



MANAGEMENT DISCUSSION AND ANALYSIS



STRATEGY AND MARKET

Strategy

The Group's core business strategy is to be among the first to launch new pharmaceutical products in the PRC, either by acting as exclusive agents for European product brands (trading segment) or in promoting self manufactured products (pharmaceutical products segment). Most of these products already have successful track records since their launch in developed countries by other pharmaceutical companies. The key advantage of introducing new products in the PRC is the enjoyment of a certain period of protection from market competition granted by the SFDA or via patent registration in the PRC. Critical success factors in implementing such a strategy include extensive research and development, versatile production capabilities, as well as a strong distribution network. The Group is strengthening its core competencies further in these areas.

Another area of business development that the Group would focus on is the distribution of health care products in Hong Kong. The year ended 31 March 2004 could be a watershed for TCM in Hong Kong, following official announcements of regulatory controls over TCM. The Group's experience in product registration, quality control and production management in the PRC give it a clear competitive advantage in a regulatory environment for TCMs in Hong Kong, the regulatory framework of which would be based significantly on that of the PRC's. Plans are being made by the Group to register a range of TCMs in Hong Kong covering various therapeutic areas in the near future.

Market

Statistics from the China National Development and Reform Commission of the PRC indicated a 13.13% increase in pharmaceutical industrial revenues over the first 2 months of 2004 as compared with the corresponding period last year, while industrial value added increased 16.08% over the same period. The Group believes that a healthy growth rate in the PRC pharmaceutical market is sustainable for years to come.

On the other hand, the entry barrier to the PRC pharmaceutical market would become higher when SFDA begin the enforcement of GMP compliance for all pharmaceutical manufacturers from 1 July 2004, as well as the relevant PRC authorities intention to strengthen the legal framework for drug administration. In April 2003, the SFDA's responsibilities was expanded to cover prescription, non-prescription, vaccines, biologicals, medical devices, drug packaging, functional foods, dietary supplements and cosmetics. The Group is in a good position to benefit from these increased and more stringent controls in the PRC, with its experienced management team and GMP licences already in place.

The aging population and SARS in 2003 help to accelerate the growth of the TCM market in Hong Kong. With the advent of TCM registration regulations in Hong Kong on 19 December 2003, products failing quality controls will steadily be eliminated while consumer confidence towards TCMs will increase.

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BUSINESS PERFORMANCE CONDITIONS

Business Review

The Period under review is both a period of consolidation as well as development for the Group. For the year ended 31 March 2004, the consolidated profit of the Group amounted to approximately HK\$41.0 million, representing an increase of approximately 33.1% over the previous year. Turnover for the Period was approximately HK\$203.0 million, representing an increase of approximately 7.5% over HK\$188.8 million for the year ended 31 March 2003. Earnings per share for the Period amounted to approximately HK9.8 cents, representing an increase of 11.4% over HK8.8 cents in 2003.

The business performance of the Group was affected in the first half of the Period by SARS, but recovered quickly when the epidemic abated in the third quarter. The significant increase in profit as compared with the rise in revenue was mainly the result of a change in sales mix in favor of higher margin products. During the Period, the Group placed a lot of effort not only to increase its distribution network but also to enhance the professional standard of its sales force. This results in both an absolute increase in sales revenue and also a more effective promotion on higher margin products. The Group's tight control over operating costs has also contributed to profits for the Group.

Pharmaceutical products

Pharmaceutical products account for the core of the Group's turnover, representing approximately 72.1% of the Group's turnover for the Period (2003: approximately 68.0%) which amounted to approximately HK\$146.3 million for the Period (2003: approximately HK\$128.4 million). The change represented an increase in turnover of approximately 13.9% as compared to the corresponding period in 2003. Segment results for pharmaceutical products also improved to approximately HK\$43.4 million (2003: approximately HK\$28.6 million), representing an increase of approximately 51.7% as compared to the corresponding period in 2003. The strong growth in turnover and results was primarily a result of an improved distribution network coverage in the PRC and a decline in certain raw material costs.

