

OVERVIEW

The Group has made significant progress in its debt restructuring during the year. In June 2003, the Company had executed a settlement deed with one of its creditor banks and Singapore Hong Kong Properties Investment Limited (“SHKP”) that the bank would waive our indebtedness amounting to approximately HK\$14,493,000 for a consideration of HK\$1,000,000. In September 2003, the Company entered into another settlement deed with another creditor bank, SHKP and certain of SHKP’s subsidiaries, pursuant to which the creditor bank agreed to discharge and release all the liabilities and obligations of the Company under a guarantee given by the Company in favour of the creditor bank in respect of the banking facilities extended to a SHKP’s subsidiary for a consideration of HK\$850,000. Also, the Company was notified by its major creditor bank in March 2004 that all the Company’s liabilities and obligations under certain guarantees given by the Company in favour of the creditor bank in respect of certain of SHKP’s subsidiaries were discharged and released pursuant to the terms of the settlement under the settlement agreement dated 31 December 2003 made between, inter alia, SHKP, certain of SHKP’s subsidiaries and the creditor bank. As a result, provisions previously made against these guarantees and indebtedness amounting to approximately HK\$108,265,000 were written back this year.

The remaining property portfolio and other non-core assets of the Group were continued to be disposed of to reduce bank borrowings and generate additional working capital. As most of the Group’s loss-making non-core business operations had been terminated and effective cost cutting measures were implemented, operating expenses of the Group were reduced significantly. Despite the negative impact of the SARS incident in the first half of the year, the business of our pharmaceutical/bio-pharmaceutical unit, GenePro Medical Biotechnology Limited (“GenePro”), continued to show encouraging growth on a year on year basis.

The Group is still in negotiation with its creditors in relation to its debt restructuring plan. It is also in discussions with certain potential investors for making investments in and/or providing funding to the Group. However, no formal agreement has yet been reached.

FINANCIAL RESULTS

The Group recorded a consolidated turnover of HK\$1,355,000 for the year, representing a decrease of approximately 80.0% as compared with that of last year. This decline was mainly due to the drop of rental income as all the remaining properties had been disposed of and the termination of its transportation business in late 2002.

Despite the decrease in turnover, the operating loss before provisions and other losses and gains dropped approximately 23.9% to HK\$11,033,000 this year. This was mainly attributable to the termination of the transportation business and the reduction of property related expenses and administrative expenses. The net result of the Group improved significantly from a net loss of HK\$139,393,000 last year to a net profit of HK\$96,232,000 this year. Such net profit was mainly attributable to: (i) the write back of provision made in respect of corporate guarantees provided to creditor banks; (ii) the reversal of losses of subsidiaries (which had ceased operations in 2001) on deconsolidation; (iii) guarantee income from a minority shareholder of a subsidiary; and (iv) the gain on disposal of properties and other non-core assets.

Although the bank borrowings of the Group had reduced during the year, interest expense rose to HK\$29,450,000, representing an increase of approximately 18.4% over that of last year, as the major creditor bank had charged a higher default interest rate on the outstanding overdraft facilities of the Group.

Earnings per share was HK\$0.31 for the year as compared to a loss per share of HK\$0.45 for last year.

REVIEW OF OPERATIONS

The rental income of the Group amounted to approximately HK\$306,000, representing a decrease of approximately 94.2% as compared with that of last year, since most of the Group's investment properties were disposed of in 2002 and all the remaining properties had been disposed of during the year. All the remaining properties of the Group (including properties located at Convention Plaza and Metropolitan Industrial and Warehouse Building No. 2) were taken possession by its mortgage bank and disposed of for an aggregate consideration of HK\$32,600,000, most of which were used to repay bank borrowings. The Group had provided some general property related consultancy services through its 20% owned associated company during the year. However, contribution derived therefrom was insignificant.

