MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

For the six months ended 30 June 2005, the Group's turnover was up 7.4% to HK$43,203,000 (2004: HK$40,239,000) as increased contributions from sales of Hoe Hin brand of products, partly offset by the decrease in rental income. Income derived from treasury investment was, however, higher, in the light of generally higher market interest rates.

There was a significant increase in staff costs and marketing and advertising expenses. However, the Group has managed to keep its other operating expenses for the six-month period at a similar level to that of the same period last year.

Net profit for the six months ended 30 June 2005 increased by 12.6% to approximately HK$11,051,000 (2004: HK$9,816,000).

Manufacturing and sales of Hoe Hin Brand of products

Sales of Hoe Hin brand of products continued to be the major source of revenue for the Group. Sales increased by 13.9% to HK$36,608,000 (2004: HK$32,130,000). The increase in sales from Hong Kong (22.4%) and Mainland China (27.3%) markets have partly balanced off the decrease of 19.4% in sales from other geographical regions.

Hong Kong remained the major market of our Hoe Hin brand of products which accounts for about 50% of the total revenue. Mainland China accounts for about 20%. Growth in other foreign countries has been slowed down during the period.

Segment profit decreased by 5.9% to HK$7,783,000 (2004: HK$8,268,000), largely due to the increase in staff costs as a result of pay rise in line with market trend, and the increase in expenses incurred for launching marketing and advertising campaigns to reinforce our brand both in Hong Kong and Mainland China. The expenditure spent is expected to strengthen our brand's market sentiment and is beginning to show some results.

The litigation in US in respect of the "White Flower" trade mark infringement has been settled and the Group has recovered most of the associated legal costs.

Property investment

Revenue for this segment decreased by 30.7% to HK$4,718,000 (2004: HK$6,805,000). This change mainly represents the decrease in rental income as a result of disposal of an investment property in the United Kingdom in September 2004.

The Group's investment properties were stated at fair value as at 30 June 2005, resulting in a valuation gain of HK$5,500,000 which has now been taken through income statement as required under the new applicable accounting standards.

As a result, the segment profit increased by 49.6% to HK$9,877,000 (2004: HK$6,604,000).

The Group owns several investment properties in United Kingdom, Singapore, Hong Kong and other regions in PRC. Rental income received from these properties will continue to provide a steady stream of turnover and profit for the Group.

Treasury investment

The Group continued the prudent management to its fund and continues to maintain a strong liquidity with sufficient cash.

Revenue derived from this segment increased to HK$1,877,000 (2004: HK$1,302,000), primarily due to higher interest income arising from increase in interest rate during the first half of 2005. The segment results declined to a loss of HK$639,000 (2004: profit of HK$2,347,000), mainly attributable to the net unrealised fair value loss on listed investments as a result of devaluation of foreign currencies in which most of our investments in securities were denominated.

Others

This segment represents sales of other healthcare goods and its revenue and results were not material when comparing to other business segments.

Finance costs

The increase of HK$434,000 to HK$1,801,000 was mainly due to the new mortgage loan borrowed for the acquisition of the Group's new office in Wanchai.

Taxation

There was an increase in tax provision from HK$1,816,000 to HK$2,283,000 for the period, principally due to deferred tax provision relating to valuation gains on investment properties, partly offset by a decrease in taxable operating profit.

FINANCIAL RESOURCES AND TREASURY POLICIES

The Group continues to adhere to prudent treasury policies. Gearing ratio (interest-bearing borrowings divided by total shareholders funds) as at 30 June 2005 was 28.4% (31 December 2004: 19.2%). Total bank borrowings of the Group amounted to HK$84,728,000 (31 December 2004: HK$62,030,000), mainly denominated in British pound and Hong Kong dollars with floating interest rates. The increase in borrowings was mainly due to the new mortgage loan for the Group's new office.

Current ratio (current assets divided by current liabilities) was 6.3 as at 30 June 2005 (31 December 2004: 20.2). The Group holds sufficient cash and marketable securities on hand to meet its liabilities, commitments and working capital demand.

EXCHANGE RATE EXPOSURES

Most of the Group's business transactions were conducted in Hong Kong dollars and United States dollars. The foreign exchange risk for bank borrowings was minimal as they were either denominated in Hong Kong dollars or the currency of the underlying assets. Other than United States dollars whose exchange rate remained relatively stable during the period, the Group's foreign exchange exposure relating to investments in overseas securities and bank balances as at 30 June 2005 were approximately HK$44.1 million in total, or about 10.4% of the Group's total assets.

The Group may use suitable financial instruments to protect the downside risks associated with the price movement due to the timing of anticipated expenditure.

PLEDGE OF ASSETS

As at 30 June 2005, certain of the Group's investment properties, bank deposits and securities with carrying value of approximately HK$251.1 million (31 December 2004: HK$222.1 million) were pledged to secure banking facilities granted to the Group to the extent of HK$169.4 million (31 December 2004: HK$145.7 million), of which HK$84.7 million (31 December 2004: HK$62.0 million) were utilised as at 30 June 2005.

HUMAN RESOURCES

As at 30 June 2005, the Group had a total of 96 employees. Fringe benefits such as tuition subsidies and medical allowance are offered to most employees. The Company has a share option scheme for the benefit of its directors and eligible employees of the Group. No option has been granted under the scheme since its adoption.

OUTLOOK

As one of the well-known brands of medicated embrocation, the Group's revenue is closely correlated with marketing activities through different distribution channels and markets. Apart from various marketing and advertising campaigns in local market, which is one of the major contributing factors, the Group's performance is also subject to growth in Mainland China and other geographical regions. One of our priorities is to further enhance the vitality of the "Hoe Hin" brand in Mainland China by allocating more resources in marketing initiatives. The Group will continue building on its strength and developing markets in other provinces in the Mainland China for future growth. The new icons, "FúZǎi" and "BóBó", have been used on different merchandises, which will strengthen our brand's market presence for younger customers.

APPRECIATION

I wish to express my sincere gratitude to our shareholders, customers and business partners for their continued trust and support. I also wish to thank our directors and staff for their commitment and good work that are crucial to the success of the Group.

By Order of the Board
Gan Wee Sean
Chairman

Hong Kong, 23 September 2005