

REPORT OF THE DIRECTORS

The directors present their report and the audited financial statements of the Company and of the Group for the year ended 31 March 2003.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of the Company's subsidiaries consisted of the marketing and distribution of pharmaceutical products, healthcare and nutritional products, and medical appliances and equipment to customers in the Mainland of the People's Republic of China ("Mainland China"); the development, manufacture and sale of pharmaceutical products in Mainland China; and the business of commercial exploitation of certain gene inventions.

During the year, the Group acquired a 55% interest in Gene Generation Limited ("GGL"), which holds a group of companies involved in research on genome related technology, and the development and manufacture of genechips, further details of which are set out in note 31(b) to the financial statements.

Save as disclosed above, there were no significant changes in the nature of the Group's principal activities during the year.

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 March 2003 and the state of affairs of the Company and of the Group at that date are set out in the financial statements on pages 25 to 68.

The directors do not recommend the payment of any dividend in respect of the year.

SUMMARY 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 69 of the annual report. This summary does not form part of the audited financial statements.

FIXED ASSETS

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

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SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the Company's share capital during the year, together with the reasons therefor, and details of the Company's share option schemes are set out in notes 28 and 29, 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, being the jurisdiction in which the Company is incorporated, which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES

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 of the Group during the year are set out in note 30 to the financial statements.

DISTRIBUTABLE RESERVES

At 31 March 2003, the reserves of the Company available for cash distribution and/or distribution in specie amounted to HK\$67,765,000 as computed in accordance with the Companies Act 1981 of Bermuda. In addition, the Company's share premium account with a balance of HK\$133,717,000 as at 31 March 2003 may be distributed in the form of fully paid bonus shares.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for 42% of the total sales for the year and sales to the largest customer included therein amounted to 11%. Purchases from the Group's five largest suppliers accounted for 60% of the total purchases for the year and purchases from the largest supplier included therein amounted to 37%.

None of the directors of the Company or any of their associates, or any shareholders of the Company 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 customers and suppliers.

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DIRECTORS

The directors of the Company during the year were as follows:

Executive directors:

Mao Yu Min

Ho Chin Hou

Ho Yu Ling

Li Qiang

Yu Ying Zhou

Xie Yi

Shen Xiao Dong (appointed on 27 August 2002)

Zhang Xiao Qing (resigned on 27 August 2002)

Independent non-executive directors:

Fang Lin Hu

Xue Jing Lun

Chung Shui Ming (appointed on 27 August 2002)

Subsequent to the balance sheet date, on 23 June 2003, Mr. Shen Xiao Dong resigned as an executive director of the Company.

In accordance with the Company's bye-law 111, Messrs. Ho Chin Hou and Xue Jing Lun will retire at the forthcoming annual general meeting and, being eligible, will offer themselves for re-election.

Mr. Chung Shui Ming will retire in accordance with the Company's bye-law 115 and, being eligible, will offer himself for re-election at the forthcoming annual general meeting.

The directors of the Company, including the non-executive directors, 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.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 13 to 16 of the annual report.

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 of compensation, other than statutory obligation.

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DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in note 35 to the financial statements, no director had a material interest in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year.

DIRECTORS' INTERESTS IN SHARES

At 31 March 2003, the interests of the directors and their associates in the share capital of the Company or its associated corporations, as recorded in the register maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance"), were as follows:

1. Ordinary shares of the Company

Name	Notes	Type of interest	Number of ordinary shares held
Mao Yu Min	(a)	Corporate	680,000,000
Xie Yi	(a)	Corporate	680,000,000
Ho Yu Ling	(b)	Corporate	102,000,000
Li Qiang		Personal	15,000,000

Notes:

- (a) JNJ Investments Ltd. ("JNJ Investments"), Fudan Pharmaceutical Limited ("FPL"), Biowindow Gene Development (Hong Kong) Limited ("HK Biowindow") and Fudan Biotech (Hong Kong) Limited ("Fudan Biotech") own 500,000,000, 30,000,000, 74,000,000 and 76,000,000 ordinary shares of the Company, respectively. The entire issued share capital of JNJ Investments and an 80% interest in FPL are owned by HK Biowindow, which in turn is 99.01% owned by United Gene Holdings Limited ("United Gene") and 0.99% owned by Shanghai Biowindow Gene Development Co., Ltd. ("Shanghai Biowindow").

The issued share capital of Fudan Biotech is 99% owned by Shanghai Fudan Biotech Limited ("Shanghai Fudan Biotech"). The capital of Shanghai Fudan Biotech is 75% beneficially owned by Shanghai Biowindow.

