BUSINESS REVIEW

Overview

After prolonged negotiation and discussion with its creditor banks, the Group has made a breakthrough in its debt restructuring plan during the period.

As a result of the settlement between Landune International Limited ("SPI", formerly known as Singapore Hong Kong Properties Investment Limited) and Bank of China (Hong Kong) Limited (the "Bank"), the Group's bank indebtedness utilized by the SPI Group was discharged by the Bank and a gain was recorded by the Group accordingly in the first half of 2004.

On 30 June 2004, the Group entered into a settlement agreement with the Bank whereby all of the Group's indebtedness amounting to approximately HK$222,200,000 due to the Bank will be effectively waived for a consideration of approximately HK$35,400,000. Shortly after the period end, the Group entered into a settlement deed with a finance company to settle all the Group's indebtedness due to that finance company for a consideration of approximately HK$600,000. Also, the Group entered into a conditional subscription agreement with an investor in respect of the subscription for the Company's shares for a consideration of HK$47,000,000, which will be mainly used to settle the bank indebtedness referred to above. For more details about the bank settlements and the subscription, please refer to the Company's circular dated 12 August 2004.

During the period, our pharmaceutical/bio-pharmaceutical unit, GenePro Medical Biotechnology Limited ("GenePro") continued to show a steady pace of growth in its business volume as compared to that of the corresponding period of last year. Also, a number of its products will be scheduled for launching in the next 6 months.

Financial results

Turnover recorded by the Group for the six months ended 30 June 2004 was HK$560,000, representing an increase of approximately 2.4% over the last corresponding period. The slight increase was due to the increase in revenue generated by our pharmaceutical/bio-pharmaceutical unit was offset by the absence of rental income as the Group had disposed of all of its investment properties in 2003. If only

BUSINESS REVIEW *(Continued)*

Financial results *(Continued)*

taking into account the revenue generated by our pharmaceutical/bio-pharmaceutical unit, there was a satisfactory increase of approximately 24.2% as compared to that of the first half of 2003. Although the percentage increase is somewhat magnified by the lower business volume in the first half of 2003 during the SARS epidemic, the growth is real because the demand for DNA diagnosis has increased as the public is more aware of the technology. With effective cost cutting measures, the operating loss before provisions and other losses and gains continued to drop from HK$5,874,000 in last corresponding period to HK$4,856,000 for the six months ended 30 June 2004, representing a decrease of 17.3%.

For the last corresponding period, the finance cost was approximately HK$19,152,000 as a result of a higher default interest rate was charged on the outstanding overdraft facilities of the Group. During the period under review, the total bank borrowings of the Group continued to reduce and the interest rate remained unchanged. Accordingly, the finance cost of the Group reduced to approximately HK$9,016,000, representing a decrease of 52.9%.

The Group recorded a net profit for the period amounted to HK$18,804,000 as compared to that of HK$13,130,000 of the corresponding period last year. This 43.2% increase in net profit was mainly the result of (i) gain on discharge of bank indebtedness pursuant to the settlement agreement between the SPI Group and the Bank; (ii) decrease in finance cost; and (iii) the aforesaid drop in operating loss for the period of the Group.

Earnings per share increased from HK4.2 cents for the first half of 2003 to HK6.1 cents for the first half of 2004.

Review of operations

As all the Group's investment properties were disposed of or taken possession by the mortgagee bank in 2003, no rental income was received for the first half of this year as compared to a rental income of HK$96,000 recorded in the first half of 2003. However, the turnover of GenePro increased from HK$451,000 in the first half of last year to HK$560,000 for the period under review, and this 24.2% increase brought an increase of 2.4% in total turnover of the Group for the period. At the end of SARS

Review of operations *(Continued)*

incident in 2003, the turnover of GenePro returned to a rising trend. With the positive effect of the moving GenePro to a cheaper but more spacious laboratory in Shatin in April 2004, the segment result of this pharmaceutical and biopharmaceutical unit had been improving. As one of the leading laboratories in Hong Kong, 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 accepted by the medical and legal practitioners as well as the community at large. Moreover, based on its clinical use in clinical diagnosis and testing results in the past 3 to 5 years, GenePro will launch several of its R&D products stepwise in the next 6 months. Pilot production of testing kits is currently under way and commercialization strategies are planned, in response to market demand.

