

Report of the Directors

The directors present their annual report and the audited financial statements of the Company and the Group for the year ended 31 March 2006.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investing holding. The principal activities of the Company's subsidiaries consist of the marketing and distribution of pharmaceutical products to customers in the People's Republic of China (the "PRC"); the development, manufacture and sales of pharmaceutical products in the PRC; the business of commercial exploitation and development of genome-related technology; and the development and commercialisation of oral insulin products.

RESULTS AND DIVIDENDS

The results of the Group for the year ended 31 March 2006 are set out in the consolidated income statement on page 37.

The state of affairs of the Group and the Company as at 31 March 2006 are set out in the consolidated and Company's balance sheets on page 35 and 36 respectively.

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

FIVE YEARS' FINANCIAL SUMMARY

A summary of the results, assets, liabilities and minority interests of the Group for the last five financial years is set out on page 100.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in property, plant and equipment of the Group during the year are set out in note 6 to the financial statements.

SHARE CAPITAL AND SHARE OPTIONS

There were no movements in the share capital of the Company during the year. Details of the Company's share capital are set out in note 16 to the financial statements.

Information about share options and share option scheme of the Company are set out in the note 35 to the financial statements.

RESERVES

Details of movements in the reserves of the Company and of the Group during the year are set out in note 17 to the financial statements.

DISTRIBUTABLE RESERVES

As at 31 March 2006, the reserves of the Company available for cash distribution and/or distribution in specie amounted to HK\$48,619,000 as computed in accordance with the Bermuda Companies Act 1981. In addition, the Company's share premium account with a balance of HK\$133,717,000 as at 31 March 2006 may be distributed in the form of fully paid bonus shares.

PURCHASES, SALES OR REDEMPTION OF SHARES OF THE COMPANY

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities 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, 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.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 March 2006, turnover attributable to the Group's five largest customers accounted for approximately 52% of the Group's turnover and turnover attributed the Group's largest customer accounted for approximately 17% of the Group's turnover.

For the year ended 31 March 2006, purchases attributable to the five largest suppliers accounted for approximately 91% of the Group's purchases and purchases attributable to the Group's largest supplier accounted for approximately 80% of the Group's purchases.

None of the directors, their associates or any shareholders (which to the knowledge of the directors owned more than 5% of the Company's issued share capital) had any interests in the Group's five largest customers or five largest suppliers.

Report of the Directors

DIRECTORS

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

Executive directors:

Mao Yu Min

Ho Chin Hou

Ho Yu Ling

Li Qiang

Xie Yi

Independent non-executive directors:

Fang Lin Hu

Xue Jing Lun

Jin Song

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.

Save as the Chairman, the directors of the Company, including the independent 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.

The Company has received annual confirmations of independence from Messrs. Fang Lin Hu, Xue Jing Lun and Jin Song and still considers them to be independent.

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 17 of this 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.

DIRECTORS' REMUNERATION

The directors' fees are subject to shareholders' approval at general meetings. Other emoluments are determined by the Company's board of the directors with reference to directors' duties, responsibilities and performance and the results of the Group.

DIRECTORS' INTERESTS IN CONTRACTS

No director had a material interest, either directly or indirectly, 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 AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 March 2006, the interests and short positions of the directors in the share capital and underlying shares of the Company or its associated corporations within the meaning of Part XV of the Securities and Future Ordinance (the "SFO"), as recorded in the register required to be kept by the Company pursuant to Section 352 of the 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 Issuers (the "Model Code") were as follows:

1. Long positions in ordinary shares of the Company

Name of director	Notes	Number of ordinary shares of HK\$ 0.01 each held, capacity and nature of interest			Total	Percentage of the Company's issued share capital
		Directly beneficially owned	Through controlled corporations			
Mao Yu Min	(a)	–	680,000,000	680,000,000	29.7	
Xie Yi	(a)	–	680,000,000	680,000,000	29.7	
Ho Yu Ling	(b)	–	102,000,000	102,000,000	4.5	
Li Qiang		15,000,000	–	15,000,000	0.7	

Notes:

- (a) JNJ Investments Ltd. ("JNJ Investments"), Biowindow Gene Development (Hong Kong) Limited ("HK Biowindow"), Fudan Biotech (Hong Kong) Limited ("Fudan Biotech") and Fudan Pharmaceutical Limited ("FPL") hold 500,000,000, 74,000,000, 76,000,000 and 30,000,000 shares of the Company respectively.

