



SINO BIOPHARMACEUTICAL LIMITED

中國生物製藥有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1177)



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Corporate Profile

Sino Biopharmaceutical Limited (the “Company”), together with its subsidiaries and a jointly-controlled entity (the “Group”), is an integrated pharmaceutical enterprise. The Group researches and develops, manufactures and markets a vast array of biopharmaceuticals, modernised Chinese medicines and chemical medicines by applying advanced biotechnology and modernised Chinese medicinal technology.

The Group focuses on the development and commercialisation of products in four core therapeutic categories: cardio cerebral diseases, hepatitis, ophthalmic diseases and osteoarthritis. Principal products include:

Cardio cerebral medicines: Alprostadiol injections and Spring injections

Hepatitis medicines: Diammonium Glycyrrhizinate injections and capsules, Tianqingfuxin injections and capsules

Ophthalmic medicines: Moistening eye drops and Mioclear eye drops

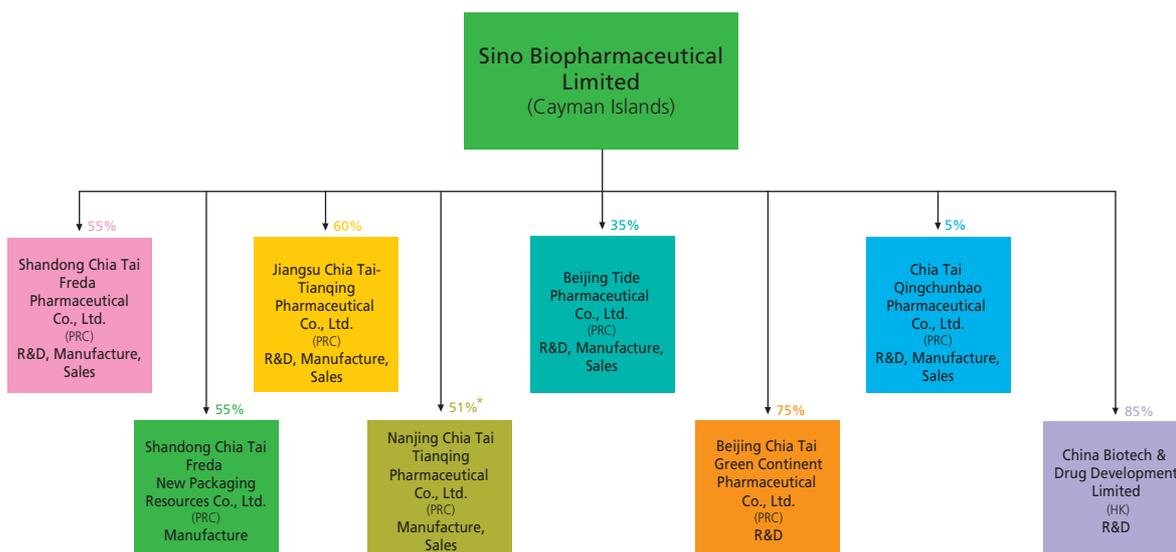
Osteoarthritis medicines: Sofast injections

The Group manufactures medicines in 14 dosage forms, each with Good Manufacturing Practices (“GMP”) certification issued by the State Food and Drug Administration (“SFDA”) of the People’s Republic of China (“PRC”). They are: large volume injections; small volume injections; powder injections; eye drops; ointments; tablets; capsules; eye ointments; nose drops; ear drops; powdered medicines; granulated medicines; PVC-free soft bags for intravenous injections; and liniment.

Website: www.sino-biopharm.com

Stock code: 1177

GROUP STRUCTURE



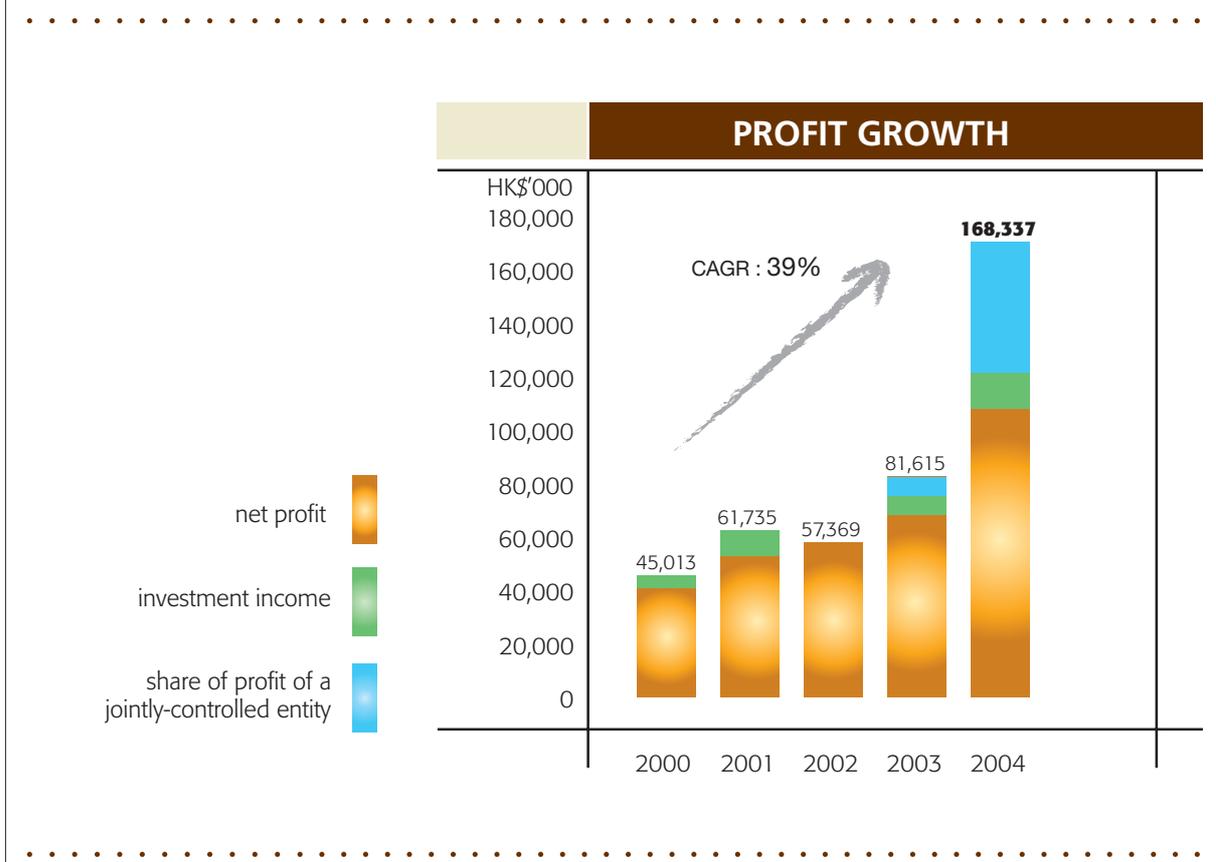
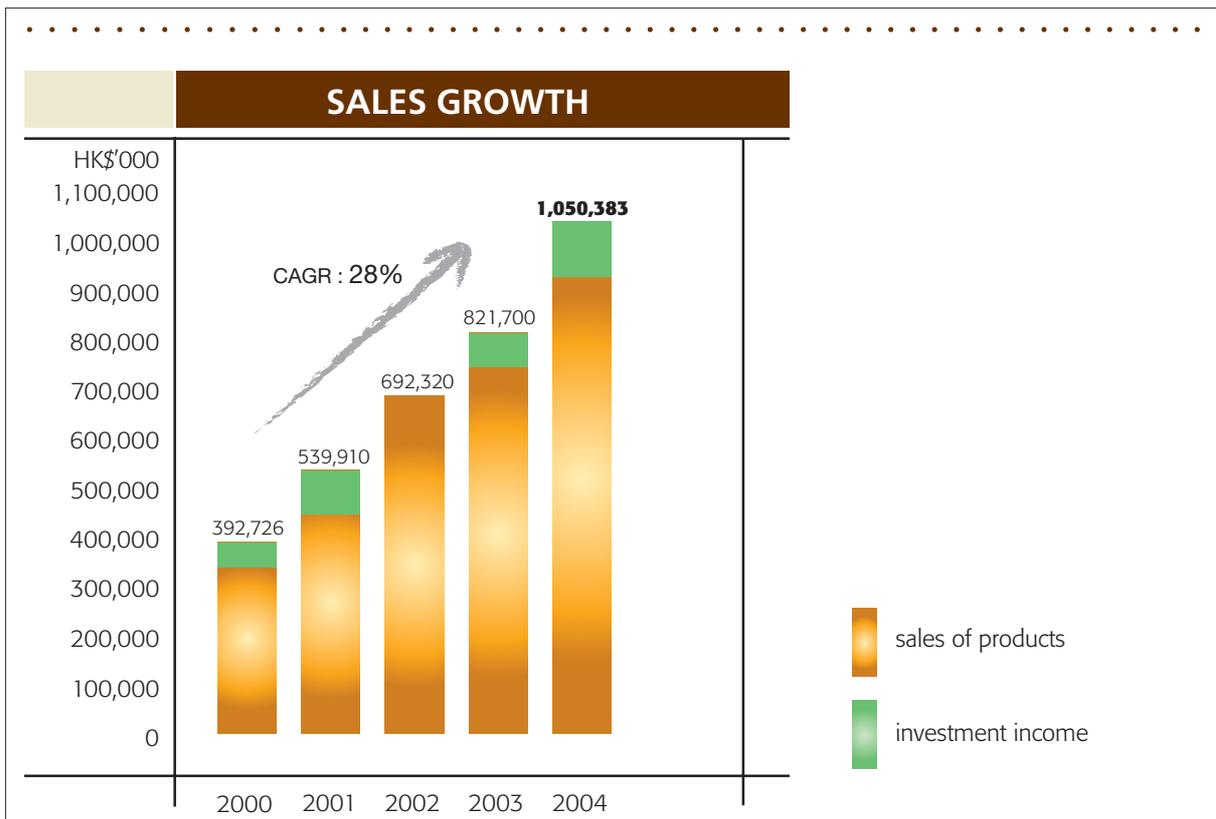
* 20.4% shareholding directly held by the Group and 51% shareholding indirectly held by Jiangsu Chia Tai-Tianqing Pharmaceutical Co., Ltd.

Financial Summary

A summary of the published results and assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the audited financial statements and reclassified as appropriate, is set out below. This summary does not form part of the audited financial statements.

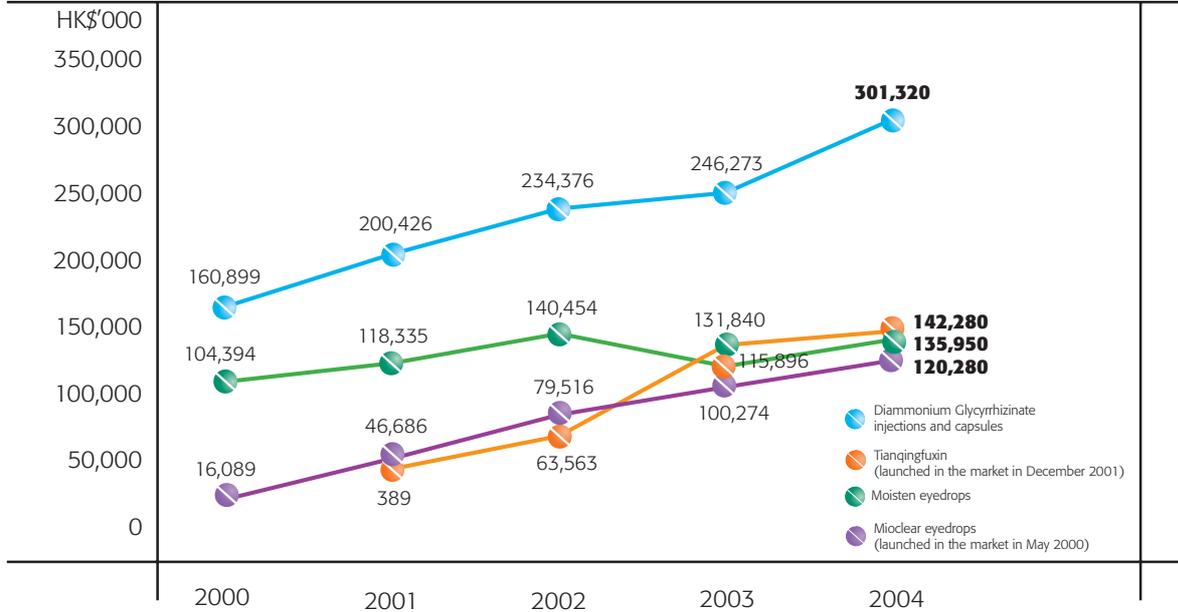
	2004 HK\$'000	2003 HK\$'000	2002 HK\$'000	2001 HK\$'000	2000 HK\$'000
RESULTS					
TURNOVER	1,050,383	821,700	692,320	539,910	392,726
Cost of sales	(186,312)	(168,696)	(145,286)	(101,436)	(83,222)
Gross profit	864,071	653,004	547,034	438,474	309,504
Other revenue and gains	10,347	9,318	3,932	5,092	2,314
Selling and distribution costs	(411,393)	(338,446)	(309,437)	(237,601)	(163,740)
Administrative expenses	(158,124)	(116,215)	(84,257)	(78,610)	(54,987)
Other operating expenses	(39,073)	(40,191)	(20,562)	(7,793)	(5,400)
PROFIT FROM OPERATING ACTIVITIES	265,828	167,470	136,710	119,562	87,691
Finance costs	(1,348)	(1,380)	(1,124)	(1,913)	(2,483)
Share of profit of:					
A jointly-controlled entity	54,985	7,411	–	–	–
Amortisation of goodwill on acquisition of a jointly-controlled entity	(4,462)	(267)	–	–	–
PROFIT BEFORE TAX	315,003	173,234	135,586	117,649	85,208
Tax	(29,940)	(23,299)	(17,175)	(8,184)	(6,767)
PROFIT BEFORE MINORITY INTERESTS	285,063	149,935	118,411	109,465	78,441
Minority interests	(116,726)	(68,320)	(61,042)	(47,730)	(33,428)
NET PROFIT ATTRIBUTABLE TO SHAREHOLDERS	168,337	81,615	57,369	61,735	45,013
ASSETS, LIABILITIES AND MINORITY INTERESTS					
TOTAL ASSETS	918,283	736,003	593,986	433,129	377,232
TOTAL LIABILITIES (exclude convertible bonds)	(204,822)	(161,669)	(124,653)	(91,800)	(98,609)
MINORITY INTERESTS	(212,964)	(156,348)	(129,725)	(96,790)	(68,819)
CONVERTIBLE BONDS	(42,900)	(78,000)	(46,800)	–	–
NET ASSETS	457,597	339,986	292,808	244,539	209,804

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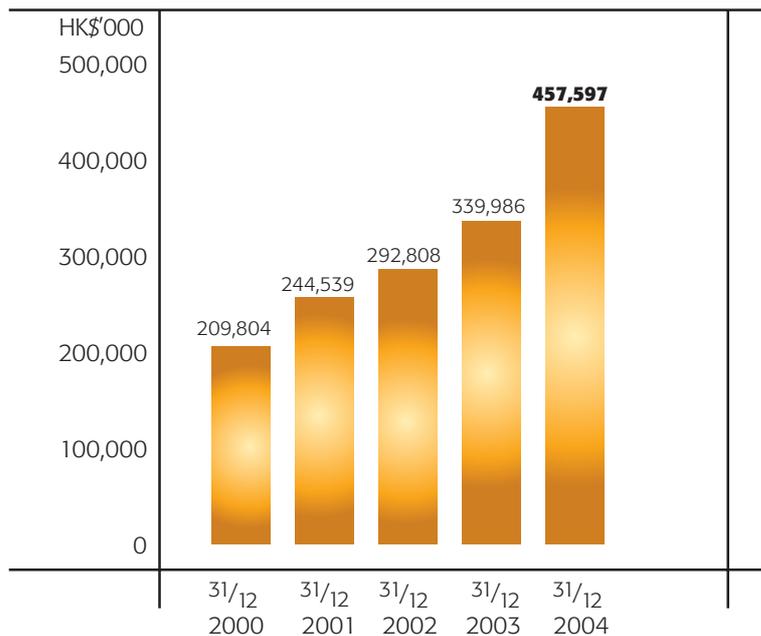


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SALES GROWTH OF PRINCIPAL PRODUCTS

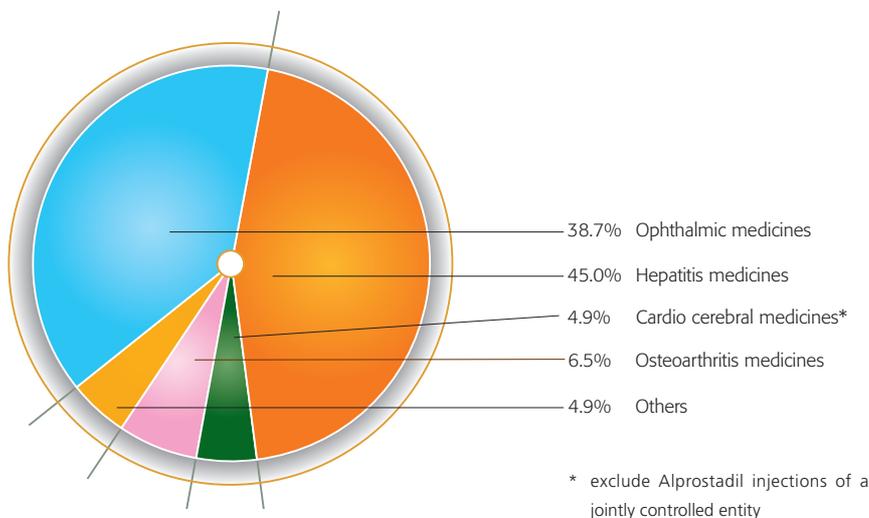


NET ASSET VALUE

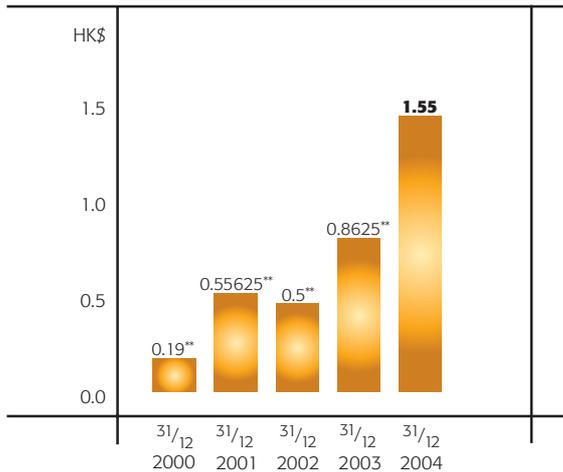


PRODUCT STRUCTURE

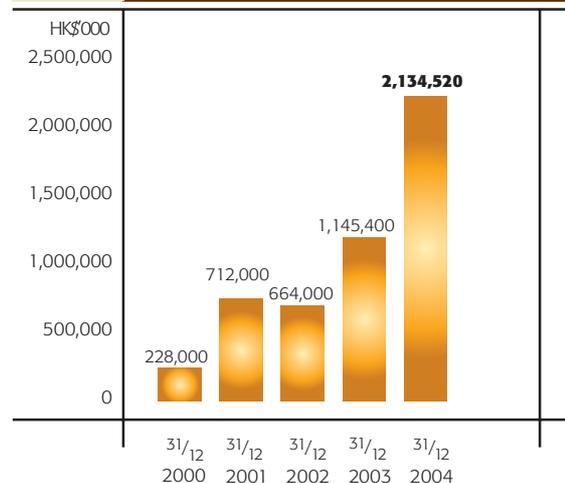
Year 2004



SHARE PRICE (closing price)

