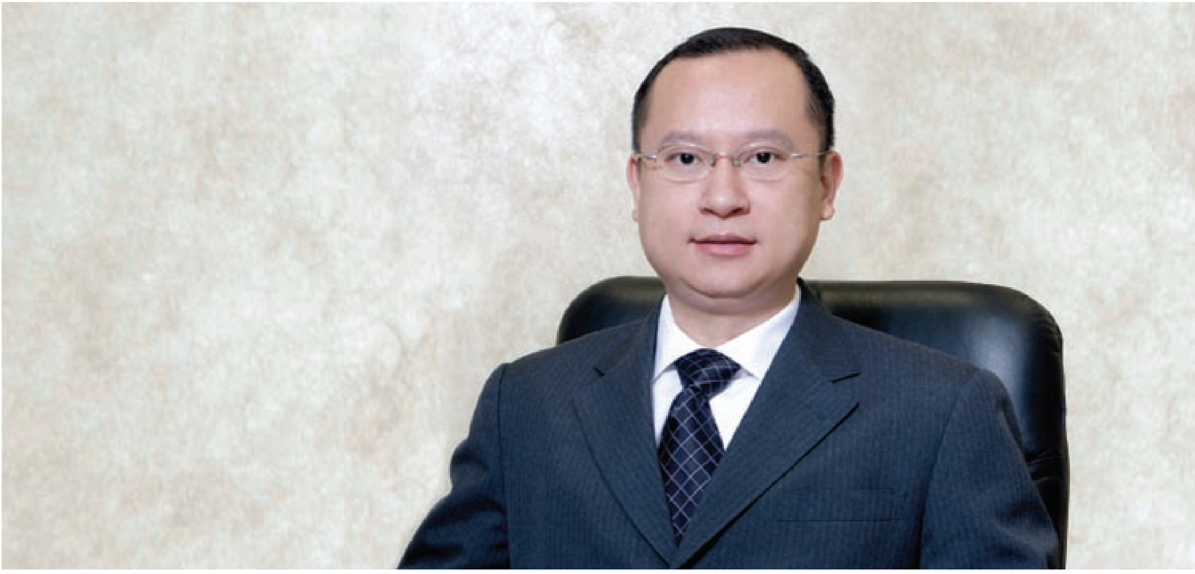
CEO's Report



Mr. Lau Kin Tung
(Vice Chairman and
Chief Executive Officer)

BUSINESS REVIEW

Sales of products

During the Period under review, the Group sold approximately 28 types of pharmaceutical products, most of which were for gastro-intestinal, anti-infectious and musculo-skeletal system. These products were primarily produced by our plant in Kunming, PRC ("pharmaceutical products") while 4 types of products were distributed under exclusive agency agreement with European principals and sold in China ("trading products"). In addition, we produced approximately 11 types of Chinese healthcare products ("healthcare products"), the sales of which during the Period comprise approximately 5% of the Group's total turnover.

Pharmaceutical products

During the Period under review, turnover of pharmaceutical products was approximately HK$109.7 million, representing a decrease of approximately 25% as compared to the previous year. The decrease was primarily due to CSDRC's price-control policy on antibiotics, which affected 13 types of our products. During the period under review, the Group has taken great pain to obtain approval to price antibiotics independently. The management have also adjusted the sales mix as its long term strategy.

Trading products

The turnover of traded pharmaceutical products for the Period amounted to approximately HK$60.7 million, representing an increase of approximately 26% as compared to the previous year. The significant increase in the turnover of the trading segment was due to the fact that 1) the Group expanded its sales network in the PRC and raised the professionalism of its sales force, improving therefore the promotion of its products; 2) the traded pharmaceutical products for which we acted as agents were well known for their quality; 3) the Group was approved by the CSDRC to increase the retail price of Reduced Glutathione Sodium for Injection nation wide; 4) in June 2004, the Group also launched Salmon Calcitonin for osteoporosis, which were well received by the market.

Health care products

The turnover of Chinese healthcare products amounted to approximately HK$8.9 million, representing an increase of approximately 3.9% as compared to the previous year. The improvement in turnover for the Period under review was due to the Group's revised strategy and increased efforts in the development of direct sales business ("direct sales"). The Group will continue to focus on the development of direct

sales and shall therefore incur less advertising expenses. It is believed that the profit from this part will increase accordingly.

Gross profit

The Group recorded a gross profit of approximately HK$92.9 million for the Period under review, representing a decrease of approximately 13.4% as compared to that of last year. Gross profit margin of the Group recorded a slight decrease of 1.9% to approximately 51.9% in the Period under review. With the Group's adjustment on the sales mix of existing products and the introduction of new products, the management believes that the effect of the CSDRC's price-control policy on the Group would only be temporary.

