OPERATING RESULTS AND DIVIDEND

Turnover of the Group for the year was HK$18,007,000, a decrease of approximately 13.7% from the prior year. Audited operating loss attributable to shareholders was HK$67,595,000, equivalent to a loss of Hong Kong 10.9 **cen**ts per share, a decrease 9.1% from the previous year. The Board recommends that no dividend will be paid for the year ended 31 December 2005.

OPERATING ENVIRONMENT

The Chinese economy registered over 9% growth for the year 2005 and the figure is expected to continue to grow at about 9% in 2006. The sustained growth is attributable to rising disposable income fueling a strong domestic demand and the central government's policy and administrative measures in curbing inflationary bubbles and guarding an orderly economic development such as property speculation in over heated cities. The governments balancing measures, though sometimes seem abrupt, have proven to be successful in the past decade. The strength of China's sustained economic development has become the envy of many other countries. It is expected that the Chinese economy shall remain basically strong with growth projected to be well above the international averages in the coming two decades and beyond. China has evolved to become a contributor to global economic stability.

In order to sustain such growth, China needs to diversify and secure her long term energy and raw material supply sources, upgrade and expand her conventional infrastructural networks, in terms of roads, railways, airway links, sea transportation capacity. Equally important are the infrastructure of the 21st century: I.T. technology and telecommunications. China has evolved, within a very short period of time, as one of the largest markets for mobile phones recording some 400 million active users. Expansion in web-based information provision and distribution is also growing at a very rapid pace thanks to the well-developed and new brandband infrastructure in China. It is expected that the introduction of 3-G licenses in China expected this year will further drive the enormous domestic demand for info-taiment in a different horizon. It is therefore conceivable that these sectors will draw tremendous infusion of investment funds, creativity, technology and manpower for customer value creation and excitement that other industries could hardly expect to receive. It is with this background that we hold a very positive view of the Company's prospects as we have charted the right direction and strategy in the Greater China for future development.

OPERATION REVIEW

Chinese Pharmaceutical Business

The operation of Huayi Pharmaceutical Co., Ltd. ("Huayi"), the Group's subsidiary engaged in the production and marketing of traditional Chinese medicines in China, continued to be hampered by the aftermath of the forced relocation of its production facilities decreed by the Beijing City Planning Committee (北京市規劃委員會) and Beijing City Land Administration Bureau (北京市土地管理局).

Operating base for the manufacturing of Chinese medicines has been re-established with Good Manufacturing Practices certification ("GMP") since the later part of last year. However due to production facilities inadequacy at the currently rented factory site, coupled with a tight working capital, production and sales of Huayi shrank. For the twelve months to December 2005, turnover from two Chinese medicines registered a total of HK$18,007,000, a 13.7% decrease from the prior year. The pending decision on the plant expansion restricted the roll-out of production and marketing for all of the 16 Chinese medicines for which Huayi possesses the intellectual property rights.

OPERATION REVIEW (continued)

Chinese Pharmaceutical Business (continued)

Despite a low level of sales, largely restricted by the current manufacturing facility, a healthy gross margin for the products was achieved during the year. For the year 2005, cost of sales as a percentage of sales was lowered to approximately 42.9% from over 60% a year earlier. This lifted the gross profit margin for 2005 to about 57.1% as compared to 36.5% in 2004 despite rises in the price of raw material generally.

The Group made significant improvements on the cost control front. Selling, general and administrative costs overall went down by about 11.5% as compared to that of last year reflecting the effectiveness of the cost containment initiatives. The main contributor of cost reduction came from the selling and distribution costs of Huayi which were reduced by as much as half from the level of last year. Management continues to experiment new ways to distribute Huayi's products with less fixed selling cost involved and utilizing China National Medicines sales and distribution network.

With five Chinese medicines included in the China Directory of Medicines for Medical and Work Injury Insurance《醫療保險和工傷保險葯品目錄》, Huayi continues to look for sub-contracting opportunities with other GMP manufacturers as a means to increase the production base for a larger number of Chinese medicines and to serving a wider geographic area more effectively.

Management is still evaluating the possibility/desirability of improving the Huayi's plant capacity to an optimal operation scale as a long-term fix. Obviously this requires substantial capital and management is particularly cautious at this juncture when financial resources are limited. There are a number of alternatives such as the injection of significant fresh investment into Huayi to lift its level of operation to a higher level. Intense discussions are being held with the Chinese joint venture partner on such possibility. Constrain of cost was achieved during the year and will continue to be focused in the coming year to achieve improvement primarily through increased scale of operation to lower the fixed component of costs.