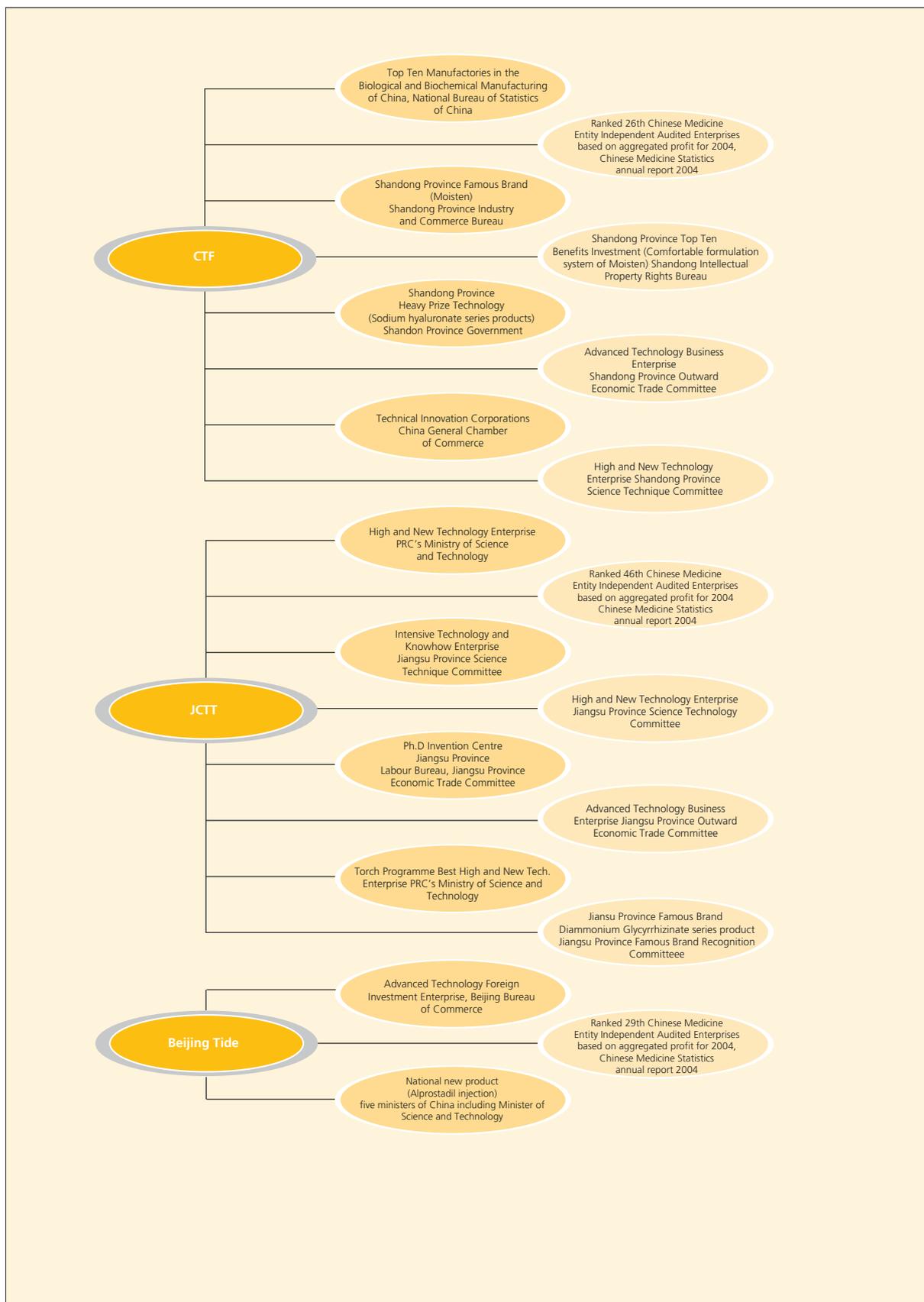


MARKET CAPITALISATION (closing price)



** adjusted for the share subdivision effect

Awards and Rewards



Chairman's Statement



Mr. Tse Ping
Chairman

Dear Shareholders,

On behalf of the Board of Directors (the "Board"), I am pleased to report a profitable year ended 31 December, 2004 for the Group.

RESULTS

The Group had a solid year ended 31 December, 2004, with revenue, earnings and dividend reaching record highs. Turnover rose 27.8% to approximately HK\$1,050.38 million compared with the previous year, while profit attributable to shareholders increased substantially by 106.3% to approximately HK\$168.34 million. Basic earnings per share amounted to approximately HK12.63 cents, representing an increase of approximately 105.4% over the corresponding period last year. Cash equivalents and bank balance as at balance sheet date amounted to approximately HK\$276.21 million. Return on shareholders' fund increased from 24.0% to 36.8%. Sales of new products amounted to 24.8% of the Group's total turnover.

In view of the Group's confidence in the performance of its operations, the Group subdivided each of issued and unissued shares of HK\$0.10 each in the share capital into four shares of HK\$0.025 each on 28 April, 2004, and commenced a quarterly dividend payment policy from the second quarter of 2004. The interim dividend of HK2 cents per share and the third quarter dividend of HK2 cents per share totalling HK4 cents have been paid.

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The board of Directors has recommended the payment of a final dividend of HK4 cents per share and a bonus issue of 1 share for every 2 existing shares, subject to the respective approval of shareholders at the Annual General Meeting and Extraordinary General Meeting to be held on 13 May, 2005. The total dividend paid for the year amounted to HK8 cents per share (2003: HK3.75 cents – after adjusting for the share subdivision effect).

INDUSTRY OVERVIEW AND THE GROUP'S POSITION IN THE PRC PHARMACEUTICAL MARKET

The Chinese pharmaceutical market experienced steady growth in 2004. Although the PRC Government continued to impose stringent measures towards the drug pricing and promotions campaigns, together with the widespread use of drug tendering system, the growing demand of the country's 1.3-billion population, the increasing rural-urbanisation and the new village-cooperative medical system (the system was launched in January 2003, of which designed to provide comprehensive medical insurance coverage to the entire rural population by 2010) have collectively created abundant growth opportunities in the PRC pharmaceutical market. The promising market also brought up rural pharmaceutical market a rising star in the industry.

With the enforcement of more new regulations, the industry has become more standardised and market competition has become more structured. During the year, the PRC Government implemented various changes in the pharmaceutical and healthcare policies and measures, including: drug pricing reform, pharmaceutical categorization, addition of more prescription drugs in the national medical insurance catalogue, healthcare system reforms, relaxation of restrictions on the wholesaling of pharmaceuticals, centralised drug tendering, and the implementation of the village-cooperative medical system.

The pharmaceutical market has also become more polarized, in terms of production scale and profits. In order to align with the international standards, the PRC Government encouraged the development of large-scale pharmaceutical enterprises. This has created considerable pressure on the smaller players who are less competitive (in terms of technology, quality and pricing). As a result, many pharmaceutical companies are confronting with the risk of being ousted. Under the prevailing trend of globalisation, many of the 6,000 pharmaceutical enterprises in the country are seeking mergers and acquisitions opportunities.

According to the Chinese Medicine Annual Report 2004 issued by Beijing JiQi Medpharm Net Co. Ltd. ("Beijing JiQi"), national sales within the pharmaceutical industry in the year surged 17% compared with 2003, while profit grew by 11% over the previous year.

Being one of the most prominent pharmaceutical enterprises in the PRC, the Group's core competencies include its strategic focus on the Chinese pharmaceutical market, its abilities to develop exclusive proprietary drugs, to effectively collect market information, and to operate a comprehensive sales network. According to the Chinese Medicine Annual Report 2004 issued by Beijing JiQi, the Group's subsidiaries and its jointly-controlled entity, namely Shandong Chia Tai Freda Pharmaceutical Co. Ltd. ("CTF"), Jiangsu Chia Tai Tianqing Pharmaceutical Co. Ltd. ("JCTT"), Beijing Tide Pharmaceutical Co. Ltd. ("Beijing Tide"), and Chia Tai Qingchunbao Pharmaceutical Co. Ltd (the Group's long-term investment), all ranked amongst the top fifty enterprises in the industry in terms of profitability.

1. Sales and Marketing

The Group adjusted its sales strategies to keep pace with changes in the national pharmaceutical market. During the year, the Group adopted innovative sales and marketing approaches by restructuring its product portfolio, and extending its market reach to both hospitals and pharmaceutical retailers. In addition, it continued academic promotions, introducing new products to medical practitioners, and utilised information and networking technologies to enhance sales efficiency and strengthen client relationship management. In the advertising programming, the Group focused on promoting its corporate image and the top-selling product brands for branding synergies. It also placed special emphasis on the development of midstream products and new products that are identified as having great potential and room to expand its market share.

Chairman's Statement

The Group has 1,490 sales delegates with professional medical backgrounds. Its sales and distribution network spans over 30 provinces, municipalities and autonomous regions in the PRC.

2. Human Resources Management

During the year, the Group adhered to its management principle of "achieving results and containing crisis". It carefully assessed the capabilities of every employee. An effective staff incentive mechanism helped the Group build a high-calibre team. The Group ensured its personnel assets were involved in helping it map out its business development strategy. This helped to align the goals of its staff with those of the Group. As a caring employer, the Group provided its staff with a favourable working environment and a comprehensive on-the-job training. As a result, the Group benefited from the boosted efficiency and innovation of its dedicated staff. The Group's employees are its most important asset and one of its core competitive advantages.

3. Research and Development ("R&D")

The Group committed major R&D efforts towards self-development and co-development of innovative drugs, and the development of non-patented (generic) drugs, that cater for the market needs. The Group focused on the development of "blockbuster drugs" (products with a turnover of more than HK\$100 million), and monitored closely its medical effectiveness. At the same time, the Group placed special importance on patent protection during product development. It strongly believes that by protecting its intellectual property rights, it can enhance its technological level and be able to develop new products and sustain business growth.

BUSINESS STRATEGIES

1. By pursuing a technology-driven R&D strategy, the Group's objective is to move towards technological development via internal innovation and co-development of generic drugs using biotechnology and modernized Chinese medicinal technologies. The Group also leverages external advanced pharmaceutical technology resources. Utilizing the strengths of the JCTT R&D Centre in Nanjing, CTF, CTGC and Beijing Tide, the Group is striving to enhance its R&D capabilities and accelerate the R&D process, boosting its creativity and its ability to develop patent medicines. By integrating internal and external technical resources, the Group is looking forward to improving its capabilities for producing proprietary drugs.
2. Building on the strong foundation of its core business by JCTT, CTF and Beijing Tide, the Group is committed relentless efforts in exploring market opportunities. It encourages staff to achieve maximum effectiveness at the levels of marketing and management, and is working to strengthen and improve corporate sales, internal control, human resources and financial management.
3. Maximising the tremendous potential of its product portfolio and product quality, the Group allied with strategic investors and is expanding through mergers and acquisitions. Given the Group's comprehensive sales network operating across 30 provinces, municipalities and autonomous regions in the country, the Group is looking for strategic partnership that will bring complementary benefits and enhance its economies of scale. It is aiming for corporate expansion and business consolidation, from which the Group can move on to become one of the most prominent pharmaceutical enterprises involved in biopharmaceutical products and modernised Chinese medicine in the country.

OUTLOOK AND PROSPECT

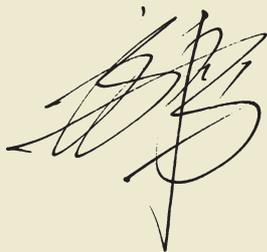
Though anticipating further policy changes for the pharmaceutical industry and also restructuring of the industry, the Group continues to see steady growth of the pharmaceutical economy. The country's 1.3-billion population, increasing rural-urbanisation and the introduction of the village medical system will promote the development of, and create lucrative business opportunities for the pharmaceutical industry. Leveraging our extensive sales network spanning over 30 provinces, municipalities and autonomous regions; superb quality products and their proven therapeutic effects; reasonable pricing; well-established corporate and product image among medical practitioners and patients; quality management team; GMP-certified production facilities with 14 dosage forms; as well as blockbuster drugs addressing continual market needs, we will capture our business opportunities and strengthen our leadership position in the domestic pharmaceutical market.

Boasting high level of corporate transparency and governance, established profit foundation and abundant cash reserves, and recognition from and cooperation experience with other industry players, the Group attracted mergers and acquisitions propositions from various domestic and overseas pharmaceutical enterprises during the year. Such deals will facilitate our growth and development, and in turn drive our profit growth in the year ahead.

We will continue to enhance internal management as well as our corporate governance level. Our aim is to expand the Group's market share and bring rewarding returns to our shareholders.

APPRECIATION

On behalf of the Board of Directors, I would like to extend my thanks to our shareholders for their full trust, support and understanding, and to all our staff for their contribution, diligence, creativity and loyalty.



Tse Ping
Chairman

30 March, 2005

Management Discussion and Analysis

During the year, all subsidiaries and a jointly-controlled entity adhered to the Group's business strategies and recorded satisfactory growth. For the year ended 31 December, 2004, the Group's turnover rose 27.8% to approximately HK\$1,050.38 million. Operating profit was HK\$265.83 million, representing an increase of 58.7% compared with last year. Profit attributable to shareholders surged by 106.3% to approximately HK\$168.34 million compared with last year. Basic earnings per share were up 105.4% to approximately HK12.63 cents. New products accounted for 24.8% of the Group's total sales. This encouraging performance was supported by the concerted efforts of the Group's principal subsidiaries, along with the impressive earnings growth of Beijing Tide, a jointly-controlled entity acquired by the Group in October 2003. A further source of earnings was Nanjing Chia Tai Tianqing Pharmaceutical Co. Ltd. ("NJCTT"), established in August 2001 and which began operations at the end of last year. As at 31 December, 2004, each of the Group's manufacturing entities was profitable.

BUSINESS REVIEW

The Group's top-selling products performed well in the year. Blockbuster products with a turnover of over HK\$200 million included the hepatitis medicine – Diammonium Glycyrrhizinate injections and capsules, and the cardio cerebral medicine – Alprostadiol injections. Products with turnover of over HK\$100 million included Moisten eyedrops, Mioclear eyedrops, and the hepatitis medicine – Tianqingfuxin injections and capsules.

The construction of Beijing Tide's new production facility (located in the Beijing Economic Development Zone) was completed during the year. Equipment installation and testing is in progress, along with preparatory work for obtaining GMP certification. It is expected to become fully operational in the second half of 2005. Beijing Tide was recognized as an Advanced Technology Foreign Investment Enterprise in 2004, to which it is entitled to extend the period of a 50% reduction of corporate income tax rate for another three years on expiring of the tax exemption and reduction.

During the year under review, CTF completed construction of and commenced operations at the first phase of its new production facility (located in the Jinan High and New Technology Development Zone). The second phase of construction is in progress and will be operational by late 2005, at which point CTF's major eyedrop manufacturing operations and eyedrop production line will move to the new plant. Its Moisten eyedrops will be produced on the advanced three-in-one production line, from stretch-blow molding, filling and sealing. According to the National Bureau of Statistics of China, CTF was named the Top Ten Manufactories in the Biological and Biochemical Manufacturing of China. CTF was also named Technical Innovation Corporations in Commerce of China by the China General Chamber of Commerce.

The Nanjing research centre of JCTT (established in 2004) has set up trial-production workshop for 11 dosage forms including lyophilization powder injection, soft capsules, transdermal patch and dripping pills. It was awarded the "High and New Technology Enterprise" from the Torch High Technology Industry Development Center, Ministry of Science & Technology, PRC.

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Beijing Tide's new plant



CTF's new plant



JCTT trial-production workshop

Cardio cerebral medicines

Beijing Tide, a jointly-controlled entity of the Group, is responsible for the manufacture of cardio cerebral medicines. Riding on the company's exclusive advanced lipo-microsphere target and sustained release technology, the product boasts high therapeutic effectiveness with low side effects. Its popularity is also helped by the Group's widespread sales network for prescription drugs. Alprostadil injection recorded total sales of HK\$280.19 million in the year, while net profit represented a 52.8% increase compared with the previous year.

Designed to serve complementary market segments, the Spring Injection (by JCTT) and the PVC-free soft bags for intravenous injections (by NJCTT) recorded total sales of approximately HK\$51.87 million, representing an 85.1% increase against the previous year. These products are fast becoming key growth drivers for the Group.



Alprostadil Injections



Spring Injections

Hepatitis medicines

JCTT is responsible for the development and manufacture of hepatitis medicines. During the year, JCTT's turnover recorded steady growth of 17.1% compared with the previous year, reaching HK\$509.30 million. The Group's hepatitis medicines accounted for 12% market share in the PRC hepatitis drug segment, and contributed 45.0% of its turnover in the year. Sales of blockbuster drug, Diammonium Glycyrrhizinate (which is extracted from Licorice and protects the liver by lowering enzyme levels), reached HK\$301.32 million, 22.6% higher than in the previous year. Sales of Tianqingfuxin, which is used to combat the hepatitis virus and is extracted from a Chinese herb called Sophora alpecuroides L, also reported encouraging turnover of over HK\$142.28 million in just the third year after its market launch. Tianqingfuxin is even more effective when used together with Diammonium Glycyrrhizinate. Launched in 2003, Tianqingshunxin and Lactitol Powder are used to lower bilirubin and to treat hepatopathy comas respectively. Having proved its effectiveness in protecting and healing liver cells and in lowering the enzyme ALT, Ganping, a capsule medicine that dissolves in intestine (launched in May 2004), is extracted from licorice and represents an important new product serving hepatitis patients, with a promising sales performance of HK\$11.70 million. The Group has successfully put together a series of hepatitis medicines that protect the liver by lowering enzyme levels, combating the hepatitis virus, treating hepatopathy comas, and lowering bilirubin.

