(A) BUSINESS REVIEW

Overall Performance

In the current financial year ended 31 March 2006, we have recovered from the bitter experience of business re-alignment last year and back on the right track of growth and profitability.

Our sales surge by 5% from about HK$170.0 million in 2005 to about HK$178.3 million in 2006. Revenue growth is mainly attributable to sales of our own manufactured pharmaceuticals. Sales of manufactured pharmaceutical products has recorded a 32.6% growth, from about HK$39.0 million in 2005 to about HK$51.7 million in 2006. This growth was slightly offset by the cut-back of sales of imported pharmaceutical products by 2.4%, from about HK$129.7 million in 2005 to about HK$126.6 million in 2006. Our gene development sector was relatively inactive this year and no revenue was recorded.

Despite a relatively mild growth in sales, both gross profit and gross profit margin have experienced significant improvements of 51.4% and 12.1% respectively. Gross profit margin has increased from 27.1% in 2005 to 39.2% in 2006, which effectively contributed to such significant growth in gross profit of the Group. As a result, gross profit increased from about HK$46.1 million in 2005 to about HK$69.8 million in 2006. As the pharmaceutical market in the People's Republic of China (the "PRC") is developing towards a more regulated and disciplined environment, the Group's sales of manufactured products gradually recovered from the exceptionally low gross profit from sales discounts and price competition as a result of overwhelming counterfeit products and inferior goods last year. Gross profit and gross profit margin for imported products are relatively consistent compared with last year.

We have managed to upturn from net loss for the year of about HK$86.0 million last year to net profit for the year of about HK$4.2 million this year. Last year, the substantial net loss recorded was mainly due to an one-off non-cash impairment loss of intangible assets and goodwill approximately HK$86.6 million. Without accounting for non-cash impairment losses of about HK$86.6 million in last year and about HK$15.9 million in the current year, profit for the years of 2005 and 2006 are about HK$0.6 million and about HK$20.1 million respectively.

Manufactured Pharmaceutical Sector

Sales of manufactured pharmaceutical products surged by 32.6%, from about HK$39.0 million to about HK$51.7 million in 2006. The market for immunity drugs in the PRC has gradually recovered from post-SARS (Severe acute respiratory syndrome) over-supply and flooding of counterfeit products and inferior goods. As the pharmaceutical market in the PRC becoming more regulated in recent years, the amount of counterfeit products are lowered and the promotional activities are conducted in more disciplinary manners. As an ethical manufacturer, we gradually enjoy the protection from a more discipline market and competitive advantage of our established brand name.

(A) BUSINESS REVIEW (Continued)

In the current year, sales, gross profit and gross profit margin have improved significantly. The gap of segment loss has been significantly narrowed from a loss of about HK$14.4 million (representing an operating loss margin of 36.8%) last year to a loss of about HK$7.0 million (representing an operating loss margin of 13.6%) this year. We believe that we are back on the right track and are confidence that our manufactured products segment will turn around in the near future.

Imported Pharmaceutical Sector

Revenue from sales of imported pharmaceutical products is about HK$126.6 million for 2006, which is marginally lower by 2.4% than the HK$129.7 million sales in 2005. Our major imported pharmaceutical, GM-1, is a specialised prescription drug for central nervous system. The distinguished quality and efficacy of this product has allowed it to enjoy relatively stable sales despite fierce competition in other sectors of the pharmaceutical market.

Gross profit and gross profit margin for imported products segment are relatively stable. We have experienced some costs savings from lower selling and distribution expenses, as we enjoyed some brought forward effect from last year's major marketing and promotional activities such as television special programs and medical seminars. The operating profit generated from this segment has increased by 25.2% from about HK$26.6 million in 2005 to about HK$33.3 million in 2006.

Gene Development Sector

During the year, due to the strategic allocation of low resource to this sector, our gene development business is relatively inactive and no revenue was recorded.

Selling and Distribution Expenses

Selling and distribution expenses of the Group decreased from about HK$18.5 million in 2005 to about HK$14.9 million in 2006, representing a drop of about 19.5%. This reflects our successful effort in cost containment in marketing and promotional activities. However, we did not simply cut costs for the sake of lowering budget. Our professional marketing and sales support team are equipped with indepth pharmaceutical knowledge and experienced marketing ability. By staging effective academic promotional seminars and other promotional activities directly to the medical doctors and medical academia, and providing detailed and responsive after sales support on product application, dosage, efficacy and side effects, we have improved the efficiency of our marketing and promotional activities.

Administrative Expenses

Administrative expenses of the Group dropped slightly during the year from about HK$37.7 million in 2005 to about HK$36.1 million in 2006.

(A) BUSINESS REVIEW (Continued)

The lower administrative expenses are the combined effect of amortisation of goodwill about HK$3.5 million last year, amortisation of intangible assets dropped by about HK$6.7 million and audit fee dropped by about HK$0.9 million, while increase in fair value adjustment for trade and other receivables of about HK$1.6 million this year and doubtful debt provisions of about HK$8.1 million. The change in amortisation of goodwill of about HK$3.5 million and fair value adjustment for trade and other receivables of about HK$1.6 million are effects of adoption of new financial reporting standards issued by the Hong Kong Institute of Certified Public Accountants which become effective and adopted during the year. The lower costs of amortisation of intangible assets by about HK$6.7 million is due to the lower value of intangible assets after the write-off of carrying value of gene patent rights and disposal of gene development subsidiaries last year. The provision for doubtful debts of about HK$8.1 million is provided according to the aging profile of trade debtors as at 31 March 2006 and in accordance to the accounting policies of the Group.

