

Directors' Report

The directors present their annual report and the audited financial statements of the Company and its subsidiaries (hereinafter collectively referred to as the "Group") for the year ended 31 December 2003.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. Its subsidiaries are principally engaged in the research, development, and sale of biopharmaceutical products.

RESULTS

The results of the Group for the year ended 31 December 2003 are set out in the consolidated income statement on page 21.

PROPERTY, PLANT AND EQUIPMENT

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

INVESTMENT PROPERTY

The investment property of the Group was revalued on an open market value basis as at 31 December 2003 as set out in note 15 to the financial statements. There was no surplus or deficit arising on the revaluation as at 31 December 2003.

SHARE CAPITAL

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

RESERVES

Movements in the reserves of the Group and the Company during the year are set out in the Consolidated Statement of Changes in Equity on page 25 and in note 31 to the financial statements respectively.

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DIRECTORS AND SERVICE CONTRACTS

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

Executive directors:

| | |
|--|---|
| Mr. Jay Chun, Chairman and Managing Director | (alternate director to Mr. Shan Shiyong and resigned as alternate director to Mr. Wang Xi Gang on 21 August 2003) |
| Mr. Shan Shiyong (alias, Sin Sai Yung) | |
| Mr. Wang Xi Gang | (resigned on 21 August 2003) |
| Dr. Ma Xianming (alias, Ma Yin Ming) | (previously an Independent Non-executive Director, redesignated as an Executive Director on 21 August 2003) |

Independent non-executive directors:

| | |
|---------------|-------------------------------|
| Mr. Frank Hu | |
| Mr. Wang Faqi | (appointed on 21 August 2003) |

In accordance with Bye-law 86(2) of the Company's Bye-laws, Mr. Wang Faqi shall retire and, being eligible, offer himself for re-election at the forthcoming annual general meeting.

In accordance with Bye-law 87 of the Company's Bye-laws, Mr. Shan Shiyong (alias, Sin Sai Yung) shall retire and, being eligible, offer himself for re-election at the forthcoming annual general meeting.

Each of the directors being proposed for re-election at the forthcoming annual general meeting does not have a service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

The term of office for each independent non-executive director is the period up to his retirement by rotation in accordance with the Company's Bye-laws.

DIRECTORS' INTERESTS IN CONTRACT OF SIGNIFICANCE

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 and indirectly, subsisted at the end of the year or at any time during the year.

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DIRECTORS' INTERESTS IN SECURITIES

As at 31 December 2003, the interests and short positions of the directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were required to be notified to the Company pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which any such director or chief executive was taken or deemed to have under such provisions of the SFO) or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or which were required to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code"), were as follows:

| Directors | Name of company/ associated corporation | Capacity/ Nature of interests | Interests in share (other than pursuant to equity derivatives) (note 1) | Interests in underlying shares pursuant to equity derivatives (note 1) | Total interests in shares/ underlying shares | Percentage of shares and underlying shares to issued shares at 31 December 2003 |
|------------------|--|---------------------------------------|---|--|--|---|
| Mr. Jay Chun | The Company | Beneficial owner | 43,638,000 | 2,500,000 | 354,628,000 | 13.76% |
| | The Company | Interest of controlled corporation | 308,490,000 (note 2) | – | | |
| Mr. Shan Shiyong | The Company | Interest of controlled corporation | 353,190,000 (note 3) | – | 353,190,000 | 13.71% |
| Dr. Ma Xianming | The Company | Beneficial owner | – | 1,000,000 | 1,000,000 | 0.04% |

Notes:

- (1) All interests in shares and underlying shares of equity derivatives stated above represent long positions.
- (2) These shares were held by August Profit Investments Limited, a company which is wholly owned by Mr. Jay Chun.
- (3) These shares were held by Best Top Offshore Limited, a company which is wholly owned by Mr. Shan Shiyong, alias Sin Sai Yung.

Save as disclosed above, none of the directors and chief executive of the Company was interested or had any short position in any shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) as at 31 December 2003.

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SHARE OPTIONS

On 27 June 2002, the Company terminated the share option scheme of the Company adopted on 3 January 1997 (the "Old Share Option Scheme") and adopted a new share option scheme (the "Existing Share Option Scheme") as a result of the changes in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") in relation to share option scheme.

Particulars of the Old Share Option Scheme and the Existing Share Option Scheme are set out in note 30 to the financial statements.

A summary of the movements in share options granted under the Old Share Option Scheme during the year is as follows:

| | Date of grant | Number of share options | | | | | Outstanding at end of the year | Exercise price*/ Adjusted exercise price** (note) | Exercisable period |
|---------------------------------|---------------|--------------------------------------|-------------------------|---------------------------|-------------------------------------|--|--------------------------------|---|--------------------|
| | | Outstanding at beginning of the year | Granted during the year | Exercised during the year | Adjustments for rights issue (note) | Lapsed/ cancelled during the year (after adjustment) | | | |
| Category: Directors | | | | | | | | | |
| Mr. Shan Shiyong | 2 June 2000 | 21,800,000 | - | - | - | (21,800,000) | - HK\$0.06848* | 2 June 2000-1 June 2003 | |
| Mr. Wang Xi Gang | 2 June 2000 | 21,800,000 | - | - | - | (21,800,000) | - HK\$0.06848* | 2 June 2000-1 June 2003 | |
| Total for Directors | | 43,600,000 | - | - | - | (43,600,000) | - | | |
| Category: Employees | | | | | | | | | |
| | 19 April 2000 | 1,500,000 | - | - | - | (1,500,000) | - HK\$0.24000* | 19 April 2000-18 April 2003 | |
| | 5 June 2001 | 2,500,000 | - | - | 1,250,000 | (3,750,000) | - HK\$0.19600*/ HK\$0.1306** | 5 June 2001-4 June 2004 | |
| | 7 May 2002 | 5,000,000 | - | - | 2,500,000 | (7,500,000) | - HK\$0.14460*/ HK\$0.0964** | 7 May 2002-6 May 2005 | |
| | 8 May 2002 | 2,500,000 | - | - | 1,250,000 | (3,750,000) | - HK\$0.14580*/ HK\$0.0972** | 8 May 2002-7 May 2005 | |
| Total for Employees | | 11,500,000 | - | - | 5,000,000 | (16,500,000) | - | | |
| Total for all categories | | 55,100,000 | - | - | 5,000,000 | (60,100,000) | - | | |

