

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Results

The Group recorded a turnover of HK\$24,361,000 (2005: HK\$28,831,000) for the six months ended 30 September 2006, a decrease of 15.5% compared to the corresponding period last year. It also recorded a loss of HK\$7,003,000 for the period under review (2005: profit of HK\$255,000), and the basic loss per share was HK1.17 cents (2005: basic earnings per share of HK0.04 cent).

Business Review

Competition in the healthcare market remained severe during the period under review. The emergence of numerous healthcare products further intensified this trend and the sales of the Group's new products need to be improved. As a result, the Group's business was adversely affected and the Group's turnover fell by 15.5%. In addition, mortgage interest expenses incurred in the acquisition of a commercial property in Kwai Chung during April 2005 further increased the Group's finance costs, which were reflected in the interim results.

"Beauty and Healthy" (排毒美顏寶) remained the Group's best-selling flagship product, accounting for 57.8% of its total turnover during the period under review (2005: 71.9%).

Meanwhile, the "Yanta Pai" (雁塔牌) brandname sales network which is mainly in Yunnan Province achieved a turnover of HK\$6,042,000, representing 24.8% of the Group's total turnover (2005: 14.7%). Among over 40 licensed "Yanta Pai" (雁塔牌) products, "Chen Xiang Lu Bai Lu Pian" (陳香露白露片), a Chinese gastrointestinal medicine, was the Group's best-selling product in Mainland China. Other products, such as "Pudilan Xiaoyan Pian" (蒲地藍消炎片) and "Wei Kang Ling Jia Nang" (胃康寧膠囊), were also popular among Mainland China residents.

In overseas markets, the Group's performance in the Southeast Asia market was satisfactory after the realignment of market strategies. "Beauty and Healthy" (排毒美顏寶) and "Super ABOBA" (日本血型瘦身丸) were sold quite well in Southeast Asia, while "Beauty and Healthy" (排毒美顏寶) was sold well in Macau. The sales of "Super ABOBA" (日本血型瘦身丸), a natural functional food imported from Japan last year, did not perform satisfactorily in Hong Kong market as Hong Kong customers needed time to accept such new concept of choosing a slimming formula based on their blood type. However, "Super ABOBA" (日本血型瘦身丸) was well received by customers in Singapore and Malaysia markets as the residents in these countries were more familiar with their blood type.

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

Business Review *(continued)*

The Group introduced a series of new products and diversification strategies during the period under review. In September 2006, it launched the “Superior Series”, including “Superior Lingzhi” (極品靈芝), which enhances the body’s immune system, as well as “Superior Cordyceps” (極品冬蟲夏草), which strengthens the respiratory system. The Group also introduced the “Tea @Break” (花茶間) of 100% natural and organic herbal teas, including “Slim Tea” (秀身花果茶), “Eye Bright Tea” (明目藍莓茶), “Calm Lavender” (寧靜薰衣草) and “Detox Tea” (排毒美顏茶). This broadened the Group’s product mix and its consumer base.

“Beauty and Healthy” (排毒美顏寶), the leading detox product in the market, won the “Best Detoxification Product Award” (至FIT排毒獎) in the Mannings Health & Beauty Awards for the fifth consecutive year. It also received the “Best-selling Detoxification Product – Diamond Award” (最暢銷排毒產品鑽石獎) in the Watson’s 7th Health & Beauty 2006 Awards. In addition, the Group’s new “Superior Cordyceps” (極品冬蟲夏草) won the “Best-selling Cordyceps Product – Silver Award” (最暢銷冬蟲夏草保健產品銀獎). All these achievements illustrate that the Group’s high quality products have gained recognition among the industry and the public.

Business Outlook

Building on the success of “Yanta Pai” (雁塔牌) products in the Mainland China market, the Group intends to expand its Mainland China marketing and sales network further. It will also increase its marketing efforts to penetrate the Mainland China pharmaceuticals market. The Group will explore the market in Macau too, as well as other Portuguese-speaking countries, through its wholly-owned subsidiary in Macau. The Group’s sales performance in Southeast Asia has improved since its realignment of marketing strategies, and the Group is confident about the future of its business in the region. It also plans to re-launch “Beauty and Healthy” (排毒美顏寶) in the Japan market. At the same time, the Group will seek out new opportunities in more overseas markets.

The Group will continue to diversify its product range and implement further market penetration strategies in the mature and competitive local medicinal healthcare market. It will actively look for opportunities to cooperate with the universities in Hong Kong in the research and development of new products, and it will import unique healthcare and functional products as ways to diversify its product range and thereby increase profit margins.

To cut costs and improve profitability, the Group will adopt strict cost-control measures, and change its marketing strategy from simultaneously promoting a large number of different products to focusing on several principal products.

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

Business Outlook *(continued)*

Looking ahead, besides developing and importing new products, the Group will provide its existing members and the general public with more health information, and promote healthy lifestyles through members activities and its free newspapers, *Hong Kong Health Journal*. The Group will actively hold seminars and members activities with an aim to popularising the concept of continuous taking of healthcare products in every household, thereby increasing the Group's market share and profit margins, and creating better returns for its shareholders.

Employees

As at 30 September 2006, the Group had 319 employees (31 March 2006: 431 employees).

The remuneration policy and package for the Group's employees are reviewed and approved by the Company on a periodical basis. The Group remunerates its employees based on industry practice and performance of individual employees. The Group also makes available a share option scheme and offers discretionary bonuses to its employees.

Liquidity and Financial Resources

The Group has consistently maintained sufficient working capital. As at 30 September 2006, the Group had current assets of HK\$50,704,000 (31 March 2006: HK\$55,869,000) and cash and bank balances of HK\$15,912,000 (31 March 2006: HK\$18,823,000). The Group's current liabilities as at 30 September 2006 was HK\$21,150,000 (31 March 2006: HK\$21,356,000).

As at 30 September 2006, shareholders' funds was HK\$76,362,000 (31 March 2006: HK\$82,510,000). The Group had bank borrowings and finance lease payables of HK\$22,789,000 as at 30 September 2006 (31 March 2006: HK\$25,713,000). The gearing ratio as at 30 September 2006 being the ratio of total liabilities to shareholders' funds, as at 30 September 2006 was 51.3% (31 March 2006: 48.8%).

Exchange Risk

The Board of Directors is of the opinion that the impact of foreign exchange exposure on the Group is minimal because its sales and purchases are mainly conducted in Hong Kong dollars. The Group does not engage in any hedging contracts.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the period under review.