



Report of the Directors

The directors herein present their report together with the corporate governance report, management's discussion and analysis and the audited financial statements of the Company and the Group for the year ended 31 December 2005.

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.

RESULTS AND DIVIDENDS

The Group's net loss attributable to shareholders for the year ended 31 December 2005 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 23 to 59.

The directors do not recommend the payment of a dividend in respect of the year ended 31 December 2005.

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 2005 is set out in note 5 to the financial statements.

FINANCIAL SUMMARY

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 14 to the financial statements.

SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the Company's share capital and share options during the year, together with explanations thereof, are set out in notes 25 and 31 respectively 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

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 26 and page 25 to the financial statements.

DISTRIBUTABLE RESERVES

At 31 December 2005, the Company's reserves available for distribution in specie were nil (2004: nil). The Company's share premium account in the amount of HK\$109,885,000 (2004: HK\$91,495,000) 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	38%
	* the five largest suppliers	90%
(b)	Percentage of sales attributable to:	
	* the largest customer	13%
	* the five largest customers	34%

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.



CHANGES OF DIRECTORS

During the year and up to the date of this report, the changes of directors were:

Honoray director

Xia Zhi Wu (resigned on 17 February 2006)

Executive directors:

Cheng Shu Wing (resigned on 20 May 2005)
Fung Chi Kin (appointed on 1 January 2005 and resigned on 17 February 2006)
Guo Duen How, Tom (appointed 1 January 2005 and resigned on 17 February 2006)
Ho Yuk Ming, Hugo (appointed 1 January 2005 and resigned on 17 February 2006)
Kao Ying Lun (appointed on 17 May 2005 and resigned on 8 January 2006)
Yu Jianmeng (appointed on 21 February 2006)
Wu Fred Fong (appointed 20 May 2005 and resigned on 17 February 2006)
Zhang Zhiyuan, Nathan (appointed on 17 May 2005 and resigned on 8 January 2006)
Zhao Songyi (appointed on 17 May 2005 and resigned on 8 January 2006)

Independent non-executive directors:

Choy Tak Ho
Loke Yu alias Loke Hoi Lam (appointed on 17 May 2005)
Loo Chung Keung, Steve (appointed on 17 May 2005 and resigned on 17 February 2006)
Tsui Chun Chung, Arthur
Wong Chun Wah (resigned on 17 May 2005)

Messrs. Wu Fred Fong and Tsui Chun Chung, Arthur will retire by rotation at the forthcoming annual general meeting according to the bye-laws of the Company. Mr. Yu Jianmeng, who was appointed during the period as an addition to fill a casual vacancy of the Board, shall hold office until the forthcoming annual general meeting. These three directors, being eligible, will offer themselves for re-election at the annual general meeting. Except for the chairman, all of the directors, including the independent non-executive directors, are subject to retirement by rotation in accordance with the Company's bye-laws.



Report of the Directors

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

Executive directors

Mr. GUO Duen How, Tom, aged 61, 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. Mr. Guo holds a Bachelor Degree of Commerce from Concordia University of Canada.

Mr. KAO Ying Lun, aged 53, 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 was elected Chairman by the directors on 12 January 2006. Mr. Kao 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.

Mr. YU Jianmeng, aged 54, joined the Group in February 2006 and has over 30 years' experience in administration with government offices in China, economic studies, evaluation and analysis, investments and business development. He is currently the Chairman of Shanghai Yi Heng Hang Business Consulting Co., Ltd. Mr. Yu holds a Master Degree in Economics from East China Normal University, in joint course with University of Hawaii.

Mr. WU Fred Fong, aged 59, 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. Mr. Wu holds a Master of Business Administration Degree from Schulich School of Business, York University of Toronto, Canada. He is a Chartered Accountant qualified in Canada and a fellow member of the Hong Kong Institute of Certified Public Accountants.

Independent non-executive directors

Mr. 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.

Dr. LOKE Yu alias LOKE Hoi Lam, aged 57, joined the Group in May 2005 and has over 30 years of experience in accounting and auditing for private and public companies, financial consultancy and corporate management. Dr. Loke holds a Master of Business Administration Degree from Universiti Teknologi Malaysia and Doctor of Business Administration Degree from University of South Australia. He is a Fellow of The Institute of Chartered Accountants in England and Wales; The Hong Kong Institute of Certified Public Accountants; and The Hong Kong Institute of Directors. He is also an Associate member of The Institute of Chartered Secretaries & Administrators and a member of The Malaysian Institute of Accountants. Dr. Loke is the Chairman of MHL consulting Limited. He currently serves as an independent non-executive Director of a number of companies listed on the Stock Exchange of Hong Kong.

Mr. TSUI Chun Chung, Arthur, aged 51, 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 The 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 senior vice president and chief financial officer of a high-tech company listed on the NASDAQ Stock Exchange in the United States of America.



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

Senior management

Mr. ZHAO Xing Huan, aged 49, joined the Group in 2002 and was the Chief Officer, China Business Development of the Group until 30 June 2005. He remained as the Director and Chief Financial Officer 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.

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 AND SHORT POSITION IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2005, 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:

Personal interest in shares

Name of director	Number of ordinary shares in the Company	
	Personal interest	% of the issued share capital
Cheng Shu Wing (resigned on 20 May 2005)	100,000	0.02%
Guo Duen How, Tom	2,300,000	0.35%
Kao Ying Lun	9,500,000	1.49%
Wu Fred Fong	9,500,000	1.49%
	21,400,000	

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 herein, as at 31 December 2005, 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.



Report of the Directors

DIRECTORS' INTERESTS AND SHORT POSITION IN SHARES, UNDERLYING SHARES AND DEBENTURES

(continued)

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.

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 2005, 45,000,000 share options were granted the details of which are summarized in note 31 to the financial statements.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Except for those transactions set out in note 32 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.



SUBSTANTIAL SHAREHOLDERS

As at 31 December 2005, 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
Chen Ven Chien (<i>note</i>)	48,000,000	7.54%

Note: By virtue of the SFO, Mr. Chen is deemed to have interest in the Company through holdings in Noble Dynasty Limited.

CONNECTED AND RELATED PARTY TRANSACTIONS

During the year, the Group had certain connected and related party transactions, further details of which are included in notes 33 and 32 respectively to the financial statements. The directors believe the relevant disclosure requirement in the annual report is met.

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 notes 8 and 9 to the financial statements.

POST BALANCE SHEET EVENTS

Details of the significant post balance sheet events of the Group are set out in note 35 to the financial statements.

CODE ON CORPORATE GOVERNANCE PRACTICES

In the opinion of the directors, the Company has complied with the principles of the code provisions as set out in the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 of the Listing Rules except those deviations identified in the Corporate Governance Report for 2005, which is set out under a separate heading on pages 11 to 16.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code as set out in Appendix 10 of the Listing Rules during the accounting period covered by the annual report. Having made specific enquiry of all directors, each of whom has confirmed that they have complied with the standard set out in the Model Code regarding security transactions by the directors.



Report of the Directors

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 three 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

Kao Ying Lun

Director

Hong Kong
13 April 2006