

## Management Discussion and Analysis

### BUSINESS REVIEW

#### Protein Chips Operation

2003 has been a critical year for the Group. The most significant event was the acquisition of HD Global Limited (“HD Global”) in July 2003. HD Global owns 95% interest in Huzhou HealthDigit Co., Ltd. (“HealthDigit”) which has a broad capability in human protein discovery. HealthDigit develops and sells Protein Chip System for Multi-tumor Marker Detection (“C12 Products”) and the relevant inspection equipment for the diagnosis of cancer at early stage.

C12 Products, the flagship product range of HealthDigit, are capable of detecting up to twelve tumor markers at the same time and assists with the medical diagnosis of ten prevalent cancers namely liver cancer, breast cancer, penile cancer, esophageal cancer, colon anal cancer, lung cancer, ovarian cancer, pancreatic cancer and endometrial tumor at an early stage, increasing the success rate for inspection and recovery to over 80%. The product has been awarded a new medicine certificate and approval for manufacturing. Commercial production commenced in December 2001 and the product was officially launched in the market in 2002. Currently there is no identical substitute available in the market and this puts the Company in a favorable position to enjoy first mover advantages in this already enormous and growing market.

In 2003, the Group has already entered into long-term collaboration agreements with several key insurance corporations including Taiping Life Insurance and China Life CMG in the PRC to include the C12 Products in the standard health check program. These collaborations enable the Group to have immediate and direct access to the existing mass insurance clientele.

Being the first biotechnology enterprise in the PRC dedicated in the research and the development of proteomic products for the clinical assistance of medical consultation and inspection, the Group has benefited from the growing demand for proteomic related diagnostic in the PRC. After the SARS outbreak in the first half of the year, the general public has recognized the importance of diagnostic products to detect diseases. The Group believes that this trend will continue as the advantages and application of proteomic diagnostic tools are getting better understanding and acceptance by medical professionals as well as the community at large.

#### Property Investment

In February 2003, the Group acquired the entire issued share capital of Fieldcrown Investments Limited which holds the entire equity interest in level 2 and level 3, East Phase, New Century Plaza, 48 Xing Yi Lu, Chang Ning Qu, Shanghai, PRC. In addition, the Group acquired the entire issued share capital of Giant Power International Limited which indirectly holds the entire equity interests in Shanghai Heng King International Commercial Tower located at 40, Jiang Su Lu, Chang Ning Qu, Shanghai, PRC in May 2003. These properties are grade A offices located in the prime commercial center in Shanghai, PRC.

### Computer Products Trading

The Group commenced its computer products trading business in Hong Kong and the PRC in July 2003. The Group acquired 51% equity interest of 上海龍祥電腦有限公司, a company engaged in the distribution of computer chips and accessories in the Shanghai region in June, 2003.

### Publishing Operations

The publishing operations was disposed by the Group by way of a distribution in specie of its entire shareholding in Sing Tao Media Holdings Limited (“STM”) to the shareholders of the Company in the proportion of one STM share for every share in the Company held by the shareholders on 21st August, 2002. The publishing operations was regarded as discontinuing operations in 2002.

### Commercial Printing Operations

The Group disposed of the commercial printing operations on 19th April, 2002. The commercial printing operations was regarded as discontinuing operations in 2002.

## FINANCIAL PERFORMANCE

The consolidated turnover of the Group amounted to HK\$456.0 million (2002: HK\$538.9 million) for the year under review, representing a decrease of approximately 15.38% over that of last year. The decline in turnover was mainly attributable to the disposal of the Group’s commercial printing operations on 19th April, 2002 and publishing operations on 21st August, 2002.

The net profit attributable to shareholders was HK\$33.7 million (2002: HK\$118.9 million), representing a decrease of approximately 71.66% over that of last year. Earnings per share were HK\$1.41 cents (2002: HK\$5.67 cents), representing a decrease of approximately 75.13%. The decline in net profit attributable to shareholders was mainly attributable to the profit on disposal of subsidiaries in year 2002.

### Protein Chips Operation

The Group started its medical diagnostic products and services business in the PRC in July 2003. Turnover contributed by the official launch and the successful sales of C12 Products amounted to HK\$33.0 million (2002: Nil), representing approximately 7.24% of the total turnover of the Group.

### Property Investment

Turnover contributed by the property investment business amounted to HK\$10.6 million, (2002: HK\$124,000). The significant growth was mainly contributed by the increase in the rental revenue generated from the newly acquired high-yield commercial properties in Shanghai. These properties are grade A offices located in the prime commercial center in Shanghai, PRC.

## Management Discussion and Analysis

### Computer Products Trading

The Group started its computer products trading business in Hong Kong and the PRC in July 2003. Turnover contributed by the computer products trading business amounted to HK\$412.4 million (2002: Nil).

### PROSPECTS

The outlook for the Group for 2004 is extremely promising. There is no doubt that the PRC represents one of the largest and rapidly growing markets for our medical diagnostic products and services. With management insight in the medical diagnostic and detection market potential, the technology know-how in proteomic discovery, and the successful and encouraging results in 2003, the Group decided to concentrate its resources in the medical diagnostic products and services.

Management is committed to achieve the following key milestones and to deliver solid financial results to our shareholders in 2004.

1. expand production capacity for our proteomic products in the PRC;
2. commence mass production of various proteomic chips and diagnostic systems;
3. build and strengthen the distribution channels and after-sales support services;
4. commit more resources in marketing campaigns and other marketing activities to promote the products and service;
5. continue with new research, discovery and product innovations; and
6. enter the international marketplace through applying international patent rights for the technology, building an international distribution network or through cooperation with potential overseas partners for joint production activities.

The management is confident to further expand its protein chips operations in 2004. Our near-term growth drive is to increase sales of our proteomic products by including the products into standard health check programs. Our medium-term growth drives are to develop several proteomic related projects that could further contribute significantly to our growth. We expect the Group will achieve impressive and steady results through the launching of these reliable and technologically advanced medical diagnostic products and services in the long term. The Group is optimistic that by the continual implementation of business plans and strategies adopted in the year, the Group will be able to capitalize on its competitive edge and establish the Group as one of the leading biotechnology and medical diagnostic service providers dedicated in research and development, production as well as distribution in the PRC.

### LIQUIDITY AND FINANCING

The Group adopts a prudent approach in managing its liquidity and treasury function and sets out guidelines to achieve these objectives. These guidelines cover the Group's debt profile, financing horizon and interest rate risks management.

At 31st December, 2003 the Group had cash and bank balances of HK\$28.0 million (2002: HK\$41.6 million). The Group's gearing ratio as at 31st December, 2003 was 0.221 (2002: 0.003), based on bank and other borrowings of HK\$64.4 million (2002: HK\$308,000) and shareholders' fund of HK\$291.6 million (2002: HK\$102.3 million).

The Group's bank borrowings were denominated in Hong Kong Dollars and Renminbi. Bank borrowings totaling HK\$64.4 million were outstanding as at 31st December, 2003. Annual interest rates of the borrowings denominated in Hong Kong Dollars and Renminbi as at 31st December, 2003 were approximately 2.25% and 5.76% respectively.

Revenue generated from medical diagnostic products and services business, rental income generated from investment properties in the PRC, and the payment for purchases of materials, components, equipment and salaries are made in Renminbi. Use of financial instruments for hedging purposes is considered unnecessary and the exposure to exchange rate fluctuation is minimal.