



Directors' Report

The directors present their annual report and the audited consolidated financial statements for the year ended 31 March 2006.

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, health foods products and property holding.

Results

The results of the Group for the year ended 31 March 2006 are set out in the consolidated income statement on page 23 of the annual report.

The directors do not recommend the payment of a dividend.

Subsidiaries and Associates

Details of the Company's principal subsidiaries and associates at 31 March 2006 are set out in notes 48 and 49 to the consolidated financial statements, respectively.

Share Capital and Convertible Notes

Capital Reorganisation

During the year, the Company underwent a capital reorganisation ("Capital Reorganisation") whereby (i) every ten issued shares of HK\$0.01 each were consolidated into one share of HK\$0.10 each ("Share Consolidation"), the nominal value of the issued shares after the consolidation were then increased from HK\$0.01 each to HK\$0.10 each ("Consolidated Shares"); (ii) the reduction of the nominal value of each the Consolidated Shares then in issue from HK\$0.10 to HK\$0.01 by cancelling paid up capital to the extent of HK\$0.09 on each Consolidated Share ("Capital Reduction"); and (iii) the crediting of the amount of approximately HK\$31.4 million arising from the Capital Reduction was being utilised for the setting off the accumulated losses of the Company.

Rights Issues

The Company issued and allotted 1,047,260,766 ordinary shares of HK\$0.01 each by way of rights issue, in the proportion of three shares for every one existing share held ("Rights Share"), at a subscription price of HK\$0.15 per Rights Share to the existing shareholders.

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The Capital Reorganisation and Rights Issue were approved by the shareholders of the Company at a special general meeting held on 8 June 2005 and 16 November 2005 respectively, details of which are set out in circulars to the shareholders of the Company dated 13 May 2005 and 31 October 2005 respectively.

Convertible Notes

During the year, the Company has redeemed all the convertible notes through the Rights Issues.

Details of these and other movements in the convertible notes and share capital of the Company are set out in notes 35 and 37 to the consolidated financial statements, respectively.

Investment Properties

During the year, investment properties with an aggregate net book value of approximately HK\$36.1 million were disposed.

The Group's investment properties at 31 March 2006 were revalued by an independent firm of professional valuers on an open market value basis. There was no gain or loss arising on the revaluation.

Details of these and other movements in the investment properties of the Group during the year are set out in note 15 to the consolidated financial statements.

Property, Plant and Equipment

During the year, certain items of property, plant and equipment with an aggregate amount of approximately HK\$0.5 million were acquired as a result of the acquisition of subsidiaries.

Details of these and other movements in the property, plant and equipment of the Group during the year are set out in note 16 to the consolidated 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.

Distributable Reserves

At 31 March 2006, the reserve available for distribution to Shareholders was approximately HK\$80,886,000 (2005: HK\$140,781,000, restated) which represented the net balance of contributed surplus of approximately HK\$18,494,000 (2005: HK\$18,494,000), general reserves of approximately HK\$218,508,000 (2005: HK\$218,508,000) and accumulated losses of approximately HK\$156,116,000 (2005: HK\$96,221,000, restated).

Directors

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

Executive directors:

Tang Ching Ho

Chan Chun Hong, Thomas

Non-executive director:

Leung Wai Ho

(re-designated to Independent Non-executive director on 4 April 2006)

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, Messrs. Mr. Tang Ching Ho, Mr. Chan Chun Hong, Thomas and Mr. Leung Wai Ho shall retire at the forthcoming annual general meeting and, being eligible, offer himself for re-election.

No director 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).

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, 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 31 March 2006, 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 Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Director of Listed Companies ("Model Code").

Share Options

Particulars of the Company's share option schemes are set out in note 38 to the consolidated financial statements.

As at the date of this report, the total number of shares available for issue under the Company's share option scheme is 36,908,696, representing 2.6% of the share capital of the Company in issue at the date of this report.

