(A) BUSINESS REVIEW

Overall performance this year

The last financial year saw the Group undergo a consolidation into a more focus, broad-based pharmaceutical company.

Despite the challenges of Severe Acute Respiratory Syndrome ("SARS"), our financial performance in the last financial year was a two-folded picture. The significant growth in operating results of own-manufacturing sector compensated for the slightly lower operating results in imported trading sector for the pharmaceuticals. However, both our own-manufactured pharmaceuticals and imported pharmaceuticals sectors continued contributing to strong sales growth.

On the other hand, genetic products and gene chip sales sectors have slowed down significantly. During the year, the lower market demand and the impact of SARS led to our development team in Shanghai slow down the research and development pace of genomic products and bio-pharmaceutical research.

Turnover of the Group

The mixed results of a double-digit growth in sales of manufactured pharmaceutical sector, mild single-digit growth in sales of imported pharmaceutical sector and the significant drop in revenue from the genomic sector have resulted a same level of consolidated turnover for the Group as compared to the last financial year. The consolidated turnover of the Group for the financial year ended 31 March 2004 was HK$215.6 million, representing a marginal increase of 0.05% of the consolidated turnover as compared to the last financial year.

Strong Growth Momentum in Manufactured Pharmaceutical Sector

Turnover from own-manufactured pharmaceutical sector recorded approximately HK$83.6 million for financial year ended 31 March 2004, representing a substantial increase by approximately 25% comparing to the last financial year ended 31 March 2003. As we have indicated in our last interim report, in April to June 2003, we saw substantial rise in sales caused by the outbreak of the SARS virus in the PRC. Our product, P-Transfer Factor, an immune system promoter, was widely used notably in the Northern China region as a cost-effective means of defense protecting against the SARS infections.

(A) BUSINESS REVIEW (Cont'd)

P-Transfer Factor, is manufactured by Changchun Extrawell Pharmaceutical Co., Ltd. ("Changchun Extrawell"), a Good Manufacturing Practices ("GMP") compliant factory in Changchun, Jilin Province, Northern China. Its efficacy is well recognised amongst the PRC medical research scientists and medical practitioners for promotion of T-cells in the human body, which is an important media for building up stronger immune system functions.

During the SARS virus outbreak, many orders were received from hospitals and government medical bodies in the PRC as P-Transfer Factor was promoted as a chosen drug for distribution to medical staff for their protection against risky exposures to the SARS virus.

Subsequent to the SARS virus outbreak, the Group immediately took the opportunity to pass the success stories of the cost effective P-Transfer Factor drug to the medical fraternity through organised seminars, introducing the efficacy and cost effectiveness of the drug in improving the human body's natural immune system's defenced against the SARS virus. The strong sales of P-Transfer Factor continued, but with a slower pace in the subsequent months. Nevertheless, SARS has caught the attention of the Chinese population on the importance of immunology healthcare and we believe the level of product recognition and acceptance amongst the final drug users have expanded.

Continuing Growth Momentum Imported pharmaceuticals Sector

Despite the significant drop in sales of imported pharmaceutical products during the SARS period in April to June 2003, strong growth in sales in the second half of the financial year has allowed us to match the yearly sales figures reported in the last financial year.

Sales of imported pharmaceutical products climbed 2.6%, from approximately HK$125.3 million for the financial year ended 31 March 2003 to approximately HK$128.6 million for the financial year ended 31 March 2004.

During the outbreak of SARS virus in April to June 2003, we saw a substantial drop in sales for our imported pharmaceutical products as hospitals were quarantined and all other non-emergency cases were given low priority during the period.

Subsequent to the SARS period, our committed sales team quickly responded to the demand shortages in the recovering market with proactive and intensified marketing activities which resulted in increased marketing expenditures that eroded the operating results slightly for our range of imported central nervous system and hypertension pharmaceuticals.

(A) BUSINESS REVIEW (Cont'd)

Slow Down in Gene Development Sector

Sales contribution from the gene development sector in the current year was approximately HK$3.5 million. The sales in gene development sector of last financial year of approximately HK$23.4 million mainly represent proceeds from assignment of technical know-how and sales of gene chips in the PRC. The significant drop in sales in the gene development sector is mainly attributable to the drop in assignment of technical know-how. On the other hand, the gene development sector recognised dilution gain of approximately HK$21 million on disposal of 10% equity interests in a subsidiary, Grand Success Management Limited, which holds 5 gene inventions rights.

In view of slower market demand and the difficult business conditions caused by SARS outbreak, our development team in Shanghai slowed down the pace on the research and development of genomic products and bio-pharmaceutical research. As a result, the gene development section was unable to deliver results according to the original discounted future cash flows.

Surge in Gross Profit

The consolidated gross profit for the Group has decreased from approximately HK$97.2 million in the last financial year to approximately HK$80.6 million in the financial year ended 31 March 2004.

The lower gross profit and gross profit margin were due to product sales mix and higher factory costs incurred this year from our manufactured pharmaceutical sector coupled with higher promotional and handling fees propelling higher cost of sales and eroding gross profits and gross profit margins for the other sectors.