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Diammonium Glycyrrhizinate Injections and Capsules



Tianqingfuxin Glucose Injections and Capsules



Carnet Injections

Management Discussion and Analysis

The Group continues to develop improved drug formulations for many leading hepatitis medicines, with a specific focus on the treatment of liver fibrosis, alcohol liver, fatty liver and hepatic tumor. From this base, JCTT is well-placed to further strengthen its leading position in the hepatitis therapeutic arena.

Ophthalmic medicines



Moisten Eyedrops

Mioclear Eyedrops

Red Mioclear Eyedrops

CTF is responsible for the development and manufacture of ophthalmic medicines. During the year, CTF saw continued growth in turnover which reached HK\$484.16 million, up 27.9% compared with last year. The Group's ophthalmic medicines contributed 38.7% of the Group's turnover, and enjoyed a 20% share in the national ophthalmic drug segment. Both CTF's top-selling products – Moisten eyedrops (anti-bacteria and anti-inflammation, for keratitis and conjunctivitis) and Mioclear eyedrops (for eye fatigue) – continued to excel in the market, benefiting from proprietary technology that utilises hyaluronic acid ("HA"), and from a comprehensive sales network. "Moisten" and "Mioclear" have become well-regarded brands within the industry. Moisten eyedrops recorded sales of HK\$135.95 million, up 17.6% over the previous year. Sales of Mioclear eyedrops, meanwhile, grew 20.2% to reach HK\$120.28 million. Red Mioclear, a new eyedrop for relieving severe eye fatigue, has received an overwhelming market response since its launch in January 2003. Sales in 2004 grew 51.9% to HK\$68.51 million, and it is expected to become another product with sales exceeding HK\$100 million.

The Group's eyedrop products serve a vast array of therapeutic purposes, including anti-bacteria and anti-inflammation treatments, treatment of conjunctivitis caused by fungus, traumatic and viruses, treatment of eye fatigue and glaucoma. The "Mioclear" brand is used for a series of products for treatment of eye fatigue. More new "Mioclear" brand eyedrop products will soon be available in the market to differentiate market segments. In this way, the Group is able to widen its product range, expand its market share, and strengthen its leading position in the ophthalmic medicine market.

During the year, IVIZ Sodium Hyaluronate Injection (cataract extraction) recorded sales growth of 10.6%.

In April 2004, the Group successfully launched Collyium Eye Wash, the first eye wash product appeared in the domestic market. Collyium received satisfactory sales performance and overwhelming response from urban dwellers, especially females. During the year, its sales amounted to HK\$7.81 million. The Group's slogan for this product is "Setting the Trend – Unveiling a New Concept in Eyecare", signifying its evolution from a manufacturer of ophthalmic medicines and medicines for ophthalmic diseases to a provider of ophthalmic medicines and eyecare products.



Collyium Eye Wash

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Osteoarthritis medicines

CTF is responsible for the development and manufacture of osteoarthritis medicines. Its principal products, Sofast injections, are used to treat adhesive capsulitis. The main ingredient, HA, promotes viscosupplementation (supplementing the natural protective and lubricating properties of the synovial fluid). With an established market presence, Sofast injections were well-received by medical practitioners and patients, and enjoyed high levels of public endorsement. During the year, sales of Sofast injections increased by 34.1% to over HK\$68.77 million.



Sofast Injections

RESEARCH & DEVELOPMENT

Adhering to its R&D principle, the Group has placed special emphasis on new product development, and the strength of its product pipeline is an important factor in retaining sustainable long-term growth and profitability. 2004 was an excellent year for the Group in terms of product development. For the year ended 31 December 2004, the Group received a total of 28 approvals for the production of new drugs from the SFDA. A total of 57 cases were under clinical trials or completed clinical research. If efficacy reaches expected levels after clinical trials, the Group will file for production approval. Upon approval, these products will become drivers of the Group's sustainable development. During the year, the Group had made significant progress in R&D as in the followings:

Beijing Chia Tai Green Continent Pharmaceutical Co., Ltd. ("CTGC")

One cardio cerebral product has received SFDA approval for clinical research. A total of 70 patent applications for inventions were filed with the State Intellectual Property Office, of which 24 patents were announced by the State Intellectual Property Office.

Beijing Tide

Product R&D proceeded smoothly. During the year, Beijing Tide improved the formulations of its target and sustained release drug delivery platform and successfully developed a new product, Kaifen – an analgesia injection. This product is proved to have better therapeutic effects to alleviate pain with less side effects. Beijing Tide received its production approval in October 2004, and the product is expected to be available on the market in the first half of 2005. This new product is expected to generate promising returns.

CTF

Received a total of 11 approvals for its new drug production from SFDA. A further 25 cases were under clinical trials or completed clinical research, amongst which 16 were ophthalmic products. 3 patent applications for inventions were filed with the State Intellectual Property Office, and 2 bottling design patents were received.

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Postdoctoral Programme



R & D Laboratory



Kaifen Injections

Management Discussion and Analysis

CTF plans to establish a Good Laboratory Practices (“GLP”) testing centre in its new plant (Phase 3) in Jinan in 2005. The centre will further strengthen the Group’s capabilities in the development of patented products.

JCTT

Received a total of 12 approvals for its new drug production from SFDA. A further 24 cases were under clinical trials or completed clinical research, among which 12 hepatitis medicines were filed. A total of 10 patent applications for inventions were filed with the State Intellectual Property Office. 2 patent approvals were granted by the State Intellectual Property Office and 2 bottling design patents were received.

JCTT’s National Hi-Tech Research Development Program (863 Program), an innovative research base for modernised Chinese medicines, has completed its clinical research of magnesium iso-glycyrrhizinate injection and multi-functional hepatocyte protector into modernised Chinese hepatitis medicines. Its work is expected to be another “blockbuster drug” to the Group. In addition, JCTT’s post-doctoral research workshop has begun full operation. Besides working on hepatitis medicines, the workshop also conducts research in modernised Chinese medicines, biopharmaceutical products and chemical medicines used to treat cardio cerebral diseases, respiratory diseases, cancer and endocrine system.

NJCTT

Received 4 approvals for its new drug production from SFDA, and another 7 cases were under clinical trials or completed clinical research.

Others

The Group cooperated with the Hong Kong Polytechnic University for a research project in connection with applying genetic engineering biotechnology to hepatitis medicine. This project is making satisfactory progress.

CORPORATE GOVERNANCE

The Group continues to emphasize high levels of corporate governance. The Group was invited to participate in the 37th International General Meeting of the Pacific Basin Economic Council (Roundtable meeting on “Harnessing Corporate Governance for Business Growth in China”), held in Beijing in June 2004, and shared its corporate governance experiences. The Group has improved transparency through the voluntary disclosure of quarterly results since its listing on the Main Board in 2003, and through timely communication with investors and the media. In 2004, the Group participated in 23 rounds of analyst meetings and 2 investor forums organised for institutional investors, hosted 5 media briefings, 3 investor luncheons and an investor plant visit. The Group also strives to improve shareholder returns through a consistent dividend policy. From the second quarter of 2004, it has commenced a quarterly dividend payment policy. To better monitor its financial management and acquisition decisions, the Group has formed an Investment Monitoring Committee in November 2004 and formulated a set of investment guidelines and procedures that will serve to enhance investment returns and monitor investment progress. The Committee, composed of senior management with pharmaceutical, R&D and financial backgrounds, ensures that capital is deployed for generating optimal investment returns.

CAPITAL STRUCTURE

On 28 April, 2004, each of the then existing issued and unissued shares of the Company of HK\$0.10 each has been subdivided into 4 subdivided shares. Immediately following completion of the subdivision, the authorised share capital of the Company was HK\$100,000,000 comprising 4,000,000,000 subdivided shares of HK\$0.025 each, of which 1,328,000,000 subdivided shares were in issue and fully paid or credited as fully paid. On 24 November, 2004, 49,109,684 new ordinary shares have been issued upon the exercise of the conversion rights of convertible bonds held by Jian Kang Ltd.

LIQUIDITY AND FINANCIAL RESOURCES

The Group's liquidity remains strong. During the year, the Group's primary source of funds was cash derived from operating activities. As at 31 December, 2004, the Group's bank balance and cash in hand was approximately HK\$276.21 million (2003: approximately HK\$288.85 million).

CAPITAL COMMITMENT

The Group's capital expenditure commitments amounted to approximately HK\$50.80 million as at 31 December, 2004 (2003: approximately HK\$64.18 million). The Group has adequate financial resources to fund its capital expenditure commitment from existing cash resources and cash flows generated from its operations.

CHARGE ON ASSETS

The Group did not have any charges on assets as at 31 December, 2004 (2003: Nil).

CONTINGENT LIABILITIES

As at the balance sheet date, neither the Group, nor the Company had any significant contingent liabilities (2003: nil).

ASSETS AND GEARING RATIO

As at 31 December, 2004, total assets of the Group amounted to approximately HK\$918.28 million (2003: approximately HK\$736.00 million) whereas total liabilities amounted to approximately HK\$247.72 million (2003: approximately HK\$239.67 million). The gearing ratio (total liabilities over total assets) was approximately 27.0% (2003: approximately 32.6%).

EMPLOYEE AND REMUNERATION POLICIES

As at 31 December, 2004, the Group had about 3,008 (2003: 2,629) employees. The Group remunerates its employees based on their performance, experience and the prevailing market rates. Other employee benefits include mandatory provident fund, insurance and medical coverage, subsidized training programmes as well as a share option scheme.

Total staff costs (including Directors' remuneration) for the year were HK\$145,746,000 (2003: HK\$105,541,000).

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES

Most of the assets and liabilities of the Group were denominated in Renminbi and HK dollars. In the PRC, foreign investment enterprises are authorized to convert Renminbi to foreign currency in respect of current account items (including payment of dividend and profit to the foreign joint venture partner). The Directors consider that the Group is not significantly exposed to foreign currency risk and no hedging or other alternatives have been implemented.

Report of the Directors

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

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the subsidiaries are set out in note 18 to the financial statements.

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 December, 2004 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 41 to 88.

The interim dividend of HK\$0.02 per ordinary share and the third quarter dividend of HK\$0.02 per ordinary share totalling HK\$54,102,000 was paid during 2004.

The directors recommend the payment of a final dividend of HK\$0.04 per ordinary share in respect of the year ended 31 December, 2004 to shareholders on the register of members on Friday, 13 May, 2005. This recommendation has been incorporated in the financial statements as an allocation of retained profits within capital and reserves in the balance sheet. The Board also recommended a bonus issue of 1 share for every 2 existing shares in view of the Group's confidence in the performance of its operations in the current financial year.

USE OF PROCEEDS FROM THE COMPANY'S INITIAL PUBLIC OFFERING

The proceeds from the Company's issue of new shares at the time of its listing on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") in September 2000, after deduction of related issuance expenses, amounted to approximately HK\$61,973,000. Application of proceeds up to 31 December, 2004 and comparison with the proposed applications set out in the listing document of the Company dated 30 October, 2003 (the "Listing Document") is set out on page 37 of this report.

SUMMARY OF FINANCIAL INFORMATION

A summary of the published results and assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the audited financial statements and reclassified as appropriate, is set out below. This summary does not form part of the audited financial statements.

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
RESULTS					
TURNOVER	1,050,383	821,700	692,320	539,910	392,726
Cost of sales	(186,312)	(168,696)	(145,286)	(101,436)	(83,222)
Gross profit	864,071	653,004	547,034	438,474	309,504
Other revenue and gains	10,347	9,318	3,932	5,092	2,314
Selling and distribution costs	(411,393)	(338,446)	(309,437)	(237,601)	(163,740)
Administrative expenses	(158,124)	(116,215)	(84,257)	(78,610)	(54,987)
Other operating expenses	(39,073)	(40,191)	(20,562)	(7,793)	(5,400)
PROFIT FROM OPERATING ACTIVITIES	265,828	167,470	136,710	119,562	87,691
Finance costs	(1,348)	(1,380)	(1,124)	(1,913)	(2,483)
Share of profit of:					
A jointly-controlled entity	54,985	7,411	–	–	–
Amortisation of goodwill on acquisition of a jointly controlled entity	(4,462)	(267)	–	–	–
PROFIT BEFORE TAX	315,003	173,234	135,586	117,649	85,208
Tax	(29,940)	(23,299)	(17,175)	(8,184)	(6,767)
PROFIT BEFORE MINORITY INTERESTS	285,063	149,935	118,411	109,465	78,441
Minority interests	(116,726)	(68,320)	(61,042)	(47,730)	(33,428)
NET PROFIT ATTRIBUTABLE TO SHAREHOLDERS	168,337	81,615	57,369	61,735	45,013
ASSETS, LIABILITIES AND MINORITY INTERESTS					
TOTAL ASSETS	918,283	736,003	593,986	433,129	377,232
TOTAL LIABILITIES (exclude convertible bonds)	(204,822)	(161,669)	(124,653)	(91,800)	(98,609)
MINORITY INTERESTS	(212,964)	(156,348)	(129,725)	(96,790)	(68,819)
CONVERTIBLE BONDS	(42,900)	(78,000)	(46,800)	–	–
NET ASSETS	457,597	339,986	292,808	244,539	209,804

Report of the Directors

FIXED ASSETS

Details of movements in the fixed assets of the Company and the Group during the year are set out in note 14 to the financial statements.

SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the Company's share capital and share options during the year, together with the reasons therefor, are set out in notes 30 and 31 to the financial statements.

CONVERTIBLE BONDS

Details of the convertible bonds of the Company are set out in note 33 to the financial statements.

RULE 13.18 OF THE LISTING RULES

As at 31 December, 2004, there were covenants in certain agreements of the Group relating to specific performance obligations of the Company's controlling shareholders. The following information is hereby disclosed pursuant to Rule 13.18 of Chapter 13 of the Listing Rules:

The Company has issued the one per cent. convertible bonds due 2006 in the aggregate principal account of US\$6 million to Jian Kang Ltd. and one per cent. convertible bonds due 2006 in the aggregate principal account of US\$4 million to Super Demand Investments Limited on 22 October, 2002 and 31 March, 2003 respectively. Pursuant to the convertible bonds instrument, if Mr. Tse Ping together with any family trust the beneficiaries of which include Mr. Tse Ping and/or his spouse and/ or his children shall cease to hold (directly or indirectly) at least 30% of the Equity Share Capital or Mr. Tse Ping ceases to be the single largest shareholder of the Company except where such cessation occurs as a result of the issue or transfer of shares to a long term investor which carries on a similar business to that currently conducted by the Company and its Subsidiaries, a default premium will be charged which is equal to 13 per cent. per annum compounded annually calculated from the date of the instrument to the date of payment on the outstanding principal amount of bonds.

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, being the jurisdiction in which the Company was established, which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES 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.

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 32 to the financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

At 31 December, 2004, the Company's reserves, including share premium account, available for cash distribution/or distribution in specie, calculated in accordance with the provisions of the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, and after taking into account for the proposed final dividend of HK\$55,084,000 (2003: HK\$33,200,000), amounted to HK\$125,512,000 (2003: HK\$126,038,000). Under the laws of the Cayman Islands, a company may make distribution to its members out of the share premium account under certain circumstances.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for less than 30% of the total sales for the year. Purchases from the Group's five largest suppliers accounted for less than 30% of the total purchases for the year.

None of the directors of the Company or any of their associates or any shareholders (which, to the best 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 or five largest suppliers.

DIRECTORS

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

Executive directors:

Mr. Tse Ping	
Mr. Tao Huiqi	
Mr. Wang Jinyu	
Mr. He Huiyu	(appointed on 13 January, 2005)
Ms. Cheng Cheung Ling	(appointed on 13 January, 2005)
Ms. Zhao Yanping	(appointed on 13 January, 2005)
Mr. Tse Hsin	(appointed on 7 April, 2005)

Non-executive director:

Ms. Josephine Price

Independent non-executive directors:

Ms. Zheng Qun, Grace	
Mr. Hu Xi Ming	(resigned on 13 January, 2005)
Mr. Li Dakui	(appointed on 27 September, 2004)
Ms. Li Jun	(appointed on 13 January, 2005)

In accordance with article 86(3) of the Company's articles of association, Mr. He Huiyu, Ms. Cheng Cheung Ling, Ms. Zhao Yanping, Mr. Tse Hsin, Mr. Li Dakui and Ms. Li Jun will retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting. The independent non-executive directors are not appointed for specific terms.

Report of the Directors

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 31 to 36 of the annual report.

DIRECTORS' SERVICE CONTRACTS

Each of the executive directors has entered into a service contract with the Company for a term of three years from their respective dates of appointment which will continue thereafter until terminated by not less than three months' notice in writing served by either party on the other without payment of compensation.

Apart from the foregoing, 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 other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in note 37 to the financial statements, 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' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

At 31 December, 2004, the interests and short positions of each director and chief executive of the share capital, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("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 pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, were as follows:

Long positions in ordinary shares of the Company

Name of director	Notes	Capacity/Nature of Interest	Number of shares held, capacity and nature of interest			Percentage of the Company's issued share capital
			Directly beneficial owned	Through controlled corporations	Total	
Mr. Tse Ping	(1)	Beneficial owner	12,000,000	690,325,939	702,325,939	51%
Mr. Wang Jinyu	(2)	Beneficial owner	–	35,520,000	35,520,000	2.58%
Mr. Tao Huiqi		Beneficial owner	1,600,000	–	1,600,000	0.12%

Notes:

- (1) Mr. Tse Ping held these shares through Remarkable Industries Limited and Validated Profits Limited. The entire issued share capital in of these companies is owned by Mr. Tse Ping.
- (2) Mr. Wang Jinyu held these shares through Discover Profits Limited, the entire issued share capital of which is owned by Mr. Wang Jinyu.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES (Cont'd)

Long position in underlying shares

Pursuant to the share option scheme (the "Scheme") adopted by the Company on 19 September, 2000 and having accounted for the share subdivision effective on 28 April, 2004, certain Directors, being Mr. Tse Ping, Mr. Tao Huiqi and Mr. Wang Jinyu, were granted options on 2 January, 2001 to subscribe for 30,000,000 shares, 4,000,000 shares and 4,000,000 shares of the Company, respectively, at a subscription price of HK\$0.185 per share exercisable during the period from 3 January, 2003 to 1 January, 2007 (both days inclusive). As at 31 December, 2004 (after the share subdivision became effective on 28 April, 2004), 18,000,000 shares, 2,400,000 shares and 2,400,000 shares remained issuable upon the exercise in full of all the respective share options of Mr. Tse Ping, Mr. Tao Huiqi and Mr. Wang Jinyu granted under the Scheme which were yet to be exercised.