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As the Group discontinued its transportation business in the last quarter of 2002, no revenue was generated therefrom this year. During the year, the majority of assets were disposed of for a total consideration of HK\$2,425,000, all of which were used as additional working capital of the Group. Pursuant to the terms of the acquisition of the 70% interest in the transportation business in 2000, the vendor (who is also a director and shareholder of such transportation business) had made the second and final payment of the profit guarantee during the year. Accordingly, an amount of HK\$5,803,000 was recorded as guarantee income this year after setting off the remaining goodwill of HK\$1,548,000.

Pacific Engineering Limited ("PEL"), a wholly-owned subsidiary of the Company that has ceased operations since 2001, was ordered by the High Court to be wound up in January 2003. As PEL had a net deficit as at the date of the winding up order, the Group recorded a reversal of losses of subsidiaries on deconsolidation due to the liquidation of PEL amounting to HK\$15,378,000 during the year.

The Group was the 49% equity partner of a wholly foreign-owned enterprise established in Beijing, the PRC ("WFOE"), which was intended to engage in the pharmaceutical/bio-pharmaceutical business in the PRC. In March 2003, the Group entered into a conditional sale and purchase agreement with an independent third party in relation to the disposal of its 49% interest in the WFOE for a total consideration of HK\$12,000,002. However, such disposal was terminated after 30 June 2003 as one of the conditions precedent of the agreement (being obtaining the approvals from the relevant PRC authorities) was unable to be satisfied on or before the prescribed deadline of the agreement. Subsequently, the Group entered into another sale and purchase agreement with another independent third party for the same consideration in October 2003 and the disposal was completed in November 2003. There was no profit or loss recorded by the Group as the net book value of the WFOE was also HK\$12,000,002.

Despite the negative impact of SARS in the first half of the year, the business of GenePro has shown satisfactory growth. The turnover of GenePro amounted to approximately HK\$1,049,000 for the year, representing an increase of approximately 25.8% over that of last year. As one of the leading laboratories in Hong Kong that has the capability to develop and provide DNA related diagnostic services, GenePro has benefited from the growing demand for DNA related diagnostic and personal identity services in Hong Kong. The Group believes that this trend will continue as the advantages and application of DNA technology are getting better understood and acceptance by medical and legal practitioners as well as the community at large.

In terms of research and development, GenePro continues to establish a DNA based diagnostic platform for human identification and infectious diseases. We expect this technology not only will enhance GenePro's diagnostic services but also provide marketable products for the global community.

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

In June 2003, the Company entered into a settlement deed with Citic Ka Wah Bank and SHKP, pursuant to the terms of which, among others, the bank would waive the Company's indebtedness amounting to HK\$14,493,000 for a consideration of HK\$1,000,000. As the Company had made a provision of approximately HK\$17,324,000, a write back of provision made in respect of corporate guarantees provided to creditor banks of HK\$17,289,000 was recorded by the Group. For further details of the settlement deed, please refer to the Company's announcement dated 16 June 2003.

In September 2003, the Company entered into a settlement deed with Bank of Communications Hong Kong Branch, SHKP and certain of SHKP's subsidiaries, pursuant to the terms of which, among others, the bank would release the Company's corporate guarantee provided to the bank with a gross exposure of approximately HK\$22,643,000 (out of which a provision of HK\$8,884,000 had been made) for a consideration of HK\$850,000. As a result, a write back of provision made in respect of corporate guarantees provided to creditor banks of HK\$8,834,000 was recorded by the Group. For further details of the settlement deed, please refer to the Company's announcement dated 19 September 2003.

In March 2004, the Company received a notice from Bank of China (Hong Kong) Limited notifying the Company that all the Company's liabilities and obligations under certain guarantees given by the Company in favour of the bank in respect of certain of SHKP's subsidiaries were discharged and released pursuant to the terms of the settlement under the settlement agreement dated 31 December 2003 made between, inter alia, SHKP, certain of SHKP's subsidiaries and the bank. As the Company had made a provision of approximately HK\$82,142,000, a write back of provision made in respect of corporate guarantees provided to creditor banks of the same amount was recorded by the Group this year. For further details of this release of corporate guarantees, please refer to the Company's announcement dated 29 March 2004.

