

The SARS outbreak in 2003 hit the global market especially southern part of China, Hong Kong, Beijing and Taiwan. Business activities were almost stagnant last April. Traveling was withheld and the Group could only rely on electronic media, phone and correspondence for communications with suppliers and customers which posed as an obstacle to business development. Despite the outbreak, turnover in the local market remained steady comparing with the previous years. However, with a tightened control over advertising and promotion spending and other expenditures, there was an improvement of net margin. The Group would expect a decrease in net margin in the year of 2004 due to substantial increase in advertising and promotional expenditure.

Seeing the SARS outbreak creating difficulty for business development, the Group has focused much to control cost. Net margin had been improved due to tightening of advertising expenditures and other expenses.

Increase in sales in Southeast Asia was close to two folds that were mainly due to the recovery of the Philippines market and reopening of the Malaysia and Thailand market where product license was granted in the third and fourth quarter respectively. Since the product came back to the markets after years, initial ex-Group sales was high, as expected to maintain comprehensive distribution geographically in those markets. The Group will continue to work closely with the appointed distributors to maintain sales and achieve growth eventually.

MANAGEMENT DISCUSSION AND ANALYSIS

The Group's audited consolidated net profit for the year amounted to a second best record profit of HK\$33,227,000, leaped by HK\$15,945,000 (approximately 92% increment) from previous year's HK\$17,282,000.

For 2003, HK\$2,551,000 revaluation surplus on properties other than investment properties was recorded. The amount had contributed to the geographical segment results of "Hong Kong" from previous year's profit of HK\$9,953,000 to this year's HK\$18,085,000.

On the other hand, the unrealized holding gain recorded on investment in securities for 2003 provided an increment of HK\$6,501,000 profit (HK\$4,726,000 profit for 2003 against HK\$1,775,000 loss for 2002) amongst the geographic segments of "Southeast Asia", "United Kingdom", "Europe (excluding United Kingdom)" and "Others".

Effort spent in controlling cost also helped to improve margin, advertising and promotion expenditure were tightened as well as other expenses. A special point to note is the decrease in the amount of "Raw materials and consumables used" from 2002's HK\$16,892,000 to 2003's HK\$11,577,000.

Manufacturing and sales of Hoe Hin Brand of products

During the year, the Group continued to look for expansion. The markets of Malaysia and Thailand were re-opened in the third and fourth quarter respectively.

The turnover of geographical segment of "PRC" decreased from the previous year's HK\$29,572,000 to this year's HK\$20,126,000. The reason is that the extra sales delivered in 2002 (to ensure the continual supply in the PRC while going through product import-licence renewal procedures) were not repeated in 2003.

In contrast, the Philippines market produced a remarkable recovery for 2003. Sales had been doubled.

Sales for the local market had been stable notwithstanding the SARS outbreak last year. During the months from March to June 2003, over 470,000 bottles of our products had been donated to raise funds for the SARS victims.

Property investment

The Group had benefited from the improving local property market during the 3rd and 4th quarters. For 2003, HK\$2,551,000 revaluation surplus on properties other than investment properties were recorded in contrast to the revaluation deficit of HK\$5,613,000 recorded in 2002. In addition, the Group had recovered a sum of HK\$1,400,000 rent plus legal costs from a liquidated former local tenant during the year.

Turning to the Group's investment properties located in the United Kingdom, certain upward rental reviews previously implemented accounted for the increase in segment revenue from previous year's HK\$6,392,000 to this year's HK\$7,814,000. During 2003, the United Kingdom property values continued to move up. At the year end date, a revaluation surplus of HK\$10,664,950 had been credited directly to "Revaluation Reserve for Investment Properties" in the Balance Sheet for these United Kingdom investment properties.

In view of the above positive changes, the segment results for this year increased remarkably from previous year's HK\$5,644,000 to this year's HK\$10,053,000.

Treasury investment

The segment revenue increased from the previous year's HK\$2,907,000 to this year's HK\$4,180,000. Segment results increased even more from the previous year's HK\$5,417,000 to this year's HK\$12,864,000.

The increase in revenue from treasury investment represents increased activities in treasury management during the year.

The even greater increase in segment results is due to the increase in interest income plus the substantial unrealised holding gain on the Group's investment in securities.

Other business activities

It represents the sales of other healthcare goods. Segment revenue and results were not material comparing to other business segments.

FINANCIAL RESOURCES AND TREASURY POLICIES

The Group continues to adhere to prudent treasury policies.

Gearing ratio (Non-current liabilities divided by total Shareholders funds) as at the balance date was 20.8% and 2.0% for 2003 and 2002 respectively. Current ratio (Current assets divided by Current liabilities) as at the balance sheet date was 17.9 and 2.8 for 2003 and 2002 respectively. The changes in gearing ratio and current ratio are due to the completion of renewal of the Group's British Pound bank loan on a floating rate basis for a term of 3 years during 2003. This loan was initially borrowed to finance the acquisition of the two investment properties located in the United Kingdom. The loan is secured by a first legal charge over the two investment properties located in the United Kingdom and a corporate guarantee given by the Company. An assignment of rental monies is also in place.

Exposure to fluctuation in exchange rate of the British Pound loan is countered by the valuation of the properties itself and the Group's holding in British Pound deposits.

As at the year end date and throughout the year, the Group maintained sufficient cash and marketable securities on hand to meet its liabilities, commitments and working capital demand. At 31st December, 2003, the Group had total bank balances and cash of HK\$116 million of which HK\$11 million were held as Hong Kong dollars; HK\$87 million were held as US dollars; HK\$12 million were held as British Pounds; HK\$5 million were held as Japanese Yen and HK\$1 million held as Euro and other foreign currencies.

OUTLOOK

We are working towards opening of other new market such as Japan. The time required to process registration of our products in such countries varies. The Group expects that our existing GMP certified production plant plus our ISO9001 accredited quality management system may facilitate our product registration process for new markets. In the meantime, we expect steady business in the manufacturing and sales of Hoe Hin Brand of products.

The Group is also looking into the possibility of building a factory in the Pearl River Delta in order to provide flexibility to manufacturing and sales strategy.

We are cautiously optimistic about the global investment environment and will consider taking up such investment when the opportunity arise.

STAFF

The Group employed 95 staff as at 31st December, 2003. Salaries are adjusted annually on a performance related basis and fringe benefits such as tuition subsidies and medical insurance are offered to most employees. The Company has a share option scheme for the benefit of its directors and eligible employees of the Group. No option has been granted under the Scheme since its adoption in 2002.

By Order of the Board

GAN Wee Sean

Chairman

Hong Kong, 20 April 2004