

MANAGEMENT DISCUSSION & ANALYSIS

OVERVIEW

Through continuous effort to negotiate with its creditor banks in past years, debt restructuring of the Group had been completed during the year. The Group entered into settlement agreements with its creditor bank and a finance company around mid 2004 in relation to the Group's indebtedness of approximately HK\$222,200,000 and HK\$3,700,000 respectively. After payment of settlement sums of approximately HK\$35,400,000 and HK\$600,000 to the creditors by the Group and fulfillment of certain conditions pursuant to the agreements, the remaining balance of the Group's indebtedness was fully discharged by the creditors.

The Company also completed a subscription agreement with and allotted shares to an investor for a consideration of HK\$47,000,000 in September 2004. The proceeds from the subscription were mainly used as the settlement sums referred to above. For more details about the settlements and the subscription, please refer to the Company's circular dated 12 August 2004.

By comparing the business volume in 2004 to 2003, we notice that our pharmaceutical/healthcare unit, GenePro Medical Biotechnology Limited ("GenePro") continued to show stable growth this year.

With the introduction of the controlling shareholder to the Company, the management of the Group intends to carry on its existing businesses in the health care/pharmaceutical and property sectors and maintaining the listing of the Company on the main board of The Stock Exchange of Hong Kong Limited ("Stock Exchange"). In addition, the management of the Company will continue to look for potential investors for funding to finance potential projects for the development of the Group.

FINANCIAL RESULTS

As the Group disposed of all of its investment properties in 2003 to reduce indebtedness, there was no rental income generated in 2004 and the revenue was wholly contributed by our pharmaceutical/healthcare unit. Turnover recorded by the Group was HK\$1,169,000, representing a decrease of approximately 13.7% over that of 2003. However, if we count only our pharmaceutical/healthcare unit, it achieved a growth of approximately 11.4%.

Pursuant to the settlement agreements with the creditor bank and a finance company, most of the Group's bank indebtedness was settled or fully discharged by the creditors. As a result, interest on bank loans dropped substantially by 68.1% from HK\$29,258,000 in 2003 to HK\$9,332,000 in 2004.

The operating loss before provisions and other losses and gains continued to drop by 12% from HK\$11,033,000 to HK\$9,714,000 in 2004. The Group also recorded a successive net profit of HK\$217,547,000 within the last five years. This represents an increase of 126% when compared with that of 2003. Such improvements in financial results were the result of (i) effective cost cutting measures; (ii) gain on disposal of subsidiaries; (iii) gain on discharge of bank and other indebtedness and (iv) decrease in finance costs.

Earnings per share increased from HK31 cents in 2003 to HK45.9 cents in 2004.

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REVIEW OF OPERATIONS

Following the end of SARS in 2003, the turnover of GenePro returned to a rising trend. Turnover recorded by GenePro was HK\$1,169,000 for the year, representing an increase of 11.4% over that of the last year. In spite of this growth, the total turnover of the Group for the year dropped by 13.7% because no income was generated from our property investment segment as all of the investment properties had been disposed of in 2003.

The segment result of our pharmaceutical/healthcare unit had been improving because of cost cutting when GenePro moved to a cheaper but more spacious laboratory in Shatin in April 2004. The Group believes that GenePro will benefit from the growing demand for DNA related diagnostic and personal identification services in Hong Kong. In addition, GenePro plans to commercialise its R&D products and testing kits in response to market demand in the near future.

After debt restructuring of the Group during the year, the Group further reorganized its structure and disposed some of its inactive subsidiaries and an associate to independent third parties. As a result, administrative expenses and liabilities were greatly reduced. Save for the above mentioned, there were no significant changes with regard to the other activities of the Group as compared to the last year. Moreover, there were no material acquisitions and disposals of subsidiaries and associated companies during the year under review.

LIQUIDITY AND FINANCIAL RESOURCES

Around mid 2004, the Group entered into settlement agreements with Bank of China (Hong Kong) Limited (the "Bank") and a finance company in relation to the Group's indebtedness of approximately HK\$222,200,000 and HK\$3,700,000 respectively. The settlements (save for certain conditions) were completed in October 2004.

According to the settlement agreements between the Group and the Bank dated 30 June 2004 and 30 September 2004 ("BOC Agreements"), the Bank confirmed that a bank loan owed by Company and utilized by the Landune International Limited and certain of its subsidiaries ("Landune Group") amounting to approximately HK\$34,500,000 had been conditionally discharged and released pursuant to a settlement agreement entered into between Landune Group and the Bank in December 2003.

