

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **BUSINESS REVIEW**

The Group's unaudited consolidated net profit for the period amounted to HK\$12,242,000, bettered by HK\$5,915,000 as compared with last period (2001: HK\$6,327,000). The total turnover for the current period under review is HK\$41,652,000, which is lower than last period by HK\$3,658,000. During the period, the Group recorded a substantial unrealised exchange gain of HK\$4,421,000 due to the appreciation of British Pounds and Euro currencies as at the interim date; in contrary to the unrealised exchange loss suffered last period at HK\$4,547,000. Meanwhile, the declining securities markets extended the unrealised loss in investment securities from last year's HK\$1,368,000 to the current period's HK\$2,459,000. After all, effective costs control has reduced other operating expenses from last period's HK\$13,926,000 to the current period's HK\$11,135,000.

### **Manufacturing and sales of Hoe Hin Brand of products**

About 90% of the Group's overall turnover is generated by this segment. Local sales dropped as compared with last period. On the other hand, increment in sales to the PRC market even out the interim setback of the local market. Such surge in sales to PRC is not expected to repeat in the second half of the year.

Exports to Singapore was satisfactory while sales to other South East Asia countries were affected by the strong Hong Kong dollars comparative to their respective local currencies.

Sales to North America were reduced because of the reduced export to the USA during the period due to packing modifications. It is expected that such modifications will be largely completed before the end of the year and the effect on the sales for the second half of the year is unlikely to be material.

As a whole, the estimated annual sales for this segment is expected to reach last year's level.

**Property investment**

During the period, the Group has not disposed any investment properties and therefore last period's HK\$804,000 gain on disposal of investment property was not repeated in the current period. As a result, both the turnover and segment result has dropped. In spite of that, rental income earned from the Group's UK properties continues to provide a steady stream of turnover for this segment.

**Treasury investment**

Interest income dropped as a consequence of declining deposit rates.

On the contrary, the segment results improved remarkably by HK\$7,173,000 because of the great unrealised exchange gain generated from re-translating bank deposits and treasury assets denominated in British Pounds and Euro as at the interim date. These two currencies have appreciated substantially in the current period. As at 30th June, 2002, the net foreign currency treasury assets, denominated in British Pounds and Euro were approximately HK\$51,443,000; net treasury assets denominated in other foreign currencies, excluding United States dollars, were approximately HK\$7,329,000.

**Other principal activities**

It represents the sales of other healthcare goods. The segment losses greatly reduced from HK\$222,000 in 2001 to this period's HK\$4,000 because the final write off of finished goods on hand has been done last year.

**FINANCIAL RESOURCES AND TREASURY POLICIES**

The Group continues to adhere to prudent treasury policies. Gearing ratio as at the interim date is 0% because the amount of secured bank loans of HK\$47,826,000 were classified as current liabilities. Gearing ratio as at 31st December, 2001 was 19.4%. These secured bank loans, which are in British Pounds, were initially borrowed to finance the Group's two UK properties in a matching currency. They are due to repay in June 2003. The Group is looking forward to renew these loans for another three years on a floating rate basis.

Current ratio was 38.0 and 13.1 as at the interim date and 31st December, 2001 respectively. The increase is due to the falling due of the above mentioned long term secured bank loans. In spite of this, the Group holds sufficient cash and marketable securities on hand to meet its liabilities, commitments and working capital needs. As at 30th June, 2002, the Group had bank balances of HK\$7,166,000 and pledged bank deposits of HK\$68,921,000; net current assets was HK\$94,228,000.