Two-folded Operating Results

Our manufactured pharmaceutical sector reported a 117% increase in its operating profit of approximately HK$13.0 million for the current year. The increase in operating profit is in line with the significant growth in turnover for this sector.

Operating profit for the imported pharmaceutical sector dropped by 5% from approximately HK$32.6 million in the last year to approximately HK$31.0 million in the current year mainly due to higher promotional expenses on brand reminders to help regenerate interests and recoup for months of low sales due to SARS.

The substantial decreases in operating results for the gene development sector was due to a significant impairment of intangible assets. The other revenue recorded this year was mainly attributable to a dilution gain upon disposal of 10% equity interests in Grand Success Management Limited, which holds 5 gene invention rights.

(A) BUSINESS REVIEW (Cont'd)

Decrease in Net Profit

During the year, the Group has made an one-off charge against the carrying value of certain intangible assets held under GGL of approximately HK$60.0 million. The profit before tax for the Group, excluding the approximately HK$60.0 million impairment of intangible assets, was approximately HK$24.2 million. The reduction in net profit mainly attributed to the gene development sector's significant negative contribution to the Group at a loss of HK$69.3 million (2003: profit of HK$24.7 million).

(B) OUTLOOK AND NEW DEVELOPMENT

Market Momentums

The PRC's pharmaceutical industry is still a state of dynamic transformation with ongoing mergers, wind offs, consolidations and new foreign direct investments. New regulations continue to be issued by the SFDA, affecting domestic and joint-venture manufacturers as well as foreign companies applying for import drug licences.

Good Manufacturing Practices ("GMP") compliant standards for pharmaceutical manufacturing factories is now compulsory driving some 1,870 pharmaceutical plants, which failed to comply with the regulatory requirements out of the industry. The SFDA streamlined applications for both PRC manufactured and import licences via electronic filing with an intention to speed up cumbersome form filing processes requiring authentication at various statutory departments. This has harmonised the registration process for many chinese registered manufacturing pharmaceutical companies and likewise for imported pharmaceutical products companies.

In the last few years, the market has become more competitive especially in the area of generic pharmaceuticals. The end of 2003 saw price ceilings set for all drugs on the Essential Medical Insurance Drug List. Strong downward pressures to pricing was felt within the generic pharmaceutical sector.

For our own-manufactured pharmaceuticals, our target sales market covers prescriptions in hospitals and clinics as well as over-the-counter ("OTC") sales in local pharmacies. We see that a trend of increasing proportion of OTC sales driving the strong growth for our manufactured pharmaceuticals for the coming years.

For the imported pharmaceuticals, our product pricing has not been affected by any downward pricing pressures. We have a niche market for imported drugs in the central nervous system therapeutic area. With greater affluence amongst Chinese user, there will still be continued increasing demand for quality pharmaceuticals by improving the level of product awareness amongst new users.

(B) OUTLOOK AND NEW DEVELOPMENT (Cont'd)

New Products In the Pipeline

Our long-term success depends on our ability to continue to discover and develop innovative pharmaceutical products either through acquiring or collaborating with other biotechnology or pharmaceutical companies. In recognition of our strong marketing and distribution network in the PRC, we have recently signed a distributorship agreement with Chemigroup France, S.A. to distribute skin-cap in the PRC market. Skin-cap Spray is internationally famous. It is the most effective and rapid treatment known today for cases of psoriasis, dandruff, dermatitis, atopic dermatitis, eczema and tinea. It relieves itching, eliminates the flaking of the skin and scalp and improves the appearance of the skin. The slogan "Skin-cap Spray - The Ultimate Solution" is popular around the world in the field of dermatologists.

During the year, we decided to strategically move into the research, development and commercialization of oral insulin with significant market demands. In January 2004, we signed a memorandum of understanding to acquire 51% equity interest in Smart Ascent, a company which in turn holds 51% equity interest in Fosse Bio-Engineering Development Limited ("Fosse Bio"). Fosse Bio has collaboration arrangements with Tsinghua University in Beijing for the research and development of oral insulin. Fosse Bio owns the right to commercialize the relevant technology and to manufacture and sell oral insulin on an exclusive basis. We expect the acquisition to create synergies that will accelerate our ability to discover and optimise bio therapeutic drugs in the diabetics areas.

The oral insulin project was recently put on a fast track as the SFDA has granted permission to perform phase I and phase II clinical trials simultaneously. Phase I clinical trial was proven successful and we expect Phase II clinical trial to be completed in this year. Upon satisfactory completion of the clinical trials, the products can be sold under the supervision of medical doctors with certain limitations. We believe this early move to acquire an in-process technology/patent of a potential blockbuster pharmaceutical product for the group is beneficial to the Group at today's discounted purchase price. We expect that this product, being a pioneer in the world, will generate significate profits to the Group. Administering oral insulin in the management of diabetics in the PRC and progressively to the rest of the world will be a major strategic development for the Group.

With the narrowing of the technical gap between PRC and overseas manufacturers, we have equipped ourselves with GMP compliant factory in Changbaishan, which we have acquired the entire equity interests in last year for possible manufacturing of oral insulin.

