

Report of the Directors

The directors present their report and the audited financial statements for the year ended 31 March 2004.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the subsidiaries are set out in note 15 to the financial statements. During the year, the Group has been repositioned as a facilitating partner for emerging and leading international healthcare companies, products, technologies, services and capital to gain access to the healthcare sector of the PRC. The Group's strategy is to facilitate and cultivate long term investment and development opportunities in cutting-edge biotechnology, life science, medical information technology, and healthcare management services in the PRC's burgeoning healthcare market. Therefore, the Company discontinued its manufacturing business of electronic parts and components since February 2004. The details of discontinued operations are set out in note 5.

RESULTS

The results of the Group for the year ended 31 March 2004 are set out in the consolidated income statement on page 23.

SUMMARY OF FINANCIAL INFORMATION

A summary of the results and of the assets and liabilities of the Group for the each of the last five financial years is set out on pages 78.

PLANT AND EQUIPMENT

Details of movement in the plant and equipment of the Group during the year are set out in note 13 to the financial statements.

SHARE CAPITAL AND CONVERTIBLE BONDS

Details of movements in the Company's share capital and convertible bonds, are set out in notes 26 and 25 to the financial statements respectively.

RESERVES

Details of movements in the reserves of the Company and of the Group during the year are set out in note 27 to the financial statements and consolidated statement of changes in equity on page 27 respectively.

DISTRIBUTABLE RESERVES

As at 31 March 2004, the Company had no reserves available for cash distribution and/or distribution in specie, as calculated in accordance with the Companies Act 1981.

DIRECTORS

The directors of the Company (“Directors”) for the year ended 31 March 2004 and up to date of this report were as follows:

Executive directors

Dr. Li Zhong Yuan

Dr. Ni Aimin

Mr. Lee Jong Dae (appointed on 8 July 2004)

Mr. Deng Ku Hon (appointed on 8 July 2004)

Mr. Wong Chong Kwong, Derek (resigned on 1 March 2004)

Mr. Lam Yat Keung (resigned on 1 March 2004)

Independent non-executive directors

Mr. Li Xiao Ru

Dr. Ma Yin Ming

In accordance with the Company’s Bye-Laws 87, Mr. Deng Ku Hon and Mr. Li Xiao Ru will retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

DIRECTORS’ SERVICE CONTRACTS

Dr. Li Zhong Yuan has a service contract with the Company for an initial term of five years commencing from 27 November 2000 with the first two years under a fixed term and the remaining three years being terminable by not less than a six-months’ notice in writing served by either party.

Dr. Ni Aimin has a service contract with the Company for a term of three years commencing from 5 November 2003 being terminable by not less than a six-months’ notice in writing served by either party.

Mr. Lee Jong Dae and Mr. Deng Ku Hon have a service contract with the Company for a term of two years commencing from 8 July 2004 being terminable by not less than a six-months’ notice in writing served by either party.

Independent non-executive directors are not appointed for a specific term.

Save as disclosed above, no director proposed for re-election at the forthcoming annual general meeting has a service contract which is not determinable by the Group within one year without payment other than statutory compensation.

DIRECTORS’ INTERESTS IN CONTRACT OF SIGNIFICANCE

No contracts 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 at any time during the year.

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DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SECURITIES AND SHARE OPTIONS

As at 31 March 2004, the interests and short positions of the Directors/chief executives in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of the Part XV of the Securities and Futures Ordinance (the "SFO")) which (a) were required to be notified to the Company and The Stock Exchange of Hong Kong Limited ("Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions in which the directors were deemed or taken to have under such provisions of the SFO); or (b) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") to be notified to the Company and the Stock Exchange, were as follows:

