

Directors' Report

The directors present their annual report and the audited financial statements for the year ended 31 December 2004.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The principal activities of the principal subsidiaries are set out in note 35 to the financial statements.

RESULTS

The results of the Group for the year ended 31 December 2004 are set out in the consolidated income statement on page 19.

SHARE CAPITAL

Details of movements during the year in the share capital of the Company are set out in note 26 to the financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements of property, plant and equipment and investment properties of the Group during the year are set out in notes 12 and 13 respectively to the financial statements.

DIRECTORS

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

Executive directors:

Zhou Yucheng (*Chairman*)

Fu Weimin

Qi Xianchao

Zhao Linye

(appointed on 13 October 2004)

Chan Iu Nam John Bosco

(appointed on 18 February 2004 and
resigned on 15 September 2004)

Tong Nai Kan

(resigned on 14 May 2004)

Leung Wai Kwan

(resigned on 14 June 2004)

Independent non-executive directors:

Tang Tin Sek

Wang Yiming

Julia Frances Charlton-Stevens

(appointed on 28 September 2004 and
resigned on 28 February 2005)

Directors' Report (Continued)

DIRECTORS (continued)

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

In accordance with Bye-law 87 of the Company's Bye-laws, Mr. Tang Tin Sek, shall retire by rotation at the forthcoming annual general meeting and, being eligible, offers himself for re-election.

No director proposed for re-election at the forthcoming annual general meeting has a service contract 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 December 2004, the interests of the directors in the shares and underlying shares of the Company and its associated corporations, as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance (the "SFO"), or as otherwise 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 Issuers (the "Model Code"), were as follows:

Interest in shares of the Company (long position)

Name of director	Capacity	Number of issued ordinary shares held	Approximate percentage of the issued share capital of the Company
Mr. Tang Tin Sek	Beneficial owner	300,000	0.01%

Other than as disclosed above, none of the directors and their associates had any interests or short positions in any shares, underlying shares of the Company or any of its associated corporations as at 31 December 2004.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Other than as disclosed in "Share option schemes" below, at no time during the year was the Company, any of its holding companies or 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.

Directors' Report (Continued)

DISCLOSEABLE INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS UNDER THE SFO

As at 31 December 2004, the register required to be kept under Section 336 of the SFO shows that the following shareholders and their associates had notified the Company of relevant interests in the issued share capital of the Company:

Name of shareholder	Capacity	Number of shares	Approximate percentage of issued share capital
China Worldbest Group (Hong Kong) Company Limited ("China Worldbest HK") (Note)	Corporate interest	640,000,000	25.97%
China Worldbest Group Company Limited ("China Worldbest") (Note)	Interest in controlled corporation	640,000,000	25.97%
Equity Valley Investments Limited	Corporate interest	346,584,000	14.06%

Note: China Worldbest HK is wholly beneficially owned by China Worldbest. Under Part XV of the SFO, China Worldbest is deemed to have interest in the shares of the Company held by China Worldbest HK.

Save as disclosed above, the register required to be kept under Section 336 of the SFO showed that the Company had not been notified of any interests or short positions in the shares and underlying shares of the Company as at 31 December 2004.

SHARE OPTION SCHEMES

Pursuant to ordinary resolutions of the shareholders of the Company passed on 11 March 1997 and 26 June 2002, the Company adopted an old share option scheme (the "Old Share Option Scheme") and a new share option scheme (the "New Share Option Scheme") respectively. The Old Share Option Scheme was terminated on 26 June 2002 such that no further options shall be offered under the Old Share Option Scheme but the options granted shall continue to be valid and exercisable in accordance with their terms of issue and in all other respects its provisions shall remain in full force and effect.

Directors' Report (Continued)

SHARE OPTION SCHEMES (continued)

Particulars of each share option scheme are set out in note 27 to the financial statements. Details of movements in the share options held by directors under each share option scheme for the year ended 31 December 2004 are as follows:

(a) Old Share Option Scheme

The details of share options granted on 29 August 2001 to the directors of the Company under the Old Share Option Scheme which were exercisable from 1 March 2002 to 28 February 2005 are as follows:

Participant	Exercise price per share <i>HK\$</i>	Number of share options Outstanding as at 1.1.2004 & 31.12.2004
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Director:

Mr. Tong Nai Kan (resigned on 14 May 2004)	0.145	17,500,000
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(b) New Share Option Scheme

The details of share options granted on 3 January 2003 to the directors of the Company under the New Share Option Scheme which were exercisable from 3 January 2003 to 2 January 2008 are as follows:

Participant	Exercise price per share <i>HK\$</i>	Number of share options		
		Outstanding as at 1.1.2004	Cancelled during the year	Outstanding as at 31.12.2004

Director:

Mr. Tong Nai Kan (resigned on 14 May 2004)	0.1	9,966,000	9,966,000	–
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DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

No contract 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 or indirectly, subsisted during or at the end of the year.

