

Management Discussion and Analysis

RESULTS

The Group's turnover and loss attributable to shareholders for the year amounted to HK\$326.9 million (2004: HK\$349.2 million) and HK\$ 67.0 million (2004: HK\$30.0 million) respectively.

DIVIDEND

No interim dividend was paid during the year under review (2004: Nil). The Directors do not recommend the payment of a final dividend (2004: Nil).

REVIEW OF OPERATIONS

The drop of 6% in Group's turnover was mainly due to the disposal of the business in the assembly of watches and manufacture of watch cases. Leaving aside the watch and cases business, the Group actually recorded an impressive increase of 73% in turnover in its continuing operation.

Wai Yuen Tong

The turnover of Wai Yuen Tong recorded a substantial increase of approximately 51% from HK\$151.9 million to HK\$228.7 million. In absolute terms, Hong Kong outperformed all the other markets with turnover increasing by HK\$76.8 million. Both retail and wholesale sales experienced a double digit growth.

(1) *Turnover by Channels*

Retail

Retail sales increased from HK\$99.9 million to HK\$159.1 million, an increase of 59% from last year. The improvement was attributable to an expansion in the retail networks and a diversification of the products and product series.



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New products and successful implementation of advertising and marketing strategies resulted in improved sales from existing retail outlets. Our retail operations are being continually fine-tuned to cater for consumers' preferences. During the year, we opened 32 new retail outlets, including owned and franchised outlets, bringing the total number of outlets to a record 63 of which 20 franchised outlets operated in Mainland China as at 31 March 2005.

Wholesale

Wholesale sales rose from HK\$52.0 million to HK\$69.6, an increase of 34% from last year. Hong Kong and Mainland China recorded strong growth. Currently we supply our products to 3 provinces in Mainland China and this number is expected to grow.

To further exploit the global market potential, we proactively seek channel partnerships with distributors worldwide to take advantage of their extensive distribution networks.

The Group expects to benefit from the Close Economic Partnership Arrangement ("CEPA") between the Mainland and the Hong Kong governments. CEPA will be a strong driver for our wholesale business in Mainland China as the cost savings enjoyed under the zero-tariff arrangement are invested into more advertising and promotion activities, thus, strengthening Wai Yuen Tong's brand name in Mainland China.

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(2) Products

Sales of the Group's products enjoyed steady growth, particularly the sales of young yum pills, bottled bird's nest, ganoderma lucidum spores, pak fung pill and cordyceps are encouraging.

Product development is an ongoing and critical process. The Group has continued to develop and offer new health food products to our customers. Apart from the renowned "Classic Series", "Prophylactic Series", "Metro Series", "Beauty and Slimming Series" and "Soup Series", we have also launched two new product series to cater for the markets – Men Series and Women Series.

Men Series – Golden Deer's Tail, Dura-gizer, Prostate Clearer



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Women Series – Pearl Powder, Pearl Whitening Mask, Bird's Nest Moisturizing Mask, Ganoderma Lucidum Anti-Winkle Mask, Ginseng Rejuvenating Renewal Mask, Ginseng and Pearl Facial Cream, Pearl and Aloe Vera Body Lotion, Health-promoting and Fat-clearing Essence

In addition, to cater for the needs and preference of the younger consumers, we have repackaged some of our products by producing smaller-sized pills and capsules and using aluminium foil wrapper.

(3) *Good Manufacturing Practice Certificate ("GMP")*

Wai Yuen Tong has completed the installation of the machinery and equipment at its main plant at the Wai Yuen Tong Medicine Building and our application for the Chinese Medical GMP Certificate is now in the process of validation. We target to obtain the GMP Certificate by the end of 2005.

The gist of a GMP Certificate is quality assurance. Wai Yuen Tong will ensure that its pharmaceutical products are of the highest quality. Following this principle, Wai Yuen Tong has to ensure that production is carried out under strict controls and meets the highest quality control standards, and the production environment is controlled by a centralized computer system. All our production equipment and facilities are designed to meet the stringent demands of modern pharmaceutical manufacturing.