Name of Director/ chief Executive	Company/ associated corporation	Capacity/ nature of interests	Interests in	Interests in	Total interests in shares/ underlying shares	Percentage of shares and underlying shares to issued shares at 31 March 2004
			shares (other than pursuant to equity derivatives) (Note 2)	shares underlying pursuant to equity derivatives) (Note 2)		
Dr. Li Zhong Yuan	The Company	Corporate (Note 1)	1,147,000	–	1,147,000	0.57%
		Personal	4,635,000	1,525,000	6,160,000	3.08%
Dr. Ni Aimin	The Company	Personal	750,000	1,500,000	2,250,000	1.13%
Mr. Lee Jong Dae	The Company	Personal	3,026,500	1,500,000	4,526,500	2.27%
Mr. Li Xiao Ru	The Company	Personal	–	1,002,000	1,002,000	0.50%

Notes:

- (1) These shares are held by Pacific Annex Capital Limited which is wholly-owned by Dr. Li Zhong Yuan.
- (2) The underlying shares of equity derivatives represent the shares issuable upon the exercise of share options granted to the Directors/chief executives by the Company. Details of share options are set out under the heading of "SHARE OPTIONS" on page 16. All interests in shares and underlying shares of equity derivatives stated above represent long positions.

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Save as disclosed above, as at 31 March 2004, none of the Directors and chief executive of the Company was interested or had any short position in any shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions in which the directors were deemed or taken to have under such provisions of the SFO); or (b) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules.

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES

As at 31 March 2004, so far as is known to directors, those persons other than Directors and chief executive of the Company, who had the interests or short positions in the shares or underlying shares of the Company which have been disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO and as recorded in the register required to be kept by the Company under section 336 of the SFO, were as follows:

Name	Interests in shares (other than pursuant to equity derivatives)	Interests in underlying shares pursuant to equity derivatives	Total interests in shares/ underlying shares	Percentage of shares and underlying shares to issued shares at 31 March 2004
Guo Kang Pharmaceutical & Medical Supplies Ltd.	17,000,000	–	17,000,000	8.51%
swissfirst (Lie) Opportunities Anlagegesellschaft AG	34,274,000	–	34,274,000	17.16%
swissfirst Structured Bonds AG (<i>Note</i>)	1,047,000	20,000,000	21,047,000	10.54%

Note:

The underlying shares of equity derivatives held by swissfirst Structured Bonds AG represent the shares issuable upon conversion of HK\$20,000,000 3% unlisted convertible bonds of the Company.

Save as disclosed above, as at 31 March 2004, the Directors were not aware of any other person (other than the Directors and the chief executives of the Company) who had an interest or short positions in the shares or underlying share (including any interests in options in respect of such capital), which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO and as recorded in the register required to be kept by the Company under section 336 of the SFO.

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SHARE OPTIONS

Particulars of the Company's share options schemes are set out in note 36 to the financial statements.

The following table discloses movements in the Company's share options granted during the year:

	Option type	Outstanding at		Exercised	Lapsed	Reclassification upon resignation	Outstanding at
		1.4.2003	Granted				
<i>Directors</i>							
Li Zhong Yuan	A	25,000	-	-	-	-	25,000
	C	-	1,500,000	-	-	-	1,500,000
Ni Aimin	B	750,000	-	(750,000)	-	-	-
	C	-	1,500,000	-	-	-	1,500,000
Ma Yin Ming	B	150,000	-	(150,000)	-	-	-
Li Xiao Ru	C	-	1,002,000	-	-	-	1,002,000
Wong Chong Kwong, Derek (Note)	A	475,000	-	-	-	(475,000)	-
<i>Total Directors</i>		<u>1,400,000</u>	<u>4,002,000</u>	<u>(900,000)</u>	<u>-</u>	<u>(475,000)</u>	<u>4,027,000</u>
<i>Chief Executive</i>							
Lee Jong Dae	C	-	1,500,000	-	-	-	1,500,000
<i>Employees</i>							
	A	600,000	-	-	-	(600,000)	-
	B	850,000	-	(850,000)	-	-	-
	C	-	469,000	-	-	-	469,000
<i>Total Employees</i>		<u>1,450,000</u>	<u>469,000</u>	<u>(850,000)</u>	<u>-</u>	<u>(600,000)</u>	<u>469,000</u>
<i>Others</i>							
	A	-	-	-	-	1,075,000	1,075,000
	B	5,750,000	-	(5,750,000)	-	-	-
	C	-	10,546,000	-	-	-	10,546,000
<i>Total Others</i>		<u>5,750,000</u>	<u>10,546,000</u>	<u>(5,750,000)</u>	<u>-</u>	<u>1,075,000</u>	<u>11,621,000</u>
<i>Total</i>		<u>8,600,000</u>	<u>16,517,000</u>	<u>(7,500,000)</u>	<u>-</u>	<u>-</u>	<u>17,617,000</u>