One of the Group's best selling products, Triamcinolone Acetonide for injection, was awarded the "Yunnan Famous Brand Award" by the Yunnan Technology and Quality Administration in December 2003.

The Group's quality control and research departments successfully obtained SFDA approvals to convert all product licences in the PRC from the provincial level to national level, as required by the SFDA. This also ensures that the production and distribution of the Group's products in the PRC comply fully with SFDA requirements. A new product, Reduced Glutathione Sodium for Injection, was successfully launched in July 2003 under the Group's brand name of "松泰斯". Two of the Group's SFDA Medicine category 2 new drugs, namely Risedronate Sodium and Edaravone, obtained clinical permits in April 2003 and February 2004 respectively. Sucralfate gel suspension, Somatostatin and Buflomedil Phridoxal Phosphate were either undergoing or have finished clinical studies by the end of the Period.



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A potential SFDA Medicine category 3 new drug Tamsulosin, which is the only sustained release tablet of its type in the PRC, was being developed during the Period, and had already finished its clinical phase in March 2004. Other ongoing projects include development of generics in antibiotics and corticosteroids. These encouraging results would form the engine of strong growth for the Group in the coming years.

Trading

The turnover of traded pharmaceutical products for the Period amounted to approximately HK\$48.1 million (2003: approximately HK\$51.3 million); representing a decrease of approximately 6.2% as compared to the corresponding period in 2003. The turnover of traded pharmaceutical products accounted for approximately 23.7% of the Group's turnover for the Period (2003: approximately 27.2%). Segment results for traded pharmaceutical products declined to approximately HK\$18.1 million (2003: approximately HK\$20.5 million); representing a decrease of approximately 11.7% as compared to the corresponding period in 2003. Decrease in turnover was primarily a result of retail price cut by the China National Development and Reform Commission in January 2003. However, sales started to pick up in the second half of the Period after a series of marketing campaigns in the first half of the Period, which the Group believes is sustainable.

Artrodar, the worldwide patented osteoarthritis product, has finished its clinical trial in the PRC in November 2003, with very positive results. The Group is expecting an import drug license for Artrodar in the next few months, which would contribute significantly to the Group's profits in the future.

Health care products

The turnover of the Group's health care products amounted to approximately HK\$8.5 million for the Period (2003: approximately HK\$9.1 million); representing a decline of approximately 6.6% as compared to the corresponding period in 2003. The turnover of health care products accounted for only approximately 4.2% of the Group's turnover for the Period (2003: approximately 4.8%). Segment results for health care products improved to approximately HK\$2.3 million (2003: approximately HK\$1.1 million). Turnover of health care products declined primarily as a result of SARS in Hong Kong during the Period and the improvement in segment results was primarily a result of tighter control over costs. Although performance of the Group's healthcare products segment had been satisfactory this year, the Group is confident that profit contribution from this segment will grow significantly in the coming future with the registration of new TCMS.

Research and development

Research and development costs incurred by the Group increased from approximately HK\$1.9 million in 2003 to approximately HK\$3.6 million in the Period; of which approximately HK\$1.9 million (2003: approximately HK\$0.4 million) was capitalised as deposit for product development and approximately HK\$1.7 million (2003: approximately HK\$1.5 million) charged as pre-production testing expenses during the Period.

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Acquisition of research and development entity

The Group successfully acquired YJPT, a research and development entity in the PRC, on 7 February 2004 at a cost of US\$800,000 or approximately HK\$6.2 million. The acquisition cost represents the entire paid-up registered capital of YJPT. This is a connected transaction which was announced by the Group on 23 December 2003. YJPT has started important groundwork on corticosteroid biosynthesis technology and chemical synthetic production which the Group believes would provide very encouraging development in the near future. The transaction would bring to the Group a new era of strong growth in raw material exportation, and extending the Group's vertical integration to raw material research and manufacturing.

