

DIRECTORS' REPORT

The directors present their 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 2005.

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 2005 are set out in the consolidated income statement on page 25.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group during the year are set out in note 17 to the financial statements.

INVESTMENT PROPERTIES

The investment properties of the Group were re-valued on an open market value basis as at 31 December 2005 as set out in note 18 to the financial statements. There was no surplus or deficit arising on the revaluation as at 31 December 2005.

SHARE CAPITAL

Details of changes in the Company's share capital during the year are set out in note 31 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 29 and in note 34 to the financial statements.

There was no reserve available for distribution to shareholders as at 31 December 2005.

CHANGE IN AUDITORS

Messrs. Deloitte Touche Tohmatsu retired in the annual general meeting held on 18 July 2005 and Messrs. RSM Nelson Wheeler were appointed in their place.

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

The biographical details of the directors of the Company and senior management of the Group are set out on pages 8 to 10.

In accordance with the Company's Bye-laws, Mr. Frank Hu shall retire and, being eligible, offer himself for re-election at the forthcoming annual general meeting.

Mr. Frank Hu does 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 terms 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 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 the Company 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 2005, 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) ⁽¹⁾	Interests in underlying shares pursuant to equity derivatives ⁽¹⁾	Total interests in shares/ underlying shares	Approximate aggregate percentage of interests
Mr. Jay Chun	The Company	Beneficial owner	68,568,000	2,500,000	398,558,000	14.42%
	The Company	Interest of controlled corporation	327,490,000 ⁽²⁾	–		
Mr. Shan Shiyong, alias, Mr. Sin Sai Yung	The Company	Interest of controlled corporation	353,190,000 ⁽³⁾	–	353,190,000	12.78%
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. Jay Chun.
- (3) These shares were held by Best Top Offshore Limited, a company which is wholly owned by Mr. Shan Shiyong, alias, Mr. Sin Sai Yung.

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 2005.

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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 Existing Share Option Scheme are set out in note 32 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:

				Number of share options			
			Exercise price per share HK\$	Outstanding at 1.1.2005	Granted during the year	Exercised during the year	Outstanding at 31.12.2005
Category: Directors							
Mr. 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	39,325,000	-	(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	23,375,000	-	-	23,375,000
	13.08.2004	01.09.2004 to 12.08.2009	0.081	200,000,000	-	(75,000,000)	125,000,000
	01.11.2004	01.11.2004 to 31.10.2009	0.086	50,000,000	-	-	50,000,000
Total all categories				320,200,000	-	(114,325,000)	205,875,000

No options were granted during the year.

As at the date of this report, the total number of options available for issue under the Existing Share Option Scheme is 1,767,291 options, representing 10% of the shares of the Company in issue as at the date of refreshment of the scheme mandate limit on 18 July 2005 less the number of options granted under the Existing Share Option Scheme pursuant to the scheme mandate limit as refreshed.

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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.

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 74,420,000 (2004 : 40,440,000) warrants exercised their rights to subscribe for 74,420,000 (2004: 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, no warrants were repurchased by the Company and cancelled upon repurchase (2004: 21,960,000).

After 26 February 2005, 203,180,000 warrants were expired. On expiry, the balance of warrant reserve in the sum of approximately HK\$14,681,000 was transferred and credited to the accumulated losses in reserve.

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

	Warrants in registered form	
	Number	Value HK\$'000
At 1 January 2005	277,600,000	20,058
Exercise of warrants	(74,420,000)	(5,377)
Lapse of warrants	(203,180,000)	(14,681)
At 31 December 2005	–	–

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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.

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES

As at 31 December 2005, so far as is known to the directors, the interests and short positions of the persons or corporations, other than 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⁽¹⁾	Approximate percentage of interests
Best Top Offshore Limited	353,190,000	12.78%
August Profit Investments Limited	327,490,000	11.85%

Note:

(1) All interests in shares stated above represent long positions.

Save as disclosed above, as at 31 December 2005, 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 2005, the aggregate amount of turnover attributable to the Group's five largest customers accounted for 69.4% of the Group's total turnover and the turnover attributable to the Group's largest customer was 29.5% of the Group's total turnover.

For the year ended 31 December 2005, the aggregate amount of purchase attributable to the Group's five largest suppliers accounted for 75.3% of the Group's total purchase and the purchase attributable to the Group's largest supplier was 41.8% of the Group's total purchase.

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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.

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 2005.

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

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

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.

CORPORATE GOVERNANCE

In the opinion of the board of directors of the Company (the "Board"), the Company has complied with the Code of Corporate Governance Practices (the "Code") set out in Appendix 14 to the Listing Rules throughout the year ended 31 December 2005 except for certain deviations. For further information on the Company's corporate governance practices and details of deviations, please refer to the Corporate Governance Report on pages 18 to 21.

COMPLIANCE WITH MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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

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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 date 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

A resolution will be proposed at the forthcoming annual general meeting of the Company to re-appoint Messrs. RSM Nelson Wheeler as auditors of the Company.

On behalf of the Board

Jay Chun

Chairman

Hong Kong, 27 April 2006