As a result of the above, a gain on discharge of bank and other indebtedness of approximately HK\$217,415,000 was recorded by the Group during the year.

As at 31 December 2004, the Group's total bank borrowings were comprised of unsecured loans and accrued interests owed by the three subsidiaries of the Company to the Bank in the amount of HK\$12,976,000 ("Undischarged Indebtedness"), representing a decrease of approximately HK\$243,952,000 or 94.9% as compared to that of the end of 2003.

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However, pursuant to the BOC Agreements, the Bank shall not take out or proceed with any claims against the Company for recovering the Undischarged Indebtedness. The Group also agreed with the Bank to wind up the said three subsidiaries. As the winding-up orders have been granted by court on 23 February 2005, the Undischarged Indebtedness will be deconsolidated from the Group's financial statements after the year end date and the Group will accordingly be discharged of the obligation to repay the Undischarged Indebtedness. For more details about the Undischarged Indebtedness, please refer to the Company's circular dated 12 August 2004.

Total liabilities (all of which were of current nature) decreased to HK\$50,675,000 by approximately HK\$263,813,000 or 83.9%, which was mainly caused by the reduction of bank and other borrowings and accrued interest for the year as mentioned above. Among the total liabilities, HK\$12,976,000 was the Undischarged Indebtedness as mentioned above, HK\$7,200,000 being the convertible note deposit and HK\$1,500,000 being the deposit received both have been settled subsequent to the year end date, HK\$10,149,000 was the trade and other payables and amount due to a securities broker and HK\$18,850,000 was provisions in respect of legal actions.

Current assets of the Group decreased by approximately HK\$4,301,000, mainly due to the decrease in trade and other receivables. The current ratio of the Group improved from 2.0% as at 31 December 2003 to 4.1% as at 31 December 2004, as a result of the substantial decrease in bank indebtedness and the reduction of liabilities by disposing of subsidiaries. The gearing ratio (total liabilities as a percentage of total assets) decreased from approximately 4,587.0% to 1,856.9% as at 31 December 2004, which was mainly due to (i) the decrease in current assets; and (ii) the fact that the extent of decrease in total liabilities was greater than the decrease in total assets for the year. As at 31 December 2004, the Group had a net capital deficiency of approximately HK\$47,946,000.

Although the Group still had a net capital deficiency, the Group's financial position had been substantially improved by debt restructuring and the subscription. As such, the Group will be in a much better position to raise funding for the operations and development of the Group.

Most of the cash and cash equivalents, investments and borrowings of the Group were made in Hong Kong dollars, and the borrowings of the Group were charged at floating interest rates. No financial instrument had been used for hedging purpose. During the year, the Group was not exposed to any material exchange rate fluctuation.

CHARGES ON ASSETS

As at 31 December 2004, certain assets of the Group with an aggregated carrying value of approximately HK\$525,000 were pledged to secure the Group's borrowings as compared to HK\$378,000 as at 31 December 2003.

EMPLOYEE REMUNERATION POLICY AND NUMBER OF EMPLOYEES

As at 31 December 2004, the Group engaged 16 employees and most of them were based in Hong Kong. The remuneration policy and package, including the share options, of the Group's employees are maintained at competitive level and reviewed annually by the management.

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CONTINGENT LIABILITIES

Details of the Group's contingent liabilities as at 31 December 2004 are set out in note 26 to the financial statements.

PROSPECTS

Trading of the share of the Company has been suspended at the request of the Company on 13 May 2004 and remains suspended. According to the Listing Rules, the Group is required to submit to the Stock Exchange a viable resumption proposal. After the debt restructuring and the subscription, the management has reviewed the Group's business operation and financial position and formulated business plans to expand the Group's existing business, particularly, the health care/pharmaceutical and property business in the PRC. The Group will keep seeking potential pharmaceutical/property projects in the PRC and soliciting other investors for additional funding for furthering our business developments.

GenePro is now at the position to market its R&D products and expand its market share in DNA diagnostics. It is GenePro's on-going mission to develop advanced DNA/RNA diagnostics platforms for diseases, as well as forging collaborations with research institutes and/or biotechnology companies in the PRC and abroad in order to become a significant player in the pharmaceutical/biotechnology/healthcare field.