

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

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The principal activities of the Group are the production and sale of traditional Chinese and western pharmaceutical products.

RESULTS

The results of the Group for the year ended 31st March 2004 are set out in the consolidated income statement on page 21 of the annual report.

The directors do not recommend the payment of a dividend.

SUBSIDIARIES AND ASSOCIATES

Acquisition of Bio Chapter Limited ("Bio Chapter") and Biomore Investments Limited ("Biomore")

In July 2003, the Group entered into a conditional sale and purchase agreement with Wang On Group Limited ("Wang On"), a substantial shareholder of the Company, to acquire the entire equity interests in Bio Chapter and Biomore for a consideration of approximately HK\$130 million. The consideration was satisfied by the issue of 5,972,464,700 new shares of HK\$0.01 each in the Company and the issue of convertible notes for a principal amount of HK\$70 million. These convertible notes are convertible into ordinary shares of HK\$0.01 each in the Company at a conversion price of HK\$0.01 each subject to adjustments, at any time, in whole or in part, on or before 19th August 2006. Bio Chapter and Biomore together have approximately 99.79% equity interests in Luxembourg Medicine Company Limited ("Luxembourg"). Luxembourg is principally engaged in the production and sale of western pharmaceutical and health care products under the brandname "Madam Pearl's".

The acquisition of Bio Chapter and Biomore was approved by the shareholders of the Company at a special general meeting held on 19th August 2003, details of which are set out in a circular to the shareholders of the Company dated 30th July 2003.

Disposal of Great Prime International Holdings Limited ("Great Prime")

In January 2004, the Group entered into a conditional sale and purchase agreement with Mr. Leung Wai Ho, an executive director of the Company as at the date of such agreement, to dispose of its 100% equity interest in Great Prime for a consideration of approximately HK\$10.2 million. The consideration for the disposal was satisfied by setting off a term loan of approximately HK\$8.8 million due to Mr. Leung Wai Ho, together with accrued interest thereon. Great Prime is principally engaged in the assembly of watches, manufacturing of watch cases, distribution of watches and bags, property investment and property holding ("Watch and Property Business") in Hong Kong and the People's Republic of China (the "PRC"). Following the disposal of Great Prime, the Group discontinued its Watch and Property Business and Mr. Leung has been re-designated as a non-executive director of the Company.

The disposal of Great Prime was approved by the shareholders of the Company at a special general meeting held on 23rd February 2004, details of which are set out in a circular to the shareholders of the Company dated 5th February 2004.

Acquisition of China Field Enterprises Limited ("China Field")

In February 2004, the Group entered into another conditional sale and purchase agreement with Advance Century Limited, a wholly owned subsidiary of Wang On, for the acquisition by the Group of 49% equity interest in China Field and a shareholder's loan of approximately HK\$7 million for an aggregate consideration of HK\$27 million. Part of the consideration was satisfied by the issue of convertible notes by the Company in the principal amount of HK\$20 million. These convertible notes are convertible into ordinary shares of HK\$0.10 each in the Company at a conversion price of HK\$0.70 per share, subject to adjustment, at any time (in whole or in part), on or before 30th March 2006. The balance of the consideration of HK\$7 million is repayable by the Group in March 2007. China Field has an 80% equity interest in Hunan Xiangya Pharmaceutical Co., Limited ("Hunan Xiangya"). Hunan Xiangya is principally engaged in the production and distribution of pharmaceutical products in the PRC.

On the same day, the Group entered into an option agreement ("Option Agreement") with Happy Grand Investments Limited ("Happy Grand"), an independent third party. Pursuant to the Option Agreement, for a consideration of HK\$0.08 million, the Group was granted an option to acquire 2% equity interest in China Field held by Happy Grand. The option is exercisable at a consideration of HK0.8 million at any time for a period of two years from the completion of the Option Agreement.

The acquisition of interest in China Field and the Option Agreement were approved by the shareholders of the Company at a special general meeting held on 29th March 2004, details of which are set out in a circular to the shareholders of the Company dated 12th March 2004.

Details of the Company's principal subsidiaries and associates at 31st March 2004 are set out in notes 44 and 45 to the financial statements, respectively.

