

Directors' Report

The directors are pleased in presenting their annual report together with the audited financial statements for the year ended 31 March 2006.

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 22 to the financial statements.

The analysis of the principal activities of the Group during the financial year are set out in note 6 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	Purchase
The largest customer	45.6%	
Five largest customers in aggregate	76.7%	
The largest supplier		17.5%
Five largest suppliers in aggregate		39.8%

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 2006 and the state of the Group's affairs as at that date are set out in the financial statements on pages 25 to 65.

TRANSFER TO RESERVES

Profits attributable to shareholders of the Company, before dividends, of approximately HK\$19.5 million (2005 (Restated): approximately HK\$29.6 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 the financial statements on page 30.

DIVIDENDS

The Board has decided on a policy of dividend payout ratio of not less than 25% with effect from the financial year ended 2005.

No interim dividend was declared by the Company during the year ended 31 March 2006. The Directors have decided to recommend at the forthcoming annual general meeting to be held on 28 August 2006, the payment of a final dividend for the year ended 31 March 2006 of HK\$0.01 per share in cash to be paid on or about 15 September 2006 to the shareholders of the Company whose names appear on the register of members of the Company on 28 August 2006.

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CLOSURE OF REGISTER OF MEMBERS

The register of members will be closed from Tuesday, 22 August 2006 to Monday, 28 August 2006, both days inclusive, during which period no transfer of shares will be registered. To qualify for the proposed final dividend, all share certificates with completed transfer forms either overleaf or separately, must be lodged with the Company's branch share registrar in Hong Kong, Standard Registrars Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong not later than 4:00 p.m. on Monday, 21 August 2006.

PROPERTY, PLANT AND EQUIPMENT

The movement of property, plant and equipment of the Group for the year ended 31 March 2006 are set out in note 16 to the financial statements.

SHARE CAPITAL

Details of the movements in share capital of the Company during the year are set out in note 32 to the financial statements.

DIRECTORS

The Directors of the Company during the year were:

Executive Directors

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

Non-Executive Directors

Mr. Choy Ping Sheung
Mr. Fung Tze Wa
Mr. Seet Lip Chai (appointed on 1 September 2005)
Mr. Soo Ping Shu, Samuel (ceased to hold office with effect from 1 September 2005)

Pursuant to the Bye-law 87 (1) of the Company, each director is required to retire by rotation once every three years and that one-third (or the number nearest to one-third but not less than one-third) of the directors shall retire from office by rotation at each annual general meeting of the Company. Accordingly, Mr. Lau Yau Bor and Mr. Fung Tze Wa will retire and, being eligible, offer themselves for re-election at the forthcoming Annual General Meeting.

Pursuant to the Bye-law 86 (1) of the Company, all directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after their appointment. Accordingly, Mr. Seet Lip Chai will retire and, being eligible, offer himself for re-election at the forthcoming Annual General Meeting.

DIRECTOR'S SERVICE CONTRACTS

Mr. Lau Yau Bor, Mr. Lau King Tung and Madam Chan Hing Ming have entered into service contracts with the Company respectively for an initial period of three years commencing from 1 April 2003 and shall continue thereafter for successive terms of one year. All executive directors' appointments are subject to termination by either party giving not less than six months' notice in writing.

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Mr. Choy Ping Sheung and Mr. Fung Tze Wa have been appointed as an Independent Non-Executive Director since 1 September 2003 and 1 September 2004, respectively. Mr. Choy and Mr. Fung's service contracts were renewed for a term of one year which commenced on 1 September 2005. Mr. Seet Lip Chai has entered into service contracts with the Company for a term of one year commencing on 1 September 2005. Mr. Choy, Mr. Fung and Mr. Seet's appointments are subject to termination by either party giving not less than two months' notice in writing.

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 2006 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	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	–	302,626,000 (Note 3)	35,000,000 (Note 6)	337,626,000	67.53%

Notes:

1. The Shares are registered under the name of the Directors or chief executive of the Company who are the beneficial owners.
2. 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.
3. 280,000,000 Shares are held by LAUs Holding Co. Ltd. which is wholly and beneficially owned by Lau Yau Bor, the spouse of Chan Hing Ming, 22,626,000 Shares are held by Lau Yau Bor as beneficial owner.
4. These Shares are held by LAUs Holding Co. Ltd., the entire issued share capital of which is held by Lau Yau Bor.
5. These Shares are held by WHYS Holding Co. Ltd, the entire issued share capital of which is held by Lau Kin Tung.
6. These Shares are held by MINGS Development Holdings Limited, the entire issued share capital of which is held by Chan Hing Ming.

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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.

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 2006 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 as at 31 March 2006.

As at 31 March 2006, 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 2005	Granted during the period	Exercised during the period	Cancelled during the period	As at 31 March 2006	Exercise period	Exercise price per share
Directors							
Lau Yau Bor	5,000,000	–	–	–	5,000,000	29 December 2004 to 28 December 2009	HK\$0.336
Lau Kin Tung	4,000,000	–	–	–	4,000,000	4 May 2004 to 3 May 2009	HK\$0.31
	1,000,000	–	–	–	1,000,000	29 December 2004 to 28 December 2009	HK\$0.336
Chan Hing Ming	5,000,000	–	–	–	5,000,000	29 December 2004 to 28 December 2009	HK\$0.336
Employees							
In aggregate	2,000,000	–	–	–	2,000,000	31 March 2004 to 30 March 2009	HK\$0.377
Total	17,000,000	–	–	–	17,000,000		

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

As at 31 March 2006, 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 2006 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 AND CONTINUING CONNECTED TRANSACTIONS

During the year, the Company and the Group had certain connected and continuing connected transactions, details of which are set out in note 37 to the financial statements. The Company has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules.

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 2006 had not exceeded the respective limits as stated under the sub-section headed 'Connected transactions' in the section headed "Business" in the Prospectus of the Company dated 30 September 2003 (the "Prospectus").

Further details on conditions of waivers in respect of the continuing connected transactions were disclosed under "Connected transactions" section to 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 note 37 to the financial statements.

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 2006 are set out in note 28 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 66 and 67 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 3(o) to the financial statements.

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POST BALANCE SHEET EVENTS

Details of significant events taking place after the balance sheet date are set out in note 38 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, 12 July 2006