

Directors' Report

The directors are pleased in presenting their annual report together with the audited financial statements for the year ended 31 March 2005.

PRINCIPAL ACTIVITIES

The Group is principally engaged in the research, development, 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 12 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	61.7%	
Five largest customers in aggregate	77.3%	
The largest supplier		15.9%
Five largest suppliers in aggregate		41.6%

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 2005 and the state of the Group's affairs as at that date are set out in the financial statements on pages 33 to 70.

TRANSFER TO RESERVES

Profits attributable to shareholders of the Company, before dividends, of approximately HK\$29.5 million (2004: approximately HK\$41.0 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 26 to the financial statement.

DIVIDENDS

No interim dividend was declared by the Company during the year ended 31 March 2005. The Directors have decided to recommend at the forthcoming annual general meeting to be held on 8 August 2005, the payment of a final dividend for the year ended 31 March 2005 of HK1.5 cents per share in cash to be paid on or about 25 August 2005 to the shareholders of the Company whose names appear on the register of members of the Company on 8 August 2005.

Directors' Report

The Board has decided on a policy of dividend payout ratio of not less than 25% with effect from the year ended 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 2 August 2005 to 8 August 2005, 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 8 August 2005, 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 1 August 2005.

PROPERTY, PLANT AND EQUIPMENT

During the year, the Group acquired land and buildings for approximately HK\$10.8 million and furniture, fixtures and equipment for approximately HK\$2.5 million. Details of these acquisitions and other movements in property, plant and equipment are set out in note 13 to the financial statements.

SHARE CAPITAL

Details of the movements in share capital of the Company during the year are set out in note 25 to the financial statements.

DIRECTORS

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

Executive Directors

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

Independent Non-executive Directors

Mr. Fung Tze Wa
Mr. Choy Ping Sheung
Mr. Soo Ping Shu, Samuel

The Company received confirmation of independence in respect of the year ended 31 March 2005 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' Report

DIRECTOR'S 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 2005 had the following interests in the shares of the Company, its subsidiaries and other associated corporations (within the meaning 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:

Interests in issued Shares

Name of Director	Personal interests (Note 1)	Family interests	Share corporate interests	Total number of Shares held	% of total issued Shares
Lau Yau Bor	22,626,000	35,000,000 (Note 2)	280,000,000 (Note 4)	337,626,000	67.53%
Lau Kin Tung	2,266,000	–	35,000,000 (Note 5)	37,266,000	7.45%
Chan Hing Ming	–	280,000,000 (Note 3)	35,000,000 (Note 6)	315,000,000	63.00%

Notes:

- The Shares are registered under the name of the Directors or chief executive of the Company who are the beneficial owners.
- These Shares are held by MINGS Development Holdings Limited which is wholly and beneficially owned by Chan Hing Ming, the spouse of Lau Yau Bor.
- These Shares are held by LAUs Holding Co. Ltd. which is wholly and beneficially owned by Lau Yau Bor, the spouse of Chan Hing Ming.
- These Shares are held by LAUs Holding Co. Ltd., the entire issued share capital of which is held by Lau Yau Bor.
- These Shares are held by WHYS Holding Co. Ltd, the entire issued share capital of which is held by Lau Kin Tung.
- These Shares are held by MINGS Development Holdings Limited, the entire issued share capital of which is held by Chan Hing Ming.

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.

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 2005 was 50,000,000 Shares (including options for 17,000,000 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 2005.

Directors' Report

At 31 March 2005, three directors and employees of the Company had the following interests in options to subscribe for Shares 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.

	As at 1 April 2004	Granted during the Period	Exercised during the Period	Cancelled during the Period	As at 31 March 2005	Date of grant	Exercise period	Exercise price per Share
Directors								
Lau Yau Bor	-	5,000,000	-	-	5,000,000	29 December 2004	29 December 2004 to 28 December 2009	HK\$0.336
Lau Kin Tung	7,266,000	-	-	(7,266,000)	-	31 March 2004	31 March 2004 to 30 March 2009	HK\$0.377
	-	4,000,000	-	-	4,000,000	4 May 2004	4 May 2004 to 3 May 2009	HK\$0.31
	-	1,000,000	-	-	1,000,000	29 December 2004	29 December 2004 to 28 December 2009	HK\$0.336
Chan Hing Ming	-	5,000,000	-	-	5,000,000	29 December 2004	29 December 2004 to 28 December 2009	HK\$0.336
Employees								
In aggregate	2,000,000	-	-	-	2,000,000	31 March 2004	31 March 2004 to 30 March 2009	HK\$0.377
Consultants								
In aggregate	5,000,000	-	-	(5,000,000)	-	1 April 2004	1 April 2004 to 31 March 2009	HK\$0.40
Total	14,266,000	15,000,000	-	(12,266,000)	17,000,000			

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.

Directors' Report

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 March 2005, 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:

Name	Number of Shares held	% of the issued share capital
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 2005 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 note 31 to the financial statements and the announcements of the Company dated 1 September 2004 and 28 September 2004. Further details on conditions of waivers in respect of the continuing connected transactions were disclosed under "Connected transactions" section to the Prospectus of the Company dated 30 September 2003 (the "Prospectus").

Directors' Report

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 those available to or from independent third parties, and total considerations of the Transactions for the year ended 31 March 2005 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 anytime 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 announcements of the Company dated 1 September 2004 and 28 September 2004.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

For the year ended 31 March 2005, the Company had connected transactions with 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 Yunnan Jiwa Pharm-Tech Co. Ltd. ("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 31 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

The Company has not redeemed any of its shares during the year. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares 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 2005 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 five financial years is set out on pages 71 and 72 of the annual report.

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 27 to the financial statements.

Directors' Report

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 2005.

AUDIT COMMITTEE

The audit committee, comprising of three Independent Non-executive Directors of the Company, Mr. Fung Tze Wa (Chairman of the audit committee), Mr. Choy Ping Sheung 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 2005.

POST BALANCE SHEET EVENTS

Details of significant events taking place after the balance sheet date are set out in note 32 to the financial statements.

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 Grant Thornton will expire at the forthcoming Annual General Meeting. A resolution for the re-appointment of 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, 5 July 2005