

CHAIRMAN'S STATEMENT

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

The Group's turnover for the year ended 31st March, 2005 was approximately HK\$379.4 million, representing a significant increase of approximately 500% as compared to the last corresponding year of HK\$63.5 million. In addition, the Group has achieved a turn-around and resulted in a profit of HK\$9.9 million for current year as compared with a loss of HK\$29.6 million in 2004. The substantial increase in turnover was mainly due to the newly acquired medicine business in May 2004 and improved bottom line was due to the increase in sale of properties benefiting from the strong recovery in the property market in Hong Kong.

Property Development

During the year, there were further sales of 16 residential units and 2 commercial units at Talon Tower on Connaught Road West, which recorded a turnover of HK\$91.7 million with a gross profit of HK\$29.2 million. As at 31st March, 2005, there remain unsold units of 24 residential units and 1 commercial unit.

Medicine Retailing and Manufacturing

Subsequent to the acquisition of the interest in the Chinese medicine retailer, "Tung Fong Hung", and the western pharmaceutical manufacturer, Jean-Marie Pharmaco Company Limited ("Jean-Marie"), the Group has diversified into the medicine business and owned a reputable medicine brand name and a chain of retail stores spanning across Hong Kong, the Mainland China, Macau, Canada, Taiwan and Singapore. The division currently operates a total number of approximately 70 retail outlets in these regions and generated a total turnover of HK\$276.0 million for the period under review. By taking advantage of the progressively economic recovery in Hong Kong and the continued robust economic growth in the Mainland China in particular, the business achieved a rebound in sales from last year.

The western pharmaceutical manufacturer, Jean-Marie, is putting efforts in expanding its distribution network and enhancing its production efficiency. Sales to the local government are a new stream of business since Jean-Marie was licensed with the GMP (Good Manufacturing Practice) standard. The Group is also devoting resources to obtain licenses of its products in Hong Kong and potential markets aiming for a sale breakthrough. As Jean-Marie is still in transition of rationalizing its business, it recorded an operating loss for the period under review.

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Financial Review, Liquidity and Capital Resources

As at 31st March, 2005, the net asset value of the Group was HK\$243.6 million, which showed an increase of 87% as the capital base has been enlarged by the issue of approximately 175 million and 57.1 million ordinary shares upon placement and conversion of convertible notes respectively making an aggregate proceed of HK\$105.2 million.

The Group adopts a prudent funding and treasury policy with regard to its overall business operations. A variety of credit facilities is maintained so as to meet its working capital requirements. As at the year end, promissory note payables, bank and other borrowings in aggregate amounted to HK\$80.8 million of which some HK\$13.0 million of the outstanding amount was used to finance the acquisition of the medicine business during the year and the remaining HK\$67.8 million was for working capital. Some HK\$75.2 million of the outstanding borrowing is repayable within 1 year while the remaining HK\$5.6 million is repayable after one year. In addition, during the year, the Company has issued convertible notes in the amount of HK\$100 million, which are convertible into shares in the Company at an initial conversion price of HK\$0.42 per share, interest is charged at 2% per annum and repayable at the third anniversary from the issue date. Before the year end, convertible notes in an aggregate principal amount of HK\$10 million were converted into ordinary shares at the conversion price of HK\$0.42 per share. The balance in an aggregate principal amount of HK\$90 million will be redeemed on 23rd February, 2008 (or the next following business day if it is not a business day) unless they are previously converted, redeemed or purchased and cancelled.

At 31st March, 2005, the Group maintained bank and cash balances of approximately HK\$191.0 million and is in a net cash position. After the enlargement of the capital base, the gearing ratio of the Group, calculated with reference to the total of promissory note payables, bank and other borrowings of HK\$80.8 million and the Group's shareholders' funds of HK\$243.6 million, substantially reduced to 0.3 as compared with 0.7 as at 31st March, 2004.

Most of the bank and other borrowings were interest bearing with reference to Hong Kong inter-bank offer rate or prime rate. The management believes that interest remains to be low in the capital market and therefore no hedge was made against interest rate fluctuation. Most of the assets and liabilities of the Group were denominated in Hong Kong dollars, the Board thus considered that the Group was not subject to any material exchange rate exposure.

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NUMBER OF EMPLOYEES, REMUNERATION POLICIES AND SHARE OPTION SCHEME

As a result of the acquisition of the medicine business, the number of employees increased to 515 persons as at 31st March, 2005 (2004: 11 persons). Employees are remunerated according to qualifications and experience, job nature and performance, with pay scale aligned with market conditions. During the year, the Group also provided other benefits such as medical, insurance cover and retirement schemes to the employees.

OUTLOOK

Continued prosperity in the Hong Kong property market is expected for the coming year. Leveraging on the Group's extensive experience in the property business, the Group will further explore investment opportunities in high quality residential and commercial buildings with a view to expand and enhance its property investment portfolio. During the year, through the placement of shares and issue of convertible notes, the Group has raised approximately HK\$180 million. The Group has further proceeded to raise another HK\$1,000 million through the issue of 5-year convertible notes, which completion is expected to be around end of July 2005. Having abundant resources, the Group is actively and cautiously exploring suitable investment opportunities, with its primary focus on the property markets in Hong Kong, the Mainland China and Macau, for its future growth.

PLEDGE OF ASSETS

As at 31st March, 2005, the Group's property held for sale with an aggregate value of approximately HK\$58.5 million, bank balance of HK\$3.0 million and property, plant and equipment of certain subsidiaries of the Company of approximately HK\$12.0 million have been pledged to banks and financial institutions to secure general credit facilities granted to the Group.

CONTINGENT LIABILITIES

As at the year end, the Group has contingent liabilities in respect of a tax indemnity given on disposal of a subsidiary in prior year of HK\$60 million.

MATERIAL ACQUISITIONS

During the year, the Group acquired the entire issued share capital of Tung Fong Hung Investment Limited ("Tung Fong Hung") and the remaining 50% of the issued share capital of Pacific Wins Development Ltd., not being held by Tung Fong Hung for considerations of HK\$42 million and HK\$28 million respectively. As a result of the acquisition, the Group commences to engage in the manufacturing and retailing of medicine and health food.

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SECURITIES IN ISSUE

During the year, there were the following movements in the issued share capital of the Company:

- (a) placement of 25,000,000 and 150,000,000 shares at HK\$0.81 and HK\$0.40 each respectively;
- (b) issue of 33,333,331 and 23,809,520 shares upon conversion of convertible notes at conversion prices of HK\$0.45 and HK\$0.42 per share respectively; and
- (c) issue of 1,155,000 shares at HK\$0.207 each upon exercise of share options.

As at the year end, there were 360,995,507 shares in issue. Save as disclosed above, there was no movement in the issued share capital during the period.

APPRECIATION

I would like to take this opportunity to express my appreciation to the shareholders for their support, to the management and staff for their dedicated efforts and to our client, consultants and partners for all their valuable assistance offered during this past year.

Cheung Hon Kit

Chairman

Hong Kong, 25th July, 2005