Termination of proposed acquisition of Minmetals Yingkou

Following its effort of last year in identifying worthy opportunities in the PRC, during the year, management has engaged in a proposed acquisition which is highlighted below.

In February 2005, the Company entered into a conditional Sales and Purchase Agreement ("the Agreement") for the acquisition of 100% of a joint venture company, Guohua International, which has a controlling stake in a specialized steel manufacturer, Minmetals Yingkou Middle Plate Co., Ltd. ("Minmetals Yingkou") in China. Minmetals Yingkou has an annual production capacity of 1.2 million tones for steel plates and is expected to double its steel slabs capability to 2.5 million tones upon the completion of its plant capacity expansion. The Company intended to raise US$100 million in the capital market through issue of new shares. The bulk of the funds raised would be used for the acquisition and eventually channeled to Minmetals Yingkou to fund its capital expansion. Minmetals Yingkou is engaged primarily in the production of medium steel plates catered to the infrastructure, ship-building, energy and manufacturing sectors and is mostly shielded from the booms and busts of the property and auto industries, which were experiencing certain sluggishness under the government's control policy of cooling these overheated sectors. Minmetals Yingkou's expected growth potentials attracted management's attention.

OPERATION REVIEW (continued)

Termination of proposed acquisition of Minmetals Yingkou (continued)

In order to expedite the sales and purchase process, certain PRC executives having substantial industry experience were nominated to the Board of the Company during the year. To ensure due diligences thoroughness, significant professional resources were also devoted in the acquisition exercise throughout the year.

In the middle of the year, the Chinese government took certain drastic steps by abolishing rebates of levies on steel products intended for export. This resulted in the domestic market being flooded with steel products of all categories forcing prices down by as much as 40% in a span of a few months. Furthermore, an industry policy change was implemented which instilled uncertainty to the proposed steel acquisition. As a result of the sudden and drastic change in the market environment, the steel producers, who were not long ago highly favoured investment targets in view of China's insatiable energy and infrastructural demands, lost their luster. The diminished investor confidence and interest contributed to the key conditions not being fulfilled and the acquisition, after significant effort by management, was finally terminated on 31 December 2005. The termination of the acquisition also resulted in certain recently appointed directors leaving the Company as the circumstances requiring their industrial experience and services were no longer required.

FINANCIAL REVIEW

The financial results reflect the sole operating units of the Chinese medicine business. During the year, cost of materials has generally been on the increase but selling price of the Chinese medicines remain essentially unchanged putting pressure on the bottom line.

During the year, the adoption of the new accounting standards resulted in certain material changes in accounting policies for the Group. The more material changes included (i) the cessation of amortization of goodwill, and (ii) the introduction of estimating the cost associated with share options granted. For the year ended 31 December 2005, the cessation of amortisation of goodwill reduced the loss for the year by HK$10,282,000 and HK$3,971,000 was estimated to be the cost of share options granted during the year. Based on an independent valuation, the impairment loss for goodwill was determined at HK$40,950,000. The aggregate effect of all of the above attributed to a significant portion of the loss of the Group for the year.

Liquidity And Financial Resources

As at 31 December 2005, the Group had HK$4,794,000 cash and bank balances and working capital was at a low level. During the year, operating loss from the Chinese medicine business reduced working capital for the Group. This, coupled with the substantial amount of professional fees involved in connection with the due diligence of the contemplated Guohua acquisition, reduced the level of working capital. However, the successful postponement of repayment of the unsecured debt of the Company until after the year end released funding pressure. Following the conversion of 23,000,000 share in 2004, a further 27,000,000 convertible notes were converted into equity which contributed to reducing the debt level in the year and a corresponding increase in equity. During the year, as a result of the grant and exercise of 15,000,000 share options, the Group's working capital increased by HK$7,200,000. The Group's other borrowings and convertible notes were mainly denominated in Hong Kong dollars and have interest rates pegged to prime rate. As the level of borrowing was at a low level, the Directors believe that, for currency risk management purposes, no hedging of foreign currency or interest rate would be necessary.

