



## MANAGEMENT DISCUSSION AND ANALYSIS

### Business Review and Prospects

For the six months ended 30 June 2004, the Group's turnover was HK\$23,740,000 (for the six months ended 30 June 2003: HK\$39,039,000), representing a decrease of 39% as compared with the corresponding period of last year.

During the period under review, the sales of existing tonic drinks products (including Houtou Mushroom tonic drink and Chrysanthemum tonic drink) continued to drop and had recorded a decrease of 31% or HK\$8,957,000 as compared with the same period last year. The sales of other health products (including Duo Bu Gai and Changing Capsule) and health drink (mainly tonic milk drink) also recorded a drop of 71% (or HK\$4,430,000) and 35% (or HK\$1,026,000) respectively as compared with the corresponding period of last year. The main reason for these decreases was due to the fact that all the existing products had experienced the declining stage of their respective life cycle.

Since there was a change in product mix and the sales of higher profit margin products had been dropped, the overall gross profit margin was decreased from 58% for the six months ended 30 June 2003 to 52% for the period under review.

The Group reported a consolidated loss attributable to shareholders of approximately HK\$23,441,000 as compared with a loss of HK\$16,107,000 for the same period last year. The increase in loss of HK\$7,334,000 for the first six months of 2004 as compared with same period in 2003 was mainly attributed to the increase in amortisation of intangible assets by HK\$7,206,000 during the same period of comparison. The amortisation of intangible assets has no direct cash impact on the Group. The Group managed to contain the continuous drop in turnover by reducing operating cost such that the operating loss (before the effect of amortisation of intangible assets) remained at about the same level as that in the comparable period of last year.

The Group is well aware of growing opportunities in China for the market of drug material for drug manufacturing, and, diseases diagnosis, the Group has moved into the testing market on autoimmune diseases by acquiring a worldwide development right of a technology "QuProbe" in genomic research and diagnostic for research and clinical analysis. The Group planned to seek for scientific and marketing views to expand the application areas of the QuProbe technology.

The Group has been actively seeking for partners in China for developing health care and pharmaceutical products in order to capture the enormous market there.

As a result of effective cost control measures implemented by the Group for the first half of the year, the total operating expenses (including distribution expenses and administrative expenses) were reduced by approximately HK\$2,401,000 as compared with the corresponding period of last year.

During the period, the Group also succeeded in raising approximately HK\$15 million (after expenses) by means of Open Offer.



With the huge opportunity in diagnostic and pharmaceutical market in China, the Group will focus on a few crucial projects which offer great promises in the market in China. The Group will continue to streamline the operation by cutting cost and down-sizing the unprofitable business and will actively seeking for collaboration opportunities with pharmaceutical companies for diversifying our products and market. The Group will also be open to other business opportunities which would generate revenue and profits to optimize the Group's resources.

### **Interim Dividend**

The Directors have resolved not to recommend the payment of an interim dividend for the six months ended 30 June 2004 (for the six months ended 30 June 2003: nil).

### **Financial Resources and Liquidity**

At 30 June 2004, the Group's total assets amounted to HK\$390,305,000, representing a decrease of HK\$23,309,000 or 5.6% as compared with that of last financial year end date.

The Group's cash and bank balances at 30 June 2004 were HK\$51,270,000 (At 31 December 2003: HK\$43,670,000), of which 38% were denominated in Hong Kong Dollars and 62% in Renminbi.

At 30 June 2004, the Group had outstanding short-term bank loans of approximately HK\$40,260,000 in total (At 31 December 2003: HK\$49,972,000), all of which were in Renminbi and were granted by local banks in the PRC. The interest rates charged by the banks ranged from 5.54% to 5.84% (for the six months ended 30 June 2003: 6.38% to 7.61%) per annum. These bank loans were pledged by buildings of the Group with a net book value of approximately HK\$79,238,000 (At 31 December 2003: HK\$83,633,000). At 30 June 2004, the Group had outstanding promissory notes, convertible notes and convertible debentures of approximately HK\$80,186,000 in total (At 31 December 2003: HK\$ 88,186,000). The interest rates ranged from 1.5% to 3.5% per annum (for the six months ended 30 June 2003: same). The Group's gearing ratio, measured by borrowings as a percentage of shareholders equities, was decreased from 97.7% at 31 December 2003 to 89.6% at 30 June 2004. The improvement in gearing ratio was mainly attributed to the repayment of short-term bank loans of approximately HK\$9.7 million during the period under review.

At 30 June 2004, the Group had current assets of approximately HK\$113,157,000 (At 31 December 2003: HK\$115,620,000) and current liabilities of approximately HK\$146,923,000 (At 31 December 2003: HK\$160,921,000). The current ratio was increased from 0.72 at 31 December 2003 to 0.77 at 30 June 2004. Both the cash position and liquidity position of the Group improved during the period upon the completion of Open Offer in June 2004. The Group continues to gear towards the goal of improving the Group's financial position and funding capabilities for new investment opportunities.

Since the Group's principal activities are in the PRC and the financial resources available, including cash on hand and bank borrowings, are mainly in Renminbi and Hong Kong Dollars, the exposure to exchange fluctuation is relatively low.



### Employees and Remuneration Policy

At 30 June 2004, the Group had a total number of 360 full time employees of which 15 are based in Hong Kong and 345 are based in the PRC.

The employees are remunerated based on their job performance and experience and their remuneration package will be reviewed periodically by the management. In addition to basic salaries, the Group provides other staff benefits which include medical insurances, retirement scheme contributions and on-the-job training programmes.

The Company has adopted a new share option scheme on 17 May 2002 under which the directors of the Company are authorized to grant share options to eligible persons as an incentive. Pursuant to an ordinary resolution passed at a special general meeting of the Company on 24 August 2004, the mandate limit of the share option scheme was refreshed.

### DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND EQUITY DERIVATIVES

At 30 June 2004, the interests or short positions of the directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO") which had been notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions of which they are taken or deemed to have under such provisions of the SFO) or which were required to be entered in the register referred to therein pursuant to section 352 of the SFO or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies ("Model Code") were as follows:

#### The Company

#### *Long positions or short positions in the underlying shares of the Company*

Name of director	Nature of interests	Number of shares held		Approximate percentage of interest in the Company
		Long position	Short position	
Ms. Lo	Corporate (Note 1)	130,004,818	–	47.05%

#### Note:

- The 130,004,818 shares are held by Vision Ocean, a company incorporated in the British Virgin Islands, with limited liability and beneficially owned by Ms. Lo.