

## DIRECTORS' REPORT

The directors are pleased in presenting their annual report together with the audited financial statements for the year ended 31 March 2004.

### PRINCIPAL ACTIVITIES

The Group is principally engaged in the manufacturing and sales of pharmaceutical products and health care products. The principal activities and other particulars of the subsidiaries are set out in note 18 to the financial statements.

The analysis of the principal activities of the Group during the financial year are set out in note 14 to the financial statements.

#### Major customers and suppliers

The information in respect of the Group's sales and purchases attributable to the major customers and suppliers respectively during the financial year is as follows:

	Percentage of the Group's total	
	Sales	Purchases
The largest customer	41.6%	
Five largest customers in aggregate (Note 1)	69.1%	
The largest supplier		14.2%
Five largest suppliers in aggregate		41.2%

Note 1: Within the five largest customers of the Group are Yunnan Pharmaceutical and Industrial Corporation Limited and Yunnan Jiwa Pharm Logistics Company Limited, both of whom are connected persons and details of their transactions with the Company are set out in note 33 to the financial statements.

Save as disclosed above, at no time during the year have the directors, their associates or any shareholder of the Company (which to the knowledge of the directors owns more than 5% of the Company's share capital) had any interest in these major customers and suppliers.

### FINANCIAL STATEMENTS

The profit of the Group for the year ended 31 March 2004 and the state of the Group's affairs as at that date are set out in the financial statements on pages 33 to 71.



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The directors of the Company recommend the payment of a final dividend of HK1.3 cents per share in respect of the year ended 31 March 2004.

### TRANSFER TO RESERVES

Profits attributable to shareholders of the Company, before dividends, of HK\$41.0 million (2003: \$30.8 million) have been transferred to reserves. Details of the movements in the reserves of the Company and the Group during the year are set out in note 29 to the financial statement.

### DIVIDENDS

No interim dividend was declared by the Company during the year ended 31 March 2004. The Directors have decided to recommend at the forthcoming annual general meeting to be held on 23 September 2004, the payment of a final dividend for the year ended 31 March 2004 of HK 1.3 cents per share in cash to be paid on or about 30 September 2004 to the shareholders of the Company whose names appear on the register of members of the Company on 23 September 2004.

Having regard to the Group's imminent completion of the new production facilities in the PRC, the Board has decided on a policy of dividend payout ratio of not less than 25% with effect from the year ending 2005.

### CLOSURE OF REGISTER OF MEMBERS

In order to ascertain the entitlements of shareholders of the Company to the proposed final dividend, the register of members of the Company will be closed from 15 September 2004 to 23 September 2004, both days inclusive, during which period no share transfers will be effected. In order to qualify for the proposed final dividend and for attending the annual general meeting of the Company to be held on 23 September 2004, all share transfers accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar and transfer office, Standard Registrars Limited at G/F., Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong for registration not later than 4 p.m. on 14 September 2004.

### FIXED ASSETS

During the year, the Group acquired properties for approximately HK\$14.9 million and machineries for approximately HK\$1.1 million for the Group's factory. Details of these acquisitions and other movements in fixed assets are set out in note 15 to the financial statements.

### SHARE CAPITAL

Details of the movements in share capital of the Company during the year are set out in note 28 to the financial statements. Shares were issued during the year to broaden the capital base of the Company.

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### DIRECTORS

The directors of the Company during the financial year were as follows:

#### Executive directors

Lau Yau Bor, Chairman  
Lau Kin Tung, Vice Chairman and Chief Executive Officer  
Chan Hing Ming

#### Independent non-executive directors

Choy Ping Sheung  
Soo Ping Shu, Samuel

The Company received confirmation of independence in respect of the year ended 31 March 2004 from each of the independent non-executive directors of the Company pursuant to Rule 3.13 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). Up to and as at the date of this report, the Company still considers the independent non-executive directors of the Company to be independent.

#### Directors' service contracts

No director proposed for re-election at the forthcoming annual general meeting has an unexpired service contract which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation, other than normal statutory obligations.