FINANCIAL REVIEW (continued)

Capital Structure

As at 31 December 2005, the Group had total assets of HK$86,142,000 which were financed by shareholders funds of HK$16,180,000, total liabilities of HK$60,706,000 and minority interests of HK$9,256,000. As a result of the conversion of the balance of convertible notes of HK$11,610,000, 27,000,000 additional ordinary shares were issued during the year. This, together with the 15,000,000 share options exercised during the year, increased the issue share capital of the Company at 31 December 2005 to 636,650,673 shares.

As at 31 December 2005, the Group had a current ratio of approximately 0.28 essentially unchanged as compared to that of last year. The Group's gearing ratio, (interest bearing bank loans and other borrowings to shareholders' equity) increased to 148.4% from 58.8% a year earlier primarily reflecting the effects of the reduced equity due to provision for impairment of goodwill partially offset by the full conversion of the convertible notes and the increase in equity from the exercise of the share options.

Subsequent to the year end date and on 8 February 2006, the Company completed the private placement of 124,330,000 new ordinary shares increasing the equity by HK$29,217,550 and the total number of issued shares increased from 636,650,673 to 760,980,673 shares.

Pledge Of Assets And Contingent Liabilities

As at 31 December 2005, the Group neither had assets pledged nor contingent liabilities of trade nature relating to trust receipts and export loans. (2004: Nil).

GROWTH STRATEGY

The Company has been seeking for investment opportunities that would enable the Group to expand its operating circumference and nurturing new dimensions for increasing and sustaining its earning potentials. The Company has adamantly adhered to the basic philosophy of seeking investment opportunities in high growth industries that will potentially provide the shareholders of the Company a good return on their investment. Our target candidates generally have certain unique features that their peers/competitors are not endowed with and it is such uniqueness that we, after careful evaluation, consider highly valuable in enabling the Company to generate strongest profit potentials for shareholders. We do not limit our interest in any particular field as the Greater China offers a big variety of opportunities in many industries. It is based on this indulgence, expectation of results and our resourcefulness to tap into the capital market that we set and focus on our targets. To assist administration and management, outside talents are frequently invited to play a role and/or perform certain functions either to assist the implementation of the project and/or the continued management. The Company will continue to keep a broad perspective in its future development while stress is placed on high growth potential projects that may reap handsome rewards in the future.

PROSPECTS

In the wake of world economic globalisation, China's competitive factors are gradually shifting from production to infrastructure and technology development as well as the service sector to satisfy the instantaneous information needs of its people and the market. China's service sector is predicted to grow at a rapid pace, dictated simply by the dynamics to satisfy the basic and entertainment needs of its mass population characterised by the increasing affluent middle income class. To take advantage of this evolving trend, together with China's increasingly educated human resources, the Directors continue to focus on this massive and unique market segments. It is anticipated that in a long time to come, manufacturing as well as services will both have rosy development prospects.

PROSPECTS (continued)

In spite of the termination of the steel acquisition which management has expended much of its efforts last year, the Directors are confident that its efforts will not be wasted - that they are more sensitized of market changes and opportunities created as a result. Management has incessantly explored, investigated and evaluated various investment opportunities predominantly in China and hope to embark in the forthcoming year on new projects that can significantly increase shareholders' value.

As discussed in the Operation Environment section, China, due to her extreme high growth rate, surpasses any other country in offering investors very attractive economic prospects. Our unyielding persistence resulted in our identifying a selected number of highly attractive investment opportunities that may suit the Company's investment philosophy and synergy. Further investigative work and analysis are in order before we may present such investment opportunities to shareholders and concerned parties for consideration and approval. We are confident that such a prospective event will materialize in the foreseeable future.

STAFF REMUNERATION AND BENEFITS

As of 31 December 2005, the Group has a staff of 130 in China and Hong Kong. They include management, administration, production and sales personnel. The number of staff was kept at a relatively low level to achieve the cost containment objective.

The Group remunerates its Directors and staff primarily based on their contribution, responsibility, qualification and experience. Since 2003, the Group implemented a staff stock option plan and certain senior management executives and the Directors are offered housing benefits as part of their remuneration package. All employees and Directors in Hong Kong have joined the MPF scheme.

GRATITUDE

The Board would like to take this opportunity to express its gratitude to all the shareholders who supported the Company throughout the years. As well, the Board would like to sincerely thank all the staff for their loyal contributions.

ON BEHALF OF THE BOARD

Guo Duen How, Tom
Director

Hong Kong
13 April 2006