

## Directors' Report

The directors present their annual report and the audited financial statements for the year ended 31 December, 2005.

### PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The principal activities of the Company's principal subsidiaries are set out in note 37 to the financial statements.

### RESULTS

The results of the Group for the year ended 31 December, 2005 are set out in the consolidated income statement on page 25.

The directors do not recommend the payment of a dividend and propose that the profit for the year be retained.

### POST BALANCE SHEET EVENT

Details of a post balance sheet event is disclosed in note 36 to the financial statements.

### PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year are set out in note 15 to the financial statements.

### SHARE CAPITAL

Details of the Company's share capital are set out in note 25 to the financial statements. There was no movement in the Company's share capital during the year.

### DISTRIBUTABLE RESERVES OF THE COMPANY

The Company's reserves available for distributions to shareholders as at 31 December, 2005 represent the share premium, contributed surplus and accumulated losses with an aggregate amount of approximately HK\$76,753,000 (2004: HK\$84,023,000).



## Directors' Report

### DIRECTORS

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

#### Executive directors:

Mr. Wong Yin Sen (Chairman)  
Mr. Hon Lik (Chief Executive Officer)  
Mr. Wong Hei Lin (Vice president)  
Mr. Li Kim Hung

#### Non-executive director:

Ms. Cheng Kong Yin

#### Independent non-executive directors:

Mr. Pang Hong  
Mr. Cheung Kwan Hung  
Mr. Song Xiao Hai (appointed on June 21, 2005)  
Mr. Mo Kwan Nin (resigned on June 21, 2005)

In accordance with the Company's Articles of Association, Mr. Wong Yin Sen, being the chairman of the Company is not required to retire by rotation and Messrs. Hon Lik and Pang Hong and Song Xiao Hai shall retire by rotation and, being eligible, offer themselves for re-election.

The non-executive director has no set term of office but are subject to retirement by rotation, and being eligible, offer themselves for re-election, in accordance with the Company's Articles of Association.

### DIRECTORS' SERVICE CONTRACTS

None of the directors proposed for re-election at the forthcoming annual general meeting has a service contract which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.



## Directors' Report

### DIRECTORS' INTERESTS IN SHARES AND UNDERLYING SHARES

At 31 December, 2005, the interests of the directors and their associates 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 ("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 were as follows:

#### Long positions in the ordinary shares of HK\$0.10 each of the Company

Name of director	Capacity	Number of issued ordinary shares held	Percentage of the issued share capital of the Company
Mr. Wong Yin Sen	Interest of a controlled corporation (Note 1)	388,000,000	66.44%
Mr. Hon Lik	Interest of a controlled corporation (Note 1)	388,000,000	66.44%
Mr. Wong Hei Lin	Other (Note 1)	388,000,000	66.44%
Ms. Cheng Kong Yin	Interest of spouse (Note 2)	388,000,000	66.44%
Mr. Li Kim Hung	Interest of individual	220,000	0.04%

Notes:

- Messrs. Wong Yin Sen, Hon Lik and Wong Hei Lin are beneficially interested in 46.25%, 42.50% and 11.25% of the entire issued share capital of the major shareholder, Absolute Target Limited, which holds 388,000,000 shares in the Company, representing 66.44% of the entire issued shares in the Company.
- As Ms. Cheng Kong Yin is the spouse of Mr. Wong Yin Sen, she is deemed to be interested in these shares owned by her spouse.

Save as disclosed above, as at 31 December, 2005, none of the directors nor their associates had any interests or short positions in any shares and underlying shares of the Company or any of its associated corporations.

### SHARE OPTION SCHEME

In accordance with the terms of the share option scheme, the board of directors of the Company is authorised, at its absolute discretion, to grant options to the participants, including executive directors of the Company and its subsidiaries, to subscribe for shares in the Company. Options granted may be exercised at any time during the five-year period commencing on the date on which the option is accepted and expire on the last day of the five-year period.

As at the date of the report, no options have been granted to any participants nor outstanding under the Company's share option scheme.

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### ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

At no time during the year was the Company, its holding company, or any of its subsidiaries or fellow 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.

### CONTINUING CONNECTED TRANSACTIONS

On 4 November, 2004, Shenyang Jinlong Pharmaceutical Company Limited, a wholly owned subsidiary of the Group, entered into a supply of products agreement with Beijing SBT Ruyan Technology Development Company Limited ("Beijing SBT"). The transaction is regarded as "continuing connected transaction" pursuant to Chapter 14A of the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules") and particulars of the transaction are disclosed as follows:

Connected person	Date of agreement	Periods	Products
Beijing SBT	4 November, 2004	from 20 December, 2004 to 31 December 2006	Alkaloid liquid as contained in alkaloid liquid containers together with inhaler installed for one-off consumption purpose as refills into electronic cigarettes

During the year, the Group supplied merchandise amounting to HK\$46,092,000 to Beijing SBT, in which certain directors of the Company have interests in by virtue of their shareholdings in Ability Act Investments Limited ("Ability Act"), the ultimate holding company of Beijing SBT and are the directors of Beijing SBT.

### DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

The Group received rental income of approximately HK\$231,000 from Shenyang SBT Technology Development Company Limited ("Shenyang SBT"), in which certain directors have interests in by virtue of their shareholdings in the ultimate holding company of Shenyang SBT and are the directors of Shenyang SBT.

Details of the transaction are set out in note 34 to the financial statements.

The above transaction and the transaction disclosed in the section "Continuing Connected Transactions" above were reviewed and confirmed by the independent non-executive directors that they were conducted on normal commercial terms, in the ordinary course of business of the Group and in accordance with the terms of the agreement governing such transactions that are fair and reasonable and in the interest of the shareholders of the Company as a whole.

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Other than as disclosed above and in the section "Continuing Connected Transactions" above, no contracts of significance to which the Company, its ultimate holding company, or any subsidiaries of its ultimate holding company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

### SUBSTANTIAL SHAREHOLDERS

So far as is known to the Directors, as at 31 December, 2005, the persons or companies (other than directors or chief executive) who had interests or short positions in the shares or underlying shares of the Company which fall to be disclosed to the Company under Part XV of the SFO, or which were recorded in the register of substantial shareholders required to be kept by the Company under section 336 of the SFO were as follows:

#### Long positions in the ordinary shares of HK\$0.10 each of the Company

Name	Number of shares beneficially held	Percentage of holding
Absolute Target Limited	388,000,000	66.44%

#### Long positions in the underlying shares of equity derivatives of the Company

Name	Number of underlying shares	Approximate percentage of holding
Nederlandse Financierings – Maatschappij Voor Ontwikkelingslanden N.V. (note)	116,800,000	20.00%

Note: Pursuant to a deed of put option dated 5 November 2003 between the Company and Nederlandse Financierings-Maatschappij Voor Ontwikkelingslanden N.V. ("the Investor"), a maximum of 116,800,000 shares of the Company, representing 20% the entire issued share capital of the Company, may be allotted and issued by the Company to the Investors in the event that the Investor exercises the put option and the Conversion Method (as defined therein) is selected by the Investor. The put option was granted as part of the consideration for the Investor's subscription of all the preference shares of New Wellon Limited, a wholly-owned subsidiary of the Company, which were issued to the Investor.

Other than as disclosed above, the Company has not been notified of any other relevant interests or short positions in the issued share capital of the Company as at 31 December, 2005.

### CORPORATE GOVERNANCE

The Company is committed to maintaining a high standard of corporate governance practices. Information on the corporate governance practices adopted by the Company is set out in the Corporate Governance Report on pages 8 to 14.

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### EMOLUMENT POLICY

The emolument policy of the employees of the Group is set up by the Remuneration Committee on the basis of their merit, qualifications and competence.

The emoluments of the Directors of the Company are decided by the Remuneration Committee, having regard to the Company's operating results, individual performance and comparable market statistics.

### PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Articles of Association, or the laws of the Cayman Islands, which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

### ADVANCE TO AN ENTITY

At 31 December, 2005, the aggregate amount of advances made by the Group to Shenyang Hai Pu Le Yi Ye You Xian Gong Si (沈陽海普樂醫藥有限公司「海普樂」), a customer of the Group, amounted to approximately HK\$13,528,000 which exceeded 8% of any of the percentage ratios set out in Rule 14.07 of the Listing Rules. Disclosure of details of the relevant advance by the Group was made pursuant to Rules 13.13 and 13.15 of the Listing Rules.

The amount represented the advance and trade receivable arose in the ordinary course of business of the Group in selling its products to Shenyang Hai Pu Le Yi Ye You Xian Gong Si (海普樂) and was unsecured, interest free and with payment term of nine months from the date of sale. Shenyang Hai Pu Le Yi Ye You Xian Gong Si (海普樂) is an independent third party not connected with the directors, chief executives or substantial shareholders of the Company or any subsidiaries of its ultimate holding company.

### MAJOR CUSTOMERS AND SUPPLIERS

During the year, the largest customer of the Group by itself and together with the next four largest customers accounted for about 13% and 38%, respectively, of the Group's turnover.

The largest supplier of the Group by itself and together with the next four largest suppliers accounted for about 20% and 66%, respectively, of the Group's purchases.

Other than as disclosed above, at no time during the year did a director, an associate of a director or a shareholder of the Company (which to the knowledge of the directors own more than 5% of the Company's share capital) have an interest in any of the Group's five largest customers or suppliers.



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### PURCHASE, SALE OR REDEMPTION OF LISTED SHARES

During the year, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed shares.

### SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained a sufficient public float throughout the year ended 31 December, 2005.

### AUDITORS

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

**Mr. Wong Yin Sen**

*Chairman*

Hong Kong

19 April, 2006