MANAGEMENT DISCUSSION & ANALYSIS

OVERVIEW

The Group has continued to restructure its business activities with a view to better utilising its resources and to improving its financial position. During the year, two separate agreements were entered into with two separate independent third parties in relation to the issue of convertible notes in the amount of up to US$30,000,000 and HK$100,000,000 respectively, further details of which are set out in the section headed "Liquidity and financial resources" below. Unfortunately, as the share prices of the Company have been remaining below the par value and one of the subscribers of the convertible notes withdrew from the subscription, the Group has been unable to obtain the funding as it anticipated. As such, the Group had to revise its investment plan in pharmaceutical business and speed up its disposal of non-core assets.

In order to be able to raise capital in the market and to improve its financial position, the Company is considering a reduction of the par value of its shares and is discussing with its creditor banks with regard to a debt restructuring plan. The Group is also in discussions with certain potential investors for making investment in the Company.

FINANCIAL RESULTS

Turnover of the Group was HK$25,215,000, representing a decrease of approximately 40.7% as compared to that of last year. The decrease was mainly due to the significant drop in turnover attributable to the transportation business of the Group. Operating loss dropped from HK$31,681,000 in 2000 to HK$20,452,000 this year mainly due to the reduction in operation scale of the transportation business of the Group and the significant decrease in administrative and operating expenses. Loss from operations and net loss were HK$265,731,000 and HK$298,211,000 respectively, representing a decrease of 30.8% and 33.3% respectively over those of last year. This significant drop in net loss was mainly attributable to the recovery of loss by transferring of certain loans in the sum of HK$65,211,000 to Singapore Hong Kong Properties Investment Limited ("SHKP") related to the disposal of nine subsidiaries to SHKP last year, the absence of impairment in value of investment securities, the decrease in interest expenses and better control of administrative expenses, despite an increase of approximately 102% in net deficit on revaluation of investment properties and all other provisions. Interest expenses dropped a 41.5% from HK$64,117,000 to HK$37,518,000, which was mainly due to the decrease in bank borrowings and the reductions of interest rates during year 2001. Loss per share was 4.8 HK cents, representing a decrease of 41.5% from that of last year.

REVIEW OF OPERATIONS

During the year, rental income increased from HK$9,233,000 to HK$11,111,000 mainly due to the lease of additional floor area of the Group's investment properties. Certain investment properties were disposed of during the year, the proceeds of which were used to repay bank borrowings. As the Hong Kong secondary property market has been sluggish and property prices have continued to decline, the Group has written down the value of its property assets for a total of HK$197,882,000, representing an increase of 46.1% over that of last year. If secondary property prices do not significantly deteriorate, no material write-downs are expected next year.

MANAGEMENT DISCUSSION & ANALYSIS

Turnover attributable to sand and gravel trading increased by 38.8% to HK$9,169,000 which was mainly due to the additional supply to the project at Terminal No. 9, Kwai Chung. As the Group was unable to obtain bulk volume orders for the two major reclamation projects in Hong Kong – the Container Terminal 9 project and Disneyland project, operations of this business unit were ceased in the second half of the year to avoid further operating loss and to better utilise its resources.

Performance of the Group's river trade transportation business was suffered by the continual deterioration in the general trading and economic conditions of Hong Kong. Turnover dropped approximately 81.7% from HK$23,826,000 in last year to HK$4,364,000. As the Group expects that the general trading and economic conditions of Hong Kong would not turnaround in the near future, it is considering a disposal of this non-core business to generate additional working capital.

The business licence of the Sino-foreign joint venture with the Institute of Virology of the Chinese Academy of Preventive Medicine ("Institute of Virology") was obtained on 15 December 2000. This joint venture was owned as to 49% and 51% by the Group and the Institute of Virology respectively. The Group originally planned to acquire a biopharmaceutical factory to serve as the manufacturing base for the joint venture's products. Due to the lack of funding as mentioned above, the development plan of the joint venture and the acquisition plan of a biopharmaceutical factory were affected. In order to resolve this problem, the Group, the Institute of Virology and an independent third party (the "New JV Partner"), who is also interested in entering into the pharmaceutical business in the PRC, came into an agreement whereby the New JV Partner will replace the Institute of Virology as the 51% owner of the joint venture and the joint venture will be transformed to a wholly foreign-owned enterprise ("WFOE"). Business licence of the WFOE was granted on 5 April 2002. The co-operation with the Institute of Virology is expected to continue and, as a potential partner in this joint venture, will focus on the research and development of genetically engineered vaccines.

Towards the end of the year, the Group acquired from GenePro Laboratory Limited, a company in which Dr. Wan Kwong Kee, the Chairman of the Company, has a beneficial interest of 26.8%, the 100% interest in GenePro Medical Biotechnology Limited ("GenePro"). GenePro has been engaged in research and development of genetically engineered products and provision of DNA testing services in the molecular diagnosis of diseases and personal identity. No significant contribution to turnover was attributed by GenePro to the Group for the year.

