Beijing Xipu has successfully launched the new product, "Xi Pu Gluco Guard Yi Dao Ying Yan Su"「璽圃牌利唐康膠囊胰島營養素」in the period under review and was well received by diabetic patients. The product has now been launched into major cities and provinces in the PRC such as Guangdong, Liaoning, Jilin, Shandong Province and Beijing city with special sales and promotion programs. It is expected that the sales of Beijing Xipu next year will be substantially increased from the sales of the new product.

PROSPECT

The Group has achieved both increase in turnover and profit in the first half of this financial year, as a result of its effort on market repositioning, products development, quality assurance and cost control.

The Management recognizes its marketing strength and competitive advantages in the industry by virtue of its long establishment in the industry, highly vertical integrated manufacturing capability, expertise in research, development and design, owning famous brand names and extended overseas sales network and offices. The Group will continue to pursue these competitive advantages with a view to enhancing its customers base and penetrating new market frontier.

The Management also recognizes the immense opportunity and vast potential brought about by the PRC's accession to the WTO and the Closer Economic Partnership Arrangement between Hong Kong and the PRC. The Group has in the past established sales outlets in major cities in the PRC. With the years of experience in the PRC market and wide sales network, the Management considers that it is the right moment to take the PRC sales to the next phase of expansion.

On the international front, the Management has planned to restructure the overseas sales offices conducive to penetrating into new countries and new market segments.

In response to the requirements of new customers and marketing strategy, the Group has enhanced its capability on research, development and design of new products by entering into partnership with renowned overseas design houses and enhancing the in-house research, development and design capability.

In a bid to strengthen quality control and gain quality recognition, the Group sought ISO 9001 Quality Management System Certification of the clock factory at Shenzhen, the PRC, at the beginning of this year. It is expected that the accreditation of the ISO 9001 certification will be completed by the end of this financial year and this would be an open recognition of the Group's quality standard.

In the first half of this year, the Management has successfully curtailed operation costs. The effort will be continued and will be vigorously enforced in the second half of the year. The Management will continue to improve internal operational procedures and internal control, especially in the area of purchasing function and inventory control, with a view to achieving effectiveness, efficiency and economy in its operations.

The Management endeavours to lay a firm foundation for the business pragmatically, with determination and dynamism. The Management believes that the Group is in the right direction and is confident in the future prospect of the Group.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 September 2004, the Group had total outstanding debts and finance lease obligations of HK$57,009,000 (31 March 2004: HK$63,231,000), of which HK$46,230,000 (31 March 2004: HK$54,612,000) was secured bank loans, HK$9,387,000 (31 March 2004: HK$6,374,000) was secured overdrafts, HK$430,000 (31 March 2004: HK$732,000) was unsecured other loans and HK$962,000 (31 March 2004: HK$1,513,000) was obligations under finance leases. The amount repayable within one year accounted for 82.6% (31 March 2004: 68.8%). The maturity profile of the Group's total borrowings as at 30 September 2004 is analysed as follows:

	(Unaudited) As at 30 September 2004	(Unaudited) As at 30 September 2003
Within one year	**82.6%**	81.4%
In the second year	**2.1%**	3.5%
In the third to fifth years, inclusive	**3.9%**	4.9%
Beyond five years	**11.4%**	10.2%
Total	**100.0%**	100.0%

Our gearing ratio was at a healthy level of 4.9% (31 March 2004: 10.9%). The computation is based on long-term borrowings of the Group divided by shareholder's fund as at 30 September 2004.