarded the 2002 "至FIT排毒獎", "The Best Selling Detoxification Product Awards in 2002" and "The Best of the Best Health Category Awards in 2002" by two large groups of chain stores.

FUTURE PROSPECTS

Looking into the future, in view of the continuing weak retail market and the increasing competition in the proprietary Chinese medicinal products market, the Group anticipates that challenges will inevitably remain in the coming year. In line with the Group's prudent business strategy to sustain steady business growth, the Group will make every effort to enhance its competitive edge by boosting sales and exercising effective cost controls to bring shareholders a higher investment value.

The Group recognises that keeping up with market demand at all times is vital for future business development. Apart from actively seeking to boost the sale of existing products, the Group will launch a series of new products that will ensure the Group's sustainable development. Newly developed products include the Essence series (良方系列) which has already been launched in May 2003, the Scientific Chinese Medicine series (科學中藥系列), the Health Food series (健康食品系列), the TCM series (新古方系列), and the Vitahealth series (多維健系列), aiming to increase the Group's revenues and to provide customers with top quality products and daily needs.

Additionally, the Group is actively seeking collaboration opportunities with universities in Hong Kong for new product development. Until the end of the current financial year, the Group had already carried out some in-depth negotiations with a university in Hong Kong with regard to several Chinese medicinal formulation projects.

Currently, the Group is still actively in the process of identifying the potential investment targets in the PRC for acquisition so as to further strengthen its operations in the areas of research and development, production, marketing and distribution of natural proprietary Chinese medicines.

As disclosed in the prospectus of the Company dated 27 August 2002 (the "Prospectus"), the Group intends to develop a Chinese herbal raw materials production base in the PRC. To better control production costs and satisfy the growing needs for raw materials, the Group is now in the process of identifying a location with suitable natural conditions to establish this production base.

Also, targeting at broadening the knowledge of healthcare and providing healthcare services to the public, the Group plans to set up a healthcare promotion centre in Hong Kong.

Finally, capitalising on the Group's extensive knowledge in Chinese medicines as well as the ongoing demand in the Chinese medicinal healthcare market, together with its reputable brand name 「龍發製藥」 (Long Far), effective sales and marketing strategies, well-established local and overseas distribution networks and research and development capabilities, the Directors are confident that the Group is already in place to maintain rapid growth and ensure fruitful returns for its shareholders.

EMPLOYEES

As at 31 March 2003, the Group had 50 employees (2002: 39 employees).

The remuneration policy and package for the Group's employees are reviewed and approved by the Board of Directors on a periodical basis. The Group remunerates its employees based on industry practice and performance of individual employees. The Group also offers discretionary bonuses to and makes available a share option scheme for its employees.

USE OF PROCEEDS

On 5 September 2002, the Company issued a total of 150,000,000 shares at an issue price of HK\$0.34 per share pursuant to the Placing and Public Offer (as defined in the Prospectus). The net proceeds therefrom after deducting related expenses were HK\$38,751,000. Up until 31 March 2003, the Group used HK\$6,183,000 from that net proceeds on research and development of new products. The remaining net proceeds, which has not been used, were deposited in licensed banks in Hong Kong. The use of proceeds was in line with the disclosure made in the Prospectus.

LIQUIDITY AND FINANCIAL RESOURCES

The Group has consistently maintained sufficient working capital. As at 31 March 2003, the Group had current assets of HK\$90,421,854 (2002: HK\$62,031,725) and cash and bank balances of HK\$58,332,209 (2002: HK\$11,322,812). The Group's current liabilities as at 31 March 2003 was HK\$7,581,041 (2002: HK\$9,704,923).

As at 31 March 2003, shareholders' funds was HK\$85,239,798 (2002: HK\$54,768,485). The Group had no outstanding borrowings as at 31 March 2003 (2002: HK\$1,660,902). The gearing ratio, being the ratio of total liabilities to shareholders' funds was 8.9% (2002: 19.8%).

CONTINGENT LIABILITIES

The Group had 459,030 (2002: 316,852) coupons issued to customers outstanding at 31 March 2003. Coupon holders are entitled to purchase the Beauty and Healthy (排毒美顏寶) at a discount of HK\$30 per bottle. The redemption value of these outstanding coupons amounted to HK\$13,770,900 (2002: HK\$9,505,560). The monthly percentage of number of coupons redeemed over coupons issued for the year ended 31 March 2003 ranged from 4% to 16%.

EXCHANGE RISK

The Directors are of the opinion that the impact of foreign exchange exposure of the Group is minimal because its sales and purchases are mainly conducted in Hong Kong dollars. The Group does not engage in any hedging contracts.

CHARGE ON GROUP'S ASSETS

As at 31 March 2003, the Group did not have any charges on any of the Group's assets.