

## BUSINESS REVIEW

The Group's turnover for the year ended 31 December 2004 was approximately HK\$63,162,000, representing a decrease of 4.9% as compared with that of last financial year.

The following is a sales analysis of the Group's major products for the year under review with comparative figures for 2003:

	<b>For the year ended 31 December 2004 HK\$'000</b>	For the year ended 31 December 2003 HK\$'000
Health Products		
Tonic drinks:		
Chrysanthemum tonic drinks	7,664	14,916
Houtou mushroom tonic drinks	27,757	32,062
Others	853	2,873
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Sub-total:	36,274	49,851
Duo Bu Gai	1,051	6,747
Brilliance fat loss capsule and Changing capsule	890	3,474
Others	619	180
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Total for Health Products:	<b>38,834</b>	60,252
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Health Drinks		
Tonic milk drinks	3,694	4,787
Mineral water	—	2
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Total for Health Drinks:	<b>3,694</b>	4,789
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Pharmaceutical Products		
Fluconazole injection	—	1,363
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Proceeds from sale of investment in securities	<b>20,634</b>	—
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<b>GRAND TOTAL</b>	<b>63,162</b>	66,404
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## Management Discussion and Analysis

During the financial year under review, the sales of the Group's existing tonic drinks products (including Houtou Mushroom tonic drinks and Chrysanthemum tonic drinks) continued to drop and had recorded a decrease of 27% or HK\$13,577,000 as compared with last year. The decrease was mainly because the above two major products of the Group reached the consolidation stage of their product life cycle.

During the financial year, the Group had commenced businesses in the trading of securities in Hong Kong.

The consolidated loss attributable to shareholders has been increased from HK\$88,156,000 in 2003 to HK\$130,219,000 in 2004 which were mainly attributable to the following reasons:-

- (1) There was a provision for impairment losses on property, plant and equipment in the sum of HK\$40,939,000 in 2004 (2003: HK\$998,000);
- (2) There was a provision for impairment loss on intangible assets in the sum of HK\$35,633,000 in 2004 (2003: Nil); and
- (3) Amortisation of intangible assets on acquired proprietary rights of chemical compound and diagnostic technology amounting to HK\$23,912,000 (2003: HK\$10,703,000).

### FINANCIAL RESOURCES AND LIQUIDITY

At 31 December 2004, the Group's total assets amounted to HK\$270,096,000, representing an decrease of HK\$143,518,000 or 34.7% as compared with that of last financial year end date.

At 31 December 2004, the Group had current assets of approximately HK\$102,887,000 (2003: HK\$115,620,000) and current liabilities of approximately HK\$217,559,000 (2003: HK\$160,921,000). The current ratio decreased from 0.72 at 31 December 2003 to 0.47 at 31 December 2004.

The Group's cash and bank balances and time deposits at 31 December 2004 amounted to HK\$56,272,000 (2003: HK\$43,670,000), of which 0.01% were denominated in US Dollars, 22.07% in Hong Kong Dollars and 77.92% in Renminbi.

At 31 December 2004, the Group had outstanding short-term bank loans of approximately HK\$51,103,000 (2003: HK\$49,972,000) in total, all of which were in Renminbi and granted by banks in the PRC. The interest rates charged by the banks ranged from 5.040% to 6.786% (2003: 5.040% to 6.372%) per annum. These bank loans were pledged by properties of the Group with a net book value of approximately HK\$51,816,000 (2003: HK\$83,633,000). The Group's gearing ratio, measured by bank borrowings as a percentage of shareholders' equity was 128.9% at the year end date (2003: 35.1%).

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.

During the year, the Company has carried out an open offer of 207,214,500 shares of HK\$0.01 each at the subscription price of HK\$0.08 per share on the basis of three open offer shares for every share held on 25 May 2004. The open offer was completed in 15 June 2004 and net proceeds of approximately HK\$15.0 million were raised. Approximately HK\$4.8 million of the proceeds has been applied as the general working capital of the Group. Approximately HK\$2.2 million of the proceeds has been used for the redemption of the convertible debentures of the Company due in October 2004 and the remaining HK\$8 million is for the development of the QuProbe Project.

In September 2004, the Company issued a total of 55,180,000 shares to an investor at a subscription price of HK\$0.136 per share pursuant to a subscription agreement dated 8 September 2004. Net proceeds of approximately HK\$7.5 million was raised and applied as general working capital of the Group.

Subsequent to the year end date, the Company has completed in March 2005 another open offer of 715,956,000 shares of HK\$0.01 each at the subscription price of HK\$0.11 per share on the basis of two open offer shares for every share held on 22 February 2005. Net proceeds of approximately HK\$77.0 million was raised from the open offer of which HK\$70.2 million has been used for the early redemption of convertible notes and promissory notes issued by the Company. The remaining balance of approximately HK\$6.8 million has been retained as general working capital of the Group.

### EMPLOYEES

At 31 December 2004, the Group employed a total of 519 staff and workers in Hong Kong and the PRC. The existing staff number at the year end date with their respective duties are set out in the following table together with comparative figures for the last financial year:

	2004	2003
Manufacturing and quality control	293	133
Sales and marketing	156	142
Management, administration and clerical	43	45
Research and development	27	18
Total	519	338

The total staff remuneration (mainly representing basic salaries) for the year ended 31 December 2004 was approximately HK\$16,828,000.

In addition to basic salaries, the Group also provides other staff benefits which include medical subsidies, retirement scheme contributions and year end double pay. The Group provides appropriate training programmes to staff when required in order to upgrade the knowledge and skills of its staff. The Company has adopted a share option scheme on 17 May 2002. Details of the share options are set out in Note 31 to the financial statements.

### CONTINGENT LIABILITIES

The Group has no significant contingent liabilities at 31 December 2004.

### AUDIT COMMITTEE

The Audit Committee of the Company comprised four Independent Non-executive Directors, Mr. Wong Wai Kin, Mr. Ma Shiu Kin, Mr. Leung Wai Chuen and Ms. So Tosi Wan, Winnie. The main function of the Audit Committee is to review the Group's internal control procedures and financial reporting matters including a review and discussion with the external auditors in relation to the Group's consolidated financial statements for the year ended 31 December 2004. The Group's consolidated financial statements for the year ended 31 December 2004 were reviewed by the Audit Committee.