The entire issued share capital of JNJ Investments is owned by HK Biowindow, the issued share capital of which is owned as to 99% by United Gene Group Ltd (a company incorporated in the British Virgin Islands), as to 0.99% by 聯合基因科技有限公司 (United Gene Holdings Limited) (a company registered in the People's Republic of China) ("United Gene-PRC") and as to 0.01% by Shanghai Biowindow Gene Development Co., Ltd. ("Shanghai Biowindow").

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES (Continued)

1. Long positions in ordinary shares of the Company (Continued)

Notes: (Continued)

The capital of Shanghai Biowindow is 60% owned by United Gene-PRC, 13.575% owned by Dr. Xie Yi, a director of the Company and 13.575% owned by Ms. Sheng Xiao Yu, who is the wife of Dr. Mao Yu Min. Dr. Mao Yu Min is a director of the Company. The equity capital of United Gene-PRC is beneficially owned as to 33.5% by Dr. Mao Yu Min and as to 33.5% (including 8.5% direct interest and 25% indirectly through his shareholding in Ease Gold Investments Limited) by Dr. Xie Yi. The issued share capital of United Gene Group Ltd is owned as to 33% by United Gene Holdings Limited (a company incorporated in the British Virgin Islands) ("United Gene-BVI") and as to 33% by Ease Gold Investments Limited. The issued share capital of United Gene-BVI and Ease Gold Investments Limited was wholly owned by Dr. Mao Yu Min and Dr. Xie Yi respectively.

Fudan Biotech is owned as to 99% by Shanghai Fudan Biotech Limited. Shanghai Fudan Biotech Limited is owned as to 75% by Shanghai Biowindow.

HK Biowindow owned 80% of the share capital of FPL.

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

2. Long positions in shares of associated corporations

Name of director	Name of associated corporation	Relationship with the Company	Shares/equity derivative	Number of shares/equity derivative held	Capacity and nature of interest	Percentage of the associated corporation's issued share capital/paid-up capital
Ho Chin Hou	Extrawell Enterprises Limited	Company's subsidiaries	Non-voting deferred shares	100,000 shares (Note)	Through controlled corporation	100% of the non-voting deferred shares
Ho Yu Ling	Extrawell Enterprises Limited	Company's subsidiaries	Non-voting deferred shares	100,000 shares (Note)	Through controlled corporation	100% of the non-voting deferred shares

Note: Extrawell Holdings Limited ("EHL"), a related company of the Group, owns 100,000 non-voting deferred shares of HK\$10 each in Extrawell Enterprises Limited. Messrs. Ho Chin Hou and Ho Yu Ling are beneficial shareholders of EHL.

Save as disclosed above, as at 31 March 2006, none of the directors had registered an interest or short position in the shares, underlying shares of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTORS' RIGHTS TO ACQUIRE SHARES AND DEBENTURES

At no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate granted to any director or their respective spouse or minor children, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the directors, their respective spouse or minor children to acquire such rights in any other body corporate.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 March 2006, the following interests and short positions of 5% 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 336 of the SFO.

Name of substantial shareholders	Capacity and nature of interest	Number of shares held	Approximate percentage of interests held
Ease Gold Investments Limited	Through controlled corporations	604,000,000	26.4
United Gene-BVI	Through controlled corporations	604,000,000	26.4
United Gene Group Ltd	Through controlled corporations	604,000,000	26.4
HK Biowindow	Directly beneficially owned	74,000,000	3.2
	Through controlled corporations	530,000,000	23.2
		604,000,000	26.4
JNJ Investments	Directly beneficially owned	500,000,000	21.8

Note: JNJ Investments, HK Biowindow, Fudan Biotech and FPL hold 500,000,000, 74,000,000, 76,000,000 and 30,000,000 shares of the Company respectively.

