

RESULTS

The Group's turnover and loss attributable to shareholders for the year amounted to HK\$349.2 million (2003: HK\$259.8 million) and HK\$30.0 million (2003: HK\$28.9 million) respectively.

DIVIDEND

No interim dividend was paid during the year under review (2003: Nil). The Directors do not recommend the payment of a final dividend (2003: Nil).

REVIEW OF OPERATIONS

It was a year of change and transformation. Apart from the continuing expansion of our Chinese pharmaceutical business under the brand name "Wai Yuen Tong", the Group acquired the western pharmaceutical and health product business with the brand name "Madame Pearl's" in August 2003, and an effective interest of 39.2% in Hunan Xiangya Pharmaceutical Co., Ltd in March 2004.

With a view to consolidate the Group's resources in its pharmaceutical and health product business, the Group disposed of its entire interest in the assembly of watches and manufacture of cases and the PRC retail business of watches and bags.

Wai Yuen Tong

Wai Yuen Tong's business has continued to expand rapidly. Turnover for the year under review reached a record high of HK\$151.9 million (2003: HK\$109.3 million), an increase of 39% from last year.

Over the past two years, Wai Yuen Tong has successfully transformed itself from being known only for the "Young Yum Pill" to a renowned Chinese pharmaceutical and health products brand.

Our products are now sold in major chain-stores and in our own outlets. There are now over 150 products with the brand name of Wai Yuen Tong which are divided into six series:

Classic Series – Traditional products such as Young Yum Pill, Pak Fung Pill and Po Ying Powder.

Prophylactic Series – Health products such as Ganoderma Lucidum spores capsules, Tibetan Wild Cordyceps capsules and Colla Corii Asini Oral Liquid.

Bird's nest Series – Bird's nest products such as Supreme Bird's Nest, Bird's Nest with rock sugar and ginseng and Supreme Little Swallow.

Metro Series – Products designed to assist in the relief of various metro diseases such as Liver Plus, Golden Deer's Tail Pills and Body Warmer.

Beauty and Slimming Series – Products designed for beauty and slim such as Pearl Powder, Snow Swallow Whitener and Extra Slim Tea.

Soup Series – Pre-packed soup packages for various needs such as Deer's Horn Soup, Cough Smoothing Soup and Rose Beauty Soup.

The number of Wai Yuen Tong retail outlets in Hong Kong increased from sixteen in last year to the present number of thirty-three. Four PRC franchise outlets were also opened earlier this year.

Madame Pearl's

The Directors are pleased to inform the shareholders that the consolidated net profit of Luxembourg Medicine Company Limited ("Luxembourg") for the year ended 31st March 2004 was HK\$12.1 million, which met the profit guarantee provided by Wang On Group Limited as stipulated in the acquisition agreement entered into in July 2003.

The turnover of Luxembourg increased to HK\$55.9 million for the year ended 31st March 2004 (representing an increase of over 98% as compared to approximately HK\$28.1 million for the previous year).

The encouraging results were mainly attributable to the sale of its cough syrup under the brand name "Madame Pearl's" in the PRC.

Apart from the growth in its sale of cough syrup, Luxembourg also diversified into the sale of various personal health-care and household products such as shower gel under the brand name "Natural Spa"; sun-block products under the brand name "Natural Plus" and health food products such as milk calcium candies under the brand name "Health Concept".

LIQUIDITY AND FINANCIAL RESOURCES

With a view to broaden the Company's shareholder base and to improve the financial position of the Group, three top-up placings which, in aggregate, raised net proceeds of HK\$136.5 million, were undertaken during the year.

During the year, convertibles notes in the aggregate amount of HK\$84.5 million were converted into ordinary shares of the Company, which has resulted in a substantial improvement in the Group's financial position.

As at 31st March 2004, the Group's total borrowings amounted to HK\$82.9 million which included bank borrowings of HK\$19.4 million, long term loans of HK\$7.0 million due to a shareholder, and long term convertible notes of HK\$56.5 million.

In order to further reduce the level of Group's interest bearing debt, convertibles notes in the aggregate amount of HK\$13 million had been redeemed during the year and HK\$56.5 million, which represented all convertible notes outstanding, were redeemed subsequent to the year end.

The gearing ratio, defined as the ratio of the total borrowings to capital and reserves, was approximately 23.4% as at 31st March 2004.

The Group's contingent liabilities and capital commitments as at 31st March 2004 amounted to approximately HK\$2.1 million and HK\$2.2 million (2003: HK\$0.4 million), respectively.

A rights issue raising net proceeds of some HK\$250 million, a capital reorganisation and the acquisition of the entire effective interest in Wai Yuen Tong Medicine Building, were completed in June 2004, subsequent to the year end.

The Group currently holds over HK\$120 million in cash.

MANAGEMENT DISCUSSION AND ANALYSIS

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MANAGEMENT AND STAFF

As at 31st March 2004, the Group had over 500 employees, around 64% of whom were located in Hong Kong. Staff requirement is regularly monitored with reference to the actual needs of the Group. Remuneration packages, which comprise salaries, provident fund contributions and medical benefits, are periodically reviewed based on market trends, performance appraisals, working experience and industry practice.

PROSPECTS

After all the corporate restructuring exercises during the past year and up to June 2004, the Group has now attained a stable and healthy financial position.

Taking advantage of the continuing growth of the PRC and Hong Kong economy and increasing public awareness of personal healthcare, the Directors are optimistic on the Group's future growth prospects.