BUSINESS REVIEW

OVERVIEW

The financial position of the Group further improved during the period under review as the Group recorded a consolidated net profit and a reduction of total liabilities. However, the turnover generated by the Group showed a decline relative to the same period of the last year.

FINANCIAL RESULTS

During the first six months of 2005, the Group recorded a total turnover of approximately HK$465,000 representing a decrease of 17.0% from that of previous corresponding period. However, the operating loss before provisions and other losses and gains dropped by 7.7% to approximately HK$4,483,000 for the period under review as the total operating expenses of the Group including staff cost kept on dropping.

As three subsidiaries of the Company were wound up by the Group in February 2005 pursuant to the settlement agreements entered into between the Group and the bank in 2004, the Group recorded a reversal of losses of subsidiaries on deconsolidation of approximately HK$13,021,000 during the period. Besides, after continuous discussions with a purchaser of convertible note to be issued by the Company in 2001 and a purchaser of equity and loan in a former subsidiary of the Company in 2003, the Company and the purchasers agreed mutually to release the liabilities and obligations of each other under the respective agreements and agreed the Company to forfeit the deposits received. Accordingly, the Group recorded a total gain on such forfeitures of HK$8,700,000.

The Group did not have any bank borrowings during the period. As such, the Group's finance costs reduced to approximately HK$186,000 representing a substantial decrease of 97.9% as compared to the six months ended 30 June 2004.

As a result of the above, the winding up of the three former subsidiaries of the Company and forfeiture of the deposits received in particular, the Group recorded a net profit for the period of approximately HK$17,016,000.

Earnings per share for the period was HK1.8 cents while it was HK6.1 cents for the previous corresponding period. The drop was caused by the substantial increase in number of shares issued to approximately 954 million shares resulting from the allotment of shares to the controlling shareholder in the latter half of 2004.

REVIEW OF OPERATIONS

In the period under review, the Group's operation result was solely contributed by the pharmaceutical and healthcare unit of the Group – GenePro. The turnover of GenePro decreased by 17.0% to approximately HK$465,000 as a result of keen competition within the industry and management's concentration more on the formation of a new pharmaceutical business in the PRC during the first half of 2005. On the other hand, the segment result of this pharmaceutical and healthcare unit improved further as its loss decreased by 32.7% to approximately HK$278,000 relative to that of 2004.

There were no significant changes in respect of other activities of the Group as compared to the period ended 30 June 2004 and no material acquisitions and disposals of subsidiaries and associates during the first half of 2005.

LIQUIDITY AND FINANCIAL RESOURCES

The Group did not have bank indebtedness within and at the end of the review period. All the liabilities of the Group were of current nature and reduced by approximately HK$17,580,000 or 34.7% to HK$33,095,000 from that of the end of 2004. The main reasons for the net decrease in total liabilities were the results of deconsolidation of the assets and liabilities of the former subsidiaries from the Group, the forfeiture of deposits received and the increase in the amount due to directors for working capital purposes. The gearing ratio (total liabilities as a percentage of total assets) decreased from approximately 1,856.9% to 1,528.6% at the end of the period under review because of the lesser magnitude of decrease in the total assets than in the total liabilities. Moreover, the current ratio of the Group also improved from 4.1% as at the end of 2004 to 5.2% of the current period.

Most of the cash and cash equivalents, investments and borrowings of the Group were made in Hong Kong dollars, and the other borrowings of the Group was charged at floating interest rates. No financial instrument had been used for hedging purposes. During the period, the Group was not exposed to any material exchange rate fluctuation.

CHARGES ON ASSETS

As at 30 June 2005, certain assets of the Group with an aggregated carrying value of approximately HK$490,000 were pledged to secure the Group's borrowings as compared to HK$525,000 as at 31 December 2004.

EMPLOYEE REMUNERATION POLICY AND NUMBER OF EMPLOYEES

As at 30 June 2005, the Group engaged 15 employees and most 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.

CONTINGENT LIABILITIES

There has been no material change in contingent liabilities since the publication of the Company's 2004 Annual Report.

PROSPECTS

The Group had entered into a subscription agreement with the controlling shareholder of the Company in respect of the issue of a convertible note of HK$30,000,000 and a JV agreement with three independent third parties to form a joint venture pharmaceutical business in the PRC (the "JV Company") in the first half of 2005. As at the date hereof, the Company has already obtained approvals from its shareholders to proceed with the transactions. The JV Company will principally engaged in the wholesale and retail of pharmaceutical products in the PRC, development of pharmaceutical products/medical equipment, health services, and investment and management pharmaceutical businesses. The JV Company will assist the Group in tapping its existing pharmaceutical/healthcare business into the fast growing PRC market. In such way, the revenue base and earning capacity of the Group would be strengthen and improved in the coming years. As the Group had reduced its indebtedness substantially, the management expects that the Group is not required to repay all the outstanding borrowings and provisions in the near future. Moreover, the Group has also obtained an undertaking from its Chairman that a loan would be provided to the Group to finance the repayment. The directors are optimistic that the future operations of the Group will be successful and the Group would have sufficient funding to meet its obligations when due.