

Management Discussion & Analysis

OVERVIEW

The Group has made certain progress in its business restructuring during the year. A substantial part of the property portfolio has been disposed of during the year to generate cash to reduce debt level and interest expenses of the Group. Another non-core operation, the transportation business of the Group, had been discontinued in the last quarter of the year to constrain operating expenses of the Group. Cost cutting measures were also undertaken by the Group to reduce its administrative expenses. After the acquisition of GenePro Medical Biotechnology Limited ("GenePro") in the end of 2001, some of the Group's available resources have been put into this pharmaceutical/bio-pharmaceutical unit in Hong Kong. In October 2002, the Company had completed a capital reorganisation scheme which included a reduction of capital, cancellation of share premium, increase of the authorised share capital and consolidation of shares, further details of which are set out in note 22(b) to the financial statements. Nominal value of the shares of the Company has been adjusted from HK\$0.20 to HK\$0.02. As a result of the capital reorganisation, the Company has more flexibility to raise funds by issuing new shares when the opportunity arises. In order to improve the financial position of the Group, the Group is still negotiating with its creditor banks in respect of the debt restructuring plan. The Group is also in discussions with certain potential investors for making investments in the Group. However, no agreement has yet been reached.

FINANCIAL RESULTS

The Group recorded a consolidated turnover of HK\$6,785,000 for the year, representing a decrease of approximately 73.1% as compared with that of last year. This decline was mainly due to the drop of rental income as the Group continued to dispose of its investment properties and the reduction of income as a result of the termination of the sand trading business in 2001 and the scaling down of the transportation business during the year. The operating loss before provisions and other losses and gains dropped from HK\$20,452,000 in 2001 to HK\$12,966,000 this year, representing a decrease of approximately 36.6%. This was mainly caused by the termination of the sand trading business and the scaling down of the loss-making transportation business as well as the adoption of effective cost cutting measures. The net loss of the Group for the year amounted to HK\$139,393,000, representing a decrease of approximately 53.3% over that of last year. Such net loss was mainly attributable to: (i) the additional provision made in respect of corporate guarantees provided to creditor banks for certain subsidiaries of Singapore Hong Kong Properties Investment Limited ("SHKP") as a result of the revaluation deficit from the pledged properties owned by SHKP; (ii) the revaluation deficit from properties owned by the Group; and (iii) the pre-operating expenses and impairment loss in respect of the Group's associated company in the People's Republic of China ("PRC").

As a result of the continued reduction of bank borrowings during the year, interest expense was reduced to HK\$24,875,000, representing a decrease of approximately 33.7% over that of last year.

Loss per share was 45 HK cents as compared to 96.2 HK cents (after adjustment for share consolidation) for last year, representing a decrease of approximately 53.2%.

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REVIEW OF OPERATION

The rental income of the year amounted to HK\$5,304,000, representing a decrease of approximately 52.3% as compared with that of last year. Such decrease was mainly attributable to the disposal of a substantial portion of the Group's property portfolio in this year. Total proceeds from the disposals during the year amounted to HK\$100,456,000, which were mainly used to repay bank borrowings. As the secondary property market conditions in Hong Kong continued to remain sluggish and prices continued to decline, the Group has written down the value of its property assets for a total of HK\$8,838,000, representing a decrease of approximately 95.5% as compared with that of last year. In August 2002, the properties of the Group located at Convention Plaza were taken possession by the receivers appointed by its mortgagee bank. The Group is aware that such properties were disposed of subsequent to the year end and no material negative impact on the Group is expected therefrom. The Group will continue to dispose of its remaining property portfolio. In November 2002, the Group acquired a 20% interest in Biosonic Limited, the principal activity of which is the provision of general property related consultancy services, with the view of broadening its source of revenue. However the contribution of this associated company to the Group was insignificant for the year.

As a result of the scaling down of the transportation business, income generated therefrom reduced significantly from HK\$4,364,000 in 2001 to HK\$647,000 in 2002, representing a decrease of approximately 85.2%. Nevertheless, the operating loss of this business unit reduced substantially from HK\$14,222,000 for last year to HK\$1,471,000 for this year, representing a decrease of approximately 89.7%. Apart from scaling down the operation of the transportation business, the Group had also disposed of certain assets of this business unit, such disposals had generated total proceeds of approximately HK\$4,773,000, which were mainly used as additional working capital of the Group. In view of the lacklustre general trading and economic conditions of Hong Kong in the near future, the Group had discontinued the operation of its transportation business in the last quarter of 2002.

