

## **BUSINESS REVIEW AND PROSPECTS**

Hong Kong was badly hit by the SARS epidemic early last year which result to the slump in the economy almost instantly. The impact of SARS on the economy had forced the Mainland China and the HKSAR Governments to launch various policies to stimulate the local economy by implementing the relaxation of the PRC individuals' travel to Hong Kong from selected cities; the Mainland and Hong Kong Closer Economic Partnership Arrangement, etc.

The Hong Kong economy has rebounded at a record pace since the SARS outbreak. The management would like to take this opportunity to diversify its business by seeking for favourable and potential investment to suit the current market trend.

The influence of the environment and the development of professional's knowledge in relation to health in educational, research and practice/work-based learning, have made us aware of the importance of healthy living. Recent statistics have indicated the growing demand on health products and services thus our focus in the medical and healthcare industry is essential.

### **Leather Business**

During the year under review, we maintained our traditional business in leather trading, leatherware manufacturing and distribution with great competition in the market. However, the Group is in the process of developing new product mix, featuring new leather technology and new market segment to strengthen competitiveness.

The Group has more than 50 years of rich experience and has established esteemed relationships with many suppliers. The Group has developed the ability to source over 1,500 different kinds of medium to high quality leather from different regions at competitive prices through bulk purchases suitable for the manufacturing of footwear, gloves, handbags and furniture. The Group is also supplied to Hong Kong leatherware manufacturers and traders as well as export to foreign countries.

In view of the national income which has been improved gradually as well as the demand for the better living standard in the PRC, it will undoubtedly drive up the demand for leatherware. In the years to come, the Group will eye on the great PRC market, which presents tremendous development potential. Based on the strong relationships and the bonding with the Western suppliers, Dah Hwa can easily implement new varieties of leather to meet the market demand in China and to provide such lucrative market with quality leather merchandise. The Group is confident that it will have a steady growth in the PRC market.

**Healthcare Business**

Prior to the year end, the Group has diversified its business into healthcare and medical sectors in the PRC, Canada and North America by acquiring the entire issued shares of China Healthcare Limited (the "China Healthcare"). At the same time, the Group also acquired 7% equity interest of Kenitic Innovation Limited (the "Kenitic"), and increased to 51% on April 2004 thus Kenitic becomes a subsidiary of the Group.

*Hifu Centre*

China Healthcare owns 100% equity interest in China Hifu Tumor Treatment & Medical Co. Ltd. (the "China Hifu"). The business of China Hifu is to deploy "Focused Ultrasound Tumor Therapeutic System" (the "Hifu System") for use in the tumor therapy clinical centre(s) (the "Hifu Centre") in the PRC by partnership arrangement with local hospital. China Hifu through its wholly-owned foreign enterprise, Chongqing Haijian Medical Technology Co., Ltd. leases the Hifu System to the relevant Hifu Centre(s) and in return, receiving leasing fees and shares the net profit to be made by the relevant Hifu Centre(s) according to the pre-determined proportion. In December 2002, the first Hifu Centre was jointly set up by China Hifu and Haikou People's Hospital in Haikou City, Hainan Province, the PRC and commenced operation. It intends to set up another 19 Hifu Centres in other major cities in the PRC in five years' time.

The Hifu technology has been developed for over 10 years and has received several awards in China. Currently, there are 17 hospitals in the PRC using the Hifu System to treat patients with oncological diseases. There are currently approximately 1.6 million cancer/tumor related patients in the PRC, of which 200,000 patients could be treated by the Hifu Systems. It is estimated that each Hifu System has the capacity to treat 500 patients a year, and it would require a total of 400 Hifu Systems to meet the total market demand in the PRC. In view of the tremendous market demand and stable cash inflow that could be generated from the leasing of the Hifu Systems to the Hifu Centres with profit sharing arrangement, it is expected to make significant contribution to the Group results in the future.

*Sanjiu TCM Medical Centre*

In addition, China Healthcare indirectly holds 20% equity interest in 999 E-Tech Inc. (the "999 E-Tech"). 999 E-Tech operates the first Sanjiu TCM Medical Centre (the "TCM Centre") in Canada and is the sole distributor of the 999 Single Chinese Herbal Tea and other products of Sanjiu Enterprise Group in Canada. 999 E-Tech also engages in the franchising business of TCM Centres in Canada and North America recently.

