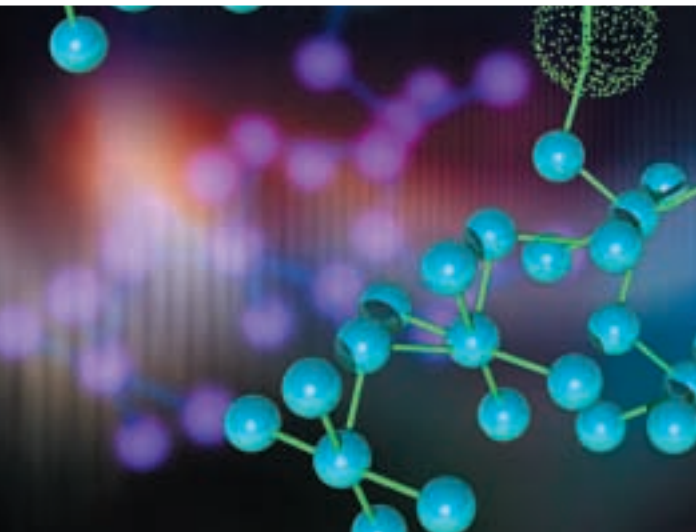


# Chairman's Statement



“The year of 2003 was exceptionally challenging due to the outbreak of SARS in the first half of 2003. Nevertheless, the Group turned around in the year ended 31 December 2003, reflecting the underlying strength of the Group and the successful corporate restructure held in the second half of 2003.”



## Chairman's Statement

On behalf of the Board of Directors, I am pleased to present the annual report and audited financial statements of the Company and the Group for the year ended 31 December 2003.

### BUSINESS REVIEW

The year of 2003 was exceptionally challenging due to the outbreak of Severe Acute Respiratory Syndrome ("SARS") in the first half of 2003, like all other companies in Hong Kong and the PRC, all sales activities and development plans came to a halt during the period. Albeit, The Group turned around for the year ended 31 December 2003, reflecting the underlying strength of the Group and the successful corporate restructure held in the second half of 2003.

#### Turnover and Profit

The Group reported a turnover of HK\$57,213,000 for the year, representing an increase of 85% as compared to HK\$31,009,000 for the previous year. The Group turned around and reported a net profit of HK\$36,848,000 or 1.7 Hong Kong cents earnings per share in the year compared to a net loss of HK\$23,318,000 or 1.4 Hong Kong cents loss per share in the previous year.

Both the Group's gross profit margin and loss for the year continued to show significant improvement. Overall gross profit margin rose from 77% to 83% for the year whereas operating loss for the year 2002 of HK\$14,599,000 turned around to an operating profit of HK\$36,543,000 for the year. The improvement has been due to the overall growth in the sales of the Company's biopharmaceutical product Wei Jia, in particular in the overseas markets, and gain from securities investment. The disposal of 3.75% and 5% effective interests in the Group's rhALR and Pazufloxacin projects

respectively to an independent third party generated a gain of HK\$19,127,000. On the other hand a loss of HK\$14,948,000 was reported as a result of the disposal of the Group's drug manufacturing facilities in China. Minority interests reported debit charges of HK\$1,704,000 and HK\$5,211,000 representing the minority's share of the profits less the loss of subsidiaries for the current and the previous year respectively.

The loss before taxation and minority interests improved from HK\$18,107,000 in the previous year to a profit before taxation and minority interests of HK\$38,559,000 for the year. Finance costs of the Group for the period significantly decreased by 65% from about HK\$2,096,000 to HK\$730,000. The reduction in finance costs was due to the improved financial position after the rights issue in July 2003.

#### Marketing, Sales and Distribution

In the restructure held in July 2003, the Group acquired a national drug distribution company and at the same time disposed 65.7% interest in Sinogen. The Group retains all the effective intellectual property and production know-how and the product's global sole distributorship of Wei Jia, Category One Drug approved by the State Food and Drug Administration ("SFDA") in China. The corporate restructure enabled the Group to be transformed into a high-performance group with clear direction.

The disposal of Sinogen not only enables the Group to increase its transparency but also to put more resources in the sales and marketing of Wei Jia, evident by its national coverage of 20 sales offices in the PRC and a sales office in Vietnam as at the end of 2003. The number of hospitals adopted Wei Jia increased to about 700 as at the end of 2003 as compared to 500 in year 2002. The Group also began to market Wei Jia to clinics in various regions in

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China. For international market, the Group exported Wei Jia, to South East Asian countries like Vietnam, Cambodia, Myanmar and Laos. As a result, performance of the Group in the second half of 2003 was even much better than the whole year of 2002.

The new distribution company acquired in the restructure holds a national drug distribution license enables the Group to distribute local as well as overseas biopharmaceutical products. Management is actively negotiating the exclusive agency for a number of new drugs to be added to the sales network of this new distribution subsidiary. The addition of new drug products to the sales and distribution portfolio will allow the Company to fully utilize the potential of its national sales network and to economize the overall cost of operations in China.

