

## MANAGEMENT DISCUSSION AND ANALYSIS

### Business Review

For the year ended 31 December 2005, the Group recorded a turnover of approximately HK\$46,384,000 (2004: HK\$63,162,000) which represents a decrease of 27% as compared with last year. This is mainly due to the drop in the trading of securities business during the year from HK\$20,634,000 in 2004 to HK\$1,767,000 in 2005.

During the year under review, the Group's pharmaceutical and health products business recorded a turnover of HK\$44,617,000 (2004: HK\$42,528,000) and achieved a gross profit of HK\$20,054,000 (2004: HK\$19,757,000). The gross margin achieved during the year was about 45% (2004: 46%). Sales of the Group's existing tonic drink products (including Houtou Mushroom tonic drink and Chrysanthemum tonic drink) remained fairly stable because of keen competition in tonic drink market in China and the fact that these products have reached the consolidation stage of their product life cycles.

The Group reported a consolidated loss attributable to equity holders of the Company of HK\$97,214,000 as compared with a loss of HK\$137,485,000 for last year. Such improvement was mainly attributable to the drop in provision for impairment losses on property, plant and equipment by HK\$40,939,000.

### Prospects

The Group will continue to streamline the operation by cutting cost and down-sizing unprofitable businesses and at the same time looking for profitable business opportunities to maximise the interest of the shareholders.

Following the change in control of shareholding in December 2005 and the completion of the mandatory unconditional cash offer by Outwit Investments Limited ("Outwit") in March 2006, Outwit will conduct a review on the Group's business activities and assets and formulate business plans and strategies for the future business development of the Group.

### Financial Resources and Liquidity

As at 31 December 2005, the Group's total assets amounted to HK\$197,400,000, representing a decrease of HK\$71,865,000 as compared with that of the last financial year end date.

As at 31 December 2005, the Group had current assets of HK\$67,803,000 (2004: HK\$102,887,000) and current liabilities of HK\$172,245,000 (2004: HK\$217,559,000). The current ratio was 0.39 at 31 December 2005 as compare with 0.47 at 31 December 2004.

The Group's cash and bank balances as at 31 December 2005 amounted to HK\$47,650,000 (2004: HK\$56,272,000), of which 7% were denominated in Hong Kong Dollars and 93% in Renminbi.

As at 31 December 2005, the Group had outstanding short term bank loans of HK\$43,462,000 (2004: HK\$51,103,000), all of which were denominated in Renminbi and granted by banks in PRC. The interest rates charged by banks ranged from 6.138% to 6.786% (2004: 5.04% to 6.786%) per annum. These bank

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loans were pledged by properties of the Group with a net book value of HK\$55,085,000 (2004: HK\$51,816,000). The gearing ratio of the Group, measured by bank borrowings and other loan as a percentage of shareholders' equity, was 277% at 31 December 2005 as compare with 131% at 31 December 2004.

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 under review, the Company carried out an 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 2 open offer shares for every share in issue on 22 February 2005. Net proceeds of approximately HK\$77 million was raised of which HK\$70.2 million were used for the early redemption of convertible notes and promissory notes issued by the Company. The remaining balance of approximately HK\$6.8 million was retained as general working capital of the Group.

### Employees and Remuneration Policy

As at 31 December 2005, the Group employed about 250 staff and workers in Hong Kong and the PRC. Total staff remuneration for the year ended 31 December 2005 was approximately HK\$13,891,000.

The Group remunerates its employees based on their performance and experience and their remuneration package will be reviewed periodically by the management. Other employee benefits include medical insurance, retirement scheme, appropriate training program and a share option scheme.

### Contingent Liabilities

The Group has no significant contingent liabilities at 31 December 2005.