(B) OUTLOOK AND NEW DEVELOPMENT (Cont'd)

Looking ahead, we will continue our focus on our key specialised areas of central nervous system drug and will strengthen our business focus on the research and development in the diabetic area.

Moving on from our disposal of the group of companies in the Gene Generation Limited ("GGL") (the "GGL Group"), we hope to carry a more focused business portfolio with research and development efforts in areas with faster return on investment potential, such as oral insulin. We are confident that the growth potential and returns on our recent investments undertaken will realised in the coming years.

(C) FINANCIAL REVIEW

Liquidity and Financial Resources

The Group generally finances its operations with internally generated cash flows and banking facilities. As at 31 March 2004, the Group had bank borrowings of approximately HK$45.3 million (2003: HK$62.8 million), representing a 27.9% decrease from that at 31 March 2003. All these bank borrowings are repayable within one year or on demand. The Group's banking facilities were supported by the pledge of the Group's fixed deposits of approximately HK$13.3 million (2003: HK$23.6 million); corporate guarantees from the Company and certain subsidiaries of the Company; and legal charges over certain leasehold land and buildings of certain subsidiaries of the Company.

During the year, the Group has repaid the promissory notes of HK$15.0 million which was outstanding as at 31 March 2003.

The Group had total cash and bank balances of approximately HK$83.9 million as at 31 March 2004 (2003: HK$79.7 million).

The Group's gearing ratio as at 31 March 2004 was 0.09 (2003: 0.10 (as restated)), calculated based on the Group's total debts of HK$45.3 million (2003: HK$62.8 million) over the Group's total assets of approximately HK$530.3 million (2003: HK$601.1 million (as restated)).

Currency Structure

The Group had limited exposure to foreign exchange rate fluctuation as most of its transactions, including borrowings, were mainly conducted in Hong Kong dollar, Renminbi or US dollars and the exchange rates of these currencies were relatively stable throughout the year.

(C) FINANCIAL REVIEW (Cont'd)

Contingent Liabilities

(a) As at 31 March 2004, the Company had provided corporate guarantees to certain banks for banking facilities provided to certain of its subsidiaries. These banking facilities had been utilised to the extent of approximately HK$57,079,000 (2003: HK$38,678,000) as at the balance sheet date.

(b) As at 31 March 2004, the Group had bills discounted with recourse of approximately HK$30,543,000 (2003: nil).

(c) During the year, there was a judgement made by 上海仲裁委員會 (Shanghai Arbitration Commission) (the "Arbitration Commission") against Shanghai Biostar Genechip, Inc. ("Shanghai Biostar"), a 27.2% owned subsidiary of the Company, in relation to a claim of approximately RMB21,155,000 (approximately HK$19,958,000) made by the Group's jointly-controlled entity, Bioword Genechips Inc. ("Bioward"), in respect of an alleged breach of an agreement in respect of assignment of a technical knowhow (the "Agreement") to Bioword in 2001. Bioword claimed that Shanghai Biostar had not properly transferred the technical knowhow according to the terms of the Agreement and requested Shanghai Biostar to refund the consideration and pay the penalty and arbitration charges in aggregate of RMB21,155,000.

The directors consider that Shanghai Biostar has valid ground to defend against the claim. Accordingly, Shanghai Biostar filed an application to 上海市第一中級人民法院 (Shanghai No. 1 Intermediate People's Court) (the "First Court") in March 2004 to revoke the original judgement made by the Arbitration Commission. However, the First Court rebutted the application in May 2004.

In April 2004, Shanghai Biostar received a judgement from 上海市盧灣區人民法院 (Shanghai Luwan District People's Court) that the chairman of Bioword will be appointed by Shanghai Biostar in accordance with the memorandum of Bioword. Thus, the directors consider that the management dead-lock on Bioword will be resolved and the legal claim filed by Bioword against Shanghai Biostar will be revoked finally.

In May 2004, Shanghai Biostar filed an application to 上海市第二中級人民法院 (Shanghai No. 2 Intermediate People's Court) (the "Second Court") to revoke the original judgement. The legal proceeding is still in progress up to the date of the GGL and its subsidiary (the "GGL Group") was disposed of by the Group.

(C) FINANCIAL REVIEW (Cont'd)

Having considered legal counsel's advice, the directors are of the opinion that Shanghai Biostar is very likely to be supported by the Second Court. Thus, the directors consider that a provision for the claim is not necessary and therefore has not been made in these financial statements. In addition, Shanghai Biostar was disposed of via the disposal of the GGL Group by the Group subsequent to the balance sheet date.

The Group did not have any material contingent liabilities at 31 March 2003.

STAFF

As at 31 March 2004, the Group had 369 (2003: 452) employees from its various offices located in, Malaysia, Hong Kong and the PRC.

The Group remunerates its employees based on their performance, work experience and the prevailing market price. Performance related bonuses are granted on a discretionary basis. Other employee benefits include mandatory provident fund, insurance and medical coverage, training and share option scheme.