Management Discussion and Analysis

PERFORMANCE REVIEW

The principal activity of the Company is investment holding. The principal activities of its subsidiaries have been changed from the generation and sale of electricity in the People's Republic of China ("PRC") to the production and sale of Chinese medicine and pharmaceutical products in the PRC after the acquisition of 51% equity interest in Foshan Dezhong Pharmaceutical Co., Ltd. ("DZH") and Foshan Feng Liao Xing Pharmaceutical Co., Ltd. ("FLX") on 9 October 2006 by means of acquiring the entire equity interest in the investment holding company, Hensil Holdings Company Limited, of DZH and FLX and the disposal of 80% equity interest in 佛山市沙口發電廠有限公司 (Foshan Shakou Power Plant Co., Ltd.) ("Shakou JV") on 28 December 2006 by means of disposing the entire equity interest in the investment holding company, Hensil Worldwide Inc, of Shakou JV. As the results of such change, the Consolidated Profit and Loss Account comprises the continuing operation in respect of DZH and FLX together with the discontinued operation in respect of Shakou JV.

The turnover of HK$109.63 million represented the invoiced value, net of value added tax and sales tax, in respect of the sales of Chinese medicine and pharmaceutical products from 9 October 2006 to 31 December 2006. According to the track record throughout the period from 2003 to 2006, there was an average compound growth rate of about 5% per annum.

The turnover of HK$721.75 million (2005: HK$824.04 million) included in discontinued operation represented the invoiced value, net of value added tax, in respect of the sales of electricity for the period from 1 January 2006 to 28 December 2006. The major operating expense of electricity generation was fuel oil cost which stated at high levels leading to the operating loss. In order to reduce the loss on electricity generation, the management decided to decrease in electricity generation.

The profit from continuing operation before finance costs and income tax was HK$0.48 million which was after the whole year's administrative expenses attributable to Hong Kong head office amounted to HK$8.92 million. Therefore, the operation profit derived from DZH and FLX was HK$9.40 million for the period from 9 October 2006 to 31 December 2006. The finance costs amounted to HK$6.36 million including HK$6.1 million one off interest expense and early redemption costs on convertible notes issued and redeemed in the year.

The loss from discontinued operation was HK$425.30 million (2005: HK$801.27 million) including a gain on disposal of the discontinued operation of HK$ 63.36 million and impairment losses on fixed assets of HK$280.12 million (2005: including an impairment loss on goodwill of HK$578.32 million and impairment losses on fixed assets of HK$120.34 million).

Market Review

Chinese Medicine and Pharmaceutical Products in PRC:
The PRC has been experiencing a continuous and steady economic growth over the years and with rising personal income and spending power of the general public together with improvement living standards, people are becoming more health-conscious and more willing to spend on medical and health related services. Given the aging of the PRC coupled with the growing health-consciousness of the PRC city residents as indicated by the increase in their spending on medicine and medical services, the management is of the view that there is likely a strong growth in the demand for medical and pharmaceutical products. Accordingly, the management is generally optimistic about the prospects of the medicine and pharmaceutical business in the PRC. On the other hand, market competition is expected to remain fierce after rounds of price reductions so that both DZH and FLX will put more efforts to develop the sales and marketing network in the PRC for increasing their competition.

PERFORMANCE REVIEW (Continued)

Market Review (Continued)

Electricity Generation and Sale at Foshan City in Guangdong Province of PRC:
Despite the fact that Foshan City has been experiencing sustained electricity demand growth as a result of the persistent and strong growth of economic activities in Guangdong Province, operating environment remains extremely difficult for the Group as fuel oil price surges. Moreover, on-grid tariff adjustment continues to be inflexible under the strict control of the relevant authorities of the Guangdong Provincial People's Government which has caused deferral in increasing on-grid tariff and additional fuel cost surcharges as well as the subsidies from local government. Therefore, the Group experienced substantial losses for many years. A controlling shareholder of the Company, Foshan Development Company Limited, agreed to purchase the electricity generation business at its net book value as at 30 September 2006. Under the circumstances, the Company could cut off the loss business at the terms which were fair and reasonable and were in the interests of the Company and the shareholders of the Company as a whole.

Financial Review

The financial position of the Group has changed significantly as the result of the acquisition of 51% equity interest in DZH and FLX on 9 October 2006 and the disposal of Shakou JV on 28 December 2006. The figures for the year 2006 mainly represented DZH and FLX and the comparative figures for the year 2005 mainly represented Shakou JV. Therefore, it has no direct correlation of figures between 2006 and 2005.

Liquidity and Financial Resources:
The Group funded its operation largely by internal cash inflow generated from its operating activities even though suffered a significant loss in respect of the discontinued operation.

As at the balance sheet date, the Group's current assets amounted to HK$210.06 million (2005: HK$259.47 million) including cash and cash equivalents of HK$108.53 million (HK$132.34 million). The current liabilities amounted to HK$123.00 million (2005: HK$164.68 million) including bank loans and overdrafts of HK$20.20 million (2005: 28.85 million). Net working capital surplus amounted to HK$87.07 million (2005: HK$94.79 million). The Group's current ratio moderately increased from the previous 1.58 to 1.71. Loans (total short-term bank loans as well as long term bank loans and other loans) dropped sharply by 95.26% to HK$20.20 million (2005: HK$425.83 million) due to the disposal of Shakou JV.

Committed Banking Facilities:
As at the balance sheet date, the Group had available committed banking facilities in Renminbi from banks for an aggregate amount of HK$19.89 million (2005: HK$201.92 million) in which HK$19.89 million (2005: HK$128.85 million) was drawn down and the bank loans bear interest at an annual rate of 6.12% (2005: from 4.941% to 5.184%). Save as disclosed herein, the Group had no other bank borrowings or committed banking facilities.

Charge on Group Assets:
As at 31 December 2006, there was no charge on the Group's assets for whatsoever purposes. As at 31 December 2005, Shakou JV power generating facilities of an aggregate carrying value of HK$1,066.17 million was charged to three banks in the PRC to secure the respective banking facilities for Shakou JV working capital requirements.

PERFORMANCE REVIEW (Continued)

Financial Review (Continued)

Capital Structure and Gearing Ratio:
As at 31 December 2006, the Group's capital structure comprised the shareholders' equity only without any kind of long-terms loans but with the short-term bank loans and overdrafts amounting to HK$20.20 million. As at 31 December 2005, the Group had loans (total short-term bank loans as well as long-term bank loans and other loans) amounting to 425.83 million. Such drop was due to the disposal of Shakou JV.

Gearing ratio, being the aggregate amount of the short-term bank loans as well as the long-term bank loans and other loans as a percentage of equity attributable to equity shareholders of the Company, sharply decreased from the previous 65.44% to 6.89%.

Net Assets:
The Group's net assets value excluding minority interests decreased from previous of HK$650.69 million to HK$293.26 million.

Contingent Liabilities:
As at balance sheet date, the Group had no contingent liabilities (2005: HK$43 million approximately).

Exchange Rate Risk:
During the year, individual companies within the Group has limited foreign currency risk as most of the transactions are denominated in the same currency as the functional currency of the operations in which they relate. The Group is of the opinion that its exposure to foreign exchange rate fluctuations is limited so that no financial instrument has been used for the purpose of hedging exchange rate risk.

Employees and Remuneration Policies

As at 31 December 2006, the Group employed a total of 824 (2005: 173) staff including the directors of the Company. Remuneration packages principally comprised salary, discretionary performance bonus based on individual merits and share option scheme. The Group's total employee remuneration for the year was approximately HK$34.16 million (2005: HK$22.67 million).