

# MANAGEMENT DISCUSSION AND ANALYSIS

## BUSINESS REVIEW

### OVERVIEW

The financial position, performance and level of operations of the Group improved substantially during the period under review as the Group recorded significant business activities that resulted in increases in turnover and total assets.

### FINANCIAL RESULTS

For the period ended 30 June 2006, the Group recorded a turnover of approximately HK\$73,669,000 representing an increase of 157 times or HK\$73,204,000 in turnover over that of the corresponding period last year. The significant increase was attributable to the inclusion of the results of Tianjin Jinshun Pharmaceutical Co., Ltd. ("Tianjin Jinshun"), the 60% owned subsidiary in Tianjin, the PRC.

On 7 April 2006, Hong Jin Holdings Limited ("Hong Jin"), the controlling shareholder of the Company exercised its discretion to extend the maturity date of a HK\$30 million zero-coupon convertible note (the "Note") by one year to 7 December 2007. Accordingly, the Group recorded a gain on adjustment of amortised cost of the convertible note of HK\$3,375,000.

During the period, the Group recognised a guarantee income receivable from two minority shareholders of Tianjin Jinshun in the amount of HK\$1,333,000 pursuant to the joint venture agreement in respect of the formation and running of Tianjin Jinshun.

These contributed to the Group recording a total other income of HK\$5,078,000 for the first six months of 2006.

Consolidated loss for the period was HK\$115,000 as compared to a profit of HK\$17,016,000 for the same period in 2005. Excluding the non-recurrent gains of HK\$13,021,000 and HK\$8,700,000 arising from the reversal of losses of subsidiaries on deconsolidation and forfeiture of deposits received respectively recorded in 2005, the Group's half yearly results actually improved substantially compared to the first half of 2005.

Finance cost for the six months ended 30 June 2006 increased by HK\$2,467,000 or 13 times to HK\$2,653,000. The increase was attributable to the imputed interest incurred on the Note, with no cashflow implication to the Group.

Staff cost of the Group continued to drop, and by 21.5% compared to HK\$2,031,000 of the corresponding period to approximately HK\$1,595,000 for the period under review. However, other operating expenses of the Group increased by approximately 38.0% or HK\$1,014,000 as a result of Tianjin Jinshun becoming fully operational during the period.

Loss per share for the period was 0.06 HK cents (*Six months ended 30 June 2005: earnings per share of 1.78 HK cents*) because of the loss recorded for the period.

## REVIEW OF OPERATIONS

### *Hong Kong*

During the period, the operation in Hong Kong accounted for approximately 0.8% (*Six months ended 30 June 2005: 100.0%*) of the total turnover of the Group, contributed by the pharmaceutical and healthcare unit of the Group – GenePro Medical Biotechnology Ltd. (“GenePro”). Despite stiff competition, GenePro had increased (i) market share in paternity/forensic testing sector; (ii) activities related to the more expensive and yet more complicated cases that were solved by its in-house technology; and (iii) direct sales to walk-in customers. As a result, the turnover of GenePro increased by 31.2% to approximately HK\$610,000 during the period under review and is in a healthy trend.

As GenePro developed its own technology which utilises raw material from suppliers rather than expensive testing kits from external sources, gross profit margin also improved during the period.

### *The PRC*

Since the beginning of 2006, the Chinese government has undertaken control measures on the pharmaceutical market and health institutions as a result of a series of changes in senior pharmaceutical regulators.

This slow down in governmental approvals has translated into a number of new products which the Group planned to introduce in the first half of 2006 to be postponed. Only several new products were introduced. Nonetheless, the Group continued to distribute its existing products which generated a respectable revenue of approximately HK\$73,059,000 for the first half of 2006 which accounted for 99.2% (*Six months ended 30 June 2005: Nil*) of that of the Group.

Save for the operation of Tianjin Jinshun, there were no significant changes in respect of other activities of the Group as compared to the first half of 2005 and no material acquisitions and disposals of subsidiaries and associates during the six months ended 30 June 2006.

## LIQUIDITY AND FINANCIAL RESOURCES

Total assets of the Group increased to approximately HK\$61,457,000 as at 30 June 2006 (*31 December 2005: HK\$38,461,000*). Among the total assets, HK\$60,827,000 (*31 December 2005: HK\$37,861,000*) were current assets including trade and other receivables of HK\$42,995,000, bank balances and cash of HK\$13,465,000.

At 30 June 2006, the Group had total liabilities of HK\$82,630,000 including the Note of HK\$30 million held by the controlling shareholder of the Company. Because of the extension of the maturity date to 7 December 2007, the carrying amount of the Note amounted to HK\$24,847,000 was recognised as long term borrowing. Current liabilities of the Group as at the balance sheet date were HK\$57,783,000 (*31 December 2005: HK\$64,023,000*) comprising of other borrowings of HK\$1,339,000, trade and other payables of HK\$37,432,000 and provisions of HK\$18,850,000. The Note is to be converted to new shares of HK\$0.17 each upon the resumption of trading of the Company's shares.