Apart from the disposal of its 49% owned pharmaceutical/bio-pharmaceutical investment in the second half of last year, there were no significant changes with regard to the other activities of the Group as compared to the first half of last year, and there were no material acquisitions and disposals of subsidiaries and associated companies during the period under review.

Liquidity and financial resources

As at 30 June 2004, 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$231,332,000, representing a decrease of approximately HK$25,596,000 or 10.0% as compared to that of the end of 2003. The reduction of bank borrowings of the Group was mainly attributable to the discharge of bank indebtedness due to the Bank as mentioned below and the reduction in interest on the outstanding bank borrowings accrued during the period.

According to the settlement agreement between the Group and the Bank dated 30 June 2004, the Bank confirmed that a bank loan owed by the Company and utilized by the SPI Group amounting to approximately HK$34,500,000 had been conditionally discharged and released pursuant to a settlement agreement entered into between SPI and the Bank in December 2003. As a result, a gain on discharge of bank indebtedness was recorded by the Group during the period. All of the remaining bank borrowings of the Group were immediately due and should have been repaid to the relevant creditors.

BUSINESS REVIEW *(Continued)*

Liquidity and financial resources *(Continued)*

Total liabilities (all of which are of current nature) decreased to HK$293,303,000 by approximately HK$21,185,000 or 6.7% which was mainly caused by the reduction of bank borrowings and accrued interest for the period as mentioned above.

Current assets of the Group decreased by approximately HK$4,015,000 mainly due to the decrease in trade and other receivables. As a result, the current ratio of the Group decreased from 2.0% as at 31 December 2003 to 0.8% as at 30 June 2004 as the decrease in current liabilities is of a lesser magnitude relatively. The gearing ratio (total liabilities as a percentage of total assets) increased from approximately 4,587.0% to 9,200.2% as at the end of the period under review, which was mainly due to the (i) decrease in current assets; and (ii) the fact that the extent of decrease in total assets was greater than that of the total liabilities for the period. As at 30 June 2004, the Group had a net capital deficiency of approximately HK$290,118,000.

After completion of the aforesaid settlement agreements and conditional subscription agreement, the Group will have no bank indebtedness outstanding and will be in a much better position to raise funding for the operations of the Group.

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. During the period, the Group was not exposed to any material exchange rate fluctuation.

Charges on assets

As at 30 June 2004, certain assets of the Group with an aggregated carrying value of approximately HK$604,000 were pledged to secure the Group's borrowings as compared to HK$378,000 as at 31 December 2003.

Employee remuneration policy and number of employees

As at 30 June 2004, the Group engaged 13 employees and all of them were based in Hong Kong. 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.

BUSINESS REVIEW *(Continued)*

Contingent liabilities

Details of the Group's contingent liabilities as at 30 June 2004 are set out in note 20 to the financial statements.

Prospects

The subscription for new shares of the Company by the investor and the settlement of loans between the Group, the Bank and the finance company would enable the Group to wipe out all its bank borrowings and liabilities under corporate guarantees, improve the working capital position of the Group, lower the financial leverage of the Group, strengthen the financial position of the Group and enhance the capital base of the Company. After completion of the settlement of loans and the subscription, the Group will have greater flexibility in raising funds for its existing business and future projects.

With a stronger financial position, the Group would be able to focus on developing its existing business and pursue its business endeavors. In view of the growing acceptance of and demand for DNA related diagnostic services and products in Hong Kong, GenePro would make more effort in developing advanced diagnostic kits for viruses and diseases such as human papilloma virus and cervical cancer, Hepatitis B virus and liver cancer, infections agents and sexually transmitted diseases, and gene mutations and colon cancer as well as forging collaborations with research institutes and/or biotechnology companies in the PRC and abroad in order to capture a fair share of the market and at the same time broaden our business opportunity.

AUDIT COMMITTEE

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 statements. The interim financial statements 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 statements.

In connection with their review and upon considering the review report of the external auditors, the Audit Committee would draw attention to the auditors' review conclusion that they have not been able to reach a review conclusion as to whether material