

REPORT OF THE DIRECTORS

The directors herein present their report together with the audited financial statements of the Company and the Group for the year ended 31 December 2004.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of the subsidiaries consisted of the manufacturing, trading and contracting of Chinese medicines products in the People's Republic of China (the "PRC"). There were no changes in the nature of the Group's principal activities during the year.

SEGMENT INFORMATION

An analysis of the Group's turnover and contribution to results by principal business segments and geographical segments for the year ended 31 December 2004 is set out in note 3 to the financial statements.

RESULTS AND DIVIDENDS

The Group's net loss attributable to shareholders for the year ended 31 December 2004 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 21 to 59.

The directors do not recommend the payment of any dividend in respect of the year ended 31 December 2004.

SUMMARY OF FINANCIAL INFORMATION

A summary of the published results and of the assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the audited financial statements, is set out on page 60. This summary is for information only and does not form part of the audited financial statements.

FIXED ASSETS

Details of movements in the fixed assets of the Company and the Group during the year are set out in note 12 to the financial statements.

SHARE CAPITAL

Details of movements in the Company's share capital during the year, together with explanations thereof, are set out in note 23 to the financial statements.

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 existing shareholders.

REPORT OF THE DIRECTORS (continued)

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 24 to the financial statements and page 23 respectively.

DISTRIBUTABLE RESERVES

At 31 December 2004, the Company's reserves available for distribution in specie were nil (2003: HK\$71,772,000). The Company's share premium account in the amount of HK\$91,495,000 (2003: HK\$82,700,000) may be distributed in the form of fully paid bonus shares.

MAJOR SUPPLIERS AND CUSTOMERS

In the year under review, the respective percentages of the Group's purchases and sales attributable to major suppliers and customers are as follows:

(a)	Percentage of purchases attributable to:	
	• the largest supplier	34%
	• the five largest suppliers	77%
(b)	Percentage of sales attributable to:	
	• the largest customer	10%
	• the five largest customers	32%

As far as the directors are aware, neither the directors of the Company, their associates, nor shareholders, which to the knowledge of the directors, own more than 5% of the Company's issued share capital had any beneficial interest in the Group's five largest suppliers or customers.

REPORT OF THE DIRECTORS (continued)

HONORARY CHAIRMAN AND DIRECTOR

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

Honorary chairman:

Zuo Tai Hang (retired on 30 April 2004 at conclusion of tenure)

Honorary director:

Xia Zhi Wu

DIRECTORS

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

Executive directors:

Cheng Kwok Choi, Godwin (resigned on 20 January 2004)

Cheng Shu Wing

Fung Chi Kin (appointed on 1 January 2005)

Guo Duen How, Tom

Ho Yuk Ming, Hugo (appointed on 1 January 2005)

Kao Ying Lun

Wu Fred Fong

Independent non-executive directors:

Choy Tak Ho

Tsui Chun Chung, Arthur

Wong Chun Wah (appointed on 1 November 2004)

In accordance with the Company's bye-laws, Messrs Cheng Shu Wing, Guo Duen How, Tom and Choy Tak Ho will retire at the forthcoming annual general meeting and, being eligible, will offer themselves for re-election. Messrs. Fung Chi Kin, Ho Yuk Ming, Hugo and Wong Chun Wah, who were appointed directors during the year, will hold office until the next annual general meeting, and being eligible, will offer themselves for election at that meeting. Except for the chairman, all of the directors, including the independent non-executive directors and honorary director, are subject to retirement by rotation in accordance with the Company's bye-laws.

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 the independent non-executive directors are independent.

REPORT OF THE DIRECTORS (continued)

BIOGRAPHICAL DETAILS OF THE HONORARY DIRECTOR AND DIRECTORS OF THE COMPANY AND SENIOR MANAGEMENT OF THE GROUP

Honorary director

XIA Zhi Wu, aged 78, joined the Group in 2000. He graduated from the Qing Hua University, in the PRC, and worked in the central government offices after graduation. He was a director of the Bureau of Government Offices Administration and a secretary general of the State Economic Commission. He is now the vice president of the China Federation of Industrial Economics, and advises the Group regarding strategies and business model for investing in the PRC.

Executive directors

CHENG Shu Wing, aged 56, joined the Group in 2000 and has extensive experience in the banking and securities industries in Hong Kong and has been active in financing, investment advisory and fund management activities. He was a director of an investment bank in Hong Kong. Mr. Cheng holds a Bachelor Degree in Business Administration from The Chinese University of Hong Kong.

