

## MANAGEMENT DISCUSSION AND ANALYSIS

### Operation Review

The Group's turnover for the six months ended 30 September, 2004 increased 15% compared with the corresponding period in 2003. The increase in turnover was due to the increase in both the sales volume and selling price to our U.S. customers. The demand for our garment products from our U.S. customers remains stable as it is presently maintaining back orders of five months. Gross profit increased 37% while gross profit margin increase from 12.3% in 2003 to 14.7% in 2004. The Group managed to increase the profit from operations before taxation by 89% from HK\$3.5 million in 2003 to HK\$6.5 million in 2004. The significant improvement in profit from operations before tax was due to both the increase in turnover and gross profit margin. The Group's net profit for the period increased 10% while the basic earnings per share increased 9% compared with the corresponding period in 2003.

### Liquidity and Capital Resources

The Group has relied principally on its internal resources to fund its operation and investment activities. The gearing ratio of the Group, which is expressed as a percentage of total borrowings to shareholder's funds, remains at 0% for the last six months. As at 30 September, 2004, the Company pledged HK\$8 million in bank deposit to secure a banking facility granted to the Company. The Company has contingent liabilities of HK\$20 million in the form of a corporate guarantee provided to secure general banking facilities for a subsidiary. The Group's exposure to foreign currency risk is insignificant because the majority of its income and expenses are U.S. Dollar based.

### Employees

The Group maintains 23 employees, whose salaries are reviewed and adjusted annually based on performance and experience. Other employee benefits include mandatory provident fund and educational subsidies which are offered to promote staff development. There is a share option scheme in place designed to award employees for their performance at the discretion of the directors. There was no share option granted to any employee during the period.

### **Future plan and prospect**

The Group believes in the long term prospect of the health supplement and enhancement market. With the addition of key managers to our PRC health supplement business in the second quarter of 2004, and after months of preparation, the Group will be launching its first health supplement product in early 2005 and will initially target selected primary and secondary cities in China. Our first product is a natural food supplement aiming to lower the body's blood sugar level.

In addition to preparing for the launch of our first product, the Group is actively engaged in new product development. Our approach is both market-oriented and application driven. The Group develops new products by identifying untapped market demands as well as suitable new or enhanced application of natural medicinal herbs and proven formulations. In order to expedite our product launch, our product development efforts combine in-house R&D, external R&D collaboration and existing product acquisitions.

Given the Group's product development focuses on series products instead of single product, we have already developed additional formulations for new products and are actively seeking acquisition opportunities. The health supplement division's upcoming product launch and development are milestones in the Group's effort to develop mass consumer oriented businesses in China.

By Order of the Board  
**Ling Tai Yuk, John**  
*Chairman*

Hong Kong, 3 December, 2004