CHAIRMAN'S STATEMENT

The past financial year had been very challenging to the Group. We not only had to manage market challenges caused by Severe Acute Respiratory Syndrome ("SARS") but also make conscious strategic decisions to realign the genomic business units by disposing a group of our subsidiaries, Gene Generation Limited ("GGL") and its subsidiaries.

During the outbreak of SARS in April to June 2003, we saw substantial drop in sales of our imported pharmaceutical products in the People's Republic of China ("PRC") as hospitals prioritized their hospital allocations to only SARS related pharmaceuticals in their essential drug lists. Sales collections were affected by restrictions made on hospital visits.

We restructured our gene development business sector by a disposal of our holdings in GGL due to slower than anticipated demand for gene chips in the PRC and a general slowdown in genome research activities in the PRC and the United States to which our genetic works were previously targeted. We believe the recovery to its former profitability for these genetic segment will be long. The disposal was therefore necessary to reorganize our resources to accelerate commercializing of our new oral insulin project. The disposal will leave the Group with only genomic research activities of 19 gene inventions rights which are within the diabetic therapeutic line thereby complementing the oral insulin projects the Group is currently initiating. The details of the disposal is found in the circular issued on 25 August 2004.

We purchased Right & Rise Limited which holds 19 gene invention rights in the diabetic range based on valuation reflected according to discounted future cash flow. We engaged independent valuation specialists to assist us to determine the fair values of assets acquired then. The valuations were based on information, estimations and assumptions available at acquisition date.

Estimations and assumptions are inherently uncertain and unpredictable and no assurance can be given, however, the underlying assumptions or estimations associated with the assets will occur as projected albeit delayed. We deferred our development plan due to uncertainties in the pharmaceutical market during the SARS outbreak, the gene development sector was unable to deliver results according to the original discounted future cash flow. As the fair value of intangibles were subject to estimations and assumptions which may or may not realise, our auditors expressed their reservation as to the carrying value of the gene related patents.

Nevertheless, the carrying value of intangibles is a judgemental valuation, subject to estimations and assumptions, potential impairment of the carrying value will be non-cash in nature. We believe this temporal deferral will not posed any deterrent on our plans to develop these gene patent rights into medicinal pharmaceuticals that yield positive results and cash flows for the Group.

During the year, we decided to strategically join in the race for the research, development and commercialisation of oral insulin. In January 2004, we signed a memorandum of understanding to acquire 51% equity interests in Smart Ascent Limited, a company which in turn holds 51% equity interest in Fosse Bio-Engineering Development Limited ("Fosse Bio"). Fosse Bio has collaboration arrangements with Tsinghua University in Beijing for the research and development of oral insulin. Fosse Bio owns the right to commercialise the relevant technology and to manufacture and sell the oral insulin on an exclusive basis. We believe this acquisition will complement with the remaining genomic research activities of the Group in the diabetic area. The oral insulin project was recently put on a fast track as the State Food and Drug Administration ("SFDA") has granted permission to perform phase I and phase II clinical trials simultaneously. Upon satisfactory completion of the clinical trials, the products can be sold under the supervision of medical doctors with certain limitations. We believe this early move to acquire an in-process technology/patent of a potential blockbuster product for the group is beneficial to the Group with today's discounted purchase price. Administering oral insulin in the management of diabetic in the PRC and progressively to the rest of the world will be a major strategic development for the Group.

Apart from the challenges and major developments as mentioned above, we have recorded another year of positive operating results and cash flows from the manufactured pharmaceutical and imported pharmaceutical sectors. Sales in manufactured pharmaceuticals were up by 25% reaching sales level of approximately HK$84.0 million this year. Operating profit for manufactured pharmaceuticals rose from approximately HK$5.9 million for 2003 to approximately HK$13.0 million for 2004, representing a growth of 117%. Sales for imported pharmaceuticals rose from approximately HK$125.3 million for 2003 to approximately HK$128.5 million for 2004 with a marginal increase of 3%. However, due to the higher promotion costs, the operating profit for imported pharmaceuticals dropped slightly from approximately HK$32.6 million for last year to approximately HK$31.0 million for the current year.

CHAIRMAN'S STATEMENT

People are the foundation of our strength and success. Together, we have responded to the challenges of the environment and the marketplace and we will continue to make adjustments as needed to execute our strategy for delivering sustainable growth and financial returns to our shareholders.

I would like to acknowledge the tremendous support I have received from my executive team and to recognise the immense contribution made by our hardworking and committed employees. Their combined efforts have already achieved a great deal. There is now much to realise the potential for outstanding growth and financial performance from this strong base.

Dr. Mao Yu Min
Chairman

Hong Kong, 26 August 2004