

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

For the six months ended 30 September 2001, the core businesses of the Group maintained their positive business performances. During the period under review, the turnover of the Group rose to HK\$4,236,000, representing an increase of 11% over the corresponding period last year. Despite the drop in bank interest income when compared to the corresponding period last year, effective cost control measures implemented by the Group for the period under review brought about a decrease in administrative expenses of 10% compared to last year. Moreover, the Group's associated company, Shenzhen Xinpeng Biotechnology Engineering Company Limited, continued to make a profit contribution to the Group, entitling the Group to a share of its profit (before tax) of HK\$1,182,000 for the period concerned. The Group therefore achieved stable growth in its profitability. For the six months ended 30 September 2001, the Group's net profit amounted to HK\$1,374,000, representing an increase of 4% over the corresponding period last year. Similar to previous years, the Group maintained a healthy financial position. As at 30 September 2001, the Group held cash and bank balances of approximately HK\$89,000,000, with no debts or borrowings.

Operations Review

Apart from its core businesses, the Group continued to focus on the development of its biotechnology business during the period under review. In May 2001, the Group acquired a 49% equity interest in Yunnan Meng Sheng Pharmaceutical Co. Limited ("Meng Sheng Pharmaceutical") and injected further capital into Meng Sheng Pharmaceutical at a total consideration of RMB7,840,000. The acquisition was completed in August 2001, upon the issue of the business license by the Administration for Industry and Commerce in relation to the new sino-foreign equity joint venture.

Core Businesses

The provision of management and consultancy services for enterprises in China is the Group's primary core business. During the period under review, the Group earned RMB4,490,000 (or HK\$4,236,000) consultancy fee income by providing services mainly in the areas of economic and technology consultancy. With the expectation of rapid increase in the reform and restructure of many Chinese enterprises after China's entry into the World Trade Organization ("WTO"), there will be vast opportunities for the Group to expand its management and consultancy service business which has already established a proven track record over the past few years.

Moreover, Yuxi Globe Colour Printing Carton Co. Ltd. ("Yuxi Globe"), in which the Group holds a 12.5% equity interest, continued to maintain its stable operating performance during the period under review. Yuxi Globe is expected to achieve profitability for its eighth consecutive year in 2001. Therefore the Group believes that the dividend income derived from its investment in Yuxi Globe in the coming year will strengthen the income base of the Group's core businesses.

- (i) Shenzhen Xinpeng Biotechnology Engineering Company Limited (“Xinpeng Biotechnology Engineering”)

Following its remarkable sales trend in 2000, the major product of Xinpeng Biotechnology Engineering -rhG-CSF- reached yet another peak in 2001. For the ten months ended 31 October 2001, turnover and sales of rhG-CSF amounted to RMB26,000,000 (excluding VAT) and 160,000 units respectively, representing a further increase in turnover of 27% when compared with 2000. The sustained rapid growth of this medicine is attributable to wide recognition of its quality in the market, coupled with Xinpeng Biotechnology Engineering’s consolidated sales networks and flexible sales strategy. In addition, the receipt of its Good Manufacturing Practice (“GMP”) certification in early 2001 also enhanced sales and marketing efforts for the products in the domestic market, which in turn led to the progressive growth in its turnover. The encouraging business performance of this associated company entitles the Group to a share of its profit (before tax) of HK\$1,182,000 for the period under review. Since last year, this business has been continuing to provide a lucrative profit contribution to the Group. Management expects the turnover of rhG-CSF in 2001 to exceed RMB30,000,000 (excluding VAT) and its market share in China to increase from 10% in 2000 to about 18% in 2001, as a result of further recognition of Xinpeng Biotechnology Engineering’s Research & Development (“R&D”) technology capabilities as well as the positive sales effect gained through the attainment of GMP certification. With the intensifying competition in the domestic pharmaceutical market, Xinpeng Biotechnology Engineering’s GMP-compliant production capabilities and mature sales network provide it a strong competitive edge and a highly favorable position in the market.

- (ii) Yunnan Meng Sheng Pharmaceutical Co. Limited (“Meng Sheng Pharmaceutical”)

Meng Sheng Pharmaceutical was established in Yunnan Province in 1997, and is engaged in the R&D, manufacture and sale of biotechnology products. This company was designated a “High and New Technology Enterprise” by the relevant authority in Yunnan in 1998. This award signifies its strong R&D capabilities. Its major product, Cerebroprotein Hydrolysate Injection, is particularly effective in curing cerebral symptoms with sales volumes reaching around 200,000 units last year. The product currently manufactured by Meng Sheng Pharmaceutical is among the few of its type in the market which can fully conform with new production standards issued by the State Drug Administration in early 2001, thus reflecting its high technology capabilities. Cerebroprotein Hydrolysate Injection is a basic medicine in China. Total sales in the domestic market reached about RMB10 billion with high market potential. Currently, sales orders received by Meng Sheng Pharmaceutical already exceed its normal production capacity.

To cope with future market demand as well as to enhance its competitiveness in the pharmaceutical market, Meng Sheng Pharmaceutical has acquired 25 acres of land in the Kunming Economic and Technology Development Zone to build a new production plant. The relevant production workshops will fully comply with GMP standards. The total investment, including planning, construction and import of production facilities, is about RMB16 million. This will be funded in full by Meng Sheng Pharmaceutical’s internal resources. Upon completion, the production capacity of the new plant will increase by six to eight times. Construction of the new plant already commenced in August this year, and is expected to be completed by early 2002. Application will then be submitted to the relevant authority for GMP certification.

The completion of the new production plant and the successful attainment of GMP certification will further enhance the development potential of Meng Sheng Pharmaceutical in the pharmaceutical market, and also upgrade its competitiveness. With its solid foundations and innovative R&D technology, the Group is confident of its future development. The Group believes that its investment in Meng Sheng Pharmaceutical will further strengthen the Group's investment portfolio in the biotechnology business.

Prospects

Although there was no import business engaged in the period, the Group strongly believes that the import business performance will be improved in the second half of the year with the full support of the parent company. While the global economy remains lackluster, the economy in China maintains steady growth. China's entry to WTO will also provide a new driving force for the development of the Chinese economy. This will create new challenges and opportunities for the entire domestic pharmaceutical market. Though competition in the domestic pharmaceutical market is expected to intensify, the Group is highly satisfied with the product quality, R&D technology capabilities, sales network, GMP certification, market share and future expansion and development in relation to its two associated companies in the biotechnology business, which have placed them in an ideal position to benefit from the market's ample opportunities. The Group is optimistic of their future development in the domestic pharmaceutical market and has full confidence that they will continue to generate lucrative returns for the Group. Looking ahead, the Group plans to further develop its biotechnology business and will continue to identify new investment opportunities in this business area. It aims to strengthen the Group's investment portfolio and to maximize returns for shareholders.