



Directors' Report

The directors present their annual report and the audited financial statements for the year ended 31 December, 2004.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The principal activities of the Company's principal subsidiaries are set out in note 12 to the financial statements.

RESULTS

The results of the Group for the year ended 31 December, 2004 are set out in the consolidated income statement on page 17.

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

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year are set out in note 10 to the financial statements.

SHARE CAPITAL

Details of the Company's share capital are set out in note 23 to the financial statements. There was no movement in the Company's share capital during the year.

RESERVES

The Company's reserves available for distributions represent the share premium, contributed surplus and accumulated losses with an aggregate amount of approximately HK\$84,023,000 and HK\$90,533,000 as at 31 December 2004 and 2003 respectively.



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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 and president*)

Mr. Hon Lik (*Vice Chairman*)

Mr. Wong Hei Lin

Mr. Li Kim Hung

(appointed on 1 March, 2004)

Mr. Yu Yanming

(resigned on 1 March, 2004)

Non-executive director:

Ms. Cheng Kong Yin

Independent non-executive directors:

Mr. Pang Hong

Mr. Mo Kwan Nin

Mr. Cheung Kwan Hung

(appointed on 20 September, 2004)

In accordance with Articles 86, 87 and 88 of 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. Li Kim Hung and Cheung Kwan Hung and Ms. Cheng Kong Yin shall retire by rotation and, being eligible, offer themselves for re-election.

The non-executive directors have 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 within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN SHARES AND UNDERLYING SHARES

At 31 December, 2004, 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:

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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)	438,000,000	75.00%
Mr. Hon Lik	Interest of a controlled corporation (Note 1)	438,000,000	75.00%
Mr. Wong Hei Lin	Other (Note 1)	438,000,000	75.00%
Ms. Cheng Kong Yin	Interest of spouse (Note 2)	438,000,000	75.00%
Mr. Li Kim Hung	Interest of Individual	220,000	0.04%

Notes:

- (1) 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 438,000,000 shares in the Company, representing 75% of the entire issued shares in the Company.
- (2) 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.

Long positions in shares of associated corporation of the Company

Name of Director	Name of associated corporation	Number of shares held	Approximate percentage of shareholding
Mr. Wong Yin Sen	Absolute Target Limited	4,625	46.25%
Mr. Hon Lik	Absolute Target Limited	4,250	42.50%
Mr. Wong Hei Lin	Absolute Target Limited	1,125	11.25%

Save as disclosed above, as at 31 December, 2004, 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.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

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

During the year, 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	Terms	Products
Beijing SBT	4 November, 2004	2 years commencing from 20 December, 2004	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\$16,330,000 to Beijing SBT in which certain directors of the Company are interested in by virtue of their shareholding in the ultimate holding company of Beijing SBT and are directors of Beijing SBT.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

The Group received rental income of approximately HK\$260,000 from Shenyang SBT Technology Development Company Limited ("Shenyang SBT") in which certain directors of the Company are interested in by virtue of their shareholding in the ultimate holding company of Beijing SBT and are directors of Beijing SBT.

Details of the transaction are set out in note 32 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.

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.

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SUBSTANTIAL SHAREHOLDERS

So far as is known to the Directors, as at 31 December, 2004, 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 in the Company and underlying shares of the Company

Name	Number of shares beneficially held	Percentage of holding
Absolute Target Limited	438,000,000	75.00%

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.

Save 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 31st December, 2004.

AUDIT COMMITTEE

The audit committee of the Company and the management of the Company have reviewed the accounting principles and practices adopted by the Group and have discussed the matters related to auditing, financial reporting procedures and internal control, including the review of the final results of the Group for the year ended 31 December 2004.

CORPORATE GOVERNANCE

In the opinion of the Directors, save that non-executive directors of the Company are not appointed for a specific term but are subject to retirement by rotation in accordance with the Company's articles of association, the Company has complied with the Code of Best Practice as set out in Appendix 14 to the Listing Rules throughout the year ended 31 December 2004.

The Company has received from each of the independent non-executive director of the Company a confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all of the independent non-executive directors of the Company to be independent.

Having made specific enquiry of all directors of the Company, they have confirmed that they complied with the required standard set out in the Model Code for Securities Transactions by Directors throughout the year.



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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, 2004, 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\$22,537,000 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 9% and 37%, 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 25% and 70%, 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.

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, 2004.

AUDITORS

A resolution will be submitted to the forthcoming annual general meeting of the Company to re-appoint Messrs. Deloitte Touche Tohmatsu as auditors of the Company.

On behalf of the Board

Mr. Wong Yin Sen

Chairman

Hong Kong
26 April 2005