Note: Wong Chong Kwong, Derek, was resigned as the Executive Director of the Company with effect from 1 March 2004. Therefore, the share options held by him should no longer be included in Directors' category.

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Option type	Date of grant	Exercisable period		Exercise price HK\$	Closing price immediately before the date of grant
		From	To		HK\$
A	31 August 2001	31 August 2001	15 May 2011	8.6*	12.00*
B	27 November 2002	27 November 2002	7 April 2012	1.0	0.75
C	2 February 2004	2 February 2004	7 April 2012	3.4	3.80

* The price has been adjusted for consolidation of the Company's shares

The fair value of the options granted on 2 February 2004 measured on the same date amounted to HK\$54,043,941. The following significant assumptions were used to derive the fair values using the Black-Scholes option pricing model:

	2 February 2004
Expected life of options	8.2 years
Expected volatility	140.4%
Expected annual dividend yield	Nil
Hong Kong Exchange Fund Notes rate	4.0%

For the purposes of the calculation of fair value, no adjustment has been made in respect of options expected to be forfeited, due to lack of historical data.

The Black-Scholes option pricing model requires the input of highly subjective assumptions, including the volatility of share price. Because changes in subjective input assumptions can materially affect the fair value estimate, in the Directors' opinion, the existing model does not necessarily provide a reliable single measure of the fair value of the share options.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed above, at no time during the year was the Company or any of its subsidiaries a party to any arrangement to enable the Directors to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate, and neither the Directors nor chief executive, nor any of their spouse or children under the age 18, had any right to subscribe for securities of the Company, or exercised any such right.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Bye-Laws or the laws of Bermuda which would oblige the Company to offer new shares on a pro rata basis to existing shareholders of the Company.

POST BALANCE SHEET EVENTS

Details of the post balance sheet events of the Group are set out in note 39 to the financial statements.

MAJOR SUPPLIERS AND CUSTOMERS

The largest supplier and the five largest suppliers of the Group accounted for approximately 36.8% and 76.8%, respectively, of the Group's total purchases during the year.

The largest customer and the five largest customers of the Group accounted for approximately 20.2% and 47.2%, respectively, of the Group's total sales for the year.

None of the Directors or any of its associates or any shareholders (which to the knowledge of the Directors, owns more than 5% of the Company's issued share capital) has any interest in the Group's five largest suppliers or customers.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed shares.

CODE OF BEST PRACTICE

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

DISCLOSURE UNDER CHAPTER 13 OF THE LISTING RULES

As at 31 March 2004, the Group had an advance of US\$2.7 million (equivalent to HK\$21,026,000) made to Multi-line Digital Co. Ltd, an independent third party, which represents approximately 17.2% of the net asset value of the Group. Details of which are disclosed in note 18(a) to the financial statements.

AUDITORS

During the year, Messrs. RSM Nelson Wheeler were appointed as auditors of the Company. A resolution will be submitted to the annual general meeting to re-appoint the auditors, Messrs. RSM Nelson Wheeler.

On behalf of the Board

Dr. Li Zhong Yuan

Chairman

Hong Kong, 27 July 2004