In December 2000, the Company entered into a joint venture agreement with the owner of Nanjing Pharmaceutical Factory ("NPF") in relation to the formation of a Sino-foreign equity joint venture with NPF. As the Company was unable to obtain funding from the two fund raising exercises mentioned above, the Group has in principle agreed with the owner of NPF to terminate the above-mentioned joint venture agreement. Accordingly, the Sino-foreign equity joint venture with NPF will not be formed.

In line with the strategy to divest its non-core business, the Group had disposed of its entire interest in its 60% owned joint venture for the sale and manufacture of high-end electronic consumer products. The proceeds generated from such disposal was used as additional working capital of the Group.

MANAGEMENT DISCUSSION & ANALYSIS

As competition and tariff rates in the IDD market have continued to change unfavourably since the acquisition of technical knowhow to operate the "voice-over-internet system" technology in May 2000, the Group has decided not to commence operation of such business. The Group also intends to dispose of this "voice-over-internet system" technology as soon as practicable. For prudence sake, a further provision of HK$28,000,000, representing the remaining carrying value of this investment, was made in the year.

With regard to the other activities of the Group, there were no significant changes as compared to last year.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2001, the Group's bank borrowings comprising mortgage loans, trust receipt bank loans, overdrafts and other loans amounted to HK$322,864,000, representing a decrease of approximately 14.3% as compared to that of last year. However, total liabilities increased by 2.5% to HK$471,744,000 mainly due to the fact that a provision of HK$30,500,000 for the corporate guarantees to SHKP's bank borrowings was made and overdue interest expenses amounting to HK$42,159,000 was accrued for the year. All of the Group's bank borrowings are due within one year. Current ratio of the Group decreased from 30.5% as at 31 December 2000 to 9.7% at the end of this year since all of the Group's liabilities were of a current nature. The gearing ratio (total liabilities as a percentage of total assets) increased from 93.4% as of 31 December 2000 to 229% as of 31 December 2001, which was mainly attributable to the decrease of total assets resulted from the net loss of HK$298,211,000 incurred this year. As at the end of the year, the Group had a net deficit of HK$265,761,000.

In March 2001, the Company entered into a convertible secured note purchase agreement with Acqua Wellington Far Eastern Fund I Ltd for the issue of notes convertible into securities of the Company for a total commitment of up to US$30,000,000. Pursuant to such agreement, the Company will be able to draw on this stand-by facility when the Company's volume weighted average share price is on or above HK$0.22 per share. As the share prices of the Company had been below HK$0.22 per share since March 2001, the Company was unable to draw on this facilities. In May 2001, the Company entered into an agreement with China Union Pharmaceutical Company Limited ("China Union Pharmaceutical") for the subscription of convertible note in an aggregate principal amount of HK$80,000,000 convertible into shares of the Company at HK$0.22 per share. This agreement was later replaced by a supplemental agreement in September 2001, pursuant to which China Union Pharmaceutical agreed to subscribe for convertible notes for an aggregate subscription price of HK$100,000,000 in three tranches. On 31 December 2001, China Union Pharmaceutical served a notice to the Company to terminate this agreement. The Group is currently seeking legal advice on the appropriate course of action.

As the Company was unable to raise any equity funding pursuant to the above fund raising exercises, the Group suffered a relatively high gearing ratio and was lack of the funding needed for its new business endeavours. In order to improve its financial position and liquidity, the Group has commenced discussions with its creditor banks in relation to a debt restructuring plan. Also, the Group is currently in discussions with certain potential investors for making investments in the Company. However, all of these discussions are only at a preliminary stage.

Most of the investments and borrowings of the Group were made in Hong Kong dollars, and the borrowings of the Group were charged at floating interest rates. No financial instrument had been used for hedging purpose. Therefore, the Group was not exposed to any material exchange rate fluctuation during the year.

CHARGES ON ASSETS

As at 31 December 2001, certain assets of the Group with an aggregate carrying value of HK$133,214,000 (2000:HK$359,534,000) were pledged to secure the Group's borrowings.

EMPLOYEE REMUNERATION POLICY

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

Details of the Group's contingent liabilities as at 31 December 2001 are set out in the note 30 to the accompanying financial statements.

PROSPECTS

With the formation of the WFOE and the acquisition of GenePro, the Group has made a step forward in entering into the pharmaceutical / biopharmaceutical business in Hong Kong and the PRC where substantial growth potential is expected to see in the future. However, an aggressive development of this business is very much dependent on whether new funding can be raised in the market and whether the financial position of the Group can be improved. In this regard, the Group will continue to solicit investors to make investments in the Company, to dispose of its non-core assets and to work on the debt restructuring plan with its creditor banks. Upon finalisation of the above, the Group believes that it would be in a much better position to pursue its business endeavours.