Save as disclosed above, none of the directors and chief executive of the Company had registered an interest or short position in the shares, underlying shares or debentures 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 for Securities Transactions by Directors of Listed Companies.

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

So far as the Directors are aware, as at 31 December, 2004, each of the following persons, not being a Director or a chief executive of the Company, had an interest and/or short position in the Company's shares and/or underlying shares as recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

Long position in shares and/or underlying shares

Name	Notes	Capacity/Nature of Interest	Number of shares and/or underlying shares of the Company	Approximate percentage of issued share capital of the Company
Validated Profits Limited	(1)	Beneficial owner	461,054,899	33.48%
Remarkable Industries Limited	(1)	Beneficial owner	229,271,040	16.65%
Conspicuous Group Limited	(2)	Beneficial owner	234,154,061	17%
Chia Tai Development Investment Company Limited	(3)	Interest of a controlled corporation	234,154,061	17%
Mr. Dhanin Chearavanont	(4)	Interest of a controlled corporation	234,154,061	17%

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

Long position in shares and/or underlying shares (Cont'd)

Name	Notes	Capacity/Nature of Interest	Number of shares and/or underlying shares of the Company	Approximate percentage of issued share capital of the Company
Jian Kang Ltd.	(5)	Beneficial owner	109,473,684	7.95%
Aria Investment Partners, L.P.	(6)	Interest of a controlled corporation	109,473,684	7.95%
CLSA Private Equity Management Limited	(7)	Investment manager	109,473,684	7.95%
CLSA Funds Limited	(8)	Interest of a controlled corporation	109,473,684	7.95%
CLSA B.V.	(9)	Interest of a controlled corporation	109,473,684	7.95%
Calyon Capital Markets Asia BV	(10)	Interest of a controlled corporation	109,473,684	7.95%
Calyon Capital Markets International SASU	(11)	Interest of a controlled corporation	109,473,684	7.95%
Calyon S.A.	(12)	Interest of a controlled corporation	109,473,684	7.95%
Credit Agricole S.A.	(13)	Interest of a controlled corporation	109,473,684	7.95%
SAS Rue La Boetie	(14)	Interest of a controlled corporation	109,473,684	7.95%

Notes:

- (1) Each of Validated Profits Limited and Remarkable Industries Limited is an investment holding company wholly-owned by Mr. Tse Ping who is a Director.
- (2) Conspicuous Group Limited ("Conspicuous") beneficially owned 234,154,061 shares.
- (3) Chia Tai Development Investment Company Limited ("CT Development") has declared an interest in 234,154,061 shares in which Conspicuous has declared an interest in note (2), by virtue of its shareholding in Conspicuous.
- (4) Mr. Dhanin Chearavanont has declared an interest in 234,154,061 shares in which CT Development has declared an interest in note (3), by virtue of his shareholding in CT Development.

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

Long position in shares and/or underlying shares (Cont'd)

Notes: (Cont'd)

- (5) Jian Kang Ltd. beneficially owned 49,109,684 shares and 60,364,000 underlying shares.
- (6) Aria Investment Partners, L.P. is beneficially interested in the entire issued share capital of Jian Kang Ltd. and is deemed or taken to be interested in the 49,109,684 shares and 60,364,000 underlying shares in which Jian Kang Ltd. has declared an interest for the purpose of the SFO.
- (7) CLSA Private Equity Management Limited is the investment manager of Aria Investment Partners, L.P.
- (8) CLSA Funds Limited is beneficially interested in the entire issued share capital of CLSA Private Equity Management Limited and is deemed or taken to be interested in the 49,109,684 shares and 60,364,000 underlying shares in which CLSA Private Equity Management Limited has declared an interest for the purpose of the SFO as mentioned in Note 7 above.
- (9) CLSA B.V. is beneficially interested in the entire issued share capital of CLSA Funds Limited and is deemed or taken to be interested in the 49,109,684 shares and 60,364,000 underlying shares in which CLSA Private Equity Management Limited has declared an interest for the purpose of the SFO as mentioned in Notes 7 and 8 above.
- (10) Calyon Capital Markets Asia BV is beneficially interested in 65% of the issued share capital of CLSA B.V. and is deemed or taken to be interested in the 49,109,684 shares and 60,364,000 underlying shares in which CLSA Private Equity Management Limited has declared an interest for the purpose of the SFO as mentioned in Notes 7, 8 and 9 above.
- (11) Calyon Capital Markets International SASU is beneficially interested in the entire issued share capital of Calyon Capital Markets Asia BV and is deemed or taken to be interested in the 49,109,684 shares and 60,364,000 underlying shares in which CLSA Private Equity Management Limited has declared an interest for the purpose of the SFO as mentioned in Notes 7, 8, 9, 10 above.
- (12) Calyon S.A. is beneficially interested in the entire issued share capital of Calyon Capital Markets International SASU and is deemed or taken to be interested in the 49,109,684 shares and 60,364,000 underlying shares in which CLSA Private Equity Management Limited has declared an interest for the purpose of the SFO as mentioned in Notes 7, 8, 9, 10 and 11 above.
- (13) Credit Agricole S.A. is beneficially interested in the entire issued share capital of Calyon S.A. and is deemed or taken to be interested in the 49,109,684 shares and 60,364,000 underlying shares in which CLSA Private Equity Management Limited has declared an interest for the purpose of the SFO as mentioned in Notes 7, 8, 9, 10, 11 and 12 above.
- (14) SAS Rue La Boetie is beneficially interested in 51.50% of the share capital of Credit Agricole S.A. and is deemed or taken to be interested in the 49,109,684 shares and 60,364,000 underlying shares in which CLSA Private Equity Management Limited has declared an interest for the purpose of the SFO as mentioned in Notes 7, 8, 9, 10, 11, 12 and 13 above.

Save as disclosed above, as at 31 December, 2004, no person, other than the directors and chief executive of the Company, whose interests are set out in the section "Directors' and chief executives' interests and short positions in shares, underlying shares and debentures" above, had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded in the register pursuant to Section 336 of the SFO.

Report of the Directors

DIRECTORS' RIGHTS TO ACQUIRE SHARES

Save as disclosed under the heading "Directors' and Chief Executives' interests and short positions in share, underlying shares and debentures" above and in the "Share option scheme" below, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any directors or their respective spouse or minor children, or were any such rights exercised by them; or was the Company, or any of its subsidiaries or fellow subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

SHARE OPTION SCHEME

In connection with the approval of the listing on the Main Board of the Stock Exchange of, and permission to deal on the Main Board of the Stock Exchange in, the Shares of the Company in issue and any Shares which may fall to be issued upon the exercise of options which have granted under the Old Share Option Scheme (as defined in the Listing Document) or the Existing Share Option Scheme (as defined in the Listing Document) or any option which may, prior to the termination of the Existing Share Option Scheme, be granted thereunder or under the proposed share option scheme of the Company (the "Proposed Share Option Scheme"), the Proposed Share Option Scheme be approved and adopted and the board of directors of the Company be authorized to do all such acts and to enter into all such transactions, arrangements and agreements as may be necessary or expedient in order to give full effect to the Proposed Share Option Scheme including, but without limitation:

- (1) to administer the Proposed Share Option Scheme under which options may be granted to Participants (as defined in the Proposed Share Option Scheme) to subscribe for Shares;
- (2) to modify and/or amend the Proposed Share Option Scheme from time to time provided that such modification and/or amendment is effected in accordance with the provisions of the Proposed Share Option Scheme relating to modification and/or amendment;
- (3) to make application at the appropriate time or times to the Stock Exchange, and any other stock exchanges upon which the issued Shares may for the time being be listed, for listing of and permission to deal in any Shares which may hereafter from time to time be issued and allotted pursuant to the exercise of any options granted under the Proposed Share Option Scheme; and
- (4) to consent, if it so deems fit and expedient, to such conditions, modifications and/or variations as may be required or imposed by the relevant authorities in relation to the Proposed Share Option Scheme, and accordingly that the Existing Share Option Scheme be terminated with effect from the approval and the adoption of the Proposed Share Option Scheme as aforesaid becoming unconditional (without prejudice to the rights and benefits of and attached to any such options as may have been granted under the Existing Share Option Scheme which are outstanding).

OUTSTANDING SHARE OPTIONS

As at 31 December 2004, options to subscribe for an aggregate of 72,000,000 shares (which include the options granted to Mr. Tse Ping, Mr. Tao Huiqi and Mr. Wang Jinyu, as disclosed above) of the Company granted were outstanding. Details are as follows:

Number of share options	Number of employees	Subscription price per share <i>HK\$</i>	Option period
72,000,000	13	0.185	3 January, 2003 to 1 January, 2007

Generally, the options may be exercised in different tranches within the option period.

CONNECTED TRANSACTIONS

During the year, the Group had related party transactions, as further detailed below and in note 37 to the financial statements, which also constituted connected transactions under the Listing Rules.

Below are the connected transactions conducted by the Group in accordance with the conditional waiver from strict compliance with the relevant continuing connected transactions requirements under the Listing Rules:–

- (i) Sales of products from Shandong Chia Tai Freda Pharmaceutical Co., Ltd. (“CTF”) to Shandong Biochemical Pharmaceutical Co. (“Shandong Biochemical”) which holds a 30% equity interest in each of CTF and Shandong Chia Tai Freda New Packaging Resources Co., Ltd. (“CTFP”).
- (ii) The leasing of a property situated at No.264 Shanda Road, Jinan, Shandong Province, the PRC of approximately 11,800 sq.m. by CTF from Shandong Research Institute, a fellow subsidiary of Shandong Biochemical, which holds 30% equity interest in each of CTF and CTFP.
- (iii) Certain technological cooperation agreements and technology transfer agreements between CTF and Shandong Research Institute, under which Shandong Research Institute is responsible for research and development of pharmaceutical products and will transfer the benefit of the research results to CTF in return for the payment research expense by CTF.
- (iv) Purchases of raw materials by Jiangsu Chia Tai-Tianqing Pharmaceutical Co., Ltd. (“JCTT”) from Jiangsu State Agribusiness Commercial Commodities Limited, a wholly-owned subsidiary of Jiangsu State Agribusiness Group Corporation Limited, which holds a 33.5% equity interest in JCTT.

The independent non-executive Directors have reviewed the terms and transactions and conformed to the Board of Directors that, in their opinion, the transactions, and the arrangements governing those transactions, are entered into by the relevant members of the Group in the ordinary and usual course of business and on normal commercial terms, and were fair and reasonable so far as the shareholders of the Company are concerned and in the interests of the shareholders of the Company as a whole.

DIRECTORS' INTERESTS IN A COMPETING BUSINESS

During the year and up to the date of this report, the following director is considered to have interests in a business which competes or is likely to compete, either directly or indirectly, with the businesses of the Group, as defined in the Listing Rules, as set out below.

Mr. Tse Ping owns controlling interests or investment interests in Xian C.P. Pharmaceutical Co., Ltd. ("CT Xian"), Anhang Chia Tai Pharmaceutical Co., Ltd. ("CT Anhang"), Hainan Tigerlily Pharmaceutical Co., Ltd. ("HTPC"), ABH Nature's Products Inc. ("ABH") and Jiangsu Chia Tai Fenghai Pharmaceutical Company Limited ("CT Fenghai").

CT Xian is a medicine producing enterprise principally engaged in the production and distribution of anti-cancer medicines, gastrointestinal medicines, gynaecological medicines and dermatitis medicine for psoriasis. CT Anhang is principally engaged in the production and distribution of a medicine reducing blood-fat level, gynaecomastia medicines, medicines for treating cardiovascular disease and other chemical medicines. CT Anhang acquired a PRC pharmaceutical company which has one product for the treatment of cardiovascular namely, Puerarin injections which may compete with an existing product namely, Spring (Puerarin glucose injections) produced by the Group. HTPC is a trading company engaged in the import and export of medicines, including vitamins, anti-biotics and gastro medicines from Europe, the United States, Korea and other countries. ABH is principally engaged in the re-processing of natural medicines and vitamins in the United States. CT Fenghai is principally engaged in the production and distribution of raw material and preparation of antibiotics and synthetic drugs.

There is no law or regulation or agreement which prohibits or restricts the entry of the above enterprises into any business which may compete directly or indirectly with the Group.

Mr. Tse Ping has signed a deed of non-competition undertaking in favour of the Company dated 19 September, 2000 ("2000 Deed of Undertaking") under which he has undertaken that, for so long as Mr. Tse Ping, together with his associates, shall remain beneficially interested, directly or indirectly, in shares with at least 30% of the voting rights of the Company, neither Mr. Tse Ping nor any of the companies or other entities in which more than 50% of the issued shares or equity of other nature carrying voting rights are directly or indirectly owned by Mr. Tse Ping or regarding which companies or entities Mr. Tse Ping is entitled to control the board of directors or management body of similar nature ("Mr. Tse Ping's Companies") (excluding for this purpose the Group) will:

- (a) within the areas of Hong Kong, Shandong Province and Jiangsu Province of the PRC, carry on, become engaged or otherwise become interested (save through Mr. Tse Ping's interest in the Company), directly or indirectly, in any business activities involving the business of the Company; and
- (b) in the PRC, other than within the areas of Hong Kong, Shandong Province and Jiangsu Province of the PRC (save through Mr. Tse Ping's interest in the Company), become engaged or otherwise become interested, directly or indirectly, in or otherwise commence any business activities involving the business of the Company, if to do so will result in competition or likely to compete with any part of the business of the Company already carried on by the Group in such territory at the time Mr. Tse Ping and/or Mr. Tse Ping's Companies (excluding for this purpose the Group) propose to invest in such business activities.

DIRECTORS' INTERESTS IN A COMPETING BUSINESS (Cont'd)

Mr. Tse Ping has also executed a new deed of non-competition undertaking in favour of the Company on 9 September, 2003 which became effective upon the commencement of trading in shares of the Company on the Main Board of the Stock Exchange, details of which are set out in the Listing Document. The 2000 Deed of Undertaking would terminate upon the aforesaid deed of non-competition undertaking becoming effective.

Save as disclosed above, none of the directors of the Company had an interest in a business which competes or may compete with the business of the Group.

POST BALANCE SHEET EVENTS

Details of the significant post balance sheet events of the Group are set out in note 38 to the financial statements.

EMOLUMENT POLICY

Including the Directors, the Group had around 3,008 employees as at 31 December, 2004. The Group remunerates its employees based on their performance, experience and prevailing market rate. Other employee benefits include insurance and medical coverage, subsidized training programmes as well as share option scheme.

The determination of emoluments of the directors of the Company had taken into consideration of their expertise and job specifications.

CORPORATE GOVERNANCE

The Company has complied throughout the year ended 31 December, 2004 with the Code of Best Practice as set out in Appendix 14 of the Listing Rules.

The Company has adopted a code of conduct regarding securities transactions by Directors on terms no less exacting than the required standard set out in the Model Code. All Directors have complied with the required standard set out in the Model Code and the code of conduct regarding securities transactions by Directors adopted by the Company.

Each of the Independent Non-Executive Directors has confirmed his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all of the independent non-executive directors are independent.

Report of the Directors

AUDIT COMMITTEE

The Company has established an audit committee (the "Committee") with written terms of reference in accordance with the requirement of the Code of Best Practice. The primary duties of the Committee are to review the Company's annual report and accounts, half-yearly reports and quarterly reports and to provide advice and comments thereon to the board of directors. The Committee will also be responsible for reviewing the financial reporting process and internal control system of the Group. The Committee has two members comprising the three independent non-executive directors, Ms. Zheng Qun, Grace, Mr. Li Dakui and Ms. Li Jun.

The Group's financial statements for the year ended 31 December, 2004 have been reviewed by the Committee, who were of the opinion that such statements complied with the applicable accounting standards, the Stock Exchange and legal requirements, and that adequate disclosures had been made. The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed internal control and financial reporting matters.

SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained a sufficient public float throughout the year ended 31 December, 2004.

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



Tse Ping
Chairman

Hong Kong, 30 March, 2005

(30)

Directors and Senior Management Profile

DIRECTORS

Executive Directors

Mr. Tse Ping (謝炳先生), aged 53, is the Founder, Chairman and President of the Company. He is responsible for the overall operations of the Group. With more than 10 years of pharmaceutical related investment and management experience, Mr. Tse was formerly the vice-chairman of Shenzhen 999 Pharmaceutical Co. Ltd. (深圳三九藥業有限公司), and was involved in the management of Hainan Qingqihaiyao Stock Company Limited (海南輕騎海藥股份有限公司) (formerly known as Hainan Pharmaceutical Industrial Joint-Stock Company Limited (海南海藥實業股份有限公司), and is now listed on the Shenzhen Stock Exchange in the PRC, Mr. Tse was also the chairman of CTQ which is now a subsidiary of SIIC Medical and the executive chairman of TM International Bank Co., Ltd, based in Shanghai. Mr. Tse is also the Chairman of Xian C. P. Pharmaceutical Co. Ltd., a director of CTQ, a committee member of the Association of Pharmaceutical Biotechnology of China and an honoral professor of Shenyang University of Pharmacy. Beyond the pharmaceutical and biotechnology fields, Mr. Tse is the vice-chairman of Chia Tai Enterprises International Limited, an investment holding company listed on the Main Board. He is also a member of the Ninth and the Tenth National Committee of the Chinese People's Political Consultative Conference (CPPCC).

Mr. Tao Huiqi (陶惠啟先生), aged 55, is responsible for the general operations of JCTT and NJCTT. He joined the Group in April 1997 and is the vice chairman and president of JCTT. He is a university graduate and senior economist. Mr. Tao has extensive experience in managing pharmaceutical companies. He has been awarded the title of an "Outstanding Entrepreneur" by the China Pharmaceutical Association, Association of Entrepreneur Medicine of China and the State Medicine Commission, the Jiangsu Economic Planning Commission, and Jiangsu Pharmaceutical Administration, respectively.

Mr. Wang Jinyu (王金宇先生), aged 35, is principally responsible for the business planning of the Group. He joined the Group in March 1999. Prior to joining the Group, Mr. Wang worked in the corporate finance division of BNP Prime Peregrine Capital Ltd., where he gained extensive experience in corporate finance, investment management and the development and promotion of high technology.

