

# MANAGEMENT DISCUSSION & ANALYSIS

## Overview

The financial position, performance and level of operations of the Group improved considerably in 2005 as the Group recorded a significant increase in turnover and a consolidated net profit. The balance of total assets also increased substantially during the year under review.

## Financial Results

The Group recorded a turnover of approximately HK\$11,207,000 and a profit for the year attributable to equity holders of the Company of approximately HK\$12,278,000 for the year ended 31 December 2005. An increase of 858.7% in turnover as compared to 2004 was due to the operation of the pharmaceutical business of the 60% owned subsidiary in Tianjin, the PRC, Tianjin Jinshun Pharmaceutical Co., Ltd. ("Tianjin Jinshun") commenced at the end of November 2005.

The net profit of the Group dropped in 2005 by 94.3% to approximately HK\$12,278,000 as there was a gain on discharge of bank and other indebtedness of HK\$217,415,000 recorded in 2004 but not in 2005.

There were three subsidiaries of the Company being wound up by the Group in February 2005 pursuant to the settlement agreements entered into between the Group and Bank of China (Hong Kong) Limited ("BOC") in 2004. As such, the Group recorded a reversal of losses of subsidiaries on deconsolidation of approximately HK\$13,021,000. Besides, the Group also recorded a gain on forfeitures of two deposits received in previous years in a total sum of HK\$8,700,000 as the Group reached settlements with the respective creditors in March 2005.

Staff cost of the Group kept on dropping and decreased by 25.2% to approximately HK\$4,057,000. However, other operating expenses increased by approximately 28.7% or HK\$1,467,000 mainly due to non-recurrent expenses including professional fees incurred by the Group and setting-up expenses of Tianjin Jinshun during the year.

## Review of Operations

### Hong Kong

In 2005, the operation in Hong Kong accounted for approximately 8.7% (2004: 100.0%) of the total turnover of the Group. It was the turnover contributed by the pharmaceutical and healthcare unit of the Group – GenePro Medical Biotechnology Ltd. ("GenePro"). The absolute turnover of GenePro decreased by 16.6% to approximately HK\$975,000 when GenePro started to market lower-price, but less costly in-house-developed versions of its test, instead of the higher-priced import versions. Nonetheless, the segment results of the Hong Kong segment has actually improved, at the same level of operation, as the cost control of GenePro in 2005 was more effective than in 2004. The Group expects GenePro's revenue and profit will greatly increase when its products are launched.

### The PRC

Approximately 91.3% (2004: nil) of the turnover of the Group was generated by the Group's pharmaceutical distribution business in the PRC. In September 2005, the Group established Tianjin Jinshun with three independent third parties and owned as to 60% and 40% in the interests of Tianjin Jinshun respectively. This 60% owned PRC subsidiary commenced operation at the end of November 2005 and engaged principally in distribution of pharmaceutical products. Within the month of December in 2005, this subsidiary generated a turnover of approximately HK\$10,232,000.

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Although Tianjin Jinshun recorded a minimal profit in the year 2005 as a whole, based on only one month's revenue and as a result of setting-up expenses, the Group's share of profit from this subsidiary was compensated by the profit guaranteed by the other two equity partners. In the long term, however, the Group expects that Tianjin Jinshun will provide the Group with steady income.

Save for the formation of Tianjin Jinshun and the winding up of three former subsidiaries, there were no significant changes in respect of other activities of the Group as compared to 2004 and no material acquisitions and disposals of subsidiaries and associates during 2005.

### *Liquidity and Financial Resources*

As at 31 December 2005, the Group had total assets of approximately HK\$38,461,000 (2004: HK\$2,729,000), among which, HK\$37,861,000 (2004: HK\$2,086,000) were current assets comprised mainly of trade and other receivables of HK\$15,513,000, bank balance and cash of HK\$17,369,000.

After the deconsolidation of the three former subsidiaries, the Group had borrowings of HK\$1,244,000 as at the end of 2005. Total liabilities of the Group amounted to approximately HK\$64,023,000 were all classified as current liabilities. Among the total liabilities, approximately HK\$25,663,000 was the fair value of the liability component of a zero-coupon convertible note in the principal amount of HK\$30 million (the "Note"). The Note was issued to the controlling shareholder of the Company which will be mandatorily and automatically converted into ordinary shares of the Company upon, *inter alia*, the trading of the shares of the Company resumes. Although the Note was regarded as current liabilities as at 31 December 2005, the maturity date of the Note has been extended by the Note holder further to 7 December 2007 after the year end date. The other current liabilities included mainly other borrowings of HK\$1,244,000, trade and other payables of HK\$18,266,000 and provisions of HK\$18,850,000.

The financial position of the Group as at 31 December 2005 significantly improved as compared to that of 31 December 2004. It is evidenced by: (i) the decrease in gearing ratio (total liabilities as a percentage of total assets) from 1,856.9% of the corresponding period to 166.5% at the end of 2005; and (ii) the improvement in current ratio from 4.1% as at 31 December 2004 to 59.1% as at 31 December 2005. Should the Note of HK\$30,000,000 mentioned above be converted, the Group would probably improve from net liabilities position to net assets position.

Most of the sales, sales-related costs and expense, and a portion of the assets and liabilities of the Group are denominated in Renminbi. Renminbi revenue and profit generated are applied to meet the Renminbi obligations of the Group. Other cash and cash equivalents, investments and borrowings of the Group were made in Hong Kong dollars. As such, no financial instruments had been used for hedging purpose. During the year, the Group had not been exposed to any material exchange rate fluctuation.

### *Charges on Assets*

As at 31 December 2005, certain assets of the Group with aggregate carrying value of approximately HK\$266,000 were pledged to secure the Group's borrowing as compared to HK\$525,000 as at 31 December 2004.

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## *Employee Remuneration Policy and Number of Employees*

As at 31 December 2005, the Group employed 70 employees in Hong Kong and the PRC. The remuneration policy and package, including the share options, of the Group's employees are maintained at competitive level and will be reviewed annually by the Remuneration Committee.

## *Contingent Liabilities*

Details of the Group's contingent liabilities as at 31 December 2005 are set out in note 28 to the financial statements.

## *Prospects*

In 2006, the Group will operate in full gear to elevate its operation level and increase its assets. The business development of Tianjin Jinshun, as planned, would be benefited from the continuing growth of the pharmaceutical industry and products in the PRC and the government policies on improving healthcare. To capitalise these factors and opportunities in the market, the management will focus on:—

- (i) expanding the sales network in the Tianjin area and its geographical coverage;
- (ii) adjusting product mix to increase profitability;
- (iii) launching new products/services from GenePro;
- (iv) establishing a marketing/sales network based on GenePro and Tianjin Jinshun; and
- (v) seeking opportunities to collaborate with drug manufacturers/suppliers to achieve vertical integration.

With the expertise and personnel the Group possessed, the management is optimistic that the business plans will be materialised and the current operation of the Group will provide it with steady income and achieve a sustainable growth in the coming year.