Directors' Report (Continued)

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES

The Company has not redeemed any of its securities during the year ended 31 December 2004. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's securities during the year.

MANAGEMENT CONTRACTS

Guangdong International Building Enterprises Company Limited has a management services contract with the Group during the year and this company received management service fees amounting to HK\$2,766,000.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the aggregate sales attributable to the Group's five largest customers comprised approximately 53% of the Group's total sales while the sales attributable to the Group's largest customer were approximately 24% of the Group's total sales.

The aggregate purchases during the year attributable to the Group's five largest suppliers comprised approximately 96% of the Group's total purchases while the purchases attributable to the Group's largest supplier were approximately 82% of the Group's total purchases.

None of the directors, their associates or any shareholder, which to the knowledge of the directors owned more than 5% of the Company's issued share capital, had any interest in the five largest customers or suppliers of the Group.

CORPORATE GOVERNANCE

The Company has complied throughout the year ended 31 December 2004 with the Code of Best Practice as set out in the then Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), except that the independent non-executive directors are not appointed for a specific term as they are subject to retirement by rotation at the annual general meeting in accordance with the Bye-laws of the Company.

The Company has adopted the Model Code regarding securities transactions by directors as set out in Appendix 10 of the Listing Rules. Having made specific enquiry of all directors, all directors confirmed they have complied with the required standard set out in the Model Code.

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 Listing Rules. The Company considers all of the independent non-executive directors are independent.

Directors' Report (Continued)**COMPETING INTEREST**

None of the directors of the Company or their respective associates had any interest in a business which competes with or may compete with the business of the Group.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Bye-laws of the Company or the laws of Bermuda requiring the Company to offer new shares to the existing shareholders in proportion to their shareholdings if new shares are issued.

SUFFICIENCY OF PUBLIC FLOAT

As at the date of this report, the Company has maintained a sufficient public float.

CONNECTED TRANSACTIONS AND POST BALANCE SHEET EVENT

On 5 March 2004, Offspring Investments Limited ("Offspring"), a wholly-owned subsidiary of the Company, entered into a conditional agreement to acquire a 30% equity interest in Shanghai Worldbest Treeful Pharmaceuticals (Group) Company Limited ("SW Treeful") from China Worldbest Life Industries Company Limited ("CWGC Life"), a subsidiary company of China Worldbest, at a consideration of RMB165 million (equivalent to approximately HK\$156 million), subject to adjustment (the "Agreement").

By 30 July 2004, all conditions in the Agreement were satisfied and the formalities in transferring the 30% equity interest in SW Treeful from CWGC Life to Offspring have been completed according to the terms of the Agreement. Pursuant to the Agreement, Offspring should within 3 months of the effective date of the Agreement, which was 30 July 2004, pay an aggregate sum of RMB165 million by 3 instalments to CWGC Life as consideration for the acquisition. CWGC Life subsequently agreed to extend the payment period in respect of the second and third instalments to 31 March 2005.

As the Group failed to raise sufficient funds to pay the second and third instalments on or before 31 March 2005, CWGC Life and Offspring have entered into a rescission agreement to rescind the Agreement on 1 April 2005 (the "Rescission Agreement"). Pursuant to the Rescission Agreement, Offspring will sign the necessary documents to transfer the 30% equity interest in SW Treeful back to CWGC Life and within 10 working days after the completion of such transfer, CWGC Life will return RMB49.5 million, being the first instalment previously paid to CWGC Life under the Agreement, to Offspring. The Rescission Agreement will be completed when the necessary statutory approvals and registration procedures from relevant local authorities in Mainland China are properly obtained and completed.

Directors' Report (Continued)

AUDITORS

During the year, Messrs. PricewaterhouseCoopers, who acted as auditors of the Company for the past three years, resigned and Messrs. Deloitte Touche Tohmatsu were appointed as auditors of the Company on 23 February 2005.

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

On behalf of the Board

Zhou Yucheng

Chairman

Hong Kong, 21 April 2005