

REPORT OF THE DIRECTORS

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

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The principal activities of its subsidiaries are sales of pharmaceutical products, property holding, provision of agency services for trading of cigarette and other related products, provision of management and consultancy services and investment holding.

SEGMENTAL INFORMATION

An analysis of the Group's turnover and contribution to results by principal activity and geographical area of operations for the year ended 31 March 2004 is set out in note 4 to the financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 March 2004, the five largest customers of the Group accounted for approximately 86% of the Group's total turnover while the largest customer of the Group accounted for approximately 34% of the Group's turnover. In addition, for the year ended 31 March 2004, the five largest suppliers of the Group accounted for approximately 79% of the Group's total purchases while the largest supplier of the Group accounted for approximately 38% of the Group's total purchases.

None of the directors, any of their associates or any shareholders of the Company (which, to the best knowledge of the directors, owned more than 5% of the Company's issued share capital) had a beneficial interest in the Group's five largest customers or suppliers.

RESULTS

The results of the Group for the year ended 31 March 2004 are set out in the consolidated income statement on page 20.

SUMMARY FINANCIAL INFORMATION

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 59 of this annual report.

INVESTMENT PROPERTY

Details of movements in the investment property of the Group during the year are set out in note 10 to the financial statements.

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PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group and the Company during the year are set out in note 11 to the financial statements.

SHARE CAPITAL AND WARRANTS

Details of movements in the share capital and outstanding warrants of the Company during the year are set out in notes 26 and 27 to the financial statements, respectively.

DIRECTORS

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

Executive directors:

Liu Wandong (*Chairman*)

Ma Pizhi (*Managing Director*)

Cheng Hau Yan

Dong Jianhua

Li Guanglin

Li Hong

Fang Wen Quan

(appointed on 6 October 2003)

Independent non-executive directors:

Ho Wing Fun

Lee Ka Sze, Carmelo

In accordance with Articles 91 and 99 of the Company's Articles of Association, Messrs. Fang Wen Quan, Lee Ka Sze, Carmelo and Li Hong will retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

There is no specific term of office for the independent non-executive directors and they will hold office up to their retirement by rotation in accordance with the Company's Articles of Association.

None of the directors being 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 of compensation (other than statutory compensation).

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DIRECTORS' INTERESTS IN SHARES AND WARRANTS

At 31 March 2004, none of the director nor their associates had any interests or short positions in any shares and underlying shares of the Company or any of its associated corporations (as defined in Part XV of the Securities and Futures Ordinance (the "SFO")) which were recorded in the register as required to be kept by the Company under Section 352 of the SFO.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

No contract of significance to which the Company, its holding 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.

CONNECTED TRANSACTIONS

During the year, the Group received management fee income of HK\$240,000 from a substantial shareholder of the Company.

The independent non-executive directors have confirmed the transactions in relation to the management fee income were entered into in accordance with the terms of the agreement of the underlying transactions, or arose in the ordinary and usual course of the Group's business and on terms no less favourable than terms available to or from independent third parties and were fair and reasonable so far as the shareholders of the Company are concerned.

SUBSTANTIAL SHAREHOLDERS

At 31 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 the relevant interests in 5% or more of the issued share capital of the Company.

Name of shareholder	Capacity	Number of shares held	%
South Hong Investment Limited	Beneficial owner	262,442,930 (Note 1)	51.78
China National Tobacco Corporation Yunnan Branch	Held by controlled corporation	262,442,930 (Note 1)	51.78
Yuxi Hongta Tobacco (Group) Limited	Held by controlled corporation	262,442,930 (Note 1)	51.78
Yunnan International Trust and Investment Corporation	Held by controlled corporation	262,442,930 (Note 1)	51.78
Tianda Group Limited	Beneficial owner	47,380,952 (Note 2)	9.35

Note:

- (1) These 262,442,930 shares are beneficially owned by South Hong Investment Limited ("South Hong") which is owned as to 29.4% by China National Tobacco Corporation Yunnan Branch; 47.1% by Yuxi Hongta Tobacco (Group) Limited and 17.6% by Yunnan International Trust and Investment Corporation. China National Tobacco Corporation Yunnan Branch, Yuxi Hongta Tobacco (Group) Limited and Yunnan International Trust and Investment Corporation, all being substantial shareholders of South Hong, are deemed to be interested in the 262,442,930 shares owned by South Hong.
- (2) These 47,380,952 shares are beneficially owned by Tianda Group Limited.

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SUBSTANTIAL SHAREHOLDERS *(Cont'd)*

All the interests stated above represent long positions. As at 31 March 2004, no short positions were recorded in the register kept by the Company under section 336 of the SFO.

Save as disclosed above, the Company has not been notified of any other interest representing 5% or more in the Company's issued share capital as at 31 March 2004.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the year was the Company, its holding 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 and none of the directors nor any of their spouses or children under the age of 18 had any rights to subscribe for the securities of the Company, or had exercised any such rights during the year.

PURCHASE, SALE AND REDEMPTION OF THE COMPANY'S LISTED SECURITIES

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

COMPLIANCE WITH THE CODE OF BEST PRACTICE

In the opinion of the directors, the Company has complied with the Code of Best Practice (the "Code"), as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules"), throughout the year ended 31 March 2004, save that the non-executive directors are not appointed for specific terms, but are subject to retirement by rotation in accordance with the articles of association of the Company.

AUDIT COMMITTEE

The Company has an audit committee which was established in accordance with the requirement of the Code. The audit committee comprises Messrs. Ho Wing Fun and Lee Ka Sze, Carmelo, two independent non-executive directors of the Company. During the year, the audit committee has reviewed with the management and the external auditors the accounting principles and practices adopted by the Group and discussed auditing and financial reporting matters, including the review of the interim and annual reports of the Group.

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PRE-EMPTIVE RIGHTS

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

AUDITORS

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

On behalf of the Board

Liu Wandong

Chairman

Hong Kong, 16 July 2004