

Management Discussion and Analysis

FINANCIAL REVIEW

For the year ended 31 March 2006, the Group recorded a turnover of HK\$15.21 million which represented an increase of 50% when compared with HK\$10.11 million in previous year. The increase in turnover was due to the increase in sales of pharmaceutical products during the year under review. On the other hand, the fair value of the Group's investment property at 31 March 2006 was determined as HK\$15.6 million on the basis of a valuation carried out by qualified professional valuers. The resulting gain in fair value of the investment property of HK\$4.6 million was recognized in the income statement for the year under review according to the Hong Kong Financial Reporting Standard. Moreover, the operating results of the Group's associated companies during the year under review were all improved when compared to previous year. The Group was therefore entitled to a share of profits of associated companies amounting to HK\$1.8 million during the year under review (a share of profits of associated companies amounting to HK\$440,000 for the previous year). Taking into account the income tax expense and the minority interests, the Group finally recorded a profit attributable to shareholders of the Company of HK\$4.36 million for the financial year ended 31 March 2006, compared to a net loss of HK\$630,000 for the previous year. Earnings per share for the current year was 0.859 cent with loss per share of 0.124 cent for the previous year.

DIVIDEND

The Board of Directors does not recommend the payment of a final dividend for the year ended 31 March 2006.

OPERATIONS ANALYSIS

Pharmaceutical business

The Group's pharmaceutical business is carried out by its non-wholly owned subsidiary, Yunnan Meng Sheng Pharmaceutical Co., Limited ("Meng Sheng Pharmaceutical"), which is located in Kunming, the Yunnan Province. Sales orders for its new product "Cerebroprotein Hydrolysate for Injection" (launched in November 2004) surged up in an encouraging pace following its well response from the market. During the year under review, Meng Sheng Pharmaceutical recorded a turnover of Rmb13.83 million, represented an increase of 107% over the comparative amount in last year. Accordingly, Meng Sheng Pharmaceutical recorded a net profit of HK\$4.73 million during the year under review and continued to maintain its growing trend in its operating results.

Associated companies

Turnover of Shenzhen Xinpeng Biotechnology Engineering Company Limited ("Xinpeng Biotechnology Engineering", one of the Group's associated companies) dropped during the year under review in view of tough competition in the domestic pharmaceutical market. Despite that, the management of the entity continued to exercise stringent control on its operating costs during the year under review. As a result, Xinpeng Biotechnology Engineering was able to record a profit of Rmb950,000 during the year under review, representing an encouraging improvement when compared to a loss of Rmb680,000 for the previous year. On the other hand, the Group's another associated company Yunnan Xingning Color Material Printing Co., Limited ("Yunnan Xingning") continued its increasing trend in operating results. Yunnan Xingning recorded a net profit of Rmb3.45 million during the year under review (a net profit of Rmb2.14 million for the previous year), further indicating the full support of the joint venture partner in its business. Accordingly, the Group was able to benefit from such improvement in the operating results of its associated companies, which entitled the Group to share a profits of associated companies amounting to HK\$1.8 million during the year under review.

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OUTLOOK

With strong research and development foundation, Meng Sheng Pharmaceutical will continue to explore and develop other new products. Diversified product portfolio and modern production facilities enable the entity to cope with the intense competition in the domestic pharmaceutical market effectively. The Group therefore believes that the pharmaceutical business will be further enhanced in the future. Moreover, the operating results of the Group's two main associated companies, Xinpeng Biotechnology Engineering and Yunnan Xingning, will continue to improve and increase under their existing experienced management team. The Group will also commit to maintain its effective cost control measures. The Group therefore believes that satisfactory results could be achieved in the coming years.

LIQUIDITY AND FINANCIAL RESOURCES

The Group continued to sustain a liquidity position. As at 31 March 2006, the Group had cash and bank balances of approximately HK\$ 63 million. Approximately 68% and 31% 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 either 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 2006 and 31 March 2005.

EMPLOYEES

As at 31 March 2006, the Group employed approximately 80 employees in Hong Kong and China. The Group remunerates its employees based on market terms, and the qualifications and experience of the employees concerned.