Development of sales network

With the appointment of a new marketing director of the Group's pharmaceutical products, new sales force were trained and assigned to cover cities previously untapped by the Group in the PRC. Agreements were signed with new distributors, and new marketing plans were devised to promote products with their production licences just converted to the national level during the financial year. These include TCMs on diabetes, male hepatic functions, cardiovascular disorders, as well as antibiotics.

Completion of new manufacturing plant

The first phase of construction of a new manufacturing plant of the Group was completed during the Period. The site covers approximately 34,000 square meters of land, with approximately 38,000 square meters plant floor area, and a state-of-the-art design allowing 8 new production lines of different dosage forms, including pre-filled syringes, powder injectables, liquid injectables, oral formulations, peptide synthesis and lyophilized powder injectables. Construction work on the new manufacturing plant of the Group was started on 1 April 2003 and the plant would be ready to commence full operations during the next financial year.

PROSPECTS FOR THE YEAR 2005

The Directors believe that 2005 would be a year of solid growth. The PRC pharmaceutical market is expected to enjoy double digit growth despite the State's actions to 'cool' the economy as a whole. Meanwhile, the Hong Kong economy is expected to continue to show improvement with an increasing health awareness in the general population.

For the pharmaceutical products segment, the Group expects to obtain new GMP certificates and to commence operations on 6 production lines. Production licence for Loratadine tablet was obtained in May 2004 and the production licence for Somatostatin for injection is expected to be obtained in December 2004. Meanwhile a series of TCMs and antibiotics with production licences were launched in June 2004. These would impact on the Group's sales mix further in favor of high margin products.



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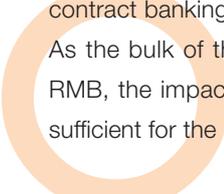
Sales force is planned to be doubled during 2005. The Group has planned to set up two new marketing divisions in the PRC, one for over-the-counter promotion, and the other to distribute in the suburban areas of the PRC. This development in marketing would definitely improve sales channel management and geographical coverage of the Group in the PRC.

As for traded products segment, the Group expects the present growth in sales would continue. Segment results would improve as the Group is confident that its application to increase its product retail price in the PRC would be granted by the relevant authorities shortly. Two important new products, Synthetic Salmon Calcitonin (for osteoporosis) (already launched in June 2004) and Artrodar (expected to launch in December 2004), are anticipated to further improve sales in this segment.

Finally, health care products is an area where the Group has put in extra efforts over the previous years. The Group had submitted registration for more than 20 new TCMs with differing therapeutic actions in Hong Kong on or before 30 June 2004. The Group would appoint Hong Kong Standards and Testing Centre and Guangzhou Institute of Drug Control to perform chemical and toxicology studies on all its health care products.

The Directors believe that the current “economy-cooling” policy in the PRC would present many acquisition opportunities for the Group. Acquisition targets would include biotechnology companies and TCM plants.

LIQUIDITY AND FINANCIAL RESOURCES



As at 31 March 2004, cash and cash equivalents of the Group totaled approximately HK\$87.3 million (2003: approximately HK\$41.9 million), of which approximately 21% are in Hong Kong dollars, 75% in Renminbi (“RMB”) and 4% in US dollars. The Group has for its hedging purposes a US\$1 million forward exchange contract banking facility in place as at 31 March 2004 and actively monitors its net foreign currency exposures. As the bulk of the Group’s transactions and assets are denominated in Hong Kong dollars, US dollars and RMB, the impact of foreign currency fluctuations is minimal and the current hedging facilities are considered sufficient for the near future.

Although the Group has consistently been in a liquid position, banking facilities have nevertheless been utilized partly to enjoy the interest grant concession offered by the PRC authorities (on long term bank loans to encourage fixed assets investment in 2003) and partly to reserve funds for possible acquisition opportunities that may arise.