Operating profit

Operating profit of the Group for the Period amounted to approximately HK$43.5 million, representing a decrease of approximately 26.1% as compared to the corresponding period in the previous year. The decrease in operating profit is higher than that in turnover and gross profit, mainly because the Group's new plant in the High-Technology Industrial Development Zone in Kunming has started its operation, but not yet in full utilization during the period. The management believes as the new plant become in full utilization, our results will improve significantly.

Profits attributable to shareholders

During the Period, Profits attributable to shareholders of the Group was approximately HK$29.5 million, representing a decrease of approximately 28.1% as compared to the corresponding period in the previous year. Finance costs amounted to approximately HK$3.7 million, a significant increase of 186.9% over that of the previous year. The significant increase was due to the fact that the Group had enjoyed a one-time government interest subsidy of RMB1.7 million in the previous year, which was granted by the PRC government to encourage fixed asset investments by enterprises in the PRC, for which the Group was qualified via its construction of a new plant in the previous year.

To summarise, the operating results of the Group this year was affected partly by the delayed launch of some new products of the Group; the CSDRC's price restriction policy has also taken its toll; and increasing operating expenses from the commencement of operation of the new plant all contributed to the decrease in the Group's profit.

CEO's Report

OPERATION REVIEW

Adjust product sales mix and introduce products with high technological requirements in production

Other than making pharmaceutical products for anti-infectious, gastro-intestinal, and musculo-skeletal system, the Group also invest in the research of cerebro-cardiovascular drugs, anti-depressants and psychiatric disorders drugs so as to mitigate risks resulting from the CSDRC policy change and to improve the overall profit margin of the products. The product development team of the Group has been actively engaged in the research and development of new products with high-technological requirements in production. Although some of the new products had postponed the launching, the management is confident that they will be put on the market sometime from 2005 to 2007, and new products would become the main driver of the Group's profits in the near future. The Group would focus on producing drugs in the five therapeutic categories and increase its efforts on the research and development of new medicines with the objective of owning new and self-owned patented pharmaceutical products in the future.

Launch new medicines and review the development of new products

The Group launched 3 new medicines during the Period in the PRC, including Yankening Pian, a kind of traditional Chinese medicine for inflammation, Loratadine for relieving symptoms of allergic rhinitis and Salmon Calcitonin Injection for osteoporosis. The last one being distributed as exclusive PRC agency for Lisapharma SpA, a renowned Italian pharmaceutical firm.

During the Period, the Group received from SFDA 7 Production Permits and 2 Registration Certificates for Imported Medicines (including 2 kinds of raw materials and 5 kinds of medicines). During the Period, the Group's on-going research and development of 10 new medicines went smoothly. Two types are in the process of pre-clinical research, one has gone through pre-clinical research, four are in the process of clinical research and the remaining three have gone through clinical research. These new products would contribute to the Group's sales significantly in the near future.

Improve brand value

During the Period under review, the Group established a product management department comprised of professional medicine and marketing staff. They are responsible for brand promotion and the overall marketing and sales strategy of key products, including 1) anti-infectious medicine Cefixime Capsules (product name: Jida Xifu), a third generation oral cephalosporin; 2) gastro-intestinal medicine Reduced Glutathione Sodium for Injection (product name: Song Taisi), which is broadly used in clinical treatment of liver impairment caused by various reasons, auxiliary cure of chemotherapy and radiotherapy and hypoxemia; 3) musculo-skeletal medicine Triamcinolone Acetonide Injection (product name: Tong Xitong), which has long standing anti-inflammation and anti-allergy effect, particularly effective for cure of osteoarthritis and rheumatoid arthritis; 4) cerebro-cardiovascular medicine Low Molecular Weight Heparin Sodium Injection (product name: Huo Duoshi), being the first prefilled syringe low molecular heparin produced in China which has been widely applied in the clinical anti-coagulation of blood dialysis, blood vessel surgery, emergency and orthopaedics, among others.

Extend sales network and enhance sales teams

In line with the Group's development and introduction of new products, the Group continued to expand its sales network, increase the number of distributors and continue to raise the professional standard of its sales staff. The Group recruited medical professionals with an international outlook and knowledge of PRC dynamics as elite cadres of the Group's marketing department, as their expertise and relationship network would contribute immensely to the promotion of its products. Apart from the PRC market, the Group also actively seek to expand its market to South East Asia. In December 2004, the Group successfully registered under approval of the Ministry of Hygiene of Myanmar (Burma) 6 of the Group's products and started exportation to South East Asia market.