The Group is the 49% equity partner of a wholly foreign-owned enterprise established in Beijing, the PRC ("WFOE"), which is intended to engage in the pharmaceutical/bio-pharmaceutical business in the PRC. During the year, the Group had been in discussion with the other 51% equity partner of the WFOE as to which projects should be invested by the WFOE. However, no agreement between the partners of the WFOE could be reached and as such, the WFOE had not commenced operation yet. The pre-operating expenses incurred by the WFOE during the year had been provided for by the Group. In view of this deadlock situation and the current financial position of the Group, the Group entered into a conditional sale and purchase agreement with an independent party in relation to the disposal of its 49% interest in the WFOE on 27 March 2003. Total consideration for the disposal will be HK\$12,000,002, of which HK\$3,000,000, HK\$1,000,000 and HK\$8,000,000 are intended to be used to finance the operation of GenePro, settle the indebtedness owed to a creditor bank and as additional working capital of the Group respectively. As a result, an impairment loss on the interest in the associate of HK\$7,598,000 was incurred. Further details of the sale and purchase agreement are set out in note 31(c) to the financial statements.

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The turnover of GenePro amounted to HK\$834,000 for 2002, the first year of full-year operation after its acquisition by the Group in December 2001. GenePro has been engaged in research and development of genetically engineered products and provision of DNA testing services in the molecular diagnosis of diseases and personal identity. It is one of the leading laboratories in Hong Kong that has the capability to develop and provide DNA related diagnostic services. With the funding from the disposal of the WFOE, GenePro will be able to develop and commercialise its diagnostic products in the future. As the Group decided to concentrate its resources in Hong Kong at this stage, the testing centre of GenePro in Huizhou established in the first half of the year was closed toward the end of the year.

There were no significant changes with regard to the other activities of the Group as compared to last year. Save as mentioned above, there were no material acquisitions and disposals of subsidiaries and associated companies in the year under review.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2002, the Group's total bank borrowings comprising mortgage loans, trust receipt loans and overdrafts amounted to HK\$199,317,000, representing a decrease of approximately HK\$117,155,000 or 37.0% as compared to that of last year. This was mainly caused by the repayment of bank borrowings with the proceeds from the disposal of properties in this year. All of the total bank borrowings were immediately due and should have been repaid to the relevant creditors. However, total liabilities decreased by only approximately 2.0% to HK\$461,367,000 mainly due to the further provision made in respect of corporate guarantees provided to creditor banks for certain subsidiaries of SHKP and the net increase in accrued interest expenses amounting to HK\$24,177,000. Current ratio of the Group decreased from approximately 10.0% as at 31 December 2001 to approximately 3.1% as at 31 December 2002. This was mainly attributable to the decrease in current assets resulting from repayment of amount due from SHKP, holding losses on other investments and decrease in bank balances and cash. The gearing ratio (total liabilities as a percentage of total assets) increased from approximately 227.6% as of 31 December 2001 to approximately 806.6%, which was mainly due to the decrease of total assets as referred to above and as a result of the net loss of HK\$139,393,000 incurred during the year. As at the end of the year, the Group had a net deficit of HK\$405,154,000.

In order to improve its financial position and liquidity, the Group is currently in negotiation with its creditor banks in relation to a debt restructuring plan. The Group is also in discussions with certain potential investors for making investments in the Group.

However, prior to the finalization and completion of the debt restructuring plan, should the Group's creditors demand for repayment of the immediately due borrowings, the Directors currently estimate that the Company may have difficulty in making full repayment immediately. If such circumstance occurs, the Directors currently anticipate that the Group will experience a liquidity problem.

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Most of the 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, and the Group was not exposed to any material exchange rate fluctuation during the year.

CHARGES ON ASSETS

As at 31 December 2002, certain assets of the Group with an aggregated carrying value of HK\$28,330,000 were pledged to secure the Group's borrowings as compared to HK\$133,214,000 as at 31 December 2001.

EMPLOYEE REMUNERATION POLICY AND NUMBER OF EMPLOYEES

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. As at 31 December 2002, the Group had 17 employees and were all based in Hong Kong.

CONTINGENT LIABILITIES

Details of the Group's contingent liabilities as at 31 December 2002 are set out in note 27 to the accompanying financial statements.

PROSPECTS

The Group believes that the pharmaceutical/bio-pharmaceutical business in Hong Kong and the PRC has substantial growth potential in the future. Currently, the Group plans to focus its available resources on the development of GenePro, one of the leading DNA laboratories in Hong Kong which is expected to have a lot of room to grow. At the same time, the Group will continue to work on the debt restructuring plan and solicit investors in making investments in the Group. Upon finalisation of the above, the Group believes that it will have a much improved financial position and resources to support its business endeavors. Meanwhile, the Group will continue to dispose of its remaining property portfolio and non-core assets in order to reduce debt level and to fund its existing core business.