The TCM Centre in North York of Ontario, Canada is owned and operated by 999 E-Tech; the TCM Centre in Scarborough is operated by franchisee. All TCM Centres are clinics incorporating Western medical doctors, Chinese medical doctors, family doctors, physiotherapy, rehab centre, nutritionists and chiropractors which are well equipped with modern management. 999 E-Tech has successfully acquired the recognition of Chinese physician and medicine in Canada and is recognized and covered under the health protection system of insurance companies. The Chinese medicine is becoming increasingly popular and the future development of 999 E-Tech in North America is foreseeable.

#### *Kenitic Therapy Centre*

Kenitic Innovation Limited is engaged to promote the franchise of Electromagnetic Naturopathic Therapy Centres (the "Kenitic Therapy Centre") which provide natural health products and healthcare services to the communities in Hong Kong. Kenitic has developed a unique and distinctive system (the "Kenitic System") for the development and operation of the Kenitic Therapy Centre featuring proprietary Kenitic Electromagnetic Therapy Instruments (the "Instrument(s)") and eH+ Health products. Currently, Kenitic has accomplished 8 franchises and 9 showcase distributors in Hong Kong.

The Instrument is classified as a household medical healing instrument which is also the first instrument in the world with the combination of four methodologies. The instrument is an effective healing machine that comes with electrotherapy, magnetotherapy, infrared therapy and heat therapy. These natural therapies are good for relieve of illnesses such as arthritis, fibromyalgia, rheumatism, sciatica and other chronic diseases. eH+ Health products are all natural herbal health products with no side effects catered for several health conditions.

Kenitic intends to engage franchisees to open a total of around 30 Kenitic Therapy Centres and install around 100 showcases in gyms, clinics and beauty salons in Hong Kong in two years' time and plan to expand its market coverage to the PRC, Taiwan and the South East Asia.

#### **LIQUIDITY AND FINANCIAL ANALYSIS**

As at Balance Sheet date, the Group's financial position with cash on hand recorded at HK\$2.9 million. Total bank borrowings amounted to HK\$31 million as at 31 March 2004, with gearing ratio (as calculated by total interest-bearing borrowings dividing by net asset value) recorded at a 0.32 times. Backed by this healthy financial position, the Group is ready to set off and grasp the opportunities ahead.

**EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES**

Whilst the sales of the Group is mainly denominated in Hong Kong dollars, the purchases and the expenditure were mainly in Hong Kong dollars, U.S. dollars, RMB and Euro. As the exchange rates of above currencies against Hong Kong dollars are relatively stable, the Directors consider that the Group's exposure to exchange fluctuations is relatively low and therefore has not engaged in any hedging activity. Bank borrowings are denominated in Hong Kong dollars.

**CONTINGENT LIABILITIES**

At the balance sheet date, there were guarantees given to banks by the Company in respect of banking facilities extended to certain wholly owned subsidiaries amounting to HK\$104.6 million (2003: HK\$104.6 million), which were utilized by subsidiaries to the extent of HK\$31.3 million (2003: HK\$43.9 million)

**HUMAN RESOURCES**

As at 31 March 2004, the Group employed about 31 full-time staff in Hong Kong, 252 in the PRC. The Group remunerates employees based on their performance, experience and prevailing industry practices. It also offers benefits such as trainings to staff to enhance their sense of loyalty.

**POST BALANCE SHEET EVENTS**

In June 2004, the Group disposed 7 commercial properties and a car parking lot to D. H. International Ltd., a private company wholly owned by a trust of which Mr. Lee Sam Yuen, John, a director of the Company, is one of the beneficiaries, for a total consideration of HK\$30,370,000. In order to minimize any unnecessary disruption to the leather business of the Group, certain such commercial properties have been leased back for a period of three years. The said consideration, satisfied by payment of cash, net of the mortgage repayment to banks, resulted in net proceeds of HK\$18,370,000, of which HK\$17,600,000 is intended for repayment of an unsecured loan from D. H. International Ltd., while the remaining HK\$770,000 is intended for general operating capital.

**PROSPECTS**

Under the economic recovery and following the implementation of the CEPA, all sectors stand to benefit from immense business opportunities in Hong Kong. The newly joined management members have excellent achievements with their extensive and professional experience in their specific fields. Besides, they all have solid business associations and networks in Mainland China and the Greater China Region. Therefore the management strongly believes that these professionals will assist the Group in business diversification. Meanwhile, the Group will maintain its prudent approach in identifying and evaluation of feasible investments for diversification. The ultimate aim is to enhance growth and achieve favourable return to the Shareholders.