Note: The number of shares exercisable under the options and the exercise price were adjusted during the year as a result of the rights issue on 10 July 2003 as explained in note 29 to the financial statement.

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A summary of the movements in share options granted under the Existing Share Option Scheme during the year is as follows:

| | Date of grant | Number of share options | | | | | Exercise price | Exercise period |
|---------------------------------|------------------|--------------------------------------|-------------------------|---------------------------|------------------------|--------------------------------|----------------|-----------------------------------|
| | | Outstanding at beginning of the year | Granted during the year | Exercised during the year | Lapsed during the year | Outstanding at end of the year | | |
| Category: Directors | | | | | | | | |
| Mr. Jay Chun | 27 November 2003 | - | 2,500,000 | - | - | 2,500,000 | HK\$0.088 | 27 November 2003–26 November 2008 |
| Dr. Ma Xianming | 27 November 2003 | - | 1,000,000 | - | - | 1,000,000 | HK\$0.088 | 27 November 2003–26 November 2008 |
| Total for Directors | | - | 3,500,000 | - | - | 3,500,000 | | |
| Category: Employees | | | | | | | | |
| | 27 November 2003 | - | 76,825,000 | - | - | 76,825,000 | HK\$0.088 | 27 November 2003–26 November 2008 |
| Category: Consultants | | | | | | | | |
| | 27 November 2003 | - | 91,375,000 | - | - | 91,375,000 | HK\$0.088 | 27 November 2003–26 November 2008 |
| Total for all categories | | - | 171,700,000 | - | - | 171,700,000 | | |

The fair value of the options granted on 27 November 2003 measured on the same date amounted to approximately HK\$6,986,800. The following significant assumptions were used to derive the fair values using the Black-Scholes option pricing model:

27 November 2003

| | |
|--|---------|
| 1) Expected volatility based on historical volatility of share prices | 40.49% |
| 2) Expected annual dividend yield, based on historical dividends | - |
| 3) Expected life of options | 5 years |
| 4) Hong Kong Exchange Fund Notes rate for corresponding estimated expected life indicated at the date of grant | 3.27% |

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For the purposes of the calculation of fair value, no adjustment has been made in respect of options expected to be forfeited, due to lack of historical data.

The Black-Scholes option pricing model requires the input of highly subjective assumptions, including the volatility of share price. Because changes in subjective input assumptions can materially affect the fair value estimate, in the directors' opinion, the existing model does not necessarily provide a reliable single measure of the fair value of the share options.

The closing price of the Company's shares immediately before 27 November 2003, the date on which options were granted during the year was HK\$0.088 per share.

No charge is recognised in the consolidated income statement in respect of the value of options granted during the year.

At the date of this report, the total number of shares available for issue under the Existing Share Option Scheme is 259,711,291 shares, representing 10% of the shares of the Company in issue.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Other than the share option schemes disclosed under the heading "Share Options" 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. In addition, none of the directors, or their spouse or children under the age of 18 had any right to subscribe for the securities of the Company or had exercised any such right during the year.

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES

As at 31 December 2003, so far as is known to directors, the interests and short positions of the persons or corporations, other than directors and chief executive of the Company, in the shares or underlying shares of the Company which have been disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO and as recorded in the register required to be kept by the Company under section 336 of the SFO, were as follows:

| Name | Total interests in shares (note) | Approximate percentage of interests |
|-----------------------------------|--|--|
| Best Top Offshore Limited | 353,190,000 | 13.71% |
| August Profit Investments Limited | 308,490,000 | 11.97% |

Note: All interests in shares stated above represent long positions.

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Save as disclosed above, as at 31 December 2003, the Company had not been notified any other person who was interested in or had a short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO and as recorded in the register required to be kept under section 336 of the SFO.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2003, the aggregate amount of turnover attributable to the Group's five largest customers accounted for approximately 58.8% of the Group's total turnover and the turnover attributable to the Group's largest customer was approximately 49.1% of the Group's total turnover. The aggregate amount of purchase attributable to the Group's five largest suppliers accounted for approximately 77.5% of the Group's total purchases and the purchases attributable to the Group's largest supplier was approximately 41.6% of the Group's total purchases.

None of the directors, their associates or any shareholders (which to the knowledge of the directors owns more than 5% of the Company's issued share capital) has any interest in any of the Group's five largest customers or suppliers.

CONVERTIBLE SECURITIES, OPTIONS, WARRANTS OR SIMILAR RIGHTS

Other than the share option schemes disclosed under the heading "Share Options" above, the Company had no outstanding convertible securities, options, warrants or other similar rights as at 31 December 2003 and there has been no exercise of any convertible securities, options, warrants or similar rights during the year.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SHARES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed shares during the year.

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 the existing shareholders.

CORPORATE GOVERNANCE

The Company has complied throughout the year ended 31 December 2003 with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange.

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AUDITORS

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

On behalf of the Board

Jay Chun

Chairman

Hong Kong, 23 April 2004