Mr. He Huiyu (何惠宇先生), aged 61, joined the Company as an executive director in January 2005. He graduated from the medical department in Hunan University since 1968. He is a chief doctor, professor, researcher, and the chairman of Beijing Tide Pharmaceutical Co., Ltd., a jointly-controlled entity of the Company. Mr. He has over 35 years experience in clinical medical treatment, scientific research management, and Sino-foreign clinical research and development. He has been the chairman of Hunan Heng Yang Sino-Foreign Hospital and Hunan Heng Yang Central Hospital, chief executive of the Bureau of Chinese Pharmaceutical Management and the chairman of China-Japan Friendship Hospital.

Ms. Cheng Cheung Ling (鄭翔玲女士), aged 40, joined the Company as an executive director in January 2005. She is an executive director of the Company. Ms. Cheng is a medical practitioner graduated from Medical Profession College. She is responsible for the public relation affairs of the Group. She is also the committee member of China Overseas Friendship Association, a vice chairlady of the Shaanxi Province Federation of Industry and Commerce, and a member of the Standing Committee of the Chinese People's Political Consultative Conference Shaanxi Provincial Committee. She is the spouse of Mr. Tse Ping, both the executive director and substantial shareholder of the Company.

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Directors and Senior Management Profile

Ms. Zhao Yanping (趙艷萍女士), aged 42, is an executive director and a vice president of the Company. She is principally responsible for the Group's day-to-day administration. Ms. Zhao joined the Group in September 1992. Ms. Zhao graduated from the Shenyang Pharmaceutical College with a degree in science and completed the Master of Business Administration (MBA) courses in the Business Administration department in Dalian University of Technology. She was the executive director of CTF, and a visiting professor of Shenyang University of Pharmacy. She was the general manager of the research and development department of the Group. She is an editorial board member of Economic Report of Medicine and China Prescription Drug. Ms. Zhao has 20 years of experience in the pharmaceutical industry.

Mr. Tse Hsin (謝焯先生), aged 35, is an executive director and a vice president of the Company. He is mainly responsible for the acquisition and merger as well as the corporate finance of the Group. He is also the Group's spokesman and the general manager of the audit department. Mr. Tse graduated from the University of Hong Kong with a bachelor degree in industrial engineering. He joined the Group in August 1995 as an assistant to the President of the Company and served as the Managing Director of Xian C.P. Pharmaceutical Co., Ltd. for the period from July 1996 to June 2000. In 1999, he was awarded the "Outstanding Management Award for Foreign-invested Enterprises of Shaanxi Province" by the Shaanxi Provincial Government. He is also an executive director of Beijing Tide, a director of JCTT, Xian C.P. Pharmaceutical Co., Ltd. and Ankang Chia Tai Pharmaceutical Co., Ltd.. Mr. Tse is a council member of the first council of the Chaozhou Natives Chamber of Commerce Beijing. He is a cousin of Mr. Tse Ping and the brother of Ms. Tse Wun, a senior management of the Company.

Non-executive Director

Ms. Josephine Price (潘佐芬女士), aged 50, is a non-executive Director. Ms. Price is the Managing Director of CLSA Private Equity Ltd. She joined CLSA in 1995 to set up its private equity activities from NatWest Markets where she had been a regional corporate finance director. She has been based in Asia for over 20 years. She is a graduate of the University of Kent in Canterbury, the United Kingdom. Ms. Price is a member of the Law Societies of England & Wales and Hong Kong. She is also a member of the Hong Kong Securities Institute and the Hong Kong Institute of Directors.

Independent non-executive Directors

Ms. Zheng Qun, Grace (鄭群女士), aged 36, is an independent non-executive Director and the chairlady of the audit committee of the Company. She holds a Master of Business Administration from the University of California, Riverside and a Bachelor of Arts in English from Tianjin University of Technology. She has three years professional experience in internal and external audit with Ernst & Young, an international accounting firm.

Mr. Li Dakui (李大魁先生), aged 60, joined the Company as an independent non-executive director and a member of audit committee in September 2004. He was graduated from the Faculty of Pharmacy of the Beijing Medical University. In 1983, he obtained a master degree in Pharmaceutics from Peking Union Medical College ("PUMC") and is currently a director of Pharmacy Department of PUMC Hospital. Mr. Li is also a member of the American Society of Health-System Pharmacists, a vice president of Chinese Pharmaceutical Association, the Chairman of the Committee of Hospital Pharmacy Branch of Chinese Pharmaceutical Association, a vice editor of Chinese Hospital Pharmaceutical Journal and Chinese Journal of Hospital Pharmacy, a member of the Drug Evaluation Committee of State Food and Drug Administration of China. Mr. Li is a member of advisory committee on safety of medicinal products meeting organized by World Health Organization.

Ms. Li Jun (李軍女士), aged 36, joined the Company as an independent non-executive director and a member of audit committee in January 2005. She obtained a Bachelor Degree in International Law from Fu Dan University (Law Department) and a Master Degree in Economic Law from Peking University (Law Department). She has been qualified as a PRC lawyer since 1992. She has also studied at SOAS, London. Ms. Li joined Zong Heng Law Firm, Beijing as one of the founding partners in 1993. She has previously worked with Joseph & Chan, Hong Kong and Clifford Chance, Hong Kong as a senior PRC lawyer. She has extensive experience in various areas of litigation, arbitration and dispute resolution work, mainly commercial disputes, civil tort and administrative disputes.

SENIOR MANAGEMENT

Mr. Zhang Baowen (張寶文先生), aged 48, is a vice president and a senior engineer of the Company, and principally responsible for the Group's business development and management. He is a graduate of the Shenyang Pharmaceutical University with a bachelor degree in science. Mr. Zhang joined the Group in October 1994 and has extensive experience in the pharmaceutical industry. Mr. Zhang was previously appointed as the head of the Group's investment division. He is currently an executive director of JCTT, NJCTT and CT Green Continent. Mr. Zhang is a committee member of the Association of Chinese Medicine of China. He has over 20 years of experience in the pharmaceutical industry.

Ms. Yu Chau Ling (余秋玲女士), aged 36, is the financial controller and qualified accountant of the Company. She graduated from the University of Hong Kong with a bachelor degree in Social Sciences. She is the fellow member and an associate member of the Association of Chartered Certified Accountants and the Hong Kong Society of Accountants respectively. Ms. Yu joined the Company in February 2003 and has working experience in the international audit firm and listed companies.

Ms. Chen Xiaofeng (陳曉楓女士), aged 51, is the financial controller of the Company in the PRC. She is principally responsible for the Group's auditing and financial issues in the PRC. Ms. Chen joined the Group in November 1993 and was the manager of the investment division, deputy controller of the accounting division, officer of the audit division and controller of the finance and accounting division. She is also a director of CTF and NJCTT. Ms. Chen is a certified accountant in the PRC and has over 24 years of experience in accounting and finance.

Mr. Ling Peixue (凌沛學先生), aged 42, joined the Group in October 1994 and is a director and president of CTF. He is responsible for the business of CTF. Mr. Ling graduated from Shandong University of Medicine with a master degree. Mr. Ling is an accomplished expert on the therapeutic applications of HA. He has won numerous awards for his work on HA-based therapeutics including special subsidies from the State Council, "Outstanding Scientist" granted by China Association for Science and Technology, Mr. Ling was the deputy chairman of the Biochem Pharmaceutical Professionals Committee of the Association of Chinese Medicine, a deputy head of the Industrial Biochemistry Professionals Committee of the Association of Biochemistry and Molecular Biology of China, an executive director of the Association of Biochemical Pharmaceutical Manufacturers of China and a member of the editorial committee of the Chinese Medicine Magazine and Chinese Biochem Pharmaceutical Magazine.

Mr. Cheng Bo (程波先生), aged 44, is a vice president of CTF and is responsible for the sales and operation of CTF. Mr. Cheng graduated from the University of Electronic Science and Technology of Sichuan and completed post-graduate courses in management science and engineering. He joined the Group in October 1994 and has been appointed as sales office representative in Chengdu, regional sales manager and marketing director. He has over 12 years of experience in sales management.

Mr. Shun Jian (孫鍵先生), aged 44, is a vice president of JCTT and senior engineer. Mr. Shun joined the Group in April 1997 and is responsible for the sales and operation of JCTT. He graduated from Nanjing Polytechnic with a degree in engineering. He has 20 years of experience in pharmaceutical industry.

Mr. Zhang Xichang (張錫昌先生), aged 63, is a senior advisor of JCTT and responsible for the R&D of JCTT. Mr. Zhang has been a workshop officer and deputy factory director of JCTT. Mr. Zhang joined the Group in April 1997.

Directors and Senior Management Profile

Ms. He Yanli (賀艷麗女士), aged 41, is a vice president of CTF. She joined the Group in October 1994 and is responsible for the research and development of CTF. Ms. He graduated from Shandong Medical University with a master degree and is currently pursuing her Ph.D. degree in pharmaceutical chemistry. She has 16 years of experience in the R&D of pharmaceutical products and has published academic papers. She has been the head of Technology Division in CTF, the head of R&D division and the assistant to general manager of CTF.

Ms. Wu Ruizhen (吳瑞珍女士), aged 57, is a senior advisor of JCTT. She graduated from Gansu Television Broadcast University with a degree in industrial accounting. Ms. Wu joined the Group in January 1997. Ms. Wu has over 30 years of experience in finance.

Mr. Pei Xinmin (裴新民先生), aged 39, is the vice general manager of the audit department of the company. He graduated from Inner Mongolia Finance Institute with a bachelor degree in industrial accounting. Mr. Pei has 16 years of experience in finance. Mr. Pei joined the Group in August 1995, and was the financial controller of CTF.

Ms. Tang Jinpin (湯靜平女士), aged 50, is a vice president of CTF. She is responsible for the financial and accounting affairs of CTF. She joined the Group in September 1996. Ms. Tang has work experience in accounting in Xian Transportation Corporation, and was the chief accountant and the manager of the finance department of Xian C.P. Pharmaceutical Co. Ltd. Ms. Tang has over 20 years experience in finance and accounting in the PRC.

Ms. Li Chun Ling (李春玲女士), aged 33, is a vice president of JCTT. She is responsible for the financial and accounting affairs of JCTT. Ms. Li joined the Group in February 1996 and worked in the audit department and finance and accounting department of the Group. Ms. Li graduated from Guizhou College of Finance and Accounting. Before joining the Group, Ms. Li had worked in audit firms and as a team in-charge for social auditing of projects. Ms. Li has over 10 years experience in finance and accounting, and is a certified accountant in the PRC.

Mr. Tian Zhoushan (田舟山先生), aged 41, joined the Group in April 1997 and is responsible for the business of NJCTT. Mr. Tian is a vice president of JCTT and the general manager of NJCTT. Mr. Tian completed MBA coursework in Nanjing University. He was the production manager, assistant to the president and vice president of JCTT. Mr. Tian has 20 years of experience in the pharmaceutical industry.

Mr. Qu Yunzhi (曲韻智先生), aged 49, joined the Group in October 2002 and is responsible for the business of CT Green Continent. He is the vice chairman and the general manager of CT Green Continent. He obtained a master degree in medical science in Inner Mongolia Medical University. Mr. Qu was the chairman of Huhehaote Natural Pharmacy Industrial Research Institute. Mr. Qu has 25 years of experience in the scientific research of medicines.

Ms. Li Mingqin (李名沁女士), aged 46, is the general manager of the Company's R&D division in the Beijing Representative Office and the director and deputy general manager of CT Green Continent. She is principally responsible for the research and development of new medicines for the Group. Ms. Li graduated from the Faculty of Medicine of the Beijing Chinese Medicine University with a bachelor degree in medicine. Prior to joining the Company, Ms. Li has worked in Sino-Japanese Friendly Hospital and Beijing Chinese Medicine University, engaged in the teaching of medicines, R&D of new medicines and medicines management. During the period 1992 to 1995, Ms. Li has been engaged in Post-doctorate research in the Medicine Faculty of Colorado University, USA and the Medicine Faculty in Massachuset University. Ms. Li joined the Group in March 1997 and she has more than 20 years of experience in the pharmaceutical industry.

Directors and Senior Management Profile

Mr. Bi Yong (畢勇先生), aged 43, is a vice president of CTF and is responsible for the management of CTF's production. He graduated from Shandong Industrial University with a bachelor degree in engineering. Mr. Bi joined the Group in November 1996. He has more than 21 years of experience in the management of pharmaceutical production and machinery equipment.

Mr. Ji Yanfeng (姬彥鋒先生), aged 40, is the vice president of the marketing division of CTF and is responsible for its market management. Mr. Ji graduated from Xian Medicine University. Mr. Ji was a chief doctor in Hua Ying Hospital and an area manager of Tianjing Smith Kline & French Laboratories Ltd. (SK&F). He has extensive experience in marketing and sales management. Mr. Ji joined the Group in August 2001.

Mr. Wan Yiqing (萬誼青先生), aged 30, is the Assistant to the President and General Manager of the Information Management Department. He joined the Group in January 2004. Prior to joining the Group, Mr. Wan worked in IBM. Mr. Wan is responsible for the development of Group's information management. Mr. Wan holds M.S. in Computer Science and M.A. in Economics from West Virginia University.

Dr. Ye Wei Nong (葉衛農博士), aged 43, is the assistant president of the Company and deputy general manager of the technology department. He is responsible for the Group's development on Biotechnology. Dr. Ye graduated from Zhongshan (Dr. Sun Yat-Sen) University with a bachelor degree in science. In 1989, Dr. Ye obtained a doctoral degree (Ph.D.) in microbiology in Institut National des Sciences Appliquees de Toulouse of France. He also obtained a certificate of study for Masters specialised in marketing and food technology in Ecole Superieure de Commerce de Toulouse of France. Prior to joining the Group in July 2002, Dr. Ye worked in Europe and Hong Kong for biotechnology and pharmaceutical companies.

Ms. Chia Fai (謝輝女士), aged 47, is an assistant to the chairman of the Company and personnel manager. Ms. Chia joined the Group in November 1991, she has more than 20 years of experience in financial industry. Ms. Chia is a director of various companies including Chia Tai Pharmaceutical (Lianyungang) Co., Ltd., Sino Concept Technology Ltd., Talent Forward Ltd., Sino Biopharmaceutical (Beijing) Ltd. and Magnificent Technology Ltd. She is a sister of Mr. Tse Ping.

Ms. Tse Wun (謝瑗小姐), aged 38, is an assistant to the chairman of the Company. She joined the Group in November 1991. She is principally responsible for the Group's administration and financial matters in Hong Kong. Ms. Tse graduated from the University of Oregon with a bachelor degree in science in the United States. She was formerly a director of 999 Pharmaceutical Co., Ltd. and has 10 years of experience in finance and investment. She is a cousin of Mr. Tse Ping.

Ms. Cheng Hui (程惠女士), aged 41, joined the Group in May 1993 and is responsible for the Group's PRC financial and personnel issues. She is the deputy financial controller of the Company. She has been the head of the finance department in China Construction Bank (Zaozhuang City Branch). Ms. Cheng has 20 years of working experience in finance and accounting. She was awarded the accountancy qualification certificate issued by Ministry of Finance and Ministry of State Personnel in 1992, and ACCA Chinese finance and accounting qualification certificate issued by Chartered Association of Certified Accountants.

Directors and Senior Management Profile

Ms. Gu Liping (顧莉萍女士), aged 43, is a vice president of JCTT and the secretary to the board of directors of JCTT. She is principally responsible for the public relation affairs for JCTT. She graduated from the department of chemistry of Nanjing University and holds a bachelor degree in science and MBA degree. Ms. Gu is a senior engineer and she joined the Group in December 2001. She was the vice commissioner of the finance commission of Jiangsu Agribusiness and the assistant manager of Jiangsu Juxin Investment Management Company Limited.

Mr. Tang Zhaocheng (唐兆成先生), aged 38, is a vice president of JCTT. He is responsible for the production management of JCTT. Mr. Tang joined JCTT in April 1997. He has a professional qualification in chemical engineering. Mr. Tang has been a vice officer in technological production, and a manager in quality control as well as a chief officer and an assistant-to-president in GMP. He has been a team leader in the production of Diammonium Glycyrrhizinate and Zegui Longshuang in JCTT. Mr. Tang has 14 years of experience in the pharmaceutical industry.

Mr. Wang Hong (王宏先生), aged 41, is a vice president and is responsible for the sales and marketing of JCTT. Mr. Wang graduated from Shanghai Medical University in 1991 with a master degree in medical science. He also holds a MBA degree from the Business School of the National University of Singapore. He was the Derm Franchise Sales Manager of Xian-Janssen Pharmaceutical Ltd. where he had worked for 8 years. Mr. Wang has nearly 10 years of experience in sales and he joined JCTT in December 2002.

Mr. Zhang Xiquan (張喜全先生), aged 35, is the assistant chief engineer and supervisor of the R&D centre of JCTT. Mr. Zhang graduated from Nankai University in 1994 with a master degree in science. He has carried out studies of a number of new drugs and has experience in the organisation of joint development of new drugs. Mr. Zhang joined JCTT in April 1997.

Mr. Lu Yuehui (呂月輝先生), aged 52, is the financial controller NJCTT. He joined the Group in February, 1995. Mr. Lu graduated from the Department of Foreign Language Department in Beijing Xuanwu Hongqi Spare-Time University, Department of Accountancy in Beijing Finance and Trade Institute. He was a tutor of the Department of Accountancy in Beijing Economic Management Cadre College. Mr. Lu has been the manager of audit department and manger of finance and accountancy in the Group. Mr. Lu has 25 years of experience in finance and accounting profession and is a qualified accountant.

Mr. Tse Hsuan, Johnny (謝炫先生), aged 34, is the deputy general manager of the company's Information Management Department. He joined the Group in January 2003. He is principally responsible for the development and maintenance of Information System for the Company. Mr. Tse graduated from the University of Oregon with a bachelor degree of Computer Science in the United States. He also graduated from ESMOD Paris (Ecole International de Mode Paris) with a diploma in fashion design and pattern drafting. Before joining the Company, Mr. Tse worked in Beijing Major Kind Co., Ltd. engaged in fashion design and computer system maintenance. His design of uniform for air attendants was adopted by Air China. He is a cousin of Mr. Tse Ping.

Mr. Zhang Zhenqian (張震乾先生), aged 35, is the Deputy General Manager and an engineer of NJCTT. Mr. Zhang joined the Group in April 1997 and is responsible for the sales and operation of NJCTT. Graduated from Xuzhou College of Engineering, Mr. Zhang is also pursuing further studies in EMBA program in Guanghua Management School in Beijing University. Mr. Zhang has over ten years experience in pharmaceutical industry and was a branch manager, major district manager of JCTT.

