

- (c) On 4 October 2004, the Company entered into the Subscription Agreement with Brave Knight Investments Limited (the “Subscriber”), which is wholly and beneficially owned by Ms. Yao Chen Yu Ming in relation to the subscription by the Subscriber of a convertible note (the “Note”) with an aggregate principal amount of HK\$8,150,000. The Note bears interest at the rate of the prime rate (as quoted by the Hong Kong and Shanghai Banking Corporation Limited from time to time) plus 3% per annum and is due on the date falling two calendar years after the date of issue of the Note. The Note is convertible into Shares at the conversion price of HK\$0.05 per Share. The proceeds of the issue of the Note was applied to repay the principal amount and the accrued interest of the HK\$7,000,000 convertible note (the “QHIL Convertible Note”) issued by the Company to Quality Healthcare Investment Limited on 4 October 2002 and the related expenses for the issue of the Note. Further details of the Subscription Agreement and the Note are set out in the announcement of the Company dated 6 October 2004.
- (d) On 18 November 2004, the Directors proposed that every 10 Shares of HK\$0.01 each in the issued and unissued share capital of the Company be consolidated into one consolidated Share of HK\$0.10 each (“Consolidated Shares”) in the issued and unissued share capital of the Company. It was also proposed that the Consolidated Shares be traded in board lots of 10,000. The consolidation of Shares and change of board lot size were approved by shareholders at the special general meeting of the Company held on 20 December 2004. The authorized share capital of the Company as at the date of this interim report is HK\$100,000,000 divided into 1,000,000,000 Consolidated Shares of HK\$0.10, of which 544,232,517 Consolidated Shares have been issued, fully paid or credited as fully paid. Further details of the consolidation of Shares are set out in the circular of the Company dated 1 December 2004 and the announcements dated 18 November 2004 and 21 December 2004.
- (e) On 15 December 2004, the Company issued a circular to shareholders convening a special general meeting of the Company on 31 December 2004 at which resolutions will be proposed to refresh the general mandate granted to the Directors at the annual general meeting of the Company held on 20 August 2004 to allot and issue Shares up to 20% of the issued share capital of the Company. Subject to the passing of the necessary resolutions, the Company would be allowed under the refreshed general mandate to allot, issue and otherwise deal with up to 108,846,503 Consolidated Shares, being 20% of the 544,232,517 Consolidated Shares in issue.

MANAGEMENT DISCUSSION AND ANALYSIS

Operating results

The Group’s unaudited consolidated turnover for the six months ended 30 September 2004 was HK\$7,402,000, representing an approximately 17% decrease from HK\$8,934,000 for corresponding period in the previous year. Loss attributable to shareholders for the period ended 30 September 2004 amounted to HK\$2,229,000, an increase of approximately 3% from HK\$2,162,000 for corresponding six months period in the previous year.

Business review

Turnover of the distribution of medical equipment business of the Group recorded an approximately 29% decrease from the corresponding period in the previous year. The decrease was mainly due to the keen competition in respect of the medical equipment business from the Group’s competitors, including well-known international manufacturers which produce medical equipment that are often sold at competitive prices.

However, the turnover of the distribution of medicinal and winery products business of the Group had increased by 50% from the corresponding period in the previous year (HK\$1,994,000 at September 2004 and HK\$1,330,000 at September 2003). The increase was mainly due to the successful launch of Confucius Family Spirits to the market.

In conclusion, the Group's performance could maintain in a satisfactory level even in such an adverse environment. We believe that the Group's performance will be able to benefit from the growth of the overall economic environment. We shall continue to improve products quality and distribution network, and develop a flexible approach in aligning the cost structure with revenue.

Prospects

After the change of new controlling shareholder, a detailed review of the financial position and operations of the Group will be conducted so as to formulate the long-term business plans and strategy of the Group, which may include, by building on the medical expertise, distribution networks and customer base currently possessed by the Group, further development of the medical business of the Group by the establishment of internet related medical business. The Company will also explore other business opportunities which are in line with or will provide synergy to the principal business activities of the Group and consider whether any asset disposal, asset acquisition, fixed assets redeployment, business rationalization, business divestment and/or business diversification will be appropriate in order to enhance the long-term growth potential of the Group.

Financial review

Liquidity and financial resources

As at 30 September 2004, the Group's cash and bank balances were HK\$6,375,000 and after deducting the total borrowings of approximately HK\$7,604,000 (including the QHIL Convertible Note) as at the end of the financial period, net borrowing was HK\$1,229,000 (31 March 2004: cash reserve was HK\$1,084,000). Accordingly, the gearing ratios, defined as net borrowings to equity, as at 30 September 2004 was 11% and at 31 March 2004 was zero. As at 30 September 2004, the Group's current assets and current liabilities were HK\$23,190,000 and HK\$18,448,000 respectively with liquidity ratio at 1.26 times (31 March 2004: 1.37 times).

Bank facilities and pledge of assets

As at 30 September 2004, the Group had utilized bank facilities of HK\$615,000. The Group had pledged a leasehold land and building with aggregate carrying amount of HK\$4,478,000 to secure certain bank credit facilities.

Currency and financial risk

The Group's revenue and expenditure are primarily denominated in Hong Kong dollars for the period under review. All borrowings and debts are denominated in Hong Kong dollars with interests calculated on a floating rate basis. More than 99% of cash and bank deposits are denominated in Hong Kong dollars. Any cash surplus is placed into saving accounts and as short-term bank deposits for interest income.

Apart from properties for sale in the PRC, the Group's foreign currency assets are insignificant. The Group's foreign exchange exposure is minimal and there is no need to use financial instruments for hedging purpose.

Capital commitment

As at 30 September 2004, the Company had no capital commitment.

Management and employees

As at 30 September 2004, there were 23 employees in the Group. In addition to salaries, the Group also provides staff benefits such as medical insurance and mandatory provident fund. The Group also implements a discretionary performance-linked bonus scheme for staff to grant year end bonus or share options to them as an incentive in accordance with the performance of the Group and individual employees.

The share option scheme (the "Scheme") was approved by the shareholders on 26 August 2003 to grant share options to eligible employees and Directors to subscribe for newly issued shares of the Company in accordance with the requirements of Chapter 17 of the Rules Governing the Listing of Securities (the "Listing Rules") on the Stock Exchange of Hong Kong Limited (the "Stock Exchange"). During the period ended 30 September 2004, no option was granted by the Company to any eligible employees or Directors pursuant to the Scheme.

AUDIT COMMITTEE

The Group has an audit committee comprising the three independent non-executive Directors. The audit committee has reviewed the interim results with the Board.

DIRECTORS' INTERESTS IN SECURITIES

As at 30 September 2004, none of the Directors (including their respective spouses, infant children, related trusts and companies controlled by them) had any interests or short positions in the Company's shares, convertible securities, warrants, options or derivatives in respect of securities which carry voting rights of the Company and its associated corporations (within the meaning of the Securities and Futures Ordinance (the "SFO")), which required notification pursuant to Divisions 7 and 8 of Part XV of the SFO (including interest or short position in which any such Director is taken or deemed to have under such provisions of the SFO) or which were required to be entered in the register kept by the Company 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 in the Listing Rules.