

## **DIRECTORS’ REPORT**

The directors present the 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 2004.

### **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 2004 are set out in the consolidated income statement on page 22.

### **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 2004 as set out in note 15 to the financial statements. There was surplus in sum of HK\$280,000 arising on the revaluation as at 31 December 2004.

### **SHARE CAPITAL**

Details of changes in the Company’s share capital during the year are set out in note 30 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 33 to the financial statements respectively.

## DIRECTORS' REPORT

### 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)  
Mr. Shan Shiyong (alias, Mr. Sin Sai Yung)  
Dr. Ma Xianming (alias, Dr. Ma Yin Ming)

#### Independent non-executive directors:

Mr. Frank Hu  
Mr. Wang Faqi  
Ms. Ma Shiwei (appointed on 28 September 2004)

The biographical details of the directors of the Company and senior management of the Group are set out on pages 9 and 10.

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

In accordance with Bye-law 87 of the Company's Bye-laws, Dr. Ma Xianming (alias, Dr. Ma Yin Ming) shall retire and, being eligible, offer himself for re-election at the forthcoming annual general meeting.

The directors being proposed for re-election at the forthcoming annual general meeting do 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 (except Ms. Ma Shiwei) is the period up to his retirement by rotation in accordance with the Company's Bye-laws. The term of office for Ms. Ma Shiwei is a fixed term of two years commencing from 28 September 2004.

The Company confirmed that it has received from each of its independent non-executive directors an annual confirmation of his/her independence pursuant to rule 3.13 of the Rules Governing the Listing of Securities of The Stock Exchange of Hong Kong Limited (the "Listing Rules") and it still considered them to be independent as at the date of this report.

### 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.

## DIRECTORS' REPORT

### DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SECURITIES

As at 31 December 2004, the interests and short positions of the directors and the 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 Issuers (the "Model Code"), were as follows:

Name of Directors	Name of company/ associated corporation	Capacity/ Nature of interests	Interests in shares (other than pursuant to equity derivatives) <sup>(1)</sup>	Interests in underlying shares pursuant to equity derivatives <sup>(1)</sup>	Total interests in shares/ underlying shares	Approximate aggregate percentage of interests
Mr. Jay Chun	The Company	Beneficial owner	56,358,000	2,500,000	386,348,000	15.01%
	The Company	Interest of controlled corporation	327,490,000 <sup>(2)</sup>	–		
Mr. Shan Shiyong, alias, Mr. Sin Sai Yung	The Company	Interest of controlled corporation	353,190,000 <sup>(3)</sup>	–	353,190,000	13.72%
Dr. Ma Xianming, alias, Dr. Ma Yin Ming	The Company	Beneficial owner	–	1,000,000	1,000,000	0.04%

Notes:

- (1) All interests in shares stated above represent long positions.
- (2) These shares were held by August Profit Investments Limited, a company which is wholly owned by Mr. Chun.
- (3) These shares were held by Best Top Offshore Limited, a company which is wholly owned by Mr. Shan.

Save as disclosed above, none of the directors and the 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 2004.

## DIRECTORS' REPORT

### SHARE OPTIONS

On 15 July 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 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 31 to the financial statements.

There are no outstanding options granted under the Old Share Option Scheme during the year.

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

	Date of grant	Exercisable period	Exercise price per share HK\$	Number of share options			
				Outstanding at 1.1.2004	Granted during the year	Exercised during the year	Outstanding at 31.12.2004
Category: Directors							
Jay Chun	27.11.2003	27.11.2003 to 26.11.2008	0.088	2,500,000	–	–	2,500,000
Dr. Ma Xianming	27.11.2003	27.11.2003 to 26.11.2008	0.088	1,000,000	–	–	1,000,000
Category: Employees							
	27.11.2003	27.11.2003 to 26.11.2008	0.088	76,825,000	–	(37,500,000)	39,325,000
	13.08.2004	01.09.2004 to 12.08.2009	0.081	–	4,000,000	–	4,000,000
Category: Consultants							
	27.11.2003	27.11.2003 to 26.11.2008	0.088	91,375,000	–	(68,000,000)	23,375,000
	13.08.2004	01.09.2004 to 12.08.2009	0.081	–	200,000,000	–	200,000,000
	01.11.2004	01.11.2004 to 31.10.2009	0.086	–	50,000,000	–	50,000,000
Total all categories				171,700,000	254,000,000	(105,500,000)	320,200,000

