

MANAGEMENT DISCUSSION AND ANALYSIS

Interim Results and Dividends

During the six months ended 30 September 2004, the Group recorded a turnover of HK\$28.8 million (2003: HK\$133.2 million) and a net loss attributable to shareholders of HK\$25.6 million (2003: HK\$20.2 million). The basic loss per share for the period was HK\$0.12 (2003: HK\$0.18).

The directors do not recommend the payment of any interim dividend to the shareholders (2003: Nil).

Business Review and Analysis

Since the Group's disposal of its loss-making manufacturing business of electronic parts and components in February 2004, the Group's turnover dropped substantially by 78.4% as compared with that of last corresponding period. In addition, though the sourcing and distribution business of electronic parts and components generated revenue for the Group, it continued to incur losses for this period. As a result, the Group decided to cease such business since 1 November 2004.

Since 2003, the Group has been focusing on expanding its business in the medical, pharmaceutical and healthcare sectors by working closely with the Ministry of Health ("MOH") in the PRC. As such, the Group has taken on various steps to crystallize its position as a leading facilitating platform for international healthcare companies to gain access to the healthcare market in the PRC through the infrastructure extended by the MOH.

In this six-month period, the Company had engaged in discussions with many local and international healthcare organizations, and after much due-diligence and scrutiny by the Group's management and strategic advisors, the Group embarked on the following projects that will prove to strengthen the Group's edge in the PRC's healthcare sector:

(I) *Beijing Universal Medical Assistance Co., Ltd ("BUMA")*

In June 2004, the Group acquired a controlling 62.36% equity interest in BUMA, with the MOH retaining a 30% interest. BUMA is the only company authorized by the MOH to provide emergency medical assistance service to foreign travellers, domestic

nationals and expatriates in the PRC and it has a nationwide network of 914 hospitals (“Network Hospitals”) under its wings. BUMA offers its fee-paying members guaranteed access to its Network Hospitals, offering them medical assistance services of international standards. The three principal businesses of BUMA are:

Emergency/Accident Medical Assistance

BUMA is the only designated entity authorized to utilize the Network Hospitals to provide guaranteed access for its fee-paying members when encountering certain emergencies or accidents in the PRC. BUMA intends to work closely with the PRC and international based insurance companies to sell its nationwide emergency assistance membership program, and to date has signed up several insurance companies. Charging a nominal fee ranging between RMB50 and RMB400 per member for certain lengths of time up to one year, BUMA’s initial target is the greater than 100 million foreign visitors that travel to China annually and close to 65 million PRC nationals who have some type of health insurance policy. BUMA is also well positioned to become the designated entity for providing nationwide emergency/accident medical assistance services for the 2008 Beijing Olympics.

Green Channel VIP Membership Services (“Green Channel”)

Green Channel is the latest project introduced by BUMA during the period under review. Green Channel, officially named BUMA’s “Health Asset Management Service”, was officially launched on 8 December 2004. The VIP membership service is a premium healthcare membership program which leverages on thousands of top tier doctors throughout the Network Hospitals to provide first-class premium healthcare services for its members.

With a first-year upfront registration fee and a subsequent annual renewal fee, BUMA aims to target the niche market of higher income individuals and senior executives in the PRC’s state-owned enterprises; Sino-foreign joint ventures and private enterprises. Exclusive health and wellness services provided by Green Channel include pre-selected private doctors that match a members health, lifestyle, and medical profile; 24-hour personal concierge call center services to handle all members’ enquiries and to secure best available doctor for the members according to their needs; health evaluation and illness diagnosis by leading domestic or international institutions; and annual medical checkups with detailed post-examination diagnosis and proactive health assessment consultations.

Cosmetic Surgery Clinics

With China's beauty industry surpassing HK\$185 billion a year and rising urban incomes fuelling a boom in China's beauty business and the popularity in cosmetics surgery in the PRC, the Group embarked on a joint venture project with Ye Medical Group ("YMG") of Korea in October 2004, to set up and operate a network of high-end, state-of-the-art, specialized medical practice clinics in China. Initially, the clinics will offer a diverse range of cosmetic and beauty related services such as cosmetic surgery and skin care and cosmetic dental care.

The 50:50 joint venture will kick off with 2 clinics in Beijing and Shanghai (the "Beijing Clinic" and "Shanghai Clinic" respectively). Total investment for the Beijing Clinic is estimated to be RMB8 million and the construction of which is scheduled to be completed early next year; whilst the investment for the Shanghai Clinic is estimated to be RMB20 million and is scheduled for completion before the end of the first quarter of 2005.

Leveraging on YMG's wealth of experience in managing more than 50 similar clinics in Korea, YMG will be responsible for providing highly qualified medical specialists from Korea, helping to implement effective operational policies and procedures, formulate training programs for the staff, and co-developing comprehensive marketing plans for the products and services. The Group aims to establish a leading network of upscale medical practice centers throughout the PRC with an initial goal of operating at least 10 such medical clinics within the next two years.

(II) Premium VIP Specialty Centers

Noticing a vacuum between the elevating demand for premium standard healthcare services and the level of healthcare services currently being provided in the PRC, the Group has decided to leverage on its Network Hospitals to bring about a nationwide chain of premium VIP specialty medical centers which are able to provide the best available specialty medical services matching international standards to wealthy PRC nationals and foreign expatriates living in the PRC. In efforts to meet these market-oriented demands, the Group has been in talks with various international reputable healthcare organizations and medical institutions to collaborate on knowledge transfer programs to upgrade facilities and services in certain wards in some of the existing Network Hospitals. The initial target is for the Group to roll out two separate specialty projects in Beijing and Shanghai in the near future.