Gearing ratio (total liabilities as a percentage of total assets) of the Group decreased to 134.5% of the current period (31 December 2005: 166.5%). Current ratio improved substantially from 59.1% as at 31 December 2005 to 105.2% as at 30 June 2006.

At the period end, the Group had capital deficiency of HK\$21,173,000. Should the Note be converted, the Group's net liabilities position will be reverted 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 period, the Group had not been exposed to any material exchange rate fluctuation.

### **CHARGES ON ASSETS**

As at 30 June 2006, certain assets of the Group with an aggregated carrying value of approximately HK\$330,000 were pledged to secure the Group's borrowings as compared to HK\$266,000 as at 31 December 2005.

### **EMPLOYEE REMUNERATION POLICY AND NUMBER OF EMPLOYEES**

As at 30 June 2006, the Group engaged 63 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 reviewed annually by the Remuneration Committee.

### **CONTINGENT LIABILITIES**

There has been no material change in contingent liabilities since the publication of the Company's 2005 Annual Report.

### **PROSPECTS**

During the period under review, the Group experienced improvement in financial position and at operation level. The directors are confident that they have found the right way to bring the Group back to profitability and persistent business growth. With this belief in mind, the directors will continue to develop the business of the Group by focusing on the targets set out in the Company's annual report 2005.

The Company has also reached settlement with a plaintiff of a legal action against the Company and is now waiting for the execution of the formal agreement with the counterparty. In this regard, the liabilities of the Company are expected to be further reduced in the latter half of 2006. Announcements will be made by the Company regarding the development on the settlement as and when appropriate.

On the financial front, the Group has been considering using equity finance to strengthen its financial resources for future opportunities in pharmaceuticals via increasing its capital base for several months. To put plan to action, the Company is negotiating with its controlling shareholder regarding a proposed rights issue on fully underwritten basis to raise approximately HK\$45 million. This is expected to be concluded shortly and an announcement pursuant to the requirements of the Listing Rules will be made.

Trading of the shares of the Company has been suspended at the request of the Company since 13 May 2004. According to Rule 13.24 of the Listing Rules, the Company shall carry out, directly or indirectly, a sufficient operations or have tangible assets of sufficient value and/or intangible assets for which a sufficient potential value can be demonstrated to the Stock Exchange to warrant the continued listing of its shares. A proposal was submitted to the Stock Exchange to demonstrate the Company's compliance with Rule 13.24. The Listing Committee and Listing (Review) Committee have rejected the proposal and the Company currently is in the process of appealing to the Stock Exchange against this decision. In view of the improvements in its financial position and operation level had been achieved since last year, further possible reduction of liabilities and funding from the proposed rights issue as aforementioned, the business is viable and sustainable and the directors are optimistic that it can achieve the resumption of trading of its shares.

## **AUDIT COMMITTEE**

The Audit Committee has three members including Mr. Zhou Haijun, Mr. Ng Wai Hung and Mr. Xu Zhi, all of them are independent non-executive directors.

The Audit Committee of the Company has reviewed with the management the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters including the review of the unaudited interim financial report. The interim financial report have not been audited, at the request of the directors, the Group's external auditors have carried out a review of the unaudited interim financial report.

## **INTERIM DIVIDEND**

The Board does not recommend the payment of any interim dividend for the six months ended 30 June 2006 (*Six months ended 30 June 2005: Nil*).

## **PURCHASE, SALE OR REDEMPTION OF SHARES**

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed shares during the period ended 30 June 2006.

## **DIRECTORS' INTERESTS IN EQUITY SECURITIES**

As at 30 June 2006, the interests of the directors and the Company's chief executives in the equity or debt securities of the Company or any associated corporation (within the meaning of the Securities and Futures Ordinance ("SFO")) which were required to be notified to the Company and the Stock Exchange pursuant to section 347 of the SFO (including interests which they were

deemed or taken to have under sections 344 and 345 of the SFO) or pursuant to the Model Code for Securities Transactions by Directors of Listed Companies in the Listing Rules, or which were recorded in the register required to be kept under section 352 of the SFO, were as follows:

<b>Name of director/ Chief executive</b>	<b>Number of ordinary Shares held</b>	<b>Nature of interest</b>	<b>Percentage of issued share capital</b>
Wu Kwai Yung	643,835,616	Corporate (Note 1)	67.5%
	176,470,588	Corporate (Note 2)	18.5%
Leung Hon Man	54	Nominee (Note 3)	0.0%

Notes:

- (1) The corporate interest is held by Hong Jin Holdings Limited, the controlling shareholder of the Company, which is owned as to 70% and 30% by Mr. Wu Kwai Yung and Mr. Wu Lui Yip, the son of Mr. Wu Kwai Yung, respectively.
- (2) 176,470,588 new shares will be issued to Hong Jin Holdings Limited upon conversion of the HK\$30 million zero-coupon convertible note. By virtue of the SFO, Mr. Wu is deemed to have corporate interests in the 176,470,588 shares.
- (3) Mr. Leung was authorised to hold the fractions of the consolidated shares arising from the share consolidation effective on 18 October 2002.