Other Income

Other income decreased by HK$6.8 million mainly due to the decrease in write-back of over-provision on doubtful debts. The decrease was due to the low provision as at 31 March 2005 as compare with 2004 following the substantial decrease in turnover in that year.

Profit Before Taxation

After re-alignment of our business, we have rally our forces and regain positive results this year. We have achieved a profit before taxation of about HK$6.7 million, representing an increase of profit of about HK$94.5 million from a loss before taxation of about HK$87.8 million last year.

In last year, the substantial net loss recorded was mainly due to an one-off non-cash impairment loss on intangible assets and goodwill approximately HK$86.6 million. In the current year, we have made impairment loss on goodwill of about HK$5.2 million and impairment of fair value of property, plant, equipment and land use rights of about HK$10.7 million due to changes in accounting standards in the current year. Our profit before taxation for 2005 and 2006 are in a loss of about HK$1.2 million and a profit about HK$22.6 million respectively should we exclude the effect of non-cash impairment provisions and fair value adjustments of HK$86.6 million in last year and HK$15.9 million in the current year.

(B) OUTLOOK AND NEW DEVELOPMENT

Progress of Oral Insulin

Oral insulin is jointly developed by the Department of Bio-engineering of Tsinghua University and Fosse Bio-Engineering Development Ltd ("Fosse Bio"). After close examination, the State Food and Drug Administration of the People's Republic of China ("SFDA") has granted permission to perform Phase I and Phase II clinical trials on oral insulin in July 2003. Fosse Bio is a non-wholly owned subsidiary of the Company, 51% of which is held by Smart Ascent Limited (a 51%-owned subsidiary of the Company) ("Smart Ascent").

Phase I clinical trial was undertaken at the Beijing Union Hospital, one of the State Drug Administration Bases for Drug Clinical Trial, between October 2003 and February 2004. The results of Phase I clinical trial indicated that oral insulin is effective in lowering the glucose level after it has entered into the blood system through the digestive system and the oral insulin is safe for application. The successful result of the Phase I clinical trial grounded a solid foundation to the Phase II clinical trial.

Phase II clinical trial aims at further verifying the medical effects of the oral insulin in bringing down the glucose level and its safety in application to diabetic patients. From October 2004, the clinical trial has been undertaken in five medical centers, namely Beijing Union Hospital, Beijing Tongren Hospital, the First Clinical Hospital, China Medical University, Shenyang, Shanghai Changzheng Hospital and Qilu Hospital of Shandong University, Jinan, under the leadership of Beijing Union Hospital. At the end of year 2005, the phase II clinical trial has been completed with encouraging results issued by the above five SFDA authorised medical centers. The result has been submitted to the SFDA for approval.

Insulin, itself, in fact is not a new drug. It can be taken in other forms, such as injection and more recently, in the form of inhalation in the USA. However, our product allows diabetic patients to receive insulin treatment to effectively lower their blood glucose level in a much more convenient and safer form as capsules. Oral insulin is absorbed by human digestive system into the blood stream which is the same as our natural insulin produced by our own body. We are confident that with our patented technological advantage and our costs advantage by manufacturing in the PRC, our product will have great demand once available in the market.

While we are progressing steadily in our application process for all approvals necessary for the production of oral insulin, another important priority is to plan necessary and sufficient manufacturing capacity for the production of oral insulin and its implementation.

(B) OUTLOOK AND NEW DEVELOPMENT (Continued)

In order to meet the huge future demand, we are, on one hand, in the process to re-organise and upgrade our GMP (Good Manufacturing Practice) factory in Jilin; and on the other hand, searching for suitable new production premises.

In the coming year, we will actively look for new business partners who could extend their expertise for pharmaceutical distribution and management in production facilities to the benefit to the Group.

New Products in the Pipeline

The key to our long-term success depends on our ability to devise and commercialise innovative pharmaceutical products.

We have introduced to the PRC market in the prior years an internationally renowned product, Skin-cap Spray, which is considered the most effective and rapid treatment for cases of psoriasis, dandruff, dermatitis, atopic dermatitis, eczema and some tinea. It relieves itching, eliminates the flaking of the skin and scalp and improves the appearance of the skin. The product has been well-received in the market. We will further promote this product through our widely spreaded marketing and distribution network in the coming year.