Comparison of Use of Proceeds Raised from the Company's Initial Public Offering with Actual Application

The Company raised net proceeds of approximately HK\$60 million from its initial public offering. The following table sets forth the intended use of the net proceeds as stated in the Listing Document and the actual application up to 31 December, 2004.

<i>Notes</i>	Amount to be used up to 31 December, 2004 as disclosed in the Listing Document <i>HK\$' million</i>	Actual amount used up to 31 December, 2004 <i>HK\$' million</i>
For R&D activities including the establishment of a R&D center in Beijing	15.0	15.0
For the establishment of business alliances with pharmaceutical enterprises in the fields of biopharmaceuticals, Chinese medicine and/or natural herbal products	20.0	20.0
For the expansion of the distribution networks of the Group	10.0	–
For the establishment of the Group's website and commencement of e-commerce	3.0	1.2
General working capital	12.0	12.0
Total	<u>60.0</u>	<u>48.2</u>

Notes:

1. The Company is in the process of negotiation with potential cooperative partners and no binding agreement has been reached.
2. As at 31 December, 2004, the Group has not yet commenced its e-commerce business as the relevant PRC laws and regulations governing e-commerce business relating to pharmaceuticals in the PRC have not yet been published. Currently, the Company's principal subsidiaries have established their own websites for the purpose of advertising and promoting their pharmaceutical products. The Directors intend to use the remaining funds for the commencement of e-commerce.

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Corporate Information

LEGAL NAME OF THE COMPANY

Sino Biopharmaceutical Limited

STOCK CODE

1177

COMPANY'S WEBSITE ADDRESS

www.sino-biopharm.com

PLACE OF INCORPORATION

Cayman Islands

DATE OF LISTING ON MAIN BOARD

8 December, 2003

DIRECTORS

Executive Directors

Mr. Tse Ping (*Chairman*)

Mr. Tao Huiqi

Mr. Wang Jinyu

Mr. He Huiyu

Ms. Cheng Cheung Ling

Ms. Zhao Yanping

Mr. Tse Hsin

Non-executive Director

Ms. Josephine Price

Independent non-executive Directors

Ms. Zheng Qun, Grace

Mr. Li Dakui

Ms. Li Jun

COMPANY SECRETARY

Ms. Leung Sau Fung, Fanny

QUALIFIED ACCOUNTANT

Ms. Yu Chau Ling, FCCA, CPA

AUDIT COMMITTEE

Ms. Zheng Qun, Grace (*Chairwoman*)

Mr. Li Dakui

Ms. Li Jun

AUTHORISED REPRESENTATIVES

Mr. Tse Ping

Ms. Leung Sau Fung, Fanny

AUTHORISED PERSON TO ACCEPT SERVICES OF PROCESS AND NOTICES

Ms. Tse Wun

PRINCIPAL BANKERS

CITIC Ka Wah Bank Limited

166 Hennessy Road

Wanchai

Hong Kong

Agricultural Bank of China, Lianyungang Branch

No. 43 North Tong-guan Road

Xinpu, Lianyungang

Jiangsu Province

PRC

Bank of China, Jinan Branch

22 Luoyuan Street, Jinan

Shandong Province

PRC

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Bank of Butterfield International (Cayman) Limited

P.O. Box 705

Butterfield House

Fort Street

George Town

Grand Cayman

Cayman Islands

**HONG KONG BRANCH SHARE
REGISTRAR AND TRANSFER
OFFICE**

Tengis Limited
Ground Floor
Bank of East Asia Harbour View Centre
56 Gloucester Road
Wanchai
Hong Kong

REGISTERED OFFICE

Codan Trust Company (Cayman) Limited
Century Yard
Cricket Square
Hutchins Drive
P.O. Box 2681GT
George Town
Grand Cayman
British West Indies

**HEAD OFFICE AND PRINCIPAL
PLACE OF BUSINESS IN
HONG KONG**

Unit 09, 41st Floor, Office Tower
Convention Plaza
1 Harbour Road
Wanchai
Hong Kong

**INVESTOR RELATIONS
CONSULTANT**

Strategic Financial Relations Limited
Unit A, 29th Floor
Admiralty Centre I
18 Harcourt Road
Hong Kong

AUDITORS

Ernst & Young
Certified Public Accountants
15th Floor, Hutchison House
10 Harcourt Road
Central
Hong Kong

LEGAL ADVISERS

As to Hong Kong Law:

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21st Floor
Entertainment Building
30 Queen's Road Central
Hong Kong

As to Cayman Islands Law:

Conyers Dill & Pearman, Cayman
Century Yard
Cricket Square
Hutchins Drive
P.O. Box 2681GT
George Town
Grand Cayman
British West Indies

As to PRC Law:

Tianping Law Office
Unit 1107/08, CNT Manhattan Building
6 Chaoyangmen Beidajie
Beijing
PRC

Report of the Auditors



安永會計師事務所

To the members

Sino Biopharmaceutical Limited

(Incorporated in the Cayman Islands with limited liability)

We have audited the financial statements on pages 41 to 88 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently. It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

BASIS OF OPINION

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public Accountants. An audit includes an examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's and the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December, 2004 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Hong Kong
30 March, 2005

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Consolidated Profit and Loss Account

Year ended 31 December, 2004

	Notes	2004 HK\$'000	2003 HK\$'000
TURNOVER	5	1,050,383	821,700
Cost of sales		(186,312)	(168,696)
Gross profit		864,071	653,004
Other revenue and gains	5	10,347	9,318
Selling and distribution costs		(411,393)	(338,446)
Administrative expenses		(158,124)	(116,215)
Other operating expenses		(39,073)	(40,191)
PROFIT FROM OPERATING ACTIVITIES	6	265,828	167,470
Finance costs	7	(1,348)	(1,380)
Share of profit of:			
A jointly-controlled entity		54,985	7,411
Amortisation of goodwill arising on acquisition of a jointly-controlled entity		(4,462)	(267)
PROFIT BEFORE TAX		315,003	173,234
Tax	10	(29,940)	(23,299)
PROFIT BEFORE MINORITY INTERESTS		285,063	149,935
Minority interests		(116,726)	(68,320)
NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	11, 32	168,337	81,615
DIVIDENDS			
Interim	12	54,102	16,600
Proposed final	12	55,084	33,200
		109,186	49,800
EARNINGS PER SHARE	13		
Basic		HK12.63 cents	HK6.15 cents
Diluted		HK11.62 cents	HK5.58 cents

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Consolidated Balance Sheet

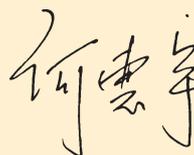
31 December, 2004

	Notes	2004 HK\$'000	2003 HK\$'000
NON-CURRENT ASSETS			
Fixed assets	14	277,349	197,951
Intangible assets	15	8,532	3,784
Deferred development costs	16	7,281	11,024
Goodwill	17	2,011	2,937
Interest in a jointly-controlled entity	19	124,164	81,079
Long term investment	20	29,820	29,820
Deferred tax assets	29	7,964	–
		457,121	326,595
CURRENT ASSETS			
Inventories	21	59,012	57,695
Trade receivables	22	97,927	54,550
Other receivables	23	28,009	8,314
Cash and cash equivalents	24	276,214	288,849
		461,162	409,408
CURRENT LIABILITIES			
Trade payables	25	17,037	21,424
Profits tax payable		9,706	7,816
Taxes payable other than profits tax	26	13,359	11,100
Other payables and accruals	27	157,055	116,828
Amounts due to related companies	28	5,138	4,501
		202,295	161,669
NET CURRENT ASSETS			
		258,867	247,739
TOTAL ASSETS LESS CURRENT LIABILITIES			
		715,988	574,334
NON-CURRENT LIABILITIES			
Deferred tax liabilities	29	2,527	–
Convertible bonds	33	42,900	78,000
		45,427	78,000
MINORITY INTERESTS			
		212,964	156,348
		457,597	339,986
CAPITAL AND RESERVES			
Issued capital	30	34,428	33,200
Reserves	32	368,085	273,586
Proposed final dividend	12	55,084	33,200
		457,597	339,986

(42)



Zhao Yanping
Director



He Huiyu
Director

Consolidated Summary Statement of Changes in Equity

Year ended 31 December, 2004

	<i>Notes</i>	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Total equity at 1 January		339,986	292,808
Exchange differences on translation of the financial statements of foreign entities	32	614	(1,392)
Surplus on revaluation of leasehold buildings	14, 32	971	4,555
Net gains not recognised in the profit and loss account		1,585	3,163
Net profit for the year attributable to shareholders		168,337	81,615
Dividends		(87,302)	(46,480)
Issue of shares, including share premium	30	34,991	8,880
Total equity at 31 December		457,597	339,986

Consolidated Cash Flow Statement

Year ended 31 December, 2004

	Notes	2004 HK\$'000	2003 HK\$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		315,003	173,234
Adjustments for:			
Finance costs	7	1,348	1,380
Share of profit of a jointly-controlled entity		(54,985)	(7,411)
Interest income	5	(3,899)	(2,652)
Dividend income from unlisted investments	5	(10,727)	(6,791)
Depreciation	6	25,774	24,049
Amortisation of goodwill		5,388	1,182
Amortisation of intangible assets	6	1,323	474
Gain on disposal of a subsidiary	5, 34	(805)	–
Loss on disposal of fixed assets	6	2,203	902
(Reversal of)/deficit on revaluation of leasehold buildings	5	(712)	712
Operating profit before working capital changes		279,911	185,079
Increase in inventories		(1,357)	(12,444)
Increase in trade receivables		(43,377)	(2,883)
(Increase)/decrease in other receivables		(19,711)	323
(Decrease) in trade payables		(3,871)	(3,013)
Increase/(decrease) in taxes payable other than profits tax		2,102	(3,247)
Increase in other payables and accruals		41,514	39,199
Increase in amounts due to related companies		637	4,404
Cash generated from operations		255,848	207,418
Mainland China profits tax paid		(28,576)	(17,929)
Net cash inflow from operating activities		227,272	189,489
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received	5	3,899	2,652
Dividend received from an unlisted investment	5	10,727	6,791
Purchases of fixed assets and construction in progress	14	(102,667)	(42,893)
Purchases of intangible assets	15	(1,371)	(1,869)
Proceeds from disposal of fixed assets		199	478
Addition of deferred development costs	16	(940)	(11,024)
Acquisition of interest in a jointly-controlled entity		–	(74,904)
Proceeds from disposal of a subsidiary	34	659	–
Acquisition of minority interests		–	15
Net cash outflow from investing activities		(89,494)	(120,754)

Consolidated Cash Flow Statement

Year ended 31 December, 2004

	Notes	2004 HK\$'000	2003 HK\$'000
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares		–	8,880
Repayment of bank loans		–	(4,712)
Interest paid	7	(1,348)	(1,380)
Dividends paid		(87,302)	(46,480)
Dividends paid to minority shareholders		(61,922)	(46,890)
Proceeds from issue of a convertible bond		–	31,200
Net cash outflow from financing activities		(150,572)	(59,382)
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS			
		(12,794)	9,353
Cash and cash equivalents at beginning of year		288,849	280,525
Effect of foreign exchange rate changes, net		159	(1,029)
CASH AND CASH EQUIVALENTS AT END OF YEAR		276,214	288,849
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	24	183,696	170,313
Time deposits with original maturity of less than three months when acquired	24	92,518	118,536
		276,214	288,849

Balance Sheet

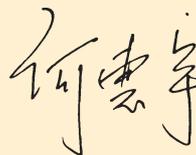
31 December, 2004

	Notes	2004 HK\$'000	2003 HK\$'000
NON-CURRENT ASSETS			
Fixed assets	14	3,266	3,177
Interests in subsidiaries	18	195,355	193,292
		198,621	196,469
CURRENT ASSETS			
Other receivables	23	2,063	2,101
Cash and cash equivalents	24	62,223	74,091
		64,286	76,192
CURRENT LIABILITIES			
Profits tax payable		26	19
Other payables and accruals	27	4,957	2,204
		4,983	2,223
NET CURRENT ASSETS			
		59,303	73,969
TOTAL ASSETS LESS CURRENT LIABILITIES			
		257,924	270,438
NON-CURRENT LIABILITIES			
Convertible bonds		42,900	78,000
		215,024	192,438
CAPITAL AND RESERVES			
Issued capital	30	34,428	33,200
Reserves	32	125,512	126,038
Proposed final dividend	12	55,084	33,200
		215,024	192,438

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Zhao Yanping
Director



He Huiyu
Director

Notes to Financial Statements

31 December, 2004

1. CORPORATE INFORMATION

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 2 February, 2000 under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The Company's shares were listed on The Growth Enterprise Market (the "GEM") of the Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 29 September, 2000. On approval by the Stock Exchange, the Company's shares were withdrawn from the GEM and were listed on the main board from 8 December, 2003.

The head office and principal place of business of the Company in Hong Kong is located at Unit 9, 41st Floor, Office Tower, Convention Plaza, 1 Harbour Road, Wanchai, Hong Kong.

During the year, the Group has continued to be principally engaged in the research and development, production and sale of a series of biopharmaceutical products for the medical treatment of ophthalmic diseases and a series of modernised Chinese medicines and chemical medicines for the treatment of hepatitis; and the investment in sino-foreign equity joint ventures, whose principal activities are the manufacture, distribution and sale of pharmaceutical products.

2. IMPACT OF RECENTLY ISSUED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

The Hong Kong Institute of Certified Public Accountants has issued a number of new Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards, herein collectively referred to as the new HKFRSs, which are generally effective for accounting periods beginning on or after 1 January, 2005. The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31 December, 2004. The new HKFRSs may result in changes in the future as to how the Group's financial performance and financial position are prepared and presented.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (which also include Statements of Standard Accounting Practice and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for the periodic remeasurement of certain fixed assets as further explained in note 14.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December, 2004. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Minority interests represent the interests of outside shareholders in the results and net assets of the Company's subsidiaries.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Subsidiaries

A subsidiary is a company whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The Company's interests in subsidiaries are stated at cost less any impairment losses.

Joint venture companies

A joint venture company is a company set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture company operates as a separate entity in which the Group and the other parties have an interest.

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture and the basis on which the assets are to be realised upon its dissolution. The profits and losses from the joint venture company's operations and any distributions of surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

A joint venture company is treated as:

- (a) a subsidiary, if the Group/Company has unilateral control, directly or indirectly over the joint venture company;
- (b) a jointly-controlled entity, if the Group/Company does not have unilateral control, but has joint control, directly or indirectly, over the joint venture company;
- (c) an associate, if the Group/Company does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20% of the joint venture company's registered capital and is in a position to exercise significant influence over the joint venture company; or
- (d) a long term investment, if the Group/Company holds, directly or indirectly, less than 20% of the joint venture company's registered capital and has neither joint control of, nor is in a position to exercise significant influence over the joint venture company.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Jointly-controlled entity

A jointly-controlled entity is a joint venture company which is subject to joint control, resulting in none of the participating parties having unilateral control over the economic activity of the jointly-controlled entity.

The Group's share of the post-acquisition results and reserves of jointly-controlled entity is included in the consolidated profit and loss account and consolidated reserves, respectively. The Group's interest in a jointly-controlled entity is stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses. Goodwill arising from the acquisition of a jointly-controlled entity is included as part of the Group's interest in a jointly-controlled entity.

The results of a jointly-controlled entity are included in the Company's profit and loss account to the extent of dividends received and receivable. The Company's interest in a jointly-controlled entity is treated as long term assets and is stated at cost less any impairment losses.

Goodwill

Goodwill arising on the acquisition of subsidiaries and a jointly-controlled entity represents the excess of the cost of the acquisition over the Group's share of the fair values of the identifiable assets and liabilities acquired as at the date of acquisition.

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset and amortised on the straight-line basis over the respective estimated useful lives of 8 and 10 years. In the case of jointly-controlled entities, any unamortised goodwill is included in the carrying amount thereof, rather than as a separately identified asset on the consolidated balance sheet.

On disposal of subsidiaries and jointly-controlled entity, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of goodwill which remains unamortised and any relevant reserves, as appropriate.

The carrying amount of goodwill is reviewed annually and written down for impairment when it is considered necessary. A previously recognised impairment loss for goodwill is not reversed unless the impairment loss was caused by a specific external event of an exceptional nature that was not expected to recur, and subsequent external events have occurred which have reversed the effect of that event.

Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Impairment of assets

An assessment is made at each balance sheet date of whether there is any indication of impairment of any asset, or whether there is any indication that an impairment loss previously recognised for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's value in use and its net selling price.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior year. A reversal of an impairment loss is credited to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

Fixed assets and depreciation

Fixed assets, other than construction in progress, are stated at cost or valuation less accumulated depreciation and any impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the profit and loss account in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the fixed asset, the expenditure is capitalised as an additional cost of that asset.

Changes in the value of fixed assets are dealt with as movements in the revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on an individual asset basis, the excess of the deficit is charged to the profit and loss account. Any subsequent revaluation surplus is credited to the profit and loss account to the extent of the deficit previously charged. On disposal of a revalued asset, the relevant portion of the revaluation reserve realised in respect of a previous valuation is transferred to retained profits as a movement in reserves.

Depreciation is calculated on the straight-line basis to write off the cost or valuation of each asset, less its estimated residual value, over its estimated useful life. The principal annual rates used for this purpose are as follows:

Leasehold buildings	4% – 5%
Land use rights	4% – 5%
Leasehold improvements	5% – 20%
Plant and machinery	5% – 9%
Motor vehicles	9% – 18%
Furniture and fixtures	18%

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Fixed assets and depreciation (Cont'd)

Land use rights are stated at cost or valuation less accumulated amortisation less any impairment losses. Amortisation is calculated on the straight-line basis to write off the cost or valuation of the land use rights over the respective period of land use rights.

Improvements to leasehold buildings are depreciated over the shorter of the lease term and the rate of 20% per annum.

The gain or loss on disposal or retirement of a fixed asset recognised in the profit and loss account is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents factory buildings, plant and machinery and other fixed assets under construction or installation, and is stated at cost less any impairment losses and is not depreciated. Cost comprises the direct costs of construction, installation and testing. Construction in progress is reclassified to the appropriate category of fixed assets when completed and ready for use.

Intangible assets

Patents

Purchased patents are stated at cost less any impairment losses and are amortised on the straight-line basis over the respective estimated useful lives of not exceeding 10 years.

Research and development costs

All research costs are charged to the profit and loss account as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the projects are clearly defined; the expenditure is separately identifiable and can be measured reliably; there is reasonable certainty that the projects are technically feasible; and the products have commercial value. Product development expenditure which does not meet these criteria is expensed when incurred.