### Research and Development

Fibroscutum and rhALR, the two new products under pipeline, signify our strategic move to develop genetic drugs.

#### Fibroscutum

The City University of Hong Kong's research team and the Group together have discovered Fibroscutum, a novel compound which is a potential new drug candidate for anti-cancer and anti-fibrosis applications. The compound has been proved to have positive suppressive effect on the growth of liver cancer and fibroblast cells in laboratory tests. Both the prokaryotic and eukaryotic expressions of Fibroscutum have been successfully developed. The research team is conducting further laboratory works to improve pharmacokinetics of Fibroscutum. The Company has already filed provisional patents in the U.S. for the anti-fibrosis and anti-cancer applications of Fibroscutum. The patents also include the production process of Fibroscutum known to date. Applications for the same patent in China and other parts of the world will be filed in due course.

#### Recombinant Human Augmenter For Liver Regeneration ("rhALR")

Research team at the Institute of Infectious Diseases of the People's Liberation Army in Beijing has identified specific production techniques of recombinant human Augmenter for Liver Regeneration ("rhALR"). rhALR is a revolutionary gene therapy for various kinds of liver diseases. Animal tests of this new drug candidate yielded very positive results on rhALR's therapeutic value. Application for pre-clinical tests on rhALR is expected to be submitted to the SFDA towards the end of 2004.

#### Pazufloxacin

Core laboratory tests for Pazufloxacin, a new generation antibiotic, have been completed. The approval for the clinical trials for Pazufloxacin is expected to be granted by the SFDA before June 2004.

#### New Pipeline Projects

At the current stage, the Group aims to focus its resources on developing its existing pipeline projects but will be watchful for strategic new projects that will contribute and complement the Group's product pipeline.

#### New Investors In rhALR and Pazufloxacin Projects

In December 2003, an independent investor invested about HK\$19,193,000 for acquiring only 3.75% and 5% effective interests in the Group's rhALR and Pazufloxacin projects respectively. The investor paid 15,732,000 shares in Sen Hong Resources Holdings Limited as the consideration. The investment paved the way for potential future cooperation between the two parties in the product development and worldwide distribution of the two potential new drugs. The Group acquired the two

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projects for only about HK\$40,000,000 in December 2002. Appreciation in the value of the projects was attributable to the Company's strengthened capability in marketing the drug candidates globally and satisfactory progress made in the research and development of rhALR and Pazufloxacin. The investment confirmed the huge underlying value of rhALR and Pazufloxacin and resulted in a gain of HK\$19,127,000 for the Group. Proceeds from the future disposal of the consideration shares will be deployed to accelerate the research and development of the two new drug projects as well as the Group's global distribution presence. The investment highlighted the Group's ability to realize the underlying value of our pipeline projects even in an early stage.

### Corporate Restructure

In July 2003, the Group completed a corporate restructure which involved the disposal of the 65.7% interest in Sinogen to an independent third party for approximately HK\$55,000,000 and the acquisition of a national drug distribution company in China for approximately HK\$2,830,000. The Group retains the sole distributorship for Wei Jia in China and the rest of the world. All the effective intellectual property and production know-how of Wei Jia are retained by the Group. Sinogen will supply Wei Jia exclusively to the Group at a favorable price for 10 years. The restructure will help to lower the product cost of Wei Jia to the Company. The Group can also release and redeploy the funds invested in Sinogen for supporting the building and expansion of its national sales and distribution network and the acquisition of strategic biotech projects in the future.

### Prospects

The Group will continue to leverage on its core strengths, namely research and development excellency and biopharmaceutical marketing prowess.

Fibroscutum and rhALR are the two core genetic drug candidates under strategic development. Under the dedication of the world top genetic scientists, the two projects have been making sound research progress and are expected to contribute to the Group results when they are launched in the market within next few years. The two drug candidates are targeting severe liver diseases which are closely related to hepatitis. There are about 400 million people worldwide infected with hepatitis. In China alone, there are over 120 million hepatitis carriers. Therefore, the worldwide market potential for the two genetic drug candidates are enormous.

With respect to sales and marketing, the Group is actively expanding into international market with primal focus in Asia. With a view to reduce the development costs of sales and marketing in these countries and to achieve a faster expansion within a shorter period of time, the Group is seeking collaboration opportunities with international and local pharmaceutical enterprises with well-established network in these countries. The Group will adopt a two way strategy in developing the international market. On one hand, The Group will ally with major overseas biopharmaceutical groups for the sales and marketing of Wei Jia and other pipeline products in the global markets. On the other hand, The Group can help to sell their products in China by making good use of its national sales distribution network to achieve a win-win situation.

Following the rights issue and corporate restructure in 2003 and the warrants issue in 2004, the Group has significantly strengthened its financial position. The Group will devote more resources in the development of the new drugs in the pipeline and the reach of its sales network.

