

REPORT OF THE DIRECTORS

The Directors present their report and the audited financial statements of the Company and the Group for the year ended 30 June 2004 (“Year”).

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the principal subsidiaries are set out in note 17 to the financial statements. The principal activities of the group (“Group”) comprising the Company and its subsidiaries include the research and development, manufacture and sales of gynecological medicine and medicinal healthcare products for women. There were no significant changes in the nature of the Group’s principal activities during the Year.

RESULTS AND DIVIDENDS

The Group’s profit for the Year and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 30 to 86 of the 2004 annual report.

The Directors recommend the payment of a final dividend of HK2 cents per ordinary share of the Company in respect of the Year, to the shareholders whose names appear on the register of members of the Company on 29 November 2004. The proposed dividend will be paid on or about 28 January 2005 if the recommendation is approved by the shareholders at the forthcoming annual general meeting (“**Annual General Meeting**”) of the Company to be held on 29 November 2004. This recommendation has been incorporated in the financial statements as an allocation of retained profits within the capital and reserves section of the balance sheet.

SUMMARY FINANCIAL INFORMATION

A summary of the published results and assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the Company’s prospectus dated 28 November 2002 and the audited financial statements and reclassified as appropriate, prepared on the basis set out therein and in note 4 to the financial statements, is set out on page 86 of the annual report. This summary does not form part of the audited financial statements of the Group.

FIXED ASSETS

Details of movements in the fixed assets of the Group during the Year are set out in note 14 to the financial statements.

SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the Company’s share capital and share options during the Year, together with the reasons therefor, are set out in notes 30 and 31 to the financial statements respectively.

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PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of associations or the laws of the Cayman Islands, being the jurisdiction in which the Company was incorporated, which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company, nor any of its subsidiaries, purchased, redeemed or sold any of the Company's listed securities during the Year.

RESERVES

Details of movements in the reserves of the Company and the Group during the Year are set out in note 32(b) to the financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

At 30 June 2004, the Company's reserves available for distribution, calculated in accordance with the Companies Law, Cap. 22. (Law 6 of 1961, as consolidated and revised) of the Cayman Islands, amounted to HK\$214,707,000, of which HK\$13,167,000 has been proposed as a final dividend for the Year. The amount of HK\$200,394,000 standing to the credit of the share premium account of the Company may be distributed, provided that immediately following the date on which the dividend is proposed to be distributed the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for less than 30% of the total sales for the Year. Purchases from the Group's five largest suppliers accounted for less than 30% of the total purchases for the Year.

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DIRECTORS

The Directors during the Year were:

Executive Directors:

Mr. Zhang Peter Y.
Mr. Xu Peng
Mr. Deng Jie
Mr. Long Xian Feng
Mr. Wu Xian Peng

Independent non-executive Directors:

Professor Kung Hsiang-Fu
Professor Tso Wung-Wai

Subsequent to the balance sheet date, on 27 September 2004, Mr. Hon Yiu Ming Matthew was appointed as an independent non-executive Director.

In accordance with article 108(A) of the Company's articles of association, Mr. Wu Xian Peng will retire from the office of directorship by rotation and, being eligible, will offer himself for re-election at the Annual General Meeting.

Further, according to article 112 of the Company's articles of association, any Director appointed by the Directors as additional Director of the Company, under that article, shall hold office only until the next following annual general meeting and shall then be eligible for re-election at the meeting. Pursuant to such article, the office of directorship of Mr. Hon Yiu Ming Matthew, who was appointed as an independent non-executive Director on 27 September 2004, will end at the Annual General Meeting. Mr. Hon Yiu Ming Matthew, being eligible for re-election, will offer himself for re-election at the Annual General Meeting.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the Directors and the senior management of the Group are set out on pages 14 to 16 of the annual report.

DIRECTORS' SERVICE CONTRACTS

Each of the executive Directors has entered into a service contract with the Company for an initial term of three years commencing from 1 September 2002, which is automatically renewable for successive terms of one year upon expiry of the then current term, until terminated by not less than three months' notice in writing served by either party on the other.

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The independent non-executive Directors are not appointed for specific terms but are subject to retirement by rotation in accordance with the Company's articles of association.