Deferred development costs

Deferred development costs are stated at cost less any impairment losses and are amortised using the straight-line basis over the commercial lives of underlying products not exceeding five years, commencing from the date when the products are put into commercial production.

Operating leases

Leases where substantially all the rewards and risks of ownership of the assets remain with the lessor are accounted for as operating leases. Where the Group is a lessee, rental payables under the operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

Long term investment

Long term investment represents non-trading investment in unlisted equity securities intended to be held on a long term basis.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Long term investment (Cont'd)

Unlisted securities are stated at cost less any impairment losses, on an individual basis. An impairment loss is recognised only if the carrying amount exceeds its recoverable amount. An impairment loss is charged to the profit and loss account in the period in which it arises.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the balance sheet, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made for the amount of the obligation.

Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the profit and loss account, or in equity if it relates to items that are recognised in the same or a different period directly in equity.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences:

- except where the deferred tax liability arises from the initial recognition of an asset or liability and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries and interests in joint ventures, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Income tax (Cont'd)

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax assets and unused tax losses can be utilised:

- except where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Government grants

Government grants are recognized at their fair values where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that is intended to compensate. Where the grant relates to an asset, the fair value is deducted from the carrying amount of the asset and released to the profit and loss account by way of a reduced depreciation charge.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

- (i) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- (ii) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable; and
- (iii) dividend income, when the shareholders' right to receive payment has been established.

Employee benefits

Pension schemes

The Company operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for all of those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the profit and loss account as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Company in an independently administered fund. The Company's employer contributions vest fully with the employees when contributed into the MPF Scheme.

The employees of the Company's subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute 20 – 23% of the payroll costs to the central pension scheme. The contributions are charged to the profit and loss account as they become payable in accordance with the rules of the central pension scheme.

Share option scheme

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. The financial impact of share options granted under the share option scheme is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recorded in the profit and loss account or balance sheet for their cost. Upon the exercise of share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Share options which are cancelled prior to their exercise date, or which lapse, are deleted from the register of outstanding share options.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised.

All other borrowing costs are recognised as expenses when incurred.

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the capital and reserves section of the balance sheet, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

Foreign currencies

Foreign currency transactions are recorded at the applicable exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable exchange rates ruling at that date. Exchange differences are dealt with in the profit and loss account.

On consolidation, the financial statements of subsidiaries and a jointly-controlled entity in Mainland China are translated into Hong Kong dollars using the net investment method. The profit and loss accounts of subsidiaries and the jointly-controlled entity in Mainland China are translated into Hong Kong dollars at the weighted average exchange rates for the year, and their balance sheets are translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

For the purpose of the consolidated cash flow statement, the cash flow of subsidiaries in Mainland China is translated into Hong Kong dollars at the exchange rates ruling at the date of the cash flows. Frequently recurring cash flows of subsidiaries in Mainland China which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

4. SEGMENT INFORMATION

Segment information is presented by way of the Group's primary segment reporting basis, by business segment. In determining the Group's geographical segments, revenues are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets. No further geographical segment information is presented as over 90% of the Group's customers and operations are located in Mainland China.

The Group's operating businesses are structured and managed separately, according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of the other business segments. During the year, the directors reviewed the segment information disclosure, and information on biopharmaceutical, modernised Chinese and chemical medicines were further analysed. Summary details of the business segments are as follows:

- (a) the biopharmaceutical medicines segment comprises the manufacture, sale and distribution of the biopharmaceutical medicine products;
- (b) the modernised Chinese medicines and chemical medicines segment comprises the manufacture, sale and distribution of the modernised Chinese medicine and chemical medicine products; and
- (c) the investment segment is engaged in long term investment.

4. SEGMENT INFORMATION (Cont'd)

	For the year ended 31 December,	
	2004 HK\$'000	2003 HK\$'000
Segment revenue:		
Biopharmaceutical medicines	484,161	378,553
Modernised Chinese medicines and chemical medicines	555,495	436,356
Investment	10,727	6,791
	1,050,383	821,700
Segment results:		
Biopharmaceutical medicines	160,392	88,051
Modernised Chinese medicines and chemical medicines	125,137	97,881
Investment	4,030	(1,580)
	289,559	184,352
Unallocated expenses	(34,078)	(26,200)
Other revenue	10,347	9,318
Profit from operating activities	265,828	167,470
Finance costs	(1,348)	(1,380)
Share of profit of:		
A jointly-controlled entity (note a)	54,985	7,411
Amortisation of goodwill on acquisition of a jointly-controlled entity	(4,462)	(267)
Profit before tax	315,003	173,234
Tax	(29,940)	(23,299)
Profit before minority interests	285,063	149,935
Minority interests	(116,726)	(68,320)
Net profit from ordinary activities attributable to shareholders	168,337	81,615

Note:

- (a) The jointly-controlled entity is in the business segment of modernised Chinese medicines and chemical medicines.

Notes to Financial Statements

31 December, 2004

4. SEGMENT INFORMATION (Cont'd)

	As at 31 December,	
	2004 HK\$'000	2003 HK\$'000
Segment assets:		
Biopharmaceutical medicines	324,434	220,045
Modernised Chinese medicines and chemical medicines	364,945	302,780
Investment	220,940	213,178
	910,319	736,003
Unallocated assets	7,964	–
	918,283	736,003
Segment liabilities:		
Biopharmaceutical medicines	94,477	73,903
Modernised Chinese medicines and chemical medicines	85,068	80,356
Investment	55,944	85,410
	235,489	239,669
Unallocated liabilities	12,233	–
	247,722	239,669
Other segment information:		
Depreciation and amortisation:		
Biopharmaceutical medicines	13,058	12,433
Modernised Chinese medicines and chemical medicines	13,823	12,126
Investment	1,142	1,146
	28,023	25,705
(Reversal of)/deficit on revaluation of leasehold buildings:		
Biopharmaceutical medicines	(712)	712
Other non-cash expenses:		
Biopharmaceutical medicines	456	285
Modernised Chinese medicines and chemical medicines	1,747	617
	2,203	902
Capital expenditure:		
Biopharmaceutical medicines	55,446	39,875
Modernised Chinese medicines and chemical medicines	46,930	10,212
Investment	1,231	3,830
	103,607	53,917

5. TURNOVER AND OTHER REVENUE AND GAINS

Turnover represents the net invoiced value of goods sold, after allowances for sales returns and discounts, and dividend income from an unlisted investment.

An analysis of turnover and other revenue and gains is as follows:

	2004 HK\$'000	2003 HK\$'000
TURNOVER		
Sale of goods	1,039,656	814,909
Dividend income from an unlisted investment	10,727	6,791
	1,050,383	821,700
OTHER REVENUE		
Interest income	3,899	2,652
Government grants	1,226	3,567
Sale of scrap materials	2,105	865
Others	1,600	2,234
	8,830	9,318
GAINS		
Gain on disposal of subsidiary (note 34)	805	–
Reversal of revaluation deficit (note 14)	712	–
	1,517	–
	10,347	9,318

Notes to Financial Statements

31 December, 2004

6. PROFIT FROM OPERATING ACTIVITIES

The Group's profit from operating activities is arrived at after charging/(crediting):

	Notes	2004 HK\$'000	2003 HK\$'000
Cost of inventories sold		186,312	168,696
Depreciation	14	25,774	24,049
Amortisation of intangible assets *	15	1,323	474
Amortisation of goodwill *	17	926	915
Minimum lease payments under operating leases:			
Land and buildings		8,012	9,522
Loss on disposal of fixed assets		2,203	902
Provision for doubtful debts		161	1,494
Research and development costs		35,737	32,070
Auditors' remuneration		800	627
Staff costs (including directors' remuneration, note 8)			
Wages and salaries		131,762	94,032
Pension scheme contributions **		13,984	11,509
		145,746	105,541
Exchange (gain)/losses, net		(490)	1,016

Notes:

* The amortisation of intangible assets (i.e. patents) and goodwill for the year are included in "Cost of sales" and "Other operating expenses" on the face of the consolidated profit and loss account, respectively.

** During the year, certain of the subsidiaries in Mainland China were members of a pension contribution scheme managed by the respective local governments. Contributions made during the year were based on 20% – 23% (2003: 20% – 23%) of the employees' salaries and were charged to the consolidated profit and loss account as they became payable.

For Hong Kong employees eligible for the MPF Scheme, the Group contributed 5% of the employees' salaries for the year ended 31 December, 2004 (2003: 5%).

7. FINANCE COSTS

	2004 HK\$'000	2003 HK\$'000
Interest on bank loans wholly repayable within one year	604	790
Interest on convertible bonds	744	590
	1,348	1,380

8. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the Rules Governing the Listing of Securities on the Stock Exchange and Section 161 of the Companies Ordinance, is as follows:

	2004 HK\$'000	2003 HK\$'000
Fees	173	114
Other emoluments:		
Salaries, allowances and benefits in kind	3,138	3,238
Pension scheme contributions	33	42
Discretionary bonuses	2,866	1,420
	6,037	4,700
	6,210	4,814

All the directors' fees were paid to the independent non-executive directors. There were no other emoluments payable to the independent non-executive directors during the year (2003: nil). The non-executive director did not receive any emoluments during the year (2003: nil).

The number of directors whose remuneration fell within the following bands is as follows:

	2004	2003
Nil to HK\$1,000,000	6	5
HK\$1,000,001 to HK\$1,500,000	–	1
HK\$2,000,001 to HK\$2,500,000	–	1
HK\$4,500,001 to HK\$5,000,000	1	–
	7	7

There was no arrangement under which a director waived or agreed to waive any remuneration during the current and prior years.

No share options were granted to the directors for the current and prior years in respect of their services to the Group.

No share options (2003: 16,800,000 share options, after adjusting the share subdivision effect) were exercised by the directors during the year.

Notes to Financial Statements

31 December, 2004

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees of the Group during the year included one (2003: three) directors, details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining four (2003: two) non-director, highest paid employees for the year are as follows:

	2004 HK\$'000	2003 HK\$'000
Salaries, allowances and benefits in kind	1,692	946
Pension scheme contributions	42	21
Discretionary bonuses	3,022	728
	4,756	1,695

The remuneration of all the non-director, highest paid employees fell within the band of nil to HK\$1,500,000.

During the year, no emoluments were paid by the Group to the directors or the other highest paid employees either as an inducement to join or upon joining the Group, or as compensation for loss of office (2003: nil).

During the year, no share options were granted to the non-directors, highest paid employees (2003: nil).

10. TAX

No provision for Hong Kong profits tax has been made as the Group had no assessable profits derived from or earned in Hong Kong during the current and prior years. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates based on existing legislation, interpretations and practices in respect thereof.

	Group	
	2004 HK\$'000	2003 HK\$'000
Provision for the year:		
Current – Mainland China income tax	30,466	22,330
Deferred tax (note 29)	(7,964)	–
	22,502	22,330
Share of tax attributable to:		
A jointly-controlled entity	7,438	969
Total tax charge for the year	29,940	23,299

(62)

10. TAX (Cont'd)

Pursuant to the Income Tax Law of Mainland China Concerning Foreign Investment Enterprises and Foreign Enterprises and various local income tax laws (the "Income Tax Laws"), joint venture companies are subject to the statutory corporate income tax rate of 33% (comprising 30% state income tax plus 3% local income tax) unless the enterprise is qualified as a "High and New Technology Enterprise" for which more favourable effective corporate income tax rates apply. The Group's principal operating subsidiaries qualify as "High and New Technology Enterprises" for which a preferential corporate income tax rate of 15% applies.

Jiangsu Chia Tai-Tianqing Pharmaceutical Co., Ltd. ("JCTT"), one of the Group's principal operating subsidiaries, is exempt from corporate income tax for the two years commencing from its first year with assessable profits after deducting tax losses brought forward, and is entitled to a 50% exemption from the full corporate income tax rate for the succeeding three years (the "Tax Exemption"). The Tax Exemption expired on 31 December, 2002. As JCTT qualifies as an "Advanced Technology Enterprise", it is entitled to extend the period of a reduced corporate income tax rate for another three years on expiry of the Tax Exemption, provided that the minimum corporate income tax rate is not lower than 10%. Consequently, JCTT is subject to a corporate income tax rate of 10% in 2004.

Shandong Chia Tai Freda Pharmaceutical Co., Ltd. ("CTF"), another principal operating subsidiary of the Group, is also entitled to the Tax Exemption. The Tax Exemption expired on 31 December, 2001. As CTF qualifies as an "Advanced Technology Enterprise", it is entitled to extend the period of a reduced corporate income tax rate for another three years on expiry of the Tax Exemption, provided that the minimum corporate income tax rate is not lower than 10%. Consequently, CTF has been subject to a corporate income tax rate of 10% since 2002. The preferential tax rate for "Advanced Technology Enterprise" expired on 31 December, 2004.

Shandong Chia Tai Freda New Packaging Resources Co., Ltd. ("CTFP"), another operating subsidiary of the Group is also entitled to the Tax Exemption. CTFP is entitled to the 50% exemption for its corporate income tax and therefore, CTFP's corporate income tax rate was 7.5% for the year ended 31 December, 2004. The Tax Exemption will expire on 31 December, 2006.

Nanjing Chia Tai Tianqing Pharmaceutical Co., Ltd. ("NJCTT"), another principal operating subsidiary of the Group, is also entitled to the Tax Exemption. NJCTT is entitled to the preferential corporate income tax rate of 15% as it is located in Nanjing technology development area.

Beijing Tide Pharmaceutical Co., Ltd. ("Beijing Tide"), a jointly-controlled entity of the Group, is also entitled to the Tax Exemption. Beijing Tide's statutory corporate income tax rate is 24%. As Beijing Tide is also entitled to 50% exemption for its corporate income tax, its corporate income tax rate was 12% for the year ended 31 December, 2004. The Tax Exemption expired on 31 December, 2004. As Beijing Tide qualifies as an "Advanced Technology Enterprise", it is entitled to extend the period of a reduced corporate income tax rate for another three years on expiry of the Tax Exemption. Consequently, Beijing Tide is subject to a corporate income tax rate of 12% from 2005 to 2007.

Notes to Financial Statements

31 December, 2004

10. TAX (Cont'd)

A reconciliation of the tax expense applicable to profit before tax using the statutory rates for the countries in which the Company and its subsidiaries and jointly-controlled entity are domiciled to the tax expense at the effective tax rates are as follows:

	Group	
	2004 HK\$'000	2003 HK\$'000
Profit before tax	315,003	173,234
Tax at the statutory tax rate of 33%	103,951	57,167
Less: preferential tax rate reduction by 18%	(56,701)	(31,182)
Expenses not deductible for tax	7,270	7,425
Non-taxable income	(1,609)	(1,019)
Tax losses of subsidiaries	6,441	5,821
Tax exemptions/deductions	(29,412)	(14,913)
Actual tax expense	29,940	23,299

11. NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net profit from ordinary activities attributable to shareholders for the year ended 31 December, 2004 dealt with in the financial statements of the Company was HK\$74,897,000 (2003: HK\$10,573,000) (note 32).

12. DIVIDENDS

	Group and Company	
	2004 HK\$'000	2003 HK\$'000
Interim dividend		
– HK\$0.04 (2003: HK\$0.0125 after adjustment of share subdivision) per ordinary share	54,102	16,600
Proposed final dividend		
– HK\$0.04 (2003: HK\$0.025 after adjustment of share subdivision) per ordinary share	55,084	33,200
	109,186	49,800

The proposed final dividend for the current year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting. The proposed final dividend for the prior year was approved by the Company's shareholders at the annual general meeting.

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13. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the net profit attributable to shareholders for the year of HK\$168,337,000 (2003: HK\$81,615,000), and the weighted average number of 1,333,112,789 (2003: 1,326,947,944) ordinary shares in issue during the year.

The calculation of diluted earnings per share is based on the net profit attributable to shareholders for the year of HK\$168,337,000 (2003: HK\$81,615,000) and interest of HK\$354,000 (2003: HK\$590,000) on convertible bonds. The weighted average number of ordinary shares used in calculation is 1,333,112,789 (2003: 1,326,947,944) ordinary shares in issue during the year, as used in the basic earnings per share calculation; the weighted average of 58,919,969 (2003: 48,987,864) ordinary shares assumed to have been issued at no consideration on the deemed exercise of all share options during the year and the weighted average of 60,210,526 (2003: 98,556,308) ordinary shares assumed to have been issued on the deemed exercise of all convertible bonds during the year.

The total number of shares in issue used in the basic and diluted earnings per share calculation for 2003 have been adjusted to reflect the sub-division of shares during the year (note 30).

14. FIXED ASSETS

Group

	Leasehold buildings	Land use rights	Leasehold improve- ments	Plant and machinery	Motor vehicles	Furniture and fixtures	Con- struction in progress	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cost or valuation:								
At beginning of year	60,050	6,100	23,009	106,074	17,368	24,176	29,686	266,463
Additions	541	17,644	540	7,033	3,034	6,957	66,918	102,667
Surplus on revaluation	2,429	1,047	-	-	-	-	-	3,476
Disposal of a subsidiary	-	-	-	-	-	(302)	-	(302)
Disposals	(2,625)	-	-	(4,774)	(269)	(2,265)	-	(9,933)
Transfers	12,681	-	-	6,409	56	35	(19,181)	-
Exchange realignment	117	6	25	188	9	51	47	443
At 31 December, 2004	73,193	24,797	23,574	114,930	20,198	28,652	77,470	362,814
Analysis of cost or valuation:								
At cost	-	-	23,574	114,930	20,198	28,652	77,470	264,824
At valuation	73,193	24,797	-	-	-	-	-	97,990
	73,193	24,797	23,574	114,930	20,198	28,652	77,470	362,814
Accumulated depreciation:								
At beginning of year	-	-	10,103	40,945	6,412	11,052	-	68,512
Provided during the year	3,248	129	2,862	12,514	3,145	3,876	-	25,774
Written back on revaluation	(1,156)	(129)	-	-	-	-	-	(1,285)
Disposal of a subsidiary	-	-	-	-	-	(122)	-	(122)
Disposals	(2,119)	-	-	(3,218)	(194)	(2,000)	-	(7,531)
Exchange realignment	27	-	6	64	6	14	-	117
At 31 December, 2004	-	-	12,971	50,305	9,369	12,820	-	85,465
Net book value:								
At 31 December, 2004	73,193	24,797	10,603	64,625	10,829	15,832	77,470	277,349
At 31 December, 2003	60,050	6,100	12,906	65,129	10,956	13,124	29,686	197,951

Notes to Financial Statements

31 December, 2004

14. FIXED ASSETS (Cont'd)

Company

	Motor vehicles <i>HK\$'000</i>	Furniture and fixtures <i>HK\$'000</i>	Total <i>HK\$'000</i>
Cost:			
At beginning of year	3,422	364	3,786
Additions	–	1,231	1,231
Exchange realignment	(14)	14	–
At 31 December, 2004	3,408	1,609	5,017
Accumulated depreciation:			
At beginning of year	415	194	609
Provided during the year	836	306	1,142
Exchange realignment	(1)	1	–
At 31 December, 2004	1,250	501	1,751
Net book value:			
At 31 December, 2004	2,158	1,108	3,266
At 31 December, 2003	3,007	170	3,177

The Group's leasehold buildings are all situated in the PRC and are held under long term leases.