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Luxembourg

The turnover of Luxembourg core business of Western pharmaceutical and health products rose by approximately 80%, from HK\$37.4 million to HK\$67.2 million. This was mainly attributable to the full year effect of the Group's acquisition of this business in August 2003 and the growth in the sale of cough syrup and the various personal health-care, health food and household products. The principal products are listed below:

- Madame Pearl's – Medical products such as Cough Syrup, Herbal Cough Syrup, Chesty Cough Syrup and Cough Syrup F2 for Children
- Health Concept – Nutritional products such as Milk Calcium Candy with milk and chocolate flavour, OPC and DHA
- Natural Spa – Personal health-care products such as shower gels and bath set



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- Natural Plus – Health food products such as Bio-Fiberact, Trimpower, Extra Slimming Tea
- Pearl's – Household hygiene products such as Adult Antiseptic Diaper, Disinfectant Liquid, Laundry Detergent and Fabric Softener

The products are sold through a network of distributors, drugstores, convenience and chain stores.

CNT Health Food ("CNT")

CNT became a wholly-owned subsidiary of the Company in July 2004 and the turnover of the Chinese health food products for the period of 9 months from the date of acquisition to the financial year end date recorded a satisfactory turnover approximately HK\$29.2 million in this year.

CNT is one of the largest bottled bird's nests contract manufacturers in Singapore and its core business is the manufacturing and sale of bird's nest products; it also provides very diversified range of high quality health products such as hashima, herbal essence, herbal jelly.

CNT possesses the Hazard Analysis Critical Control Points ("HACCP") certification for bottled bird's nest drinks and herbal essence of cordyceps and American ginseng. HACCP is an internationally recognized codex standard on food safety and quality to ensure the food product is safe for consumption. The award is the recognition of CNT's meticulous and stringent controls scheme applied to the whole process of the bottled bird's nest and herbal essence production; from cleaning the main ingredients, cooking, temperature control and sterilizing, to bottling, packing, storing and delivery.

Having obtained this Certificate, the Group is confident that CNT can obtain a bigger market share in Singapore. The future target is to expand the CNT sales network to cover Hong Kong and Mainland China.

CAPITAL REORGANIZATION

The capital reorganization was completed on 28 June 2004 whereby the nominal value of each of the issued share was reduced from HK\$0.10 each to HK\$0.01 each by the cancellation of HK\$0.09 paid up on each share, the authorised but unissued share capital of the Company was cancelled and then restored and the credit of approximately HK\$49.8 million resulting from the cancellation of HK\$0.09 of the paid up capital for each issued share was applied to general reserve and to set off against the accumulated loss of the Company.



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LIQUIDITY AND FINANCIAL RESOURCES

With a view to broaden the Company's shareholder base and to improve the financial position of the Group, rights issue and top-up placing which, in aggregate, raised net proceeds of approximately HK\$290.0 million, were undertaken during the year.

As at 31 March 2005, the Group's total borrowings amounted to HK\$159.8 million (2004: HK\$82.9 million) which included bank borrowings of HK\$143.2 million (2004: HK\$19.4 million), long term loan due to a Shareholder of nil (2004: HK\$7.0 million), long term convertible notes of HK\$16.0 million (2004: HK\$56.5 million) and obligations under finance leases of HK\$0.6 million (2004: Nil).

In order to further reduce the level of Group's interest bearing debt, convertibles notes in the aggregate amount of HK\$56.5 million had been redeemed and HK\$14.0 million, which represented partial convertible notes outstanding, were converted into share capital during the year.

The gearing ratio, defined as the ratio of the total borrowings to capital and reserves, was approximately 27.0% as at 31 March 2005 (2004: 23.4%). The Group's investment properties and fixed assets with an aggregate net book value of HK\$229.6 million (2004: nil) were pledged to banks to secure the Group's general banking facilities, approximately HK\$85.1 million of which was utilized at 31 March 2005.

The Group's contingent liabilities and capital commitments as at 31 March 2005 amounted to approximately HK\$3.7 million (2004: HK\$2.1 million) and HK\$0.8 million (2004: HK\$2.2 million), respectively.

The Group currently holds over HK\$48.6 million in cash.



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MANAGEMENT AND STAFF

As at 31 March 2005, the Group had over 580 employees, approximately 73% 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 2005, the Group has now attained a stable and healthy financial position.

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