Apart from the foregoing, no Director proposed for re-election at the Annual General Meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS

Apart from the transactions disclosed in note 36 to the financial statements, no Director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the Year.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As at 30 June 2004, the interests and short positions of the Directors and chief executive of the Company in the share or underlying shares or, as the case may be, the equity interest and debentures of the Company or its associated corporations (within the meaning of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) ("**SF Ordinance**")) which were required to be notified to the Company and The Stock Exchange of Hong Kong Limited ("**Stock Exchange**") pursuant to Divisions 7 and 8 of Part XV of the SF Ordinance (including interests and short positions which he was taken or deemed to have under such provisions of the SF Ordinance), or which were required, pursuant to section 352 of the SF Ordinance, to be entered in the register maintained by the Company referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Rules Governing the Listing of Securities on the Stock Exchange ("**Listing Rules**"), to be notified to the Company and the Stock Exchange were as follows:

Name of Director	The Company/ name of associated corporation	Capacity	Number and class of securities/percentage in equity interest (Note 1)
Zhang Peter Y.	The Company	Interest of controlled corporation	292,361,024 ordinary shares of HK\$0.10 each (each a " Share ") (L) (Note 2a)
	The Company	Beneficial owner	500,000 Shares (L) (Note 2b)
Xu Peng	The Company	Interest of controlled corporation	292,361,024 Shares (L) (Note 2a)
	The Company	Beneficial owner	500,000 Shares (L) (Note 2b)
Deng Jie	The Company	Beneficial owner	5,000,000 Shares (L) (Note 3)

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Name of Director	The Company/ name of associated corporation	Capacity	Number and class of securities/percentage in equity interest (Note 1)
	Guizhou Hanfang Xifeng Medical Industry Co., Ltd. ("GHXM")	Interest of controlled corporation	5% (L) (Note 4)
Long Xian Feng	The Company	Beneficial owner	5,000,000 Shares (L) (Note 3)
Wu Xian Peng	The Company	Beneficial owner	5,000,000 Shares (L) (Note 3)
Kung Hsiang-Fu	The Company	Beneficial owner	250,000 Shares (L) (Note 5)

Notes:

- The letter "L" represents the Director's interests in the shares and underlying shares or, as the case may be, the percentage in the equity interest of the Company or its associated corporations.
- These 292,361,024 Shares were held by Bull's-Eye Limited, the entire issued share capital of which is beneficially owned as to approximately 63.15% (represented by 4,159 shares of US\$1 each) by Zhang Peter Y. and as to approximately 36.85% (represented by 2,427 shares of US\$1 each) by Xu Peng. By virtue of the provisions of Divisions 7 and 8 of Part XV of the SF Ordinance, each of Zhang Peter Y. and Xu Peng is deemed to be interested in all the Shares held by Bull's-Eye Limited.
 - These Shares were the respective number of Shares which would be allotted and issued upon the exercise in full of the options granted to each of Zhang Peter Y. and Xu Peng under the share option scheme of the Company which was adopted pursuant to a resolution in writing passed by all Shareholders on 25 November 2002 ("**Share Option Scheme**"). These options, all of which remained exercisable as at 30 June 2004, are exercisable at the subscription price of HK\$1.19 per Share at any time during a period of two years commencing from and including 16 May 2003 to 15 May 2005.
- These Shares were the respective numbers of Shares which would be allotted and issued upon the exercise in full of the options granted to each of Deng Jie, Long Xian Feng and Wu Xian Peng under the Share Option Scheme. These options, all of which remained exercisable as at 30 June 2004, are exercisable at the subscription price of HK\$1.19 per Share at any time during a period of two years commencing from and including 16 May 2003 to 15 May 2005.
- These equity interests were held by Guiyang Headboy Kids Accessories Company Limited ("**GHKA**"), which is beneficially owned as to 95% by Deng Jie and as to the remaining 5% by Long Xian Feng. By virtue of the provisions of Divisions 7 and 8 of Part XV of the SF Ordinance, Deng Jie is deemed to be interested in the equity interests in GHXM held by GHKA.
- This was the number of Shares which would be allotted and issued upon the exercise in full of the options granted to Kung Hsiang-Fu under the Share Option Scheme. These options, all of which remained exercisable as at 30 June 2004, are exercisable at the subscription price of HK\$1.19 per Share at any time during a period of two years commencing from and including 16 May 2003 to 15 May 2005.