## DIRECTORS' REPORT

The fair value of the options granted on 13 August 2004 and 1 November 2004 measured on the date of grant amounted to approximately HK\$12,205,600 and HK\$1,777,200 respectively. The following significant assumptions were used to derive the fair values using the Black-Scholes option pricing model:

	<b>13 August 2004</b>	<b>1 November 2004</b>
(1) Expected volatility based on historical volatility of share prices	144.87%	43.32%
(2) Expected annual dividend yield, based on historical dividends	–	–
(3) Expected life of options	5 years	5 years
(4) Hong Kong Exchange Fund Notes rate for corresponding estimated expected life indicated at the date of grant	3.18%	3.18%

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 provides a best estimate of the fair value of the share options.

The closing price of the Company's shares immediately before 13 August 2004 and 1 November 2004, the dates on which options were granted during the year, were HK\$0.070 and HK\$0.035 per share respectively.

HK\$17,461,000 has been charged to the consolidated income statement for the year in respect of the value of options granted to consultants during the years ended 31 December 2003 and 31 December 2004.

At the date of this report, the total number of shares available for issue under the Existing Share Option Scheme is 5,711,291 shares, representing 10% of the shares of the Company in issue as at the date of refreshment of mandate on 19 April 2004 less the number of options granted under the Existing Share Option Scheme.

## WARRANTS

On 23 February 2004, the Company issued, by way of private placement, 340,000,000 warrants at a placing price of HK\$0.078 per warrant. The warrants are in registered form, which entitle the holders of the warrants the right to subscribe up to HK\$34,680,000 in aggregate in cash for shares of HK\$0.01 each in the Company at an initial subscription price of HK\$0.102 per share (subject to adjustments) during the period from 23 February 2004 to 26 February 2005 (both dates inclusive). The warrants have been listed on the Stock Exchange since 27 February 2004.

## DIRECTORS' REPORT

Exercise in full of the warrants would result in an issue of 340,000,000 shares of HK\$0.01 each in the Company and the shares to which the warrants relate represent approximately 13.2% of the then existing issued share capital of the Company and approximately 11.7% of the enlarged issued share capital of the Company if the subscription rights attached to the warrants have been exercised in full.

The net proceeds from the issue of warrants of approximately HK\$24,567,000 have been used as general working capital for the Group.

During the year, the registered holders of 40,440,000 warrants exercised their rights to subscribe for 40,440,000 shares of HK\$0.01 each in the Company at HK\$0.102 per share. These shares rank pari passu with the existing shares in all respect.

During the year, the Company repurchased 21,960,000 warrants and cancelled such warrants upon repurchase.

Subsequent to the balance sheet date, the registered holders of 74,420,000 warrants exercised their rights to subscribe for 74,420,000 shares of HK\$0.01 each in the Company at HK\$0.102 per share. All the remaining warrants lapsed after 26 February 2005.

A summary of the movements in warrants during the year is as follows:

	<b>Warrants in registered form</b>	
	<b>Number</b>	<b>Value HK\$'000</b>
Issued on 23 February 2004	340,000,000	26,520
Expenses incurred in connection with the issue of warrants	–	(1,953)
Exercise of warrants	(40,440,000)	(2,922)
Repurchase of warrants	(21,960,000)	(1,587)
At 31 December 2004	277,600,000	20,058

## DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Other than the share option schemes disclosed under the section headed "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.