## Chairman's Statement

### Management Restructure, Change of Directorships and Company Secretary

Mr. Wang Xi Gang resigned as an executive director of the Company on 21 August 2003.

Mr. Yeung Kam Lung, Patrick tendered his resignation as Chief Operating Officer and Company Secretary of the Group and left the Company at the end of September 2003. Mr. Poon Yick Pang, Philip has been appointed as the Company Secretary of the Company in his place.

The Company is reluctant to see the departure of both Mr. Wang Xi Gang and Mr. Yeung Kam Lung, Patrick and would like to extend its gratitude for their contributions to the Company and the Group in the past.

Dr. Ma Xianming ("Dr. Ma") was re-designated as an executive director of the Company on 21 August 2003. Since joining the executive team, Dr. Ma has been appointed as the Head of China Operations of the Group. Dr. Ma holds a doctoral degree in accounting. He is a seasoned financial experts and a talented entrepreneur. He has been appointed as a member of the Auditing Standards Drafting Committee of the China Institute of Certified Public Accountants and as the leader of the Chinese Expert Advisory Group on accounting issues in connection with Asian Development Bank sponsored projects in China. His new role will provide valuable leadership and management to the Group's operations in China. Dr. Ma's previous role as independent non-executive director of the Company was succeeded by Mr. Wang Faqi who was appointed on the same date.

### Liquidity and Financial Resources

The Company raised approximately HK\$81,200,000 net proceeds by means of a rights issue in July 2003 (the "Rights Issue"). Part of the proceeds was applied for the building of national sales and distribution network for drug distribution business and working capital of the Company. The remaining balance is reserved for potential acquisition of new projects. Details of the Rights Issue are contained in the Rights Issue Prospectus sent to shareholders on 20 June 2003. The Company also received cash of about HK\$14,000,000 and promissory notes of about HK\$41,000,000 as the consideration for the disposal of Sinogen in July 2003.

At the balance sheet date, the Group's aggregate bank borrowings and finance leases stood at HK\$6,740,000 of which HK\$2,740,000 was payable within 12 months, HK\$4,000,000 was payable between 2 and 5 years. Current liabilities of the Group reduced significantly from HK\$23,769,000 to HK\$19,633,000, representing a drop of 17%. The Group's net current assets increased from HK\$15,290,000 to HK\$183,851,000 at the balance sheet date. The Group's liabilities at the balance sheet date totaled HK\$30,545,000. The percentage of total liabilities to total assets as at 31 December 2003 stood at 11% which reduced significantly from the corresponding figure of 21% as at 31 December 2002.

As at 31 December 2003, the cash and listed securities on hand at the current date are sufficient for financing ongoing activities of the Group.

The Group's operations are primarily based in the PRC and the income derived and expenses incurred are denominated in Renminbi. Export sales accounted

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for 49% of the year's turnover, and are denominated in U.S. dollars. On the other hand, the expenses of the headquarters and bank borrowings are denominated in Hong Kong dollars and are financed by Hong Kong dollar capital. Due to the relatively matched position in both Hong Kong and the PRC and the stability of the exchange rates between Renminbi and Hong Kong dollars as well as U.S. dollars, the directors consider specific hedges for currency fluctuation being not necessary.

### Charges on Group Assets

At the current balance sheet date, the assets of the Group which were subjected to charges for securing banking facilities comprised HK\$4,295,000 in respect of two properties in Hong Kong.

The Group's investments in securities amounting to HK\$54,200,000 were pledged to a securities broker to secure the margin facilities amounting to HK\$10,730,000 granted to the Group. No margin facilities have been utilised at the balance sheet date.

### Organization and Staff

The Group refocused work force on sales and research after the corporate restructure and disposal of manufacturing plant in July 2004. The Group has 120 staff in total as at the date of this report. Majority of the staff are sale and marketing executives located in China. A number of staff will be stationed in various Asian countries to promote the export sales of Wei Jia. The Group is actively seeking talent to join the sales and marketing as well as research and development team in order to cope with the fast growing operations.

The terms of employment of the staff, executives and directors conform to normal commercial practice. Share option benefits are granted to and included in the terms of selected senior executives of the Company.

### Investor Relations

Investor support was of particular importance to the Group in the challenging year 2003. The Group's investor relations team effectively communicated the corporate strategy to investors worldwide and consolidated their confidence in the Group. This could be highlighted by the strong investor response to the Rights Issue and warrants issue conducted in July 2003 and February 2004 respectively.

### Appreciation

Year 2003 has been a difficult year for many companies in Asia. Despite the SARS ordeals and market fluctuations, the Group's members united to turn the Company around. On behalf of the Board of Directors of the Company, I would like to thank our shareholders, bankers, professional parties and customers for their support. I would also like to thank our executives and staff for their dedication and unfailing contributions. As the research and development of our new biotech drugs post sound progress, our shareholders' value will continue to appreciate.

By Order of the Board  
**Jay Chun**  
*Chairman*

Hong Kong, 23 April 2004