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Save as disclosed above, as at 30 June 2004, none of the Directors and the chief executive of the Company had any interest and short positions in the share, underlying shares or, as the case may be, the percentage in the equity interest and debentures of the Company or its associated corporations (within the meaning of the SF Ordinance) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SF Ordinance (including interests and short positions which he/she was taken or deemed to have under such provisions of the SF Ordinance), or which were required, pursuant to section 352 of the SF Ordinance, to be entered in the register maintained by the Company referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules, to be notified to the Company and the Stock Exchange.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

No options were granted to the Directors under the Share Option Scheme during the Year.

Other than as disclosed above, at no time during the Year was the Company, or any of its holding companies, fellow subsidiaries or subsidiaries a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

SHARE OPTION SCHEME

The Company operates the Share Option Scheme, which was adopted pursuant to a resolution in writing passed by all shareholders on 25 November 2002, for the purpose of providing incentives or rewards to selected eligible participants for their contribution to the Group. The Share Option Scheme became effective on 25 November 2002 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

Eligible participants of the Share Option Scheme include the following:

- (i) any employee or proposed employee (whether full time or part time) of the Group or any entity ("**Invested Entity**") in which any member of the Group holds any equity interest (including any executive director but excluding any non-executive director of the Group or any Invested Entity);
- (ii) any non-executive directors (including independent non-executive directors) of the Group or any Invested Entity;
- (iii) any supplier of goods or services to any member of the Group or any Invested Entity;
- (iv) any customer of the Group or any Invested Entity;
- (v) any person or entity that provides research, development or other technological support to the Group or any Invested Entity;

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- (vi) any shareholder of any member of the Group or any Invested Entity or any holder of any securities issued by any member of the Group or any Invested Entity;
- (vii) any adviser (professional or otherwise) or consultant to any area of business or business development of any member of the Group or any Invested Entity; and
- (viii) any company wholly owned by one or more of the eligible participants referred to in (i) to (vii) above.

As at the date of this report, the total number of shares of the Company which may be issued upon the exercise of all options to be granted under the Share Option Scheme and any other share option scheme of the Group is 56,800,000, representing 10% of the issued share capital of the Company immediately upon completion of the share offer and the capitalisation issue which took place in December 2002. A resolution will be proposed at the Annual General Meeting to refresh the 10% mandate under the Share Option Scheme.

The maximum number of shares issuable upon exercise of the options which may be granted under the Share Option Scheme and any other share option scheme of the Group (including both exercised or outstanding options) to each participant in any 12-month period shall not exceed 1% of the issued share capital of the Company for the time being. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their respective associates (as defined under the Listing Rules), are subject to approval in advance by the independent non-executive directors of the Company (excluding independent non-executive director who is the grantee of the options). In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their respective associates, in excess of 0.1% of the shares of the Company in issue with an aggregate value (based on the closing price of the Company's shares at the date of the grant) in excess of HK\$5 million, in 12-month period up to and including the date of grant, are subject to shareholders' approval in a general meeting.

The offer of a grant of share options may be accepted within 21 days from the date of the offer, upon payment of a nominal consideration of HK\$1 by the grantee. The exercise period for the share options granted is determined by the Board, which period may commence from the date of acceptance of the offer for the grant of share options but shall end in any event not later than 10 years from the date of the grant of the option subject to the provisions for early termination under the Share Option Scheme.

The subscription price for shares under the Share Option Scheme shall be a price determined by the Board, but shall not be less than the highest of:

- (i) the closing price of shares of the Company as stated in the daily quotations sheet of the Stock Exchange on the date of the offer of the grant, which must be a business day;

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- (ii) the average closing price of the shares of the Company as stated in the Stock Exchange's daily quotations sheets for the five trading days immediately preceding the date of the offer of grant; and
- (iii) the nominal value of the shares of the Company.

No options to subscribe for Shares were granted to eligible participants during the Year.

The options granted are not recognised in the financial statements until they are exercised, no charge is recorded in the income statement or balance sheet for their cost. Upon the exercise of the options, the resulting Shares to be issued will be recorded by the Company as additional share capital at the nominal value of the Shares, and the excess of the exercise price per share over the nominal value of the Shares will be recorded by the Company in the share premium account. Movement of the options to subscribe for Shares granted under the Share Option Scheme during the Year was as follows:

Date of grant	Number of underlying Shares				Exercise price per share	Exercise period
	outstanding as at 1 July 2003	Granted	Exercised	Lapsed	outstanding as at 30 June 2004	
16 May 2003	56,600,000	–	1,750,000	–	54,850,000	HK\$1.19 16 May 2003 to 15 May 2005

No option lapsed or was cancelled during the Year.