Increase efficiency and cut cost

With the Group's commencement of operations of its new plant, an internal campaign of "increasing efficiency and cutting cost" was introduced in June 2004. All staff were encouraged to submit plans aimed at raising efficiency and/or costs saving and were rewarded when their plans are vetted as plausible and results after implementation are positive. The Group would continue to reinforce this work goal, making it part of the corporate culture, which would serve ultimately to improve the Group's earnings.

Enhance production capacity and quality of production facility

Official operation of the new plant

In May 2004, the Group's new plant located at the High-Tech Industrial Development Zone of Kunming City was officially handed over by the project manager upon completion of construction. The new plant, with a gross floor area of approximately 38,000 square meters, would be well equipped to support the Group's R&D and production needs both currently and in the future.

Import advanced equipment

To improve the quality of products and introduce advanced dosage forms, the Group has imported advanced equipment for the new plant, including, among others, automatic amino acid synthesizer from the U.S., and a complete line from Germany for production of prefilled syringes. All packing material for this prefilled syringe line will be imported from the U.S. in sterile condition, ensuring a top of its class quality.

More GMP certification

During the Period, the Group successfully obtained GMP certification for 4 production lines of different dosage forms, increasing the number of the Group's existing GMP production lines to 9. It is expected that by the end of 2006, the Group can obtain GMP certification for 8 more production lines, thus increasing the number of certified production lines to 17.

With all these GMP facilities for different dosage forms, the Group greatly increases its production flexibility, and ensures that once approval for any new product is obtained, the Group can immediately launch production and market the new drug ahead of others.

PROSPECT NEXT YEAR

With the introduction of new products and optimization of product sales mix, the Board is confident that the results would improve significantly next year.

The objectives set by the Group for the coming year would include the following:

– Focusing in research and development of the five therapeutic categories and to file the first patent application in China.

– To continue the expansion of sales network covering China and market share of key products.

– Increase effort in brand promotion to improve product value and margin.

– Bulk material plant to embark upon production and the filing of DMF to the FDA (U.S.).

– To implement a new round of internal campaign in increasing efficiency and cutting cost.

– To actively expand regional business, and to develop the South East Asian market.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 March 2005, cash and cash equivalents of the Group totalled approximately HK$56.7 million (2004: approximately HK$87.3 million), of which approximately 47% are in Hong Kong dollars, 27% in RMB and 26% in US dollars. The Group has for its hedging purposes a 1 million US dollar forward exchange contract banking facility in place as at 31 March 2005 and actively monitors its net foreign currency exposures. As the bulk of the Group's transactions and assets are denominated in HK 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 2005, the Group had aggregate banking facilities of approximately HK$173.2 million (2004: approximately HK$110.6 million) of which approximately HK$96.3 million was utilized (as to approximately HK$47.2 million in long term bank loans, as to approximately HK$42.5 million in short term bank loans, as to approximately HK$4.9 million in letters of guarantee and as to the balance of approximately HK$1.7 million in Letter of credit issued by the relevant banks to independent third parties). The Group's aggregate banking facilities of approximately HK$173.2 million include approximately HK$147.2 million equivalent in RMB denominated banking facilities. The utilized banking facilities of approximately HK$96.3 million includes approximately HK$89.7 million equivalent in RMB denominated bank borrowings.

Interest rates applicable to the RMB denominated bank borrowings are renewable annually and are fixed at 4.941% per annum for RMB50 million in long term bank loans; 4.743% per annum (weighted average) for RMB45 million in short term bank loans as at the end of the Period.

As at 31 March 2005, the gearing ratio was approximately 26.1% (2004: approximately 28.7%), calculated based on the Group's total bank borrowings of approximately HK$89.6 million (2004: approximately HK$93.9 million) over the Group's total assets of approximately HK$343.3 million (2004: approximately HK$327.4 million).

CAPITAL COMMITMENTS

Capital commitments outstanding at 31 March 2005 not provided for in the financial statements were as follows:

	The Group	
	2005	2004
	HK$'000	HK$'000
Contracted for		
– acquisition of property, plant and equipment	**–**	16,791
– acquisition of technical know-how	**1,226**	1,402
	1,226	18,193
Authorised but not contracted for		
– acquisition of property, plant and equipment	**5,817**	–
	7,043	18,193

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

CONTINGENT LIABILITIES

As at 31 March 2005, 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 2005, the Group had approximately 391 employees. 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 options to eligible employees under its share option scheme.

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.