

# Report of the Directors

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

## PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The principal activities of its subsidiaries are sales of pharmaceutical products, property holding, and investment holding.

## SEGMENTAL INFORMATION

An analysis of the Group's turnover and contribution to results by principal activity and geographical area of operations for the year ended 31 March 2006 is set out in note 6 to the financial statements.

## MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 March 2006, the five largest customers of the Group accounted for approximately 81% of the Group's total turnover while the largest customer of the Group accounted for approximately 50% of the Group's turnover. In addition, for the year ended 31 March 2006, the five largest suppliers of the Group accounted for approximately 58% of the Group's total purchases while the largest supplier of the Group accounted for approximately 35% of the Group's total purchases.

None of the directors, any of their associates or any shareholders of the Company (which, to the best knowledge of the directors, owned more than 5% of the Company's issued share capital) had a beneficial interest in the Group's five largest customers or suppliers during the year.

## RESULTS

The results of the Group for the year ended 31 March 2006 are set out in the consolidated income statement on page 18.

## SUMMARY FINANCIAL INFORMATION

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on pages 60 to 61 of this annual report.

## INVESTMENT PROPERTY

Details of movements in the investment property of the Group during the year are set out in note 13 to the financial statements.

## PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year are set out in note 14 to the financial statements.

## SHARE CAPITAL

Details of the Company's share capital are set out in note 29 to the financial statements.

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## DISTRIBUTABLE RESERVES

As at 31 March 2006, the Company had no retained profit available for cash distribution and/or distribution in specie as computed in accordance with the Companies Law of the Cayman Islands. Further 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. As at 31 March 2006, the Company's share premium account amounted to HK\$202,203,225.

## DIRECTORS

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

### Executive directors:

Li Suiming (*Chairman*)

Ma Pizhi (*Managing Director*)

Li Guanglin

Fang Wen Quan

Liu Huijiang

(appointed on 31 March 2006)

Cheng Hau Yan

(resigned on 31 March 2006)

Dong Jianhua

(resigned on 31 March 2006)

Li Hong

(resigned on 31 March 2006)

### Independent non-executive directors:

Ho Wing Fun

Wu Wen Jing, Benjamin

Lam Yat Fai

In accordance with Articles 91 and 99 of the Company's Articles of Association, Messrs. Ma Pizhi, Fang Wen Quan, Ho Wing Fun and Liu Huijiang will retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

The independent non-executive directors are appointed for a term of 2 years until 31 December 2006 and are subject to retirement in accordance with the Company's Articles of Association.

## DIRECTORS' SERVICE CONTRACTS

No directors proposed for re-election at the forthcoming 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 SHARES AND UNDERLYING SHARES

At 31 March 2006, except for Mr. Fang Wen Quan who is also the beneficial owner of Tianda Group Limited, one of the substantial shareholders of the Company whose interest is disclosed under the section "Substantial Shareholders", none of the director nor their associates had any interests or short positions in any shares and underlying shares of the Company or any of its associated corporations (as defined in Part XV of the Securities and Futures Ordinance (the "SFO")) which were recorded in the register as required to be kept by the Company under Section 352 of the SFO.

## DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

No contract of significance to which the Company, its holding 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, subsisted at the end of the year or at any time during the year.

## DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the year was the Company, its holding 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 and none of the directors nor any of their spouses or children under the age of 18 had any rights to subscribe for the securities of the Company, or had exercised any such rights during the year.

## CONNECTED TRANSACTIONS

During the year, the Group received management fee income of HK\$180,000 from a substantial shareholder of the Company.

The independent non-executive directors have confirmed that the transactions in relation to the management fee income were entered into in accordance with the terms of the agreement of the underlying transactions, or arose in the ordinary and usual course of the Group's business and on terms no less favourable than terms available to or from independent third parties and were fair and reasonable so far as the shareholders of the Company are concerned.

## SUBSTANTIAL SHAREHOLDERS

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 the relevant interests in 5% or more of the issued share capital of the Company.

Name of shareholder	Capacity	Number of shares held	%
South Hong Investment Limited	Beneficial owner	262,442,930 (Note 1)	51.78
Hongta Tobacco (Group) Limited	Held by controlled corporation	262,442,930 (Note 1)	51.78
Tianda Group Limited	Beneficial owner	47,380,952 (Note 2)	9.35

Notes:

- (1) These 262,442,930 shares are beneficially owned by South Hong Investment Limited ("South Hong") which is owned as to 92.28% by Hongta Tobacco (Group) Limited. Accordingly, Hongta Tobacco (Group) Limited is deemed to be interested in the 262,442,930 shares owned by South Hong.
- (2) These 47,380,952 shares are beneficially owned by Tianda Group Limited. Mr. Fang Wen Quan has 100% equity interests in Tianda Group Limited and, accordingly, is deemed to have a corporate interest in the said 47,380,952 shares owned by Tianda Group Limited.

All the interests stated above represent long positions. As at 31 March 2006, no short positions were recorded in the register kept by the Company under section 336 of the SFO.

Save as disclosed above, the Company has not been notified of any other interest representing 5% or more in the Company's issued share capital as at 31 March 2006.

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## **PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES**

During the year, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

## **ANNUAL CONFIRMATION OF INDEPENDENCE**

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 Rules Governing the Listing Securities on the Stock Exchange of Hong Kong Limited. The Company considers all of the independent non-executive directors are independent.

## **EMOLUMENT POLICY**

The emolument policy regarding the employees of the Group is based on their merit, qualifications and competence. The emoluments of the directors are reviewed by the Remuneration Committee, having regard to the Company's operating results, individual performance and comparable market statistics. No director, or any of his associates, and executive is involved in dealing his own remuneration.

## **PRE-EMPTIVE RIGHTS**

There are no provisions for pre-emptive rights under the Company's Articles of Association or the laws of the Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

## **SUFFICIENCY OF PUBLIC FLOAT**

Based on the information that is publicly available to the Company and within the knowledge of its Directors, the Company has maintained the prescribed public float under the Listing Rules throughout the year ended 31 March 2006.

## **AUDITORS**

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

On behalf of the Board

**Li Suiming**

*Chairman*

Hong Kong, 26 July 2006