The Directors consider that it is not appropriate to state the value of the share options granted to the eligible participants during the Year on the ground that there are serious limitations in the application of the Black-Scholes Model and the Binominal Model in the valuation of share options, especially there are a number of variables which are crucial to the calculation of the options value thus rendering such value not being able to be reasonably determined. Accordingly, the Directors believe that any valuation of the share options based on a great number of speculative assumptions would not be meaningful and may be misleading to the shareholders.

Subject to the earlier termination of the Share Option Scheme in accordance with the rules governing the Share Option Scheme, the Share Option Scheme will expire on 25 November 2012.

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SUBSTANTIAL SHAREHOLDERS AND OTHER PERSONS WHO ARE REQUIRED TO DISCLOSE THEIR INTERESTS PURSUANT TO PART XV OF THE SF ORDINANCE

As at 30 June 2004, the following persons, other than a Director or chief executive of the Company, had an interest or a short position in the shares and underlying shares in the Company as recorded in the register required to be kept under section 336 of the SF Ordinance:

Name of shareholder	Number of Shares (Note 1)	Nature of interest	Approximate percentage of interest
Bull's-Eye Limited (Note 2)	292,361,024 (L)	Beneficial owner	44.6%
Liu Yu (Note 3)	292,861,024 (L)	Interest of spouse	44.6%
Liu Jie (Note 4)	292,861,024 (L)	Interest of spouse	44.6%
Kertwell Investment Limited (Note 5)	50,929,759 (L)	Beneficial owner	7.8%
Zhang Hongye (Note 5)	50,929,759 (L)	Interest of controlled corporation	7.8%
Zhou Wu Feng (Note 6)	50,929,759 (L)	Interest of spouse	7.8%
Credit Suisse Group	32,715,670 (L) (Note 7)	Interest of controlled corporations	5.0%

Notes:

1. The letter "L" represents the person's or the entity's interests in Shares.
2. The entire issued share capital of Bull's-Eye Limited is beneficially owned as to approximately 63.15% (represented by 4,159 shares of US\$1 each) by Zhang Peter Y. and as to approximately 36.85% (represented by 2,427 shares of US\$1 each) by Xu Peng. By virtue of the provisions of Divisions 2 and 3 of Part XV of the SF Ordinance, each of Zhang Peter Y. and Xu Peng, both being executive Directors, is deemed to be interested in all the Shares held by Bull's-Eye Limited.
3. Liu Yu is the wife of Zhang Peter Y., an executive Director, and is deemed to be interested in the shares and underlying shares in the Company in which Zhang Peter Y. is interested under the provisions of Division 2 and 3 of Part XV of the SF Ordinance. Details of the interest of Zhang Peter Y. are set out in the section headed "Directors' interests and short positions in shares, underlying shares and debentures of the Company and its associated corporations" in this report above.
4. Liu Jie is the wife of Xu Peng, an executive Director, and is deemed to be interested in the shares underlying shares in the Company in which Xu Peng is interested under the provisions of Division 2 and 3 of Part XV of the SF Ordinance. Details of the interest of Xu Peng are set out in the section headed "Directors' interests and short positions in shares, underlying shares and debentures of the Company and its associated corporations" in this report above.

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5. The entire issued share capital of Kertwell Investment Limited is beneficially owned by Zhang Hongye. By virtue of the provisions of Divisions 2 and 3 of Part XV of the SF Ordinance, Zhang Hongye is deemed to be interested in all the Shares held by Kertwell Investment Limited.
6. Zhou Wu Feng is the husband of Zhang Hongye and is deemed to be interested in the Shares in which Zhang Hongye is interested under the provisions of Division 2 and 3 of Part XV of the SF Ordinance. Details of the interest of Zhang Hongye are set out in note 5 above.
7. Of these Shares, 1,000,000 Shares were registered under the name of Credit Suisse and Credit Suisse First Boston (Hong Kong) Limited was interested in 31,715,670 Shares. Credit Suisse First Boston (Hong Kong) Limited is owned as to 70.2% and 29.8% respectively by Credit Suisse First Boston (International) Holding AG and Credit Suisse First Boston International (Guernsey) Limited. Credit Suisse First Boston (International) Holding AG is wholly owned by Credit Suisse First Boston, which is in turn wholly owned by Credit Suisse Group and Credit Suisse is also wholly owned by Credit Suisse Group. By virtue of the provisions of Divisions 2 and 3 of Part XV of the SF Ordinance, Credit Suisse Group is deemed to be interested in the Shares held by Credit Suisse and Credit Suisse First Boston (Hong Kong) Limited.

