

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Due to keen competition in the health drink market in China and the fact that many of the Group's existing products (including Houtou Mushroom tonic drink and Chrysanthemum tonic drink) have reached the consolidation stage of their product life cycles, sales continued to drop during the year. For the year ended 31 December 2006, the Group's pharmaceutical and health products business recorded a turnover of approximately HK\$42,408,000 (2005: HK\$44,617,000) which represents a decrease of 5% as compared with last year.

Gross profit of the Group's pharmaceutical and health products business for the year under review was HK\$18,970,000 (2005: HK\$20,054,000). The gross margin achieved during the year was about 45% (2005: 45%).

The Group reported a consolidated loss attributable to equity holders of the Company of HK\$10,650,000 as compared with a loss of HK\$97,214,000 for last year. Such improvement was mainly attributable to the decrease in impairment loss on intangible assets by HK\$56,145,000, the decrease in amortisation of intangible assets by HK\$13,710,000 and the reversal of impairment loss on leasehold land of HK\$13,624,000.

PROSPECTS

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

Following the change in the controlling shareholder of the Company in December 2005 and the completion of the mandatory unconditional cash offer by Outwit Investments Limited ("Outwit") in March 2006, Outwit is currently conducting a review of the Group's business activities and assets and is formulating business plans and strategies for the future business development of the Group.

FINANCIAL RESOURCES AND LIQUIDITY

As at 31 December 2006, the Group had current assets of HK\$95,851,000 (31 December 2005: HK\$67,918,000) and current liabilities of HK\$130,922,000, (31 December 2005: HK\$109,911,000). The current ratio was 0.73 at 31 December 2006 as compared with 0.62 at 31 December 2005.

The Group's cash and bank balances as at 31 December 2006 amounted to HK\$59,407,000 (31 December 2005: HK\$47,650,000), of which 5% were denominated in Hong Kong and United States Dollars and 95% in Renminbi.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL RESOURCES AND LIQUIDITY *(Continued)*

As at 31 December 2006, the Group had outstanding short term bank loans of HK\$54,022,000 (31 December 2005: HK\$ 43,462,000), all of which were in Renminbi and granted by banks in PRC. The interest rates charged by banks ranged from 6.14% to 7.02% (for the year ended 31 December 2005: 6.14% to 6.79%) per annum. These bank loans were pledged by properties of the Group with a net book value of HK\$72,372,000 (31 December 2005: HK\$55,085,000). The gearing ratio of the Group, measured by bank borrowings and other short term loans as a percentage of shareholders' equity, was 841% at 31 December 2006 as compared with 277% at 31 December 2005.

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.

EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2006, the Group employed about 250 staff and workers in Hong Kong and the PRC. 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 share option scheme.

CONTINGENT LIABILITIES

Details of the Group's contingent liabilities at 31 December 2006 are set out in Note 44 to the financial statements.

APPRECIATION

On behalf of the Board, I would like to thank our employees for their contribution and our shareholders and business associates for their continued support during the year.

He Jin Hong

Deputy Chairman

Hong Kong, 20 April 2007