The capital of Shanghai Biowindow is 60% owned by United Gene, 13.575% owned by Dr. Xie Yi ("Dr. Xie") and 13.575% owned by Ms. Sheng Xiao Yu, who is the spouse of Dr. Mao Yu Min ("Dr. Mao"). The capital of United Gene is 33.5% beneficially owned by Dr. Mao and 38.5% beneficially owned by Dr. Xie. Dr. Mao and Dr. Xie are each deemed to be interested in 680,000,000 ordinary shares of the Company by virtue of their interest in United Gene.

- (b) These shares are owned by Well Success Limited, a company incorporated in the British Virgin Islands, the entire issued share capital of which is owned by Mr. Ho Yu Ling.

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2. Associated corporations

100,000 non-voting deferred shares of HK\$10 each in Extrawell Enterprises Limited, a wholly-owned subsidiary of the Company, are beneficially owned by Extrawell Holdings Limited (“EHL”), a related company of the Group in which Messrs. Ho Chin Hou, Ho Yu Ling and Li Qiang, the three directors and/or beneficial shareholders of the Company, have beneficial interests.

10% equity interest in the registered capital of Bio-chip Co. Ltd., Shanghai, a 90% owned subsidiary of Lucky Element Biotech (Su Zhou) Limited (“Biotech (SZ)”), is beneficially owned by United Gene. The entire equity interest in the registered capital of Biotech (SZ) is owned by GGL, which in turn is 55% beneficially owned by the Company.

The issued share capital of GGL is 45% owned by HK Biowindow.

Save as disclosed above, at 31 March 2003, none of the directors or their associates had any personal, family, corporate or other beneficial interests in the equity or debt securities of the Company or any of its associated corporations as defined in the SDI Ordinance.

DIRECTORS’ RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Apart from as disclosed in the share option scheme disclosures in note 29 to the financial statements, at no time during the year was the Company or any of its subsidiaries a party to any arrangement to enable the Company’s directors, their respective spouse, or children under 18 years of age to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

SHARE OPTION SCHEMES

Due to the adoption of Hong Kong Statement of Standard Accounting Practice 34 “Employee benefits” during the year, detailed disclosures relating to the Company’s share option schemes have been moved to note 29 to the financial statements.

Extrawell Enterprises Limited
Extrawell Pharmaceutical Co., Ltd.

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SUBSTANTIAL SHAREHOLDERS

At 31 March 2003, the following interests of 10% or more of the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 16(1) of the SDI Ordinance:

Name of shareholders	Number of ordinary shares	
	Direct interest	Deemed interest (Note)
United Gene	—	680,000,000
HK Biowindow	74,000,000	530,000,000
JNJ Investments	500,000,000	—

Note:

United Gene was deemed to be interested in 680,000,000 ordinary shares of the Company by virtue of its interest in JNJ Investments, FPL, HK Biowindow and Fudan Biotech, and HK Biowindow was deemed to be interested in 530,000,000 ordinary shares of the Company by virtue of its interest in JNJ Investments and FPL. These interests have also been included in the corporate interests of Dr. Mao and Dr. Xie as disclosed under the heading "Directors' interests in shares" above.

Save as disclosed above, no person, other than the directors of the Company and the companies controlled by them, whose interests are set out in the section "Directors' interests in shares" above, had registered an interest in the share capital of the Company that was required to be recorded pursuant to Section 16(1) of the SDI Ordinance.

COMPETITION AND CONFLICT OF INTERESTS

None of the directors or substantial shareholders of the Company or any of their respective associates has engaged in any business that competes or may compete with the business of the Group or has any other conflict of interests with the Group.

CONNECTED AND RELATED PARTY TRANSACTIONS

Details of the connected and related party transactions of the Group are set out in note 35 to the financial statements.

POST BALANCE SHEET EVENTS

Details of the significant post balance sheet events of the Group are set out in note 36 to the financial statements.

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COMPLIANCE WITH THE CODE OF BEST PRACTICE

In the opinion of the directors, the Company complied with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited throughout the accounting period covered by the annual report.

AUDIT COMMITTEE

The Company has an Audit Committee (the “Committee”), with written terms of reference, for the purpose of reviewing and providing supervision over the financial reporting process and internal controls of the Group. The Committee comprises two independent non-executive directors. The Group’s financial statements for the year ended 31 March 2003 have been reviewed by the Committee. The Committee is of the opinion that such financial statements comply with the applicable accounting standards, and stock exchange and legal requirements, and that adequate disclosures have been made.

AUDITORS

Ernst & Young retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD

Mao Yu Min
Chairman

Hong Kong
30 July 2003

威智博悅藥業股份有限公司
Chong Lee Russell Pharmaceutical Co., Ltd.