

Management Discussion and Analysis



Results

The Group's turnover and loss attributable to shareholders for the year ended amounted to HK\$324.8 million (2005: HK\$326.9 million) and HK\$98.4 million (2005: HK\$68.0 million, restated), respectively.

Dividend

No interim dividend was paid during the year under review (2005: Nil). The Directors do not recommend the payment of final dividend (2005: Nil).

Business Review

The Group's performance reflects that although the local economy was in a reasonably stable footing, the retail environment remained highly competitive and challenging under pressure of rising rental and labour costs and keen competition amongst others in the industry. The "Disney effect" on the retail market failed to materialize. This together with market uncertainty due to the possibility of an avian flu outbreak had dampened retail sales in Hong Kong.

(I) Wai Yuen Tong Medicine Company Limited ("Wai Yuen Tong")

Turnover for the year slightly increased from HK\$228.7 million to HK\$237.3 million.

In view of the rising consensus and awareness of health to the public, Wai Yuen Tong continued to fine-tune its product range, expanding its health care products from its existing proprietary Chinese medicine and retail sales of consumable products. Our top 5 products last year remained the same as in the previous year, they are young yum pills, cordyceps, bottled birds' nest, ganoderma lucidum spores and pak fung pills. For the year under review, Wai Yuen Tong's Chinese pharmaceutical and health products business attained steady growth in Hong Kong and overseas, and for the upcoming year, Wai Yuen Tong will continue identifying other business opportunities that may create synergies with its core business and further reinforce its market position in health care related businesses.

During the year, Wai Yuen Tong continued to expand its sales channels by opening 6 retail shops in Hong Kong and 5 concession counters in the PRC, bringing the total to 49 retail shops and 12 concession counters. In addition, 39 out of a total of 49 retail shops in Hong Kong provide consultation services by registered Chinese medical practitioners.

Wai Yuen Tong believes that its GMP certifications will further open the door for new business opportunities in overseas markets.



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(II) Luxembourg Medicine Company Limited (“Luxembourg”)

The turnover of Luxembourg’s core business of Western pharmaceutical and health products decreased from HK\$67.2 million to HK\$44.3 million. The decrease is the result of our marketing strategy to streamline and build up more direct connections with various dealers and chain stores which, in the long run, will bring better returns to Luxembourg.

With a view to broaden its product line and enhancing the Madame Pearl’s brand, Luxembourg will concentrate its efforts on the sale of cough syrup and other products related to upper respiratory tract infections.

(III) CNT Health Food Pte Limited (“CNT”)

CNT maintained its growth momentum and achieved a turnover of HK\$41.3 million (2005: HK\$29.2 million) for the year under review, representing an increase of over 41% compared to last year. The Group believes that this reflects our strong endorsements for our efforts to strengthen CNT.

CNT is one of the largest bottled bird’s nest products manufacturers in Singapore. It is principally engaged in the manufacture and sale of bird’s nest products. It also provides a diverse range of high quality health products such as hashima, herbal essence and herbal jelly, etc.

CNT has obtained Hazard Analysis Critical Control Points (“HACCP”), an internationally-recognised codex standard on food safety and quality. Apart from further expanding its market share in Singapore, CNT will also target expanding its market to Hong Kong and the PRC.

Financial Review

(I) Capital Reorganisation

A capital reorganisation was effected on 8 June 2005, whereby (i) every ten issued and unissued shares of HK\$0.01 were consolidated into one share of HK\$0.10; (ii) the nominal value of each issued share after consolidation was reduced from HK\$0.10 to HK\$0.01; and (iii) a credit of approximately HK\$31.4 million arising from the capital reduction was utilized for setting off the accumulated losses of the Company.

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(II) Liquidity, Capital Structure and Gearing

As of 31 March 2006, the Group's total borrowings amounted to HK\$133.1 million (2005: HK\$157.5 million) which included bank borrowings and overdrafts of HK\$132.7 million (2005: HK\$143.2 million) convertible notes of nil (2005: HK\$13.7 million) and obligations under a finance lease of HK\$0.4 million (2005: HK\$0.6 million).

The gearing ratio, defined as the ratio of total borrowings to equity attributable to equity holders was approximately 20.6% (2005: 26.5%).

(III) Foreign Exchange

The Group does not have any material foreign exchange exposure to the Group. All bank borrowings are denominated in Hong Kong and Singapore dollars. The revenue of the Group, being mostly denominated in Hong Kong and Singapore dollars, matched the currency requirement of the Group's operating expenses.

(IV) Contingent Liabilities and Capital Commitments

The Group's contingent liabilities and capital commitments as at 31 March 2006 amounted to HK\$3.8 million (2005: HK\$4.5 million) and HK\$49.5 million (2005: HK\$0.8 million) respectively.

(V) Rights Issues

A resolution was passed by the shareholders of the Company at a special general meeting on 16 November 2005 to approve the allotment of 1,047,260,766 shares at a price of HK\$0.15 per share on the basis of three shares for every existing Company share.

The rights issue was completed on 6 December 2005 and net proceeds of approximately HK\$153.2 million was received.

(VI) Employees

At the balance sheet date, the Group employed approximately 560 employees, of which approximately 71% of whom were located in Hong Kong. The related employees' costs for the year (excluding directors' emoluments) amounted to approximately HK\$58.2 million. The Group ensures that the pay levels of its employees are competitive and employees are rewarded on a performance related basis within the general framework of the Group's salary and bonus system.