As at 31 March 2004, the Group had aggregate banking facilities of approximately HK\$110.6 million of which approximately HK\$100.3 million was utilized (as to approximately HK\$74.6 million in long term bank loans, as to approximately HK\$19.3 million in short term bank loans and as to the balance of approximately HK\$6.4 million in letters of guarantee issued by the relevant banks to independent third parties). The Group’s aggregate banking facilities of approximately HK\$110.6 million includes approximately HK\$89.6 million equivalent in RMB denominated banking facilities. The utilized banking facilities of approximately HK\$100.3 million includes approximately HK\$89.6 million equivalent in RMB denominated bank borrowings.

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Interest rates applicable to the RMB denominated bank borrowings are renewable annually and are fixed at 4.779% per annum for RMB20.0 million, 5.49% per annum for RMB25.0 million and 4.941% per annum for RMB50.0 million as at the end of the Period.

As at 31 March 2004, the gearing ratio was approximately 28.7% (2003: approximately 19.7%), calculated based on the Group's total bank borrowings of approximately HK\$93.9 million (2003: approximately 35.8 million) over the Group's total assets of approximately HK\$327.4 million (2003: approximately HK\$182.0 million).

As at 31 March 2004, approximately HK\$21 million of the Group's banking facilities was secured by certain properties owned by the Group and a corporate guarantee of the Company for HK\$28.28 million. The secured banking facilities were utilized as to approximately HK\$10.7 million as at the end of the Period, of which approximately HK\$4.3 million was utilized in mortgage loan and approximately HK\$6.4 million utilized in letters of guarantee.

CHARGE OF ASSETS

As at 31 March 2004, certain of the Group's buildings with a net book value of approximately HK\$6.9 million were pledged to a bank to obtain credit facilities.

CAPITAL COMMITMENTS

Capital commitments outstanding at 31 March 2004 not provided for in the financial statements were as follows:

	The Group	
	2004	2003
	HK\$'000	HK\$'000
Contracted for		
– acquisition of fixed assets	16,791	13,021
– acquisition of technical know-how	1,402	3,340
	18,193	16,361
Authorised but not contracted for		
– acquisition of fixed assets	–	52,757
	18,193	69,118

Funding for capital commitments is expected to come from the Group's internal resources.



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USE OF PROCEEDS

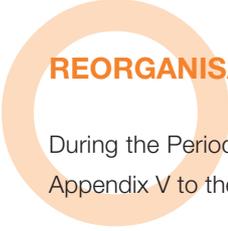
Net proceeds raised from the Share Offer (as defined in the Prospectus of the Company dated 30 September 2003 (the "Prospectus")) of the Company amounted to approximately HK\$57.4 million including interest income and after deducting related expenses. Up until 31 March 2004, the net proceeds had been used as to approximately HK\$43.6 million, out of which approximately HK\$4.0 million had been used in land use rights, approximately HK\$24.0 million on construction of the new GMP compliant production complex, approximately HK\$12 million in respect of plant installations for the production of new pharmaceutical and health care products and approximately HK\$3.6 million on research and development costs. The remaining net proceeds, which has not yet been used, were deposited in banks in Hong Kong and the PRC. The use of proceeds was in line with the disclosure made in the Prospectus.

CONTINGENT LIABILITIES

As at 31 March 2004, the Group has not provided any form of guarantees for any company outside the Group and was not liable to any material legal proceedings of which provision for contingent liabilities was required.

EMPLOYMENT REMUNERATION POLICY

As at 31 March 2004, the Group had approximately 333 employees. Total salaries and related costs incurred for the year ended 31 March 2004 amounted to approximately HK\$15.9 million. The Group's remuneration policies are in line with prevailing market practice and formulated on the basis of the performance and experience of individual employees. Apart from basic salaries, other staff benefits included provident funds and medical schemes. The Company may also grant share options to eligible employees under its share option scheme.



REORGANISATION

During the Period under review, the Group has undergone the Reorganisation, details of which are disclosed in Appendix V to the Prospectus.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding securities transactions by Directors in accordance to the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 of the Listing Rules.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES

The Company's shares were listed on the Stock Exchange on 14 October 2003. Since the Listing Date, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.