The entire issued share capital of JNJ Investments is owned by HK Biowindow, the issued share capital of which is owned as to 99% by United Gene Group Ltd (a company incorporated in the British Virgin Islands), as to 0.99% by United Gene-PRC and as to 0.01% by Shanghai Biowindow.

The capital of Shanghai Biowindow is 60% owned by United Gene-PRC, 13.575% owned by Dr. Xie Yi, a director of the Company and 13.575% owned by Ms. Sheng Xiao Yu, who is the wife of Dr. Mao Yu Min. Dr. Mao Yu Min is a director of the Company. The equity capital of United Gene-PRC is beneficially owned as to 33.5% by Dr. Mao Yu Min and as to 33.5% (including 8.5% direct interest and 25% indirectly through his shareholding in Ease Gold Investments Limited) by Dr. Xie Yi. The issued share capital of United Gene Group Ltd is owned as to 33% by United Gene-BVI and as to 33% by Ease Gold Investments Limited. The issued share capital of United Gene-BVI and Ease Gold Investments Limited was wholly owned by Dr. Mao Yu Min and Dr. Xie Yi, respectively.

Fudan Biotech is owned as to 99% by Shanghai Fudan Biotech Limited. Shanghai Fudan Biotech Limited is owned as to 75% by Shanghai Biowindow.

HK Biowindow owned 80% of the share capital of FPL.

These interests have also been included in the corporate interests of Dr. Mao Yu Min and Dr. Xie Yi as disclosed under the heading "Directors' interests and short positions in shares and underlying shares" above.

Report of the Directors

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES (Continued)

Save as disclosed above, as at 31 March 2006, no person, other than certain directors of the Company, whose interests are set out in the section "Directors' interests and short positions in shares and underlying shares" above, had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

CONNECTED AND RELATED PARTY TRANSACTIONS

Details of the significant related party transactions entered into by the Group which do not constitute connected transactions under the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") and directors' interest in contracts for the year are set out in note 38 to the financial statements.

CONTRACTS OF SIGNIFICANCE

Other than as disclosed in "connected and related party transactions" above, 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 or indirectly, subsisted at the year end of the year or at any time during the year.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the directors, at least 25% of the Company's total issued share capital was held by the public as at 14 July 2006, being the latest practical date prior to the date of this report.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules ("Model Code") as the Company's code of conduct for dealings in securities of the Company by the directors. Based on specific enquiry of the Company's directors, the directors have complied with the required standards set out in the Model Code, throughout the accounting period covered by the annual report.

CORPORATE GOVERNANCE

Save as the deviations, and the reasons thereof, as disclosed in the Corporate Governance Report set out on pages 18 to 23, in the opinion of the directors, the Company has complied with the Code on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules during the year.

AUDIT COMMITTEE

The Company has established an audit committee (the "Committee"), with written terms of reference, in compliance with Rules 3.21 of the Listing Rules, for the purpose of reviewing and providing supervision over the financial reporting process and internal controls of the Group. The Committee comprises three independent non-executive directors. The Group's financial statements for the year ended 31 March 2006 have been reviewed by the Committee. The Committee is of the opinion that such financial statements comply with the applicable accounting standards, and the Stock Exchange's and legal requirements, and that adequate disclosures have been made.

AUDITORS

Messrs. HLB Hodgson Impey Cheng were appointed as the auditors of the Company in succession to Ernst & Young who resigned from the office with effect from 22 March 2006. HLB Hodgson Impey Cheng will retire and, being eligible, offer themselves for re-appointment as auditors of the Company at the forthcoming annual general meeting. Save as disclosed above, there was no change in the Company's auditors during the past three years.

On behalf of the Board

Dr. Mao Yu Min

Chairman

Hong Kong, 19 July 2006