Save as disclosed above, as at 30 June 2006, none of the directors or their associates had any personal, family, corporate or other interest in the equity securities or debentures of, or has a short position in shares in the relevant share capital of the Company or any of its associated corporations (as defined in the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to section 347 of the SFO (including the interests which they were deemed or taken to have under sections 344 and 345 of the SFO) or pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules or which are required, pursuant to section 352 of the SFO, to be entered in the register referred to herein.

## **EMPLOYEE SHARE OPTIONS**

A new Company's share option scheme (the "Scheme") was approved by shareholders of the Company on 29 June 2004. The Scheme is yet to take effect and is subject to the Listing Committee of the Stock Exchange granting the approval of listing of and permission to deal in the shares of the Company which may be issued pursuant to the exercise of the options under the Scheme up to 10 per cent. of the total issued share capital of the Company as at the date of adoption of the Scheme. The following is a summary of the major terms of the Scheme:

- (i) The purpose of the Scheme is to provide the eligible participants with the opportunity to acquire proprietary interests in the Company and to encourage the eligible participants to work towards enhancing the value of the Company and its shares of the Company for the benefit of the Company and the shareholders of the Company as a whole.

- (ii) Eligible participants of the Scheme include employees, directors (including executive, non-executive and independent non-executive directors), shareholders, advisors and consultants of the Group.
- (iii) The Scheme, unless otherwise cancelled or amended, shall be valid and effective for a period of ten years commencing on the adoption date of the Scheme.
- (iv) The overall limit on the number of shares of the Company which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Scheme must not exceed 30 per cent. of the shares of the Company in issue from time to time.
- (v) The maximum number of shares of the Company issued and to be issued upon exercise of the options granted to any one eligible participant in any 12-month period must not exceed 1 per cent. of the shares of the Company in issue from time to time.
- (vi) The subscription price shall be determined by the Board of the Company in its absolute discretion and shall be no less than the highest of:
  - (a) the closing price of the share of the Company as stated in the daily quotations sheet issued by the Stock Exchange on the date of the grant;
  - (b) the average closing price of the share of the Company as stated in the daily quotations sheets issued by the Stock Exchange for the 5 trading days immediately preceding the date of grant; or
  - (c) the nominal value of the share of the Company on the date of grant.
- (vii) The options must be taken up within 30 days from the date on which the letter containing the offer to the eligible participant to take up an option is delivered to the eligible participant upon payment of HK\$1 and are exercisable over a period to be determined and notified by the Board to each grantee.

## SUBSTANTIAL INTERESTS IN THE SHARE CAPITAL OF THE COMPANY

As at 30 June 2006, the following interests (whether direct or indirect) of 5% or more of shares comprised in the share capital of the Company were recorded in the register of interests in shares and short position required to be kept by the Company pursuant to section 336 of the SFO:

Name of shareholder	Number of shares held	Approximate percentage of existing issued share capital of the Company
Hong Jin Holdings Limited (Note 1)	643,835,616	67.5%
	176,470,588 (Note 2)	18.5%

Note:

- (1) Hong Jin Holdings Limited, the controlling shareholder of the Company, which is owned as to 70% and 30% by Mr. Wu Kwai Yung and Mr. Wu Lui Yip, the son of Mr. Wu Kwai Yung, respectively.
- (2) 176,470,588 new shares will be issued to Hong Jin Holdings Limited upon conversion of the HK\$30 million zero-coupon convertible note. By virtue of SFO, Hong Jin Holdings Limited is deemed to have interests in the 176,470,588 shares.

According to the register of interests in shares and short positions kept by the Company under section 336 of the SFO and so far as was known to the directors, other than the interests disclosed above, there was no other person (other than a director or chief executive of the Company) who, as at 30 June 2006, was directly or indirectly, beneficially interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meeting of the Company or in any options in respect of such capital.

## **CODE ON CORPORATE GOVERNANCE PRACTICES**

The Company has complied with the Code on Corporate Governance Practices (the "CG Code") as set out in Appendix 14 to the Listing Rules throughout the accounting period covered by the interim report, with deviations from code provision A.4.1 of the CG Code that the independent non-executive directors of the Company are not appointed for specific terms. However, all directors (executive and independent non-executive) are subject to retirement by rotation in accordance with the Company's Articles of Association. As such, the Company considers that sufficient measures have been taken to ensure that the Company's corporate governance practices are no less exacting than those in the CG Code.

## **MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS**

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 to the Listing Rules. Having made specific enquiry of all directors, the Company confirms that all directors have complied with the required standard set out in the Model Code throughout the accounting period covered by the interim report.

By Order of the Board  
**Wu Kwai Yung**  
*Chairman*

Hong Kong SAR, 27 September 2006