During the year, we have launched six more new products by our Changchun factory:

1. Asarone Injection – use for pneumonia, bronchial asthma, chronic obstacle pulmonary disease, expectoration, gasp etc;
2. Muscular Amino Acids and Peptides and Nucleosides Injection – cerebrovascular disease, lowering of brain function due to insufficient blood supply to brain, auxiliary treatment for the diseases on peripheral nerves;
3. Heparolysate Injection – auxiliary treatment on chronic hepatitis and liver cirrhosis etc;
4. Esmolol Hydrochloride Injection – Use for atrial flutter, control ventricle rate when atrial flutter, hypertension during operation, sinus tachycardia;
5. Feining Pian – relieve fever, expectorant, relieve cough, cough associate with chronic bronchitis;
6. Saponins – Extracts from Ginseng, use in the production of pharmaceuticals, health care products, cosmetics etc.

In addition, we have two more products in the pipeline pending for SFDA approvals:

1. Lu Ling Huang Capsule – protective action for patients who are in danger with chemical liver damage, enhance patients with low immunity;
2. Trimetazidine Dihydrochloride Tablets – preventive treatment for angina pectoris, auxiliary treatment for dizziness and tinnitus.

(B) OUTLOOK AND NEW DEVELOPMENT (Continued)

Looking ahead, while we will continue to focus on our specialised areas, Central Nervous System and immunology-related drugs, we will strengthen our business focus on the research and development in the diabetic area. With our solid and strong foundation, we are positive that we could build a platform for continuous and sustainable growth.

(C) FINANCIAL REVIEW

Liquidity and Financial Resources

The Group generally finances its operations with internally generated cash flows and banking facilities. As at 31 March 2006, the Group had total cash and bank balances of about HK$55.0 million (2005: HK$70.5 million).

As at 31 March 2006, the Group had bank borrowings of about HK$4.6 million (2005: HK$37.5 million), representing a 87.7% decrease from that at 31 March 2005. All these bank borrowings are repayable within one year or on demand. The Group's banking facilities were supported by the pledge of the Group's fixed deposits of about HK$7.3 million (2005: HK$12.2 million) and corporate guarantees from the Company and certain subsidiaries of the Company.

Included in the amount due to minority shareholder of about HK$32.4 million (2005: HK$32.4 million) was an amount of about HK$31.8 million (2005: HK$31.8 million) which is a payable acquired during our acquisition of a subsidiary, Smart Ascent. This payable was representing the outstanding consideration payable by Smart Ascent during its acquisition for its subsidiary, Fosse Bio. Since the vendors of Smart Ascent have agreed to assume these liabilities when they fall due, a receivable of the equivalent amount was included in "Prepayments, deposits and other receivables" under current assets. Accordingly, the said amount due to a minority shareholder did not have any impact to the net current assets position nor the future cash flow of the Group and the amount was excluded in calculating the Group's gearing ratio.

The Group's gearing ratio as at 31 March 2006 was 0.01 (2005: 0.06), calculated based on the Group's total debts of HK$5.2 million (2005: HK$38.1 million), comprising bank borrowings of about HK$4.6 million (2005: HK$37.5 million) and net amount of due to a minority shareholder of about HK$0.6 million (2005: HK$0.6 million), over the Group's total assets of about HK$571.3 million (2005: HK$591.3 million).

Currency Structure

The Group had limited exposure to foreign exchange rate fluctuation as most of its transactions, including borrowings, were mainly conducted in Hong Kong dollars, Renminbi or US dollars and the exchange rates of these currencies were relatively stable throughout the year.

(C) FINANCIAL REVIEW (Continued)

Contingent Liabilities

(a) As at 31 March 2006, the Company had provided corporate guarantees to certain banks for banking facilities provided to certain of its subsidiaries to the extent of about HK$38.0 million. These banking facilities had been utilised to the extent of about HK$10.6 million (2005: HK$43.0 million) as at the balance sheet date.

(b) As at 31 March 2006, the Group had bills discounted with recourse of about HK$11.2 million (2005: HK$25.0 million).

(c) As at 31 March 2006, the Company had provided corporate guarantees in favour of a subsidiary (the "Subsidiary") to a landlord that the Subsidiary will duly observe the terms and pay the monies, being the total rental expenses management fee and utility charge of HK$5,078,000 for the entire lease period starting from May 2005, contained in the tenancy agreement signed between the landlord and the subsidiary during the year ended 31 March 2005.

(D) EMPLOYMENT AND REMUNERATION POLICY

As at 31 March 2006, the Group had 376 employees (2005: 350). Staff costs excluding directors' remuneration for the year ended 31 March 2006 amounted to approximately HK$15.8 million (2005: approximately HK$17.4 million).

The Group has not experienced any significant problems with its employees or disruptions to the operations due to labour disputes nor has it experienced difficulties in the recruitment and retention of experienced staff.

The Group remunerates its employees based on industry practices. Its staff benefits, welfare and statutory contributions, if any, are made in accordance with prevailing labour laws of its operating entities. The employees (including directors) are remunerated according to their performance, work experience and the prevailing market price.

Other employee benefits includes mandatory provident fund, insurance and medical coverage, training and share option scheme.

In August 2002, shareholders of the Company have approved the adoption of a share option scheme (the "Scheme"). The Scheme will enable the Group to reward the employees, the directors and other selected participants for their contribution to the Group and will also assist the Group in its recruitment and retention of high calibre professionals, executives and employees who are instrumental to the growth of the Group. No share option was granted under the Scheme.