FUNG Chi Kin, aged 56, joined the Group in 2005. He has extensive financial services and banking experience and held a number of public offices. He is currently the Honorary Permanent President of the Chinese Gold and Silver Exchange Society, the International Advisor to the Shanghai Gold Exchange and a Committee Member of the Hong Kong Exchanges and Clearing Limited Cash Market Consultative Panel. Mr. Fung is currently an independent non-executive director of a listed company in Hong Kong. Over the past decade, Mr. Fung held a number of public offices and senior management positions. These included member of the HKSAR Legislative Council, President of the Chinese Gold and Silver Exchange Society, Vice Chairman of The Stock Exchange of Hong Kong Limited, and Director of the Hong Kong Futures Exchange Limited and Hong Kong Securities Clearing Co. Ltd, Hong Kong Affairs Adviser and Chairman of the Hong Kong Chinese Enterprises Association Capital Market Committee.

GUO Duen How, Tom, aged 60, joined the Group in 2000 and has over 25 years of extensive banking experience including corporate finance, project finance, international trade financing, credit, corporate management policy and administration. He held senior positions in a number of international banking institutions and directorship of an investment bank in Hong Kong. Mr. Guo holds a Bachelor Degree of Commerce from Concordia University of Canada.

HO Yuk Ming, Hugo, aged 33, joined the Group in 2005. He has over ten years experience in the accounting/finance field. He is an associate member of the Hong Kong Institute of Certified Public Accountants and the Association of International Accountants. He held senior position in a public group of companies.

KAO Ying Lun, aged 52, joined the Group in 2000 and has over 20 years' business and professional experience of which about 15 years were in investment banking, corporate finance and financial advisory fields. He sits on the board of a number of private investment/listed companies. Mr. Kao holds an HBA Degree (Honours Business Administration Degree) from Richard Ivey School of Business, The University of Western Ontario and is a Chartered Accountant qualified in Canada. He is responsible for the new business development of the Group.

REPORT OF THE DIRECTORS (continued)

BIOGRAPHICAL DETAILS OF THE HONORARY DIRECTOR AND DIRECTORS OF THE COMPANY AND SENIOR MANAGEMENT OF THE GROUP (continued)

Executive directors (continued)

WU Fred Fong, aged 58, joined the Group in 2000 and has over 20 years' broad experience in corporate planning, corporate finance, direct investment and consulting with public companies in Canada and Hong Kong. He held directorship of an investment bank in Hong Kong. Mr. Wu holds a Master of Business Administration Degree from Schulich School of Business, York University of Canada. He is a Chartered Accountant qualified in Canada and a fellow member of the Hong Kong Institute of Certified Public Accountants. He is responsible for the new business development of the Group.

Independent non-executive directors

CHOY Tak Ho, aged 77, joined the Group in 2002 and has many years of experience in business administration. He is a director of Union International (H.K.) Company Limited. He is also a member of The National Committee of the Chinese People's Political Consultation Conference; the honorary life chairman of the Chinese General Chamber of Commerce Hong Kong and a member of The Selection Committee for the First Government of the Hong Kong Special Administrative Region.

TSUI Chun Chung, Arthur, aged 50, joined the Group in 2002 and has over 20 years experience in auditing, accounting and corporate finance. He is a certificated member of the Certified General Accountants' Association of Canada; an associate member of Hong Kong Institute of Certified Public Accountants; and a fellow member of The Institute of Chartered Secretaries and Administrators and the Hong Kong Institute of Company Secretaries. He graduated from the Institute for Financial Management, a joint body of the Manchester Business School and the University of Wales, and received a Master of Business Administration degree. He is currently a vice president and corporate controller of a high-tech company listed on the NASDAQ in the United States of America.

WONG Chun Wah, aged 35, joined the Group in 2005 and holds a Higher Diploma in Accountancy from City University of Hong Kong and a B.A. (Hon.) Degree in Accounting from Napier University Edinburgh, United Kingdom. Mr. Wong is an associate member of the Association of Chartered Certified Accountants, United Kingdom and the Hong Kong Institute of Certified Public Accountants and is currently a practicing public accountant in Hong Kong.

Senior management

ZHAO Xing Huan, aged 48, joined the Group in 2002 and is the Chief Officer, China Business Development of the Group and the Director and Chief Financial Office of a subsidiary, Huayi. Mr. Zhao is a qualified Economist and Accountant in the PRC. He was a specially contracted researcher of the South East Asia Institute of Jinan University in Guangzhou. Mr. Zhao held a number of senior management positions and directorship with public and private companies including being the managing director of Guangdong Capital Holdings Limited, chairman of Guangdong Securities Limited, director of Citybus Limited, chief executive director of Guangdong Investment Limited and managing director of New Ocean Green Energy Holdings Limited etc.

REPORT OF THE DIRECTORS (continued)

DIRECTORS' SERVICE CONTRACTS

No director 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 other than statutory compensation.