CAPITAL REORGANISATION

During the year, the Company underwent a capital reorganisation ("Capital Reorganisation") whereby every one hundred issued and unissued shares of HK\$0.01 each were consolidated into one share of HK\$1.00 each ("Share Consolidation"), the nominal value of the issued shares after the consolidation were then reduced from HK\$1.00 each to HK\$0.10 each ("Consolidated Shares") and the authorised share capital was increased from HK\$60 million to HK\$600 million by the creation of an additional 5,400 million shares at HK\$0.10 each. In addition, the credit balance of approximately HK\$15 million in the share premium account at 31st March 2003 was transferred to accumulated losses.

The Capital Reorganisation was approved by the shareholders of the Company at a special general meeting held on 18th September 2003, details of which are set out in a circular to the shareholders of the Company dated 21st August 2003.

SHARE CAPITAL AND CONVERTIBLE NOTES

As disclosed above, during the year, the Company issued and allotted shares and convertible notes for the acquisition of subsidiaries and associate.

In addition, during the year, the Company entered into various placing and subscription agreements relating to its shares.

Details of these and other movements in the share capital and convertible notes of the Company are set out in note 28 and 31 to the financial statements, respectively.

INVESTMENT PROPERTIES

Details of the movements in the investment properties of the Group during the year are set out in note 13 to the financial statements.

PROPERTY, PLANT AND EQUIPMENT

During the year, certain items of property, plant and equipment with an aggregate net book value of HK\$1.2 million was acquired as a result of the acquisition of subsidiaries. Also, certain items of property, plant and equipment, with an aggregate net book value of approximately HK\$15.0 million were disposed of as a result of the disposal of Great Prime.

Details of these and other movements in property, plant and equipment during the year are set out in note 14 to the financial statements.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the year, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

DIRECTORS

The directors during the year and up to the date of this report were:

Executive directors:

Tang Ching Ho

Chan Chun Hong, Thomas

Leung Wai Ho *(re-designated as a non-executive director on 27th March 2004)*

Non-executive director:

Leung Wai Ho *(appointed on 27th March 2004)*

Independent non-executive directors:

Siu Man Ho, Simon

Yuen Chi Choi

Cho Wing Mou

In accordance with clause 87 of the Company's Bye-laws, Mr. Siu Man Ho, Simon, shall retire at the forthcoming annual general meeting and, being eligible, offer himself for re-election.

DIRECTORS' REPORT

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ANNUAL REPORT 2004

No director being proposed for re-election at the forthcoming annual general meeting has a service contract which is not determined by the Group within one year without payment of compensation (other than statutory compensation).

The term of office of each non-executive director is the period up to his retirement by rotation in accordance with the Company's Bye-laws and he, subject to eligibility, may then be re-elected.

DIRECTORS' INTERESTS IN SECURITIES

None of the directors, chief executives, nor their associates, had any interest or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations at 31st March 2004, as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance ("SFO") or as otherwise notified to the Company and The Stock of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Director of Listed Companies.

DIRECTORS' RIGHT TO ACQUIRE SHARES OR DEBENTURES

Particulars of the Company's share option schemes are set out in note 29 to the financial statements.

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

Option type	Date of grant	Exercise price	Exercise price	Exercisable period	Outstanding at 1.4.2002 and 31.3.2003	Number of options			
		per share prior to Share Consolidation	per share adjusted for the effect of Share Consolidation			Granted during the year	Cancelled during the year	Exercised during the year	Outstanding at 31.3.2004
			(Note)		(Note)				
1997 Scheme									
<i>Category 1: Employees</i>									
Employees	9.12.1999	0.285	28.50	9.12.1999 to 8.12.2009	39,800	-	(2,200)	-	37,600
	3.3.2000	0.820	82.00	3.3.2000 to 2.3.2010	20,000	-	-	-	20,000
					59,800	-	(2,200)	-	57,600
2004 Scheme									
<i>Category 2: Others</i>									
Franchisee	20.1.2004	-	0.64	20.1.2004 to 19.1.2014	-	26,250,000	-	(26,250,000)	-
					59,800	26,250,000	(2,200)	(26,250,000)	57,600

Note: The exercise price per share and the number of share options brought forward from last year have been adjusted to reflect the effect of the Share Consolidation during the year.

The closing price of the Company's shares immediately before 20th January 2004, the date of grant of the 2004 Scheme, was HK\$0.62.