## DIRECTORS' REPORT

### SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES

As at 31 December 2004, so far as is known to directors, the interests and short positions of the persons or corporations, other than the 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 <sup>(1)</sup>	Approximate percentage of interests
Best Top Offshore Limited	353,190,000	13.72%
August Profit Investments Limited	327,490,000	12.72%
Mr. Ho Hao Chio	132,000,000 <sup>(2)</sup>	5.13%
Mr. Wong Porfirio Hau Yan Samson	132,000,000 <sup>(2)</sup>	5.13%
High Price Investments Limited	132,000,000 <sup>(2)</sup>	5.13%

Note:

- (1) All interests in shares stated above represent long positions.
- (2) These shares were owned by High Price Investments Limited. The issued share capital of High Price Investments Limited is owned as to 50% by each of Mr. Ho Hao Chio and Mr. Wong Porfirio Hau Yan Samson.

Save as disclosed above, as at 31 December 2004, the Company had not been notified of 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 by the Company under section 336 of the SFO.

### MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2004, the aggregate amount of turnover attributable to the Group's five largest customers accounted for approximately 54.7% of the Group's total turnover and the turnover attributable to the Group's largest customer was approximately 17.4% of the Group's total turnover. Weihai Sinogen Pharmaceutical Co., Ltd. was the sole supplier of the Group for the year.

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.

## DIRECTORS' REPORT

### CONVERTIBLE SECURITIES, OPTIONS, WARRANTS OR SIMILAR RIGHTS

Other than the share option schemes disclosed under the section headed “Share Options” and warrants disclosed under the section headed “Warrants” above, the Company had no outstanding convertible securities or other similar rights as at 31 December 2004.

### PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES AND WARRANTS

The Company has purchased 148,006,000 shares and 21,960,000 warrants on the Stock Exchange during the year and all of these have been cancelled. Details of which are as follows:

#### 1. SHARES

Month of repurchase	Number of shares repurchased	Price per share		Aggregate consideration paid HK\$'000
		Highest HK\$	Lowest HK\$	
March 2004	36,506,000	0.157	0.146	5,549
April 2004	530,000	0.167	0.167	89
May 2004	49,654,000	0.169	0.155	8,093
June 2004	13,200,000	0.171	0.166	2,232
July 2004	48,116,000	0.170	0.144	7,556
	148,006,000			23,519

#### 2. WARRANTS

Month of repurchase	Number of warrants repurchased	Price per warrant		Aggregate consideration paid HK\$'000
		Highest HK\$	Lowest HK\$	
June 2004	1,960,000	0.074	0.070	142
July 2004	20,000,000	0.066	0.054	1,179
	21,960,000			1,321

Save as disclosed above, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed shares or warrants during the year.



## **DIRECTORS' REPORT**

### **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.

### **AUDIT COMMITTEE**

The Audit Committee has reviewed with management the accounting policies and practices adopted by the Group and discussed auditing, internal control and financial reporting matters, including the review of the audited financial statements for the year ended 31 December 2004.

### **COMPLIANCE WITH CODE OF BEST PRACTICE**

None of the Directors is aware of any information that would reasonably indicate that the Company is not, or was not for any part of the year, in compliance with the Code of Best Practice, as set out in Appendix 14 to the Listing Rules, except that two of the Company's independent non-executive directors were not appointed for a specific term but are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the provisions of the Company's Bye-laws.

### **COMPLIANCE WITH CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS**

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules as its code of conduct regarding directors' securities transactions. Having made specific enquiry of all directors, the directors have confirmed compliance with the required standard set out in the Model Code as provided in Appendix 10 to the Listing Rules during the year.

### **SUFFICIENCY OF PUBLIC FLOAT**

Based on the information that is publicly available to the Company and within the knowledge of the directors of the Company, as at the latest practicable date prior to the issue of this report, there is sufficient public float of not less than 25% of the Company's issued shares as required under the Listing Rules.

### **AUDITORS**

The auditors, Messrs. Deloitte Touche Tohmatsu, will retire as auditors of the Company at the forthcoming annual general meeting of the Company.

On behalf of the Board

**Jay Chun**  
*Chairman*