DIRECTORS' INTERESTS IN SHARES

As at 31 December 2004, the directors and their associates had the following interests and short positions in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")), as recorded in the register required to be kept pursuant to Section 352 of 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 Companies:

Name of director	Number of ordinary shares in the Company Personal interest
Cheng Shu Wing	100,000
Guo Duen How, Tom	800,000
Kao Ying Lun	5,000,000
Wu Fred Fong	5,000,000

The interests of the directors in the share options of the Company are separately disclosed in the Section "Share option scheme" below.

Save as disclosed above, as at 31 December 2004, none of the directors or the chief executive of the Company and their associates had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporation (within the meaning of Part XV of the SFO), as recorded in the register required to be kept under section 352 of the SFO; or notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of the Listed Companies.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Apart from as disclosed under the heading "Share option scheme" below, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any directors or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company, its holding company, or any of its subsidiaries or fellow subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

REPORT OF THE DIRECTORS (continued)

SHARE OPTION SCHEME

Under the share option scheme adopted by the Company on 7 June 2002 (the "Scheme"), the Directors may, at their discretion, invite any eligible participants to take up options to subscribe for shares in the capital of the Company. The Scheme is effective for the period from 7 June 2002 to 6 June 2012. The total number of shares which may be allotted and issued upon exercise of all options to be granted under the Scheme shall not in aggregate exceed 10% of the number of shares in issue at the date of approval of the Scheme (the "General Scheme Limit") provided that, inter-alia, the Company may seek approval of the shareholders at a general meeting to refresh the General Scheme Limit. The maximum number of shares in respect of which options may be allotted and issued upon exercise of all outstanding options granted and yet to be exercised under the Scheme may not, subject to shareholders approval, exceed 30% of the share capital of the Company in issued from time to time.

During the year ended and as at 31 December 2004, no share options have been granted or outstanding under the Scheme.

Subsequent to the year end, the Company granted, on 11 March 2005, a total of 50,000,000 share options to certain eligible participants and directors of the Group pursuant to the Scheme. The options were granted at a cash consideration of HK\$1.00 per grantee and entitled the grantees to subscribe for ordinary shares (of nominal value HK\$0.01 each) of the Company at an exercise price of HK\$0.86 per share. The options were exercisable during the period from 22 March 2005 to 21 March 2007. Of the 50,000,000 share options granted, 20,300,000 were granted to the Directors as set out below:

Name of Director	No. of Share Option Granted
Cheng Shu Wing	1,700,000
Fung Chi Kin	6,000,000
Guo Duen How, Tom	1,700,000
Ho Yuk Ming, Hugo	6,000,000
Kao Ying Lun	1,700,000
Wu Fred Fong	1,700,000
Choy Tak Ho	600,000
Tsui Chun Chung, Arthur	600,000
Wong Chun Wah	300,000
Subtotal	20,300,000
Other eligible participants	29,700,000
	50,000,000

DIRECTORS' INTERESTS IN CONTRACTS

Except for those transactions set out in note 29 to the financial statements, no director had a beneficial interest in any material contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year.

REPORT OF THE DIRECTORS (continued)

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2004, save as disclosed below and other than the directors and chief executive of the Company and the companies controlled by them whose interests are disclosed above, the Company was not aware of any shareholder, had any interests or short positions in the shares and underlying shares as recorded in the register required to be kept by the Company under section 336 of the SFO.

Long position in the shares of the Company

Name of shareholder	Number of issued shares held	% of the issued share capital
Noble Dynasty Limited	50,590,000	8.51%
Leung Wah Chai and his associates	49,614,350	8.34%
Grimwood Enterprises Limited	47,450,000	7.98%

CONNECTED TRANSACTIONS

During the year, the Group had certain connected transactions, further details of which are included in note 30 to the financial statements.

EMOLUMENTS OF DIRECTORS AND THE FIVE HIGHEST PAID INDIVIDUALS

Details of the emoluments of the directors and of the five highest paid individuals in the Group are set out in note 6 to the financial statements.

POST BALANCE SHEET EVENTS

Details of the significant post balance sheet events of the Group are set out in note 31 to the financial statements.

CODE OF BEST PRACTICE

In the opinion of the directors, the Company has complied with the Code of Best Practice (the "Code") as set out in Appendix 14 of the Listing Rules, throughout the accounting period covered by the annual report.

SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained a sufficient public float throughout the year ended 31 December 2004.

REPORT OF THE DIRECTORS (continued)

AUDIT COMMITTEE

The Company has an audit committee (the "Audit Committee") which was established in accordance with the Code for the purposes of reviewing and providing supervision over the Group's financial reporting process and internal controls. The Audit Committee comprises all of the independent non-executive directors of the Company.

AUDITORS

The financial statements have been audited by Horwath Hong Kong CPA Limited, who retire and being eligible, offer themselves for re-appointment. A resolution for their re-appointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD

Wu Fred Fong

Director

Hong Kong
26 April 2005