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Other than as disclosed above, 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

As at 31 March 2006, 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\$0.01 each

Name of shareholder	Number of shares (Note 1)	Percentage (Note 3)
Wang On Group Limited (“Wang On”) (Note 2)	684,209,324 (L)	49%
Wang On Enterprises (BVI) Limited (“WOE”) (Note 2)	684,209,324 (L)	49%
Rich Time Strategy Limited (“Rich Time”) (Note 2)	684,209,324 (L)	49%

Notes:

1. The letter “L” denotes a long position in the shares of the Company.
2. Rich Time is wholly owned by WOE, which is wholly owned by Wang On. WOE and Wang On are deemed to be interested in 684,209,324 shares held by Rich Time.
3. The percentage represented the number of shares over the total of the share capital of the Company as at 31 March 2006 of 1,396,347,688 shares.

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 31 March 2006.

Connected Transactions and Directors' Interests in Contracts

On 28 June 2005, Conful Limited entered into a lease agreement with Denox Management Limited, a wholly owned subsidiary of Wang On, for certain office situated in Hong Kong, which constituted a connected transactions under Chapter 14A of the Listing Rules.

Further details of these and other discloseable connected transactions during the year are set out in note 46 to the consolidated financial statements. Pursuant to Rule 14.38 of the Listing Rules, the board of directors engaged the auditors of the Company to perform certain agreed upon procedures in respect of the continuing connected transactions of the Group. The auditors have reported their factual findings on these procedures to the board of directors.

The independent non-executive directors confirm that the transactions has been entered into by the Group in the ordinary course of its business, on terms no less favourable than terms available to independent third parties and in accordance with the terms of the agreements governing such transactions that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

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, which existed 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.

Emolument Policy

The Group's emolument policy for its employees is set up by the board of directors on the basis of their merit, qualifications and competence.

The emoluments of the directors of the Company are decided by the board of directors, as authorised by the shareholders at the annual general meeting, having regard to the Group's operating results, individual performance and comparable market statistics.

The Company has adopted a share option scheme as an incentive to directors and eligible employees, details of the scheme are set out in note 38 to the consolidated financial statements.

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 largest supplier accounted for 21% of the Group's purchases and the five largest suppliers of the Group accounted for 42% of the Group's purchases.

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At no time during the year did a director, an associate of a director or a shareholder of the Company, which to the knowledge of the directors owns more than 5% of the Company's share capital, have an interest in any of the Group's five largest suppliers.

Donations

During the year, the Group made charitable and other donations totalling HK\$1.8 million (2005: HK\$3.7 million).

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 its existing shareholders.

Corporate Governance

The Company has complied throughout the year ended 31 March 2006 with the Code of Best Practice, as set out in Appendix 14 to the Rules Governing the Listing Securities on the Stock Exchange (the "Listing Rules").

The Company has adopted a code of conduct regarding securities transactions by directors on terms no less exacting than the required standard set out in Appendix 10 to the Listing Rules. Having made specific enquiry of all directors, all directors confirmed they have complied with the required standard set out in the Model Code and the code of conduct regarding securities transactions by directors adopted by the Company.

The Company has received, from each of the independent non-executive directors, an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all of its independent non-executive directors are independent.

(I) General

The Company is committed to maintaining high standards of corporate governance. During the year, save as disclosed in the Company's latest interim report for the six months ended 30 September 2005, the Company has complied with the code provisions of the Code on Corporate Governance Practices as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. Detailed information on the Company's corporate governance practices is set out in Corporate Governance Report included in the Company's 2006 Annual Report to be despatched to the shareholders in due course.



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(II) Model Code on Securities Transactions by Directors

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the "Model Code") as its own code of conduct regarding directors' securities transactions. Having made specific enquiry of all directors, the directors of the Company confirmed that they had complied with the required standard set out in the Model Code throughout the year.

(III) Audit Committee

The Audit Committee has reviewed with management and accounting principles and practices adopted by the Group and discussed auditing, internal controls and financial reporting matters including a review of the full year consolidated financial statements and reports for the year ended 31 March 2006. The Audit Committee comprises Mr. Yuen Chi Choi (the Chairman of the Audit Committee), Mr. Leung Wai Ho, Mr. Siu Man Ho, Simon and Mr. Cho Wing Mou who are the Independent Non-executive Directors of the Company.

Sufficiency of Public Float

The Company has maintained a sufficient public float throughout the year ended 31 March 2006.

Auditors

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

On behalf of the Board

Chan Chun Hong, Thomas

Director

14 July 2006