

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

For the year ended 31 March 2005, the Group recorded a turnover of HK\$10.11 million which represented an increase of 75% when compared with HK\$5.77 million in previous year. The increase in turnover was due to the increase in both sales of pharmaceutical products and dividend income during the year under review. The Group continued to implement its cost control strategy. During the year under review, the administrative expenses for the Group (excluding surplus arising on revaluation of investment property) decreased by 5% compared to previous year. On the other hand, the turnover and final results of the Group's associated companies during the year under review were improved when compared to previous year. The Group was therefore entitled to a share of profits (before tax) of associated companies amounting to HK\$690,000 during the year under review (a share of losses (before tax) of associated companies of HK\$480,000 for the previous year). Taking into account the income tax expense and the minority interests, the Group recorded a net loss of HK\$650,000 for the financial year ended 31 March 2005, compared to a net loss of HK\$5.74 million for the previous year.

OPERATIONS ANALYSIS

Pharmaceutical business

The business of the Company's non wholly-owned subsidiary, Yunnan Meng Sheng Pharmaceutical Co., Limited ("Meng Sheng Pharmaceutical", which was located in Kunming, the Yunnan Province), was enhanced by the launch of new products to the market in 2004. The entity recorded a turnover of Rmb6.69 million during the year under review, representing an increase of 28% over the comparative amount in last year. The operating results of Meng Sheng Pharmaceutical also maintained its growing trend. During the year under review, Meng Sheng Pharmaceutical recorded a net profit of Rmb1.23 million (or HK\$1.16 million).

With its strong research and development foundation, Meng Sheng Pharmaceutical will continue to explore and develop other new products. Relevant production approvals for new products are expected to obtain in 2005 for commencement of sales. Diversified product portfolio and modern production facilities enable the entity to cope with the intense competition in the domestic pharmaceutical market effectively. The management therefore believes that the pharmaceutical business will have considerable development potential.

OPERATIONS
ANALYSIS
(Cont'd)

Investment in investee company – Yuxi Globe Color Printing Carton Co., Limited

Yuxi Globe Color Printing Carton Co., Limited (“Yuxi Globe”), in which the Group holds 18.75% equity interest, recorded a net profit (after tax) of Rmb20.3 million for the financial year ended 31 December 2004 (2003: net profit (after tax) of Rmb15.1 million). This was attributable to its comprehensive production and quality control systems which enabled the entity to reduce the operating costs effectively. Accordingly, the Group was entitled to a corresponding dividend income of Rmb3.59 million (or HK\$3.39 million) for the year under review. This represented a large increase of 72% when compared to the dividend income of Rmb2.09 million (or HK\$1.97 million) for the previous year. The increase of the Group’s equity interest in Yuxi Globe to 18.75% in 2003 was therefore proved to be a successful decision. The Group is optimistic with regard to the business prospect of Yuxi Globe, and strongly believes that such investment will continue to bring favorable returns to the Group.

Associated Companies

(1) *Shenzhen Xinpeng Biotechnology Engineering Company Limited (“Xinpeng Biotechnology Engineering”)*

For the year ended 31 March 2005, Xinpeng Biotechnology Engineering recorded a turnover of Rmb28.5 million which represented an increase of 12% when compared with the corresponding amount in previous year. Xinpeng Biotechnology Engineering then recorded a loss (before tax) of Rmb140,000 during the year under review, compared to a loss (before tax) of Rmb920,000 in the previous year. The improvement in both the turnover and the results of the entity for the year under review was mainly attributable to the entity’s sales team further enhancing the marketing efforts for the product, as well as the stringent control on the entity’s operating costs implemented by the management. As a result, the Group shared HK\$60,000 loss (before tax) attributable to that associated company during the year under review. On the other hand, Xinpeng Biotechnology Engineering is preparing to launch other new products to the market in the near future. The relevant pre-clinical trial of the anti-cancer drug “Chuiluosu” (TR1), carried out jointly with the Institute of Basic Medical Sciences of the Chinese Academy of Medical Sciences, has also been progressing well. The existing comprehensive sales network and flexible marketing strategies will provide a main force for the future sales & marketing of the entity’s new products, so that better results performance could be achieved for the entity.

OPERATIONS ANALYSIS (Cont'd)

Associated Companies (Cont'd)

(2) *Yunnan Xingning Color Material Printing Co., Limited* ("Yunnan Xingning")

Yunnan Xingning (located in the Yunnan Province) became an associated company of the Group in December 2003. The entity is engaged in the printing and sale of cigarette packaging packs and boxes in China. The principle brands include Ashima, Hongmei etc. Under the full support of the joint venture partner Yunnan Hongta Group Co., Ltd to the business, Yunnan Xingning recorded encouraging results during the year under review. The turnover and profit of the entity was Rmb28.08 million and Rmb2.14 million respectively. The Group was therefore entitled to a profit share of HK\$500,000 for the year under review from that associated company. The Group is confident with regard to the future development of Yunnan Xingning, and believes that the associated company will continue to bring profit contribution to the Group in the future.

LIQUIDITY AND FINANCIAL RESOURCES

The Group continued to sustain a liquidity position. As at 31 March 2005, the Group had cash and bank balances of approximately HK\$61 million. Approximately 71% and 22% of the total cash and bank balances were denominated in United States dollar and Renminbi respectively with the remaining in Hong Kong dollar. As in the past, the Group has no external borrowings. With this strong financial position, the Group has sufficient financial resources to meet its operations and future development needs.

EXCHANGE RATE EXPOSURE

The Group's assets, liabilities and transactions are denominated in Hong Kong dollar, Renminbi or United States dollar. The Group considers that the exchange rate risk is minimal and no hedging measures are necessary at this stage.

CHARGES ON ASSETS

The Group did not have any charges on assets as at 31 March 2005 and 31 March 2004.

EMPLOYMENT AND REMUNERATION POLICY

As at 31 March 2005, the Group employed approximately 65 employees in Hong Kong and China. The Group remunerates its employees based on market terms, and the qualifications and experience of the employees concerned.