The weighted average closing price of the Company's shares immediately before the dates on which the options were exercised ranges from HK\$0.66 to HK\$0.68.

The directors of the Company considered that it is not appropriate to value the share options granted during the year as a number of critical factors for the valuation of the share options granted cannot be determined accurately.

As at the date of the directors' report, the total number of Consolidated Shares available for issue under the Company's share option scheme is 55,277,384, representing 2% of the share capital of the Company of 2,763,869,225 Consolidated Shares in issue at the date of this report.

At no time during the year was the Company or any of its subsidiaries, a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS

At 31st March 2004, the register of substantial shareholders maintained by the Company pursuant to section 336 of the SFO shows that the following shareholders had notified the Company of relevant interests and short positions in the issued share capital of the Company.

Ordinary shares at HK\$0.10 each

Name of shareholder	Number of Consolidated Shares (Note 1)	Percentage (Note 3)
Wang On (Note 2)	173,536,091 (L)	28.09%
Wang On Enterprises (BVI) Limited ("WOE") (Note 2)	173,536,091 (L)	28.09%
Rich Time Strategy Limited ("Rich Time") (Note 2)	173,536,091 (L)	28.09%

Notes:

- The letter "L" denotes a long position in the shares of the Company.
- Rich Time is wholly owned by WOE, which is wholly owned by Wang On. WOE and Wang On are deemed to be interested in 173,536,091 Consolidated Shares held by Rich Time. Out of 173,536,091 Consolidated Shares, 65,071,428 Consolidated Shares are the shares issuable upon conversion of the convertible notes held by Rich Time.
- The percentage represented the number of Consolidated Shares over the total of the share capital of the Company as at 31st March 2004 of 552,773,845 Consolidated Shares and 65,071,428 Consolidated Shares issuable upon conversion of the convertible notes held by Rich Time.

Save as disclosed above, the Company has not been notified of any other relevant interests or short positions in the issued share capital as at 31st March 2004.

CONNECTED TRANSACTIONS AND DIRECTORS' INTERESTS IN CONTRACTS

On 8th July 2003 and 20th February 2004, the Company entered into conditional sale and purchase agreements with Wang On to acquire the entire equity interests in Bio Chapter and Biomore and 49% equity interests in China Field, respectively. Wang On is a substantial shareholder of the Company. The transactions with Wang On constituted connected transactions under the Rules Governing the Listing of Securities (the "Listing Rules") on the Stock Exchange.

On 15th January 2004, the disposal of the entire interest in Great Prime by the Company to Mr. Leung Wai Ho also constituted a connected transaction under the Listing Rules because Mr. Leung Wai Ho was an executive director of the Company at the time of the transaction.

On 25th July 2003, Wai Yuen Tong Medicine Company Limited, a subsidiary of the Company, entered into a lease agreement with WOD Investments Limited, an indirect wholly owned subsidiary of Wang On, for certain leasehold land and building situated in Hong Kong, which also constituted a connected transactions under the Listing Rules.

Further details of these and other discloseable connected transactions during the year are set out in note 42 to the financial statements. In the opinion of the directors who do not have any interest in those transactions, the transactions were carried out on normal commercial terms, in the ordinary and usual course of business of the Group, on terms that are fair and reasonable so far as the shareholders of the Company are concerned and within the relevant limits as agreed by the Stock Exchange.

Save as disclosed above:

- (i) there were 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, at the end of the year or at any time during the year; and
- (ii) there were no transactions which need to be disclosed as connected transactions in accordance with the requirements of the Listing Rules.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the five largest customers of the Group accounted for less than 30% of the Group's turnover.

During the year, the aggregate purchases attributable to the Group's five largest suppliers were less than 30% of the Group's purchases.

DONATIONS

During the year, the Group made charitable and other donations totalling HK\$30,000 (2003: HK\$109,034).

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.

CORPORATE GOVERNANCE

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

POST BALANCE SHEET EVENTS

Details of significant events taking place after the balance sheet date are set out in note 43 to the financial statements.

AUDITORS

A resolution will be proposed at the forthcoming annual general meeting of the Company to re-appoint Messrs. Deloitte Touche Tohmatsu as auditors of the Company.

On behalf of the Board

Chan Chun Hong, Thomas

Managing Director

9th July 2004