

## CHAIRMAN'S STATEMENT

### BUSINESS AND FINANCIAL REVIEW

The Group's turnover for the year was HK\$992,961,000 (2002: HK\$715,717,000) which represented an increase of approximately 38.7% as compared with the corresponding year of 2002. The net profit from ordinary activities attributable to shareholders for the Year amounted to HK\$175,040,000 which was increased by approximately 29.9% as compared with last year. The basic earnings per share for the Year was approximately HK34.4 cents (2002: HK33.5 cents).

During the year, the selling and distribution costs amounted to HK\$110,856,000 (2002: HK\$71,150,000), which was approximately 11.2% of the Group's total turnover and was increased by about 55.8% when compared with last year. Administrative expenses were HK\$42,714,000 (2002: HK\$28,438,000), which was approximately 4.3% of the Group's total turnover.

Financial growth is mainly attributable to acquisitions, prospective development of new drugs and the natural growth of our conventional operations.

#### **Impressive Overall Natural Growth**

The Group's product range is of 270 kinds of drugs and the conventional ones recorded a growth of 38.6%, including:

#### ***Anti-viral drugs***

Sales of anti-viral drugs during the year were approximately HK\$288,727,000, accounting for 29.1% of the total turnover of the Group and representing approximately 27.0% 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 of sales of 16 types of drugs with Phenylpropanolamine (PPA), which are principally used for the treatment of common cold, cough and influenza.

On 16 November 2000, 中國國家藥品監督管理局 enforced a ban of sales of 16 types of drugs containing PPA, which includes some products of the main competitors of the Group. The Board believes that the Group has seized this golden opportunity to expand the market share of our anti-viral drugs without PPA, such as Jin Gang Cold.

## CHAIRMAN'S STATEMENT

### BUSINESS AND FINANCIAL REVIEW (Continued)

#### Impressive Overall Natural Growth (Continued)

##### *Chinese patent medicines*

Turnover of Chinese patent medicines increased from last year's HK\$113,320,000 to approximately HK\$150,173,000 for the current year, which represented an increase of approximately 32.5%. 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.

##### *Anti-hypotensive drugs*

During the year, the sales of “復方降壓膠囊” amounted to approximately HK\$85,857,000, accounting for 8.6% of the total turnover of the Group. The Group believes that “復方降壓膠囊” will become one of the major products of the Group in the future.

#### Operation Profits and Improvement

Due to the short supply in antibiotic and anti-inflammatory drugs, the Group recorded a good sale during the outbreak of SARS, especially Jin Gang Gold and 雙黃蓮 and 板藍根顆粒.

The Group's operation gross profit was 37.4%.

During the year, the Group greatly expanded its sales network to cover a total of 2,000 hospitals and 26,000 drug stores.

#### Major Financing and Capital Market Activities

In order to enhance the Group's investment capability and liquidity without amortizing its equity interests, the Group entered into a Loan Agreement on 7 May 2003 and acquired an unsecured syndicate loan of US\$31 million provided by a syndicate of international banks for a term of 3 years. The loan will mainly be applied in enterprises acquisitions and development of new drugs and the remaining will be used in the construction of the Group's Shanghai headquarters and as working capital.

In addition, on 21 May 2003, the Company entered into a Loan Agreement with a bank for a 3-year unsecured loan facility of US\$3 million which is to be used to finance the Group's general funding requirements.

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### DIVIDENDS

The Board recommended the payment of a final dividend of HK8 cents per share of HK\$0.10 (which shall be HK2 cents per subdivided share of HK\$0.025 after the subdivision of shares of the Company on 28 October 2003) for the year (2002: HK4.5 cents per share of HK\$0.10), payable to the shareholders of the Company whose names appear on the Register of Members of the Company on Thursday, 18 December 2003. Subject to the approval of the Company's shareholders at the Company's forthcoming Annual General Meeting to be held on Thursday, 18 December 2003, the said proposed final dividend will be paid to the shareholders of the Company on or about 31 December 2003.

### USE OF PROCEEDS FROM ISSUE OF SHARES

On 23 August 2000, the Company has issued a total of 80,000,000 new shares at an issue price of HK\$1.00 each pursuant to the New Issue and Placing (as defined in the Prospectus dated 11 August 2000). The net proceeds therefrom after deducting expenses, were amounted to approximately HK\$67 million. As at 30 June 2003, a substantial part of the net proceeds had been utilized in line with the terms stipulated in the Company's Prospectus, as follows:

- HK\$13 million for the establishment of the new production plant in the PRC;
- HK\$17 million for the purchase and installation of related production equipment and facilities in the new production plant in the PRC;
- HK\$1.5 million for research and development of new pharmaceutical formulae and improvement of the Group's existing production technology, production rate and product quality; and
- HK\$13 million for expanding the distribution and sales network of the Group.

To the extent that the proceeds from listing are not applied, they are currently placed at bank as short term deposits.

### FUTURE PROSPECTS

The pharmaceutical industry of China grows at a rate of two-digits per year while continued industry integration, mergers and acquisitions bring forth enormous room of development for aggressive enterprises. Currently, the leading enterprises and independent factories have only shared 3% and 1% of the market share. Integration, mergers and acquisitions result in the market share and resources pooled gradually under the control of outstanding pharmaceutical groups. Hence, these outstanding pharmaceutical groups have the necessary scale strength to increase their control of the market and its resources in terms of virtuous development.

## CHAIRMAN'S STATEMENT

### FUTURE PROSPECTS (Continued)

The Group endeavors to become the listed company with the most powerful acquisition and integration ability in the medical sector of China. The Group will continue its acquisition in the coming years, and will upgrade the scale and quality of its acquisition step by step according to the capability of the companies, with particular efforts being placed in the rapid integration in the field of household OTC products, cardiovascular neuropathology products, raw drugs, medicine distribution and retail, to establish a dominant position.

The Group will further consolidate its sales and marketing ability through networking and direct control of more drugs sales terminals. In addition to the existing terminals under medical representatives, the Group will establish national direct distribution and retail terminals in a short time with an aim to increase the market exposure and coverage of the Group's products and to lay a foundation for future domestic and overseas agency co-operations. The Group will conduct an integrated advertisement, including TV, outdoors media, newspapers and event-oriented marketing activity, in major cities with strong drug consuming demand.

The Group will increase its investment in new drugs purchase and development to ensure continuous launch of new drugs in each year and to maintain its growth and competitiveness. With the support of established effective acquisition operation, new drug management, marketing platform and affluent finance facilities, and with the joint efforts of the whole group from top to bottom, the Group is confident in giving play to its superiority, in proceeding with its strategy of "acquisition complemented with new drugs" and in developing into a leading integrated medicine group company in China.

### APPRECIATION

I would like to take this opportunity to express my appreciation to the members of the board of the directors for their leadership and to all the staff members for their commitment. In particular, I would like to express my sincere thanks for the continuous support of the shareholders towards the Company. We rely on the support of our shareholders to pursue our growth and development strategy and to assure you of the Group's determination to strive its best to achieve greater success in the future and add value for our shareholders.

**Cai Chong Zhen**

*Chairman*

Hong Kong, 27 October 2003