#### Directors' and chief executive's interest and short positions in Shares, underlying Shares and debentures

The directors and chief executive of the Company who held office as at 31 March 2004 had the following interests in the shares of the Company, its subsidiaries and other associated corporations (within the meaning

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of the SFO) at that date as recorded in the register of directors' and chief executives' interests and short positions required to be kept under section 352 of the SFO:

### (i) Interests in issued Shares

	Personal interests (Note 1)	Family interests	Shares Corporate interests	Total number of Shares held	% of total issued Shares
Beneficial Interests					
Lau Yau Bor	15,468,000		280,000,000 (Note 3)	295,468,000	59.09%
Lau Kin Tung	2,266,000	–	35,000,000 (Note 4)	37,266,000	7.45%
Chan Hing Ming	–		35,000,000 (Note 2)	35,000,000	7.00%

Note:

1. The Shares are registered under the names of the directors and chief executive of the Company who are the beneficial owners.
2. Chan Hing Ming, the beneficial shareholder of 100% of the issued share capital of MINGS Development Holdings Limited, which owned 35,000,000 Shares at 31 March 2004.
3. Lau Yau Bor, the beneficial shareholder of 100% of the issued share capital of LAUs Holding Co Ltd which owned 280,000,000 Shares at 31 March 2004.
4. Lau Kin Tung, the beneficial shareholder of 100% of the issued share capital of WHYS Holding Co Ltd which owned 35,000,000 Shares at 31 March 2004.

### (ii) Interests in underlying Shares

The directors and chief executive of the Company have been granted options under the Company's share option scheme (the "Share Option Scheme"), details of which are set out in the section "Share Option Scheme" below.

Apart from the foregoing, none of the directors and chief executive of the Company or any of their spouses or children under eighteen years of age has interests or short positions in the shares, underlying shares or debentures of the Company, any of its holding company, subsidiaries or fellow subsidiaries, as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers.

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### Share Option Scheme

The Share Option Scheme which was adopted on 24 September 2003 whereby the directors of the Company are authorized, at their discretion, to invite employees of the Group, including directors of any company in the Group, and any suppliers, consultants or advisers who have provided services to any company in the Group to take up options to subscribe for Shares. The Share Option Scheme shall be valid and effective for a period of ten years ending on 24 September 2013, after which no further options will be granted. The exercise price of options is the highest of the nominal value of the Shares, the closing price of the Shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on the date of grant and the average closing price of the Shares on the Stock Exchange for the five business days immediately preceding the date of grant.

The total number of securities available for issue under the Share Option Scheme as at 31 March 2004 was 50,000,000 Shares (including options for 9,266,000 Shares that have been granted but not yet lapsed or exercised) which represented 10% of the issued share capital of the Company at 31 March 2004. A summary of the principle terms of the Share Option Scheme was disclosed in Appendix V to the Prospectus.

At 31 March 2004, one director and employees of the Company had the following interests in options to subscribe for Shares (closing market value per Share at 31 March 2004 was HK\$0.375) granted for a consideration of HK\$1 under the Share Option Scheme. The options are unlisted. Each option gives the holder the right to subscribe for one Share.

	No. of options outstanding on adoption date of Share Option Scheme	No. of options outstanding at the year end	Date granted	Period during which options are exercisable	No. of Shares acquired on exercise of options during the year	Exercise price per Share	Market value per Share at date of grant of options
<b>Director</b>							
Lau Kin Tung	-	7,266,000	31 March 2004	31 March 2004 to 30 March 2009	-	HK\$0.377	HK\$0.375
<b>Employees</b>							
Employees	-	2,000,000	31 March 2004	31 March 2004 to 30 March 2009	-	HK\$0.377	HK\$0.375

The options granted to the director are registered under the name of the director of the Company.

The share options granted are not recognized in the financial statements until they are exercised. The directors of the Company consider it is not appropriate to disclose the value of the share options granted during the period under the Share Option Scheme since any valuation of the share options would be subject to a number of assumptions that would be subjective and uncertain. The directors of the Company believe that the evaluation of share options based upon speculative assumptions would not be meaningful and would be misleading.

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### *Substantial shareholders' and other persons' interests and short positions in Shares and underlying Shares*

As at 31 March 2004, the following persons (other than the directors or the chief executives of the Company), had interests or short positions in the Shares and underlying Shares as recorded in the register required to be kept by the Company under section 336 of the SFO or as otherwise notified to the Company were as follows:

<b>Name</b>	<b>Number of Shares held</b>	<b>% of the issued share capital</b>
LAUs Holding Co Ltd (Note 1)	280,000,000	56%
MINGS Development Holdings Limited (Note 2)	35,000,000	7%
WHYS Holding Co Ltd (Note 3)	35,000,000	7%

Notes:

1. LAUs Holding Co. Ltd., a company incorporated in the British Virgin Islands, is wholly owned by Lau Yau Bor. Such corporate interests are also disclosed in the sub-section entitled "Directors' and chief executive's interest and short positions in shares, underlying shares and debentures" above.
2. MINGS Development Holdings Limited, a company incorporated in the British Virgin Islands, is wholly owned by Chan Hing Ming. Such corporate interests are also disclosed in the sub-section entitled "Directors' and chief executive's interest and short positions in Shares, underlying Shares and debentures" above.
3. WHYS Holding Co Ltd, a company incorporated in the British Virgin Islands, is wholly owned by Lau Kin Tung. Such corporate interests are also disclosed in the sub-section entitled "Directors' and chief executive's interest and short positions in Shares, underlying Shares and debentures" above

Save as disclosed above, the Company had not been notified by any person (other than the directors or chief executives of the Company) who had interests or short positions in the Shares and underlying Share as at 31 March 2004 which were required to be disclosed to the Company under Part XV of the SFO or which were recorded in the register required to be kept by the Company under section 336 of the SFO.

