



Management Discussion and Analysis

Interim Dividend

The Directors do not recommend the payment of an interim dividend for the six months ended 30 September 2006 (2005: Nil).

Business Review

(I) Wai Yuen Tong Medicine Company Limited (“Wai Yuen Tong”)

Revenue for the period under review increased slightly from HK\$121 million to HK\$121.9 million. During the period under review, the Group opened 5 new retail shops in Hong Kong and 6 concession counters in the PRC, bringing the total to 53 retail shops and 18 concession counters, leading Wai Yuen Tong to be the largest Chinese herbal medicine retail chains in Hong Kong. In addition, Wai Yuen Tong also operates the largest Chinese medical practitioners network in Hong Kong with a total of 40 retail shops providing consultation services by registered Chinese medical practitioners.

With a view to rejuvenate the brand of “Wai Yuen Tong”, a new series of rebranding works have been launched in November 2006 to re-strengthen the public image of “Wai Yuen Tong” as the No. 1 Chinese medical and herbal medicine company in Hong Kong.

The awards of the GMP and TGA certifications in early 2006 provides an opportunity to expand the sales in overseas markets.

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

For the period under review, Luxembourg’s revenue achieved an increase by 42% to HK\$31.8 million (2005: HK\$22.4 million), mainly due to its successful marketing strategy by increasing the media exposure to the public and rebranded some of our products to cater the needs and preference of the younger consumers.

In addition, cough syrup under the brand of Madame Pearl’s, one of the Luxembourg’s hero products, continues to grow satisfactory in Hong Kong, PRC and overseas markets.



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

Revenue for the period under review was HK\$17.9 million (2005: HK\$19.1 million). CNT is one of the largest bottled bird's nest products manufacturers in Singapore. It also provides a diverse range of high quality health products such as hashima, herbal essence and herbal jelly.

CNT has obtained Hazard Analysis Critical Control Points (“HACCP”), an internationally-recognised codex standard on food safety and quality. In view of this, CNT hopes to secure higher market share in Singapore and plans to expand its market to Hong Kong and Mainland China.

Overall Operations Review

(I) Liquidity and Financial Resources

As at 30 September 2006, current assets and current ratio of the Group were approximately HK\$289.6 million and 3.08 respectively. Current assets mainly comprised inventories of approximately HK\$78.2 million, trade and other receivables of approximately HK\$64.0 million, bank balances and cash of approximately HK\$90.7 million. The Group had total assets of approximately HK\$822.6 million, current liabilities of approximately HK\$94.0 million, non-current liabilities of approximately HK\$86.9 million and shareholder's equity of approximately HK\$641.6 million.

As at 30 September 2006, the overall gearing ratio of the Group is approximately 18% (31 March 2006: 20.6%) represented by total borrowings of approximately HK\$115.4 million (31 March 2006: HK\$133.1 million) compared to net worth of approximately HK\$641.6 million (31 March 2006: HK\$646.7 million).



(II) Treasury Policies

The Group generally finances its operation with internally generated cash flows and loan facilities provided by banks and financial institutions in Hong Kong. As at 30 September 2006, total outstanding short-term bank borrowings were approximately HK\$30.4 million. The interest rates for most of these loans were determined by reference to the Hong Kong dollar prime rate. The Group has no interest rate hedging arrangement during the period under review. The Board of Directors believes that the Group has sufficient financial resources to discharge its debts and to finance its operation.

(III) Foreign Exchange

The Group has no material foreign exchange exposure. 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 with the currency requirement of the Group's operating expenses.

(IV) Contingent Liabilities

The Group's contingent liabilities as at 30 September 2006 amounted to approximately HK\$3.5 million (31 March 2006: HK\$3.8 million).