(III) *Clinical Trials*

On 28 May 2004, the Group established a wholly owned subsidiary, China Clinical Trials Centre Limited (“CCTC”), to operate a contract research organization (the “CRO”) to facilitate the procurement of clinical trials and distribution licenses for international pharmaceutical and medical device companies, as well as to conduct clinical trials that aim at local or global registration of pharmaceutical and medical products. In conjunction with the acquisition of BUMA, the Group will greatly benefit from the synergistic value of BUMA’s inherited relationships with the Network Hospitals, 78 of which are certified clinical trials centers (48% of the total designated sites approved by the Chinese State Food and Drug Administration).

To pursue the clinical trial business, the Group signed a memorandum of understanding with a leading regional clinical research institution to provide technical and operational support to the CRO in May 2004, and is currently in talks with several US-based biotechnology and life science companies to begin conducting trials in the first quarter of 2005.

(IV) *Shanghai Haoyuan Biotech Co., Limited (“Shanghai Haoyuan”)*

On 1 July 2004, the Group successfully acquired a 51% controlling stake in Shanghai Haoyuan, a leading Chinese biotech company based in Shanghai whose core business is the development, production and marketing of nucleic acid test (“NAT”) clinical reagents and related products.

Further to this acquisition, Shanghai Haoyuan procured the approval from the State Food and Drug Administration of the PRC for the Micro Fluidic Fluorescent Quantitative PCR Analyzer AG9900 (“AG9900”), which is an automatic blood sample analyzer that is used to screen and detect HBV, HCV, HIV and other types of blood-borne infectious diseases. Shanghai Haoyuan’s reagents combined with AG9900, will be targeted for distribution to the estimated 500 blood banks/stations across the PRC and creation of synergy with the Safe Blood for China project described below.

(V) *Safe Blood for China*

During the period under review, the Group assisted the Safe Blood International Foundation (“SBIF”), a non-profit organization based in Washington, D.C. that is dedicated to improve the safe blood supply system for developing countries and help to stop the spread of HIV/AIDS and other blood-borne diseases, in procuring the official ratification from MOH for the Safe Blood for China Project (the “Project”). The Project is a unique program under the auspices of the MOH that aims to strengthen blood management, promote new technology related to blood production, and minimize the spread of infectious diseases.

The initial fundraising target for the Project is set at US\$1 billion over the next five years. The Group will be positioned to assist the Project as a manager to implement and manage a wide range of initiatives to achieve the Project’s objectives and will derive revenue from arranging certain training programs and distributing supplies.

Liquidity and Financial Resources

As at 30 September 2004, the total assets of the Group is approximately HK\$181.7 million and net current assets of approximately HK\$66.9 million, representing a current ratio of 2.7 (31 March 2004: 7.9). At the balance sheet date, the total borrowings of the Group amounted to HK\$19.2 million, which comprised of bank loan of HK\$1.9 million and convertible bonds of HK\$17.3 million. This represents a gearing ratio, calculated on the basis of the Group’s total borrowings over shareholders’ funds, of 14.4% (31 March 2004: 16.8%). During the period, the Group raised approximately HK\$36 million from the issue of shares pursuant to the subscription agreement dated 18 February 2004 and obtained a net cash inflow of HK\$9.7 million from operating activities while it spent approximately HK\$47.8 million for the acquisition of new subsidiaries. As such, there was no material change in the cash position of the Group as at 30 September 2004.

Contingent Liabilities

As at 30 September 2004, there was no contingent liability of the Group.

Charge on Group’s assets

As at 30 September 2004, there was no charge on the Group’s assets.

Human Resources

As at 30 September 2004, the Group employed 68 employees.

The Group continues to review remuneration packages of employees with reference to the level and composition of pay, the general market condition and individual performance. Staff benefits include contributions to the Mandatory Provident Fund Schemes and discretionary bonus payment which is linked to the profit performance of the Group and individual performance. A share option scheme has also been established for employees of the Group.

Outlook

These past 6 months had marked the beginning of various initiatives for the Group, with the ultimate objective of matching the best available medical healthcare services with the needs of the nation's population. On sound financial footing and strong support from various PRC's authorities, international healthcare organizations and strategic advisors, the Group is well-positioned to pursue its mission as a facilitating partner and platform for international healthcare companies to gain access to the PRC's healthcare market.

The following developments have been set out in the Group's blueprint for the next few years:

- Develop distribution channels (including insurance companies and travel agents), to expand and franchise the membership base for BUMA's Emergency/Accident Medical Assistance Program;
- Market and promote BUMA's Health Asset Management Services Program to selected high ranking corporate executives and high net worth individuals in the PRC;
- Commence the cosmetic surgery business with the launch of the 2 clinics in Beijing and Shanghai first, with a target of 10 such clinics by 2006;
- Work with international healthcare organizations to develop and brand premium VIP centers in the PRC, in specialty areas such as obstetrics and gynecology and neurology;
- Conduct clinical trials for international biotechnology companies, and subsequently secure distribution licenses for the relevant approved drugs or medical devices;
- Promote Haoyuan's reagent products and automatic blood sample analyzer to the PRC's network of blood banks/stations; and
- Increase involvement in Safe Blood for China Project, with the aim of being appointed as the key manager in the project.