As at 31 December 2003, the Group's total bank borrowings comprising mortgage loans, trust receipt loans, overdrafts, bank borrowings assigned to a finance company and accrued interest amounted to HK\$256,928,000, representing a decrease of approximately 3.3% as compared to that of last year. This was mainly caused by the repayment of bank borrowings with proceeds from the disposal of properties of the Group and a pledged property of the SHKP group during the year and the increase in accrued interest on the outstanding bank borrowings. All of the total bank borrowings were immediately due and should have been repaid to the relevant creditors. Total liabilities (all of which are of current nature), however, decreased by HK\$146,879,000 or approximately 31.8% to HK\$314,488,000 mainly due to: (i) the write back of provision as referred to above; (ii) the deconsolidation of subsidiaries as a result of the liquidation of PEL; (iii) the repayment of bank borrowings with proceeds from the disposal of properties as referred to above; and (iv) the repayment of other payables.

Current ratio of the Group decreased from approximately 3.1% as at 31 December 2002 to approximately 2.0% as at 31 December 2003. This was mainly attributable to the decrease in current assets resulting from: (i) the decrease in amount due from SHKP arising from the disposal of a pledged property of the SHKP group; (ii) the return of taxation prepayment from Inland Revenue Department; and (iii) the deconsolidation of subsidiaries as a result of the liquidation of PEL. The gearing ratio (total liabilities as a percentage of total assets) increased from approximately 806.6% as at 31 December 2002 to approximately 4,587.0% as of 31 December 2003, which was mainly due to: (i) the decrease in non-current assets arising from the disposal of properties, non-core assets and Group's interest in the WFOE; (ii) the decrease in current assets as referred to above; and (iii) the fact that the extent of the decrease in total assets (in terms of percentage) was greater than that of the total liabilities for the year. As at the end of the year under review, the Group had a net deficit of HK\$308,922,000.

In order to improve its financial position and liquidity, the Group is currently in negotiation with its remaining creditors in relation to a debt restructuring plan. The Group is also in discussions with certain potential investors for making investment in and/or providing funding to the Group.

However, prior to the finalisation and completion of the debt restructuring plan, should the Group's creditors demand for repayment of its immediately due indebtedness, 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.

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. As the exchange rates for Hong Kong dollars and Renminbi were relatively stable during the year, the Group was not exposed to any material exchange rate fluctuation during the year.

CHARGE ON ASSETS

As at 31 December 2003, certain assets of the Group with an aggregated carrying value of HK\$378,000 were pledged to secure certain of the Group's borrowings as compared to HK\$28,330,000 as at 31 December 2002.

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 2003, the Group had 13 employees and all of whom were based in Hong Kong.

CONTINGENT LIABILITIES

Details of the Group's contingent liabilities as at 31 December 2003 are set out in note 29 to the accompanying financial statements.

PROSPECTS

The acceptance of and demand for DNA related diagnostic services and products have been growing at a satisfactory pace in Hong Kong. In order to capture this uprising market potential, GenePro, the pharmaceutical/bio-pharmaceutical arm of the Group, has made a lot of effort in developing new diagnostic kits for diseases such as cervical cancer and Hepatitis B as well as building up connections with leading research institutes in the PRC and abroad. Research and development are always on GenePro's agenda and the effort spent would keep GenePro as a player in biotechnology in Hong Kong and its surrounding areas. On the financial front, the Group will focus on finalising its debt restructuring plan with its remaining creditors and soliciting investors in making investments in and/or providing funding to the Group. Upon successful finalisation of the above, the Group believes that it will be in a much better position to pursue its business endeavours.