Save as disclosed above, as at 30 June 2004, no person, other than a Director or chief executive of the Company, had an interest or a short position in the shares and underlying shares in the Company as recorded in the register required to be kept under section 336 of the SF Ordinance.

CONNECTED TRANSACTIONS

Save as disclosed in note 36 to the financial statements, there are no transactions which should be disclosed in the annual report as connected transactions in accordance with the requirements of the Listing Rules.

DISCLOSURES PURSUANT TO RULE 13.21 OF THE LISTING RULES

In accordance with the disclosure requirements of Rule 13.21 of Chapter 13 of the Listing Rules, the following disclosures are included in respect of one of the Company's loan agreements, which contains covenants requiring performance obligations of the controlling shareholder of the Company:

- (1) The Company provided a guarantee in favour of a licensed bank in Hong Kong to secure the repayment of a term loan facility of HK\$50,000,000 and other banking facilities (if any) from time to time granted by the bank to a subsidiary of the Company. The facility was for a term of one year, extendable on an annual basis subject to the approval of the bank, and repayable in one lump sum at the end of the year (unless extended) from the date of the drawdown.

Under the above banking facility, Bull's-Eye Limited ("**BEL**") was required to remain interested in more than 45% of the issued share capital of the Company and, BEL and Kertwell Investment Limited together were required to remain interested in an aggregate of not less than 50% of the issued share capital of the Company. A breach of any of such conditions would constitute an event of default under the above facility granted and all outstanding amounts of the facility shall become repayable by the Group to the bank on demand.

Subsequent to the balance sheet date, the above term loan facility has been repaid in full and the above corporate guarantee and undertakings have been released accordingly.

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- (2) Subsequent to the balance sheet date, on 16 September 2004, a loan agreement was entered into between the Company and certain financial institutions in Hong Kong (the “**Loan Agreement**”), which contains specific performance obligations on Mr. Zhang Peter Y. and Mr. Xu Peng.

The Loan Agreement is for a term loan facility of up to HK\$100,000,000, the final maturity date of which shall be the date falling 36 months from the date of the Loan Agreement (i.e. 15 September 2007).

The Loan Agreement provides that so long as there remains any money outstanding under the Loan Agreement: (1) Mr. Zhang shall continue to be the chairman and (save and except BEL) the person with the single largest attributable shareholding in the Company; (2) Mr. Xu shall continue to be a director of the Company and (save and except BEL) the person with the second single largest attributable shareholding in the Company; and (3) Mr. Zhang and Mr. Xu shall collectively maintain, directly or indirectly, not less than 35% of the issued share capital of the Company, free from any encumbrances and shall collectively deposit not less than 35% of the issued share capital of the Company with a custodian acceptable to the majority lenders.

A breach of any of the above specific performance obligations would constitute a default under the Loan Agreement. Such default would permit the lenders to accelerate the maturity of the indebtedness under the Loan Agreement.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Group were entered into or in existence during the Year.

POST BALANCE SHEET EVENTS

Details of the significant post balance sheet events of the Group are set out in note 37 to the financial statements.

CODE OF BEST PRACTICE

In the opinion of the Directors, the Company complied with the Code of Best Practice (the “**Code**”) as set out in Appendix 14 of the Listing Rules throughout the accounting period covered by the annual report, except that the independent non-executive Directors are not appointed for specific terms as required by paragraph 7 of the Code, but are subject to retirement by rotation at the annual general meeting of the Company in accordance with the Company’s articles of association.

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AUDIT COMMITTEE

The Board established the audit committee (“**Committee**”) on 20 September 2002 and re-constituted the Committee on 27 September 2004, in accordance with the requirements of the Code, for the purposes of reviewing and providing supervision over the financial reporting procedure process and internal controls of the Group. The Committee comprises the three independent non-executive Directors. The Group’s financial statement for the Year have been reviewed by the Committee, who are of the opinion that such financial statements comply with the applicable accounting standards, and the requirements of the Listing Rules and the applicable laws, and that adequate disclosures have been made.

AUDITORS

Ernst & Young will retire, and a resolution for their reappointment as auditors of the Company will be proposed, at the Annual General Meeting.

On behalf of the Board

Zhang Peter Y.
Chairman

Hong Kong
20 October 2004