### CONNECTED TRANSACTIONS

Details of connected transactions entered into by members of the Group during the year were disclosed as set out in notes 30 and 33 to the financial statements and the announcement of the Company dated 23 December 2003. Further details on conditions of waivers in respect of the continuing connected transactions were disclosed under "Connected transactions" section to the Prospectus.

The auditors of the Company have provided to the directors (including the independent non-executive directors) of the Company their letters stating that the Transactions (as defined under the sub-section headed "Connected transactions" in the section headed "Business" in the Prospectus) have received the approval of the board of directors of the Company, the Transactions were conducted in accordance with the terms of the relevant agreements governing the Transactions or, if there were no such agreements, on terms no less favourable than

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those available to or from independent third parties, and total considerations of the Transactions for the year ended 31 March 2004 had not exceeded the respective limits as stated under the sub-section headed 'Connected transactions' in the section headed "Business" in the Prospectus.

### DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

No contract of significance to which the Company or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or any time during the year save and except for the agreements as stated in the sub-section headed "Connected transactions" in the section headed "Business" in the Prospectus and in the announcement of the Company dated 23 December 2003.

### DIRECTORS' INTERESTS IN COMPETING BUSINESS

For the year ended 31 March 2004, the Company had connected transactions with 雲南積華醫藥物流有限公司 (Yunnan Jiwa Pharm Logistics Co., Ltd.) ("YJPL"), a PRC equity joint venture established on 9 February, 2002 and is owned as to 93 per cent. by Jiwa Pharm & Chemicals Limited and as to 7 per cent. by YJPT. Jiwa Pharm & Chemicals Limited is owned as to 60 per cent. by Lau Yau Bor and as to 40 per cent. by Lau Kin Tung, who are both executive Directors of the Company. Details of the connected transactions with YJPL for the Period were disclosed in note 33 to the financial statements and the nature of the transactions together with non-competition deed disclosed in the sub-sections headed "Connected transactions" and "Non-Competition Undertakings" in the section headed "Business" in the Prospectus.

### Purchase, sale or redemption of the Company's listed securities


Save as set out in note 28 to the financial statements, there were no other purchases, sales or redemptions of the Company's listed securities by the Company or any of its subsidiaries during the year.

### Bank loans and other borrowings

Particulars of bank loans and other borrowings of the Company and the Group as at 31 March 2004 are set out in note 22 to the financial statements.

### Group financial summary

A summary of the results and of the assets and liabilities of the Group for the last four financial years is set out on pages 72 and 73 of the annual report.





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### Retirement schemes

The Group operates a Mandatory Provident Fund scheme for its employees in Hong Kong and participates in a defined contribution retirement scheme organized by the PRC municipal government for its PRC employees. Particulars of these retirement schemes are set out in note 25 to the financial statements.

### Compliance with the Code of Best Practice

In the opinion of the directors of the Company, the Company has complied with the Code of Best Practice as set out in Appendix 14 of the Listing Rules throughout the year ended 31 March 2004.

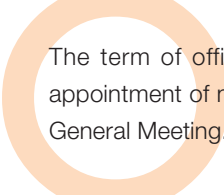
### Audit committee

The audit committee, comprising of two independent non-executive directors of the Company, Mr. Choy Ping Sheung (Chairman of the audit committee) and Mr. Soo Ping Shu, Samuel, had reviewed with the management of the Company and external auditors the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters including the review of the audited financial statements of the Group for the year ended 31 March 2004.

### SUFFICIENCY OF PUBLIC FLOAT

According to the information that is publicly available to the Company and within the knowledge of the directors of the Company, the percentage of the Shares which are in the hands of the public exceeds 25% of the total number of issued Shares.

### AUDITORS



The term of office of KPMG will expire at the forthcoming Annual General Meeting. A resolution for the appointment of new auditors of the Company for the ensuing year is to be proposed at the forthcoming Annual General Meeting.

On behalf of the board of directors

### Lau Kin Tung

Vice Chairman and Chief Executive Officer  
Hong Kong, 6 July 2004