The Group's leasehold buildings and land use rights as at 31 December, 2004 were revalued as at that date by DTZ Debenham Tie Leung Limited, independent professionally qualified valuers at an aggregate open market value of HK\$97,990,000 (2003: HK\$66,150,000) based on their existing use. The revaluation resulted in a surplus of HK\$5,209,000 (2003: HK\$8,533,000) and a deficit of HK\$448,000 (2003: HK\$712,000). The Group has credited HK\$2,395,000 (2003: HK\$4,555,000) to the revaluation reserve and reversed HK\$712,000 (2003: charged HK\$392,000) from the profit and loss account, respectively, in the current year.

Had the leasehold buildings and land use rights been carried at historical cost less accumulated depreciation, their carrying values would have been approximately HK\$87,130,000 as at 31 December, 2004.

As at 31 December, 2004, the Group had not obtained title certificates for certain acquired leasehold buildings and land use rights at net book values of HK\$10,713,000 and HK\$17,465,000, respectively (2003: HK\$24,071,000 and HK\$3,113,000, respectively). The directors are of the opinion that the title certificates will be obtained in due course.

15. INTANGIBLE ASSETS**Patents**

	Group	
	2004 HK\$'000	2003 HK\$'000
Cost:		
At beginning of year	4,432	2,563
Transferred from deferred development cost	4,700	–
Additions	1,371	1,869
At 31 December	10,503	4,432
Accumulated amortisation:		
At beginning of year	648	174
Provided during the year	1,323	474
At 31 December	1,971	648
Net book value	8,532	3,784

16. DEFERRED DEVELOPMENT COSTS

	Group	
	2004 HK\$'000	2003 HK\$'000
Cost:		
At beginning of year	11,024	–
Transferred to intangible assets	(4,700)	–
Additions	940	11,024
Exchange realignment	17	–
At 31 December	7,281	11,024

There is no amortisation for the two years ended 31 December, 2004 and 2003 as the products have not yet been put into commercial production.

17. GOODWILL

	Group	
	2004 HK\$'000	2003 HK\$'000
Cost:		
At beginning of year	8,245	6,781
Addition	–	1,464
At 31 December	8,245	8,245
Accumulated amortisation:		
At beginning of year	5,308	4,393
Provided during the year	926	915
At 31 December	6,234	5,308
Net book value	2,011	2,937

Notes to Financial Statements

31 December, 2004

18. INTERESTS IN SUBSIDIARIES

	Company	
	2004 HK\$'000	2003 HK\$'000
Unlisted shares, at cost	131,300	131,299
Due from subsidiaries	82,606	81,273
Due to subsidiaries	(18,551)	(19,280)
	195,355	193,292

The amounts due from/(to) subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

Particulars of the subsidiaries are as follows:

Company name	Place of incorporation/ registration and operations	Paid-up/ registered capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Ace Elite Investments Limited	British Virgin Islands/ Mainland China	US\$50,000 Ordinary	100	–	Investment holding
Beijing Chia Tai Green Continent Pharmaceutical Co., Ltd.	Mainland China	US\$1,000,000	–	75	Research and development of pharmaceutical products
Champion First Investments Limited	British Virgin Islands/ Mainland China	US\$2 Ordinary	100	–	Investment holding
Chia Tai Healthcare (Holdings) Limited	British Virgin Islands/ Mainland China	US\$50,000 Ordinary	100	–	Investment holding
Chia Tai Pharmaceutical (Lianyungang) Company Limited	British Virgin Islands/ Mainland China	US\$3 Ordinary	100	–	Investment holding
China Biotech & Drug Development Limited	Hong Kong	HK\$100 Ordinary	–	85	Research and development of pharmaceutical products

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18. INTERESTS IN SUBSIDIARIES (Cont'd)

Company name	Place of incorporation/ registration and operations	Paid-up/ registered capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Jiangsu Chia Tai-Tianqing Pharmaceutical Co., Ltd.	Mainland China	RMB99,000,000	–	60	Development, manufacture and distribution of pharmaceutical products
Magnificent Technology Limited	British Virgin Islands/Hong Kong	US\$1 Ordinary	100	–	Investment holding
Nanjing Chia Tai Tianqing Pharmaceutical Co., Ltd.	Mainland China	US\$5,050,000	–	51	Manufacture and sale of pharmaceutical products
Shandong Chia Tai Freda Pharmaceutical Co., Ltd.	Mainland China	RMB42,000,000	–	55	Development, manufacture and distribution of pharmaceutical products
Shandong Chia Tai Freda New Packaging Resources Co., Ltd.	Mainland China	RMB11,000,000	–	55	Production and sale of packaging materials
Sino Biopharmaceutical (Beijing) Limited	British Virgin Islands/ Mainland China	US\$50,000 Ordinary	100	–	Investment holding
Sino Concept Technology Limited	Hong Kong	HK\$10,100 Ordinary	100	–	Investment holding and provision of management services
Talent Forward Limited	British Virgin Islands/ Mainland China	US\$50,000 Ordinary	100	–	Investment holding

During the year, Hainan Chia Tai Freda Medicine Co., Ltd was disposed to a third party for a consideration of HK\$659,000 and Hainan Chia Tai Freda Pharmaceutical Co., Ltd was liquidated. Further details of the disposal and liquidation are included in note 34 to the financial statements.

Notes to Financial Statements

31 December, 2004

19. INTEREST IN A JOINTLY-CONTROLLED ENTITY

	Group	
	2004 HK\$'000	2003 HK\$'000
Share of net assets	84,275	36,728
Goodwill on acquisition	39,889	44,351
	124,164	81,079

The amortisation of goodwill provided during the year amounted to HK\$4,462,000 (2003: HK\$267,000).

Particulars of the jointly-controlled entity are as follows:

Name	Business structure	Place of incorporation/ registration and operations	Percentage of			Principal activities
			Ownership interest	Voting power	Profit sharing	
Beijing Tide Pharmaceutical Company Limited	Corporate	Mainland China	35	31	35	Development, manufacture and distribution of pharmaceutical products

Investment in the jointly-controlled entity is indirectly held by the Company. As at 31 December, 2004, the aggregate amounts of current assets, non-current assets, current liabilities, turnover and net profit after tax of this jointly-controlled entity were as follows:

	Group	
	2004 HK\$'000	2003 HK\$'000
Current assets	230,966	226,120
Non-current assets	113,786	35,710
Current liabilities	67,864	109,685
Turnover	280,212	180,617
Net profit after tax	135,848	87,519

(70)

20. LONG TERM INVESTMENT

	Group	
	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Unlisted equity investment, at cost	29,820	29,820

The amount represents the Group's 5% equity investment in Chia Tai Qingchunbao Pharmaceutical Co., Ltd., which is engaged in the manufacture, distribution and sale of pharmaceutical products primarily made from natural herbal ingredients in Mainland China.

21. INVENTORIES

	Group	
	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Raw materials	19,576	19,261
Work in progress	11,687	10,127
Finished goods	27,125	24,952
Spare parts and consumables	624	3,355
	59,012	57,695

No inventories were carried at net realisable value as at the balance sheet dates (2003: Nil).

22. TRADE RECEIVABLES

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit term is generally up to 90 days. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management.

An aged analysis of the Group's trade receivables as at the balance sheet dates, based on invoice date and net of provisions, is as follows:

	Group	
	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Current to 90 days	81,978	52,857
91 days to 180 days	14,209	1,669
Over 180 days	1,740	24
	97,927	54,550

Notes to Financial Statements

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23. OTHER RECEIVABLES

	Group		Company	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Advances to suppliers	18,118	2,043	–	–
Other receivables	8,853	4,709	1,769	1,508
Prepaid expenses	1,038	1,562	294	593
	28,009	8,314	2,063	2,101

24. CASH AND CASH EQUIVALENTS

	Group		Company	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Cash and bank balances	183,696	170,313	2,028	5,799
Time deposits	92,518	118,536	60,195	68,292
Cash and cash equivalents	276,214	288,849	62,223	74,091

At the balance sheet date, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to HK\$202,098,000 (2003: HK\$188,592,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sales and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorized to conduct foreign exchange business.

25. TRADE PAYABLES

An aged analysis of the Group's trade payables as at the balance sheet dates, based on invoice date, is as follows:

	Group	
	2004 HK\$'000	2003 HK\$'000
Current to 90 days	16,018	19,340
91 days to 180 days	349	578
Over 180 days	670	1,506
	17,037	21,424

(72)

26. TAXES PAYABLE OTHER THAN PROFITS TAX

	Group	
	2004 HK\$'000	2003 HK\$'000
Value-added tax	9,053	6,025
Individual income tax	3,920	4,708
Property tax	386	367
	13,359	11,100

27. OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Advances from customers	12,946	8,797	–	–
Accrued payroll and bonus	25,646	25,194	782	149
Other payables	35,043	29,936	960	3
Accrued expenses	48,839	33,021	3,204	2,002
Housing fund	700	980	–	–
Staff welfare and bonus fund	33,881	18,900	11	50
	157,055	116,828	4,957	2,204

28. AMOUNTS DUE TO RELATED COMPANIES

The amounts due to related companies are unsecured, interest-free and have no fixed terms of repayment.

29. DEFERRED TAX

The movements in deferred tax liabilities and assets during the year are as follows:

Deferred tax liabilities**Group**

	2004 Revaluation of properties HK\$'000
Deferred tax charge arising from revaluation of properties during the year	2,527
Gross deferred tax liability at 31 December, 2004	2,527

Notes to Financial Statements

31 December, 2004

29. DEFERRED TAX (Cont'd)

Deferred tax assets

	Accruals <i>HK\$'000</i>	Provision for trade receivables <i>HK\$'000</i>	Fixed assets depreciation <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January, 2004	–	–	–	–
Deferred tax credited to the profit and loss account during the year (note 10)	5,971	539	1,454	7,964
Gross deferred tax assets At 31 December, 2004	5,971	539	1,454	7,964

30. SHARE CAPITAL

	Group and Company	
	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Authorised:		
4,000,000,000 ordinary shares of HK\$0.025 each (2003: 1,000,000,000 ordinary shares of HK\$0.10 each)	100,000	100,000
Issued and fully paid:		
1,377,109,684 ordinary shares of HK\$0.025 each (2003: 332,000,000 ordinary shares of HK\$0.10 each)	34,428	33,200

The movements in the Company's issued capital during the year are summarised as follows:

	Number of shares in issue	Issued share capital <i>HK\$'000</i>	Share premium account <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January, 2003	320,000,000	32,000	90,038	122,038
Share options exercised (a)	12,000,000	1,200	7,680	8,880
At 31 December, 2003 and 1 January, 2004	332,000,000	33,200	97,718	130,918
Sub-division of shares (b)	996,000,000	–	–	–
On conversion of convertible bonds (c)	49,109,684	1,228	33,763	34,991
At 31 December, 2004	1,377,109,684	34,428	131,481	165,909

(74)

30. SHARE CAPITAL (Cont'd)

Notes:

- (a) On 8 January, 2003, 12,000,000 share options were exercised and the Company issued 12,000,000 new shares of HK\$0.10 each at a price of HK\$0.74 per share for a total cash consideration, before expenses, of HK\$8,880,000.
- (b) Pursuant to the approval of the shareholders on 27 April, 2004, for every issued and un-issued share of HK\$0.10 to be subdivided into four shares of HK\$0.025 each, 332,000,000 issued shares were sub-divided into 1,328,000,000 shares.
- (c) On 24 November, 2004, the holder of the 2002 Convertible Bond exercised the rights to convert an amount of US\$4,500,000 into 49,109,684 shares at a conversion price of HK\$0.7125 each, representing an increase in the issued share capital of approximately HK\$1,200,000 and an increase in the share premium account of approximately HK\$33,800,000 (note 33).

Details of the Company's share options scheme are included in note 31 to the financial statements.

31. SHARE OPTION SCHEMES

(a) The Existing Scheme

The Company operates a share option scheme (the "Existing Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. The Existing Scheme became effective on 19 September, 2000. On 26 April, 2002, the Existing Scheme was terminated and replaced by a new share option scheme, as detailed below under the heading "The New Scheme". Upon the termination of the Existing Scheme, no further share options will be granted pursuant to the Existing Scheme, however the Existing Scheme will, in all other respects, remain in force to the extent necessary to give effect to the exercise of the outstanding share options previously granted pursuant thereto. The outstanding share options will continue to be valid and exercisable in accordance with the rules of the Existing Scheme.

Eligible participants of the Existing Scheme included employees or executive directors of the Company or any of its subsidiaries. The directors of the Company are authorised to invite, at their discretion, eligible participants to take up options to subscribe for shares of the Company (the "Shares"). Unless otherwise cancelled or amended, the Existing Scheme will remain in force for a period of 10 years commencing on 19 September, 2000.

The maximum number of unexercised share options currently permitted to be granted under the Existing Scheme is an amount equivalent, upon their exercise, to 10% of the Shares in issue for a period of 10 consecutive years. The maximum number of shares issuable under share options to each eligible participant in the Existing Scheme within any 12-month period, is limited to 10% of the Shares in issue at any time. No option may be granted to any eligible participants which, if exercised in full, would result in such eligible participants becoming entitled to subscribe for such number of Shares as, and when aggregated with the total number of Shares already issued and remaining issuable to him or her under the Existing Scheme, would exceed 25% of the aggregate number of Shares for the time being issued and are issuable under the Existing Scheme.

(75)

31. SHARE OPTION SCHEMES (Cont'd)

(a) The Existing Scheme (Cont'd)

The offer of a grant of share options may be accepted within 21 days from the date of the offer, upon payment of a nominal consideration of HK\$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors of the Company, which may commence from the date immediately following the date of grant and ending on such date as the directors of the Company may determine but in any event not exceeding 10 years from the date of grant of such share options.

The exercise price of the share options is determinable by the directors, but may not be less than the higher of (i) the Stock Exchange closing price of the Company's shares on the date of the offer of the share options as stated in the daily quotation sheet of the Stock Exchange; and (ii) the average Stock Exchange closing price of the Company's shares for the five trading days immediately preceding the date of the offer as stated in the daily quotation sheets of the Stock Exchange.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

Pursuant to Clause 9.6 of the Rules of the Existing Scheme, if there is any alteration in the capital structure of the Company while any Option remains exercisable, whether by way of capitalization of profits or reserves, rights issued, consolidation, subdivision or reduction of the share capital of the Company (other than an issue of Shares as consideration in respect of a transaction to which the Company is a party) or otherwise, such corresponding alterations (if any) shall be made in:

- (a) the number of Shares (without fractional entitlements) subject to the Option so far as unexercised; and/or
- (b) the Subscription Price; and/or
- (c) the method of exercise of the Option.

Pursuant to the announcement dated 27 April, 2004, the subdivision of every issued and un-issued shares of HK\$0.10 each into four shares of HK\$0.025 each was approved by the shareholders.

31. SHARE OPTION SCHEMES (Cont'd)

(a) The Existing Scheme (Cont'd)

Accordingly, the outstanding share options under the Existing Scheme have been altered as follows:

Name or category of participant	Number of share options				Date of grant of share options*	Exercise period of share options	Exercise price per share option**	Adjusted exercise price per share option***	Price of the Company's shares****	
	At 1 January 2004	On sub-division of shares* during the year	Exercised during the year	At 31 December 2004					At grant date of options	At exercise date of options
									HK\$	HK\$
Directors										
Tse Ping	4,500,000	13,500,000	-	18,000,000	2 January, 2001	3 January, 2003 to 1 January, 2007	0.74	0.185	0.74	-
Wang Jinyu	600,000	1,800,000	-	2,400,000	2 January, 2001	3 January, 2003 to 1 January, 2007	0.74	0.185	0.74	-
Tao Huiqi	600,000	1,800,000	-	2,400,000	2 January, 2001	3 January, 2003 to 1 January, 2007	0.74	0.185	0.74	-
	5,700,000	17,100,000	-	22,800,000						
Other employees										
In aggregate	12,300,000	36,900,000	-	49,200,000	2 January, 2001	3 January, 2003 to 1 January, 2007	0.74	0.185	0.74	-
	18,000,000	54,000,000	-	72,000,000						

* The vesting period of the share options is from the date of grant until the commencement of the exercise period.

** The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.

*** Pursuant to the Rules of the Existing Scheme, the exercise price per share option has been altered subsequent to the approved subdivision of shares by shareholders.

**** The price of the Company's shares disclosed as at the date of the share options is the Stock Exchange closing price on the date of grant of the options and the exercise date of the options.

At the balance sheet date, the Company had 72,000,000 share options outstanding under the Existing Scheme. The exercise in full of the remaining share options would, under the present capital structure of the Company, result in the issue of 72,000,000 additional ordinary shares of the Company and additional share capital of HK\$1,800,000 and share premium of HK\$11,520,000 (before issue expenses).

No share options were exercised or granted during the year.

31. SHARE OPTION SCHEMES (Cont'd)**(b) The New Scheme**

Following the amendments to Chapter 23 of the GEM Listing Rules which came into effect on 1 October, 2001, no share options may be granted under the Existing Scheme unless such grant is made in compliance with the amended rules. To enable the Company to reward and provide incentives to eligible participants who may contribute to the success of the Group's operations, a new share option scheme (the "New Scheme") was adopted by the Company on 26 April, 2002 and at the same time the Existing Scheme was terminated. The New Scheme remains in force for ten years commencing from 26 April, 2002. On approval by the Stock Exchange for listing of the Company's shares on the main board, the Company adopted a proposed share option scheme (the "Proposed Scheme") and terminated the New Scheme pursuant to an ordinary resolution passed by the shareholders of the Company on 24 November, 2003. No share options were granted under the New Scheme since 26 April, 2002.

(c) The Proposed Scheme (hereafter to be known as the "2003 Scheme")

The Proposed Scheme (hereafter to be known as the "2003 Scheme") became effective on 8 December, 2003 upon the listing of the Company's shares on the Main Board, unless otherwise cancelled or amended, the 2003 Scheme remains in force for 10 years from that date.

The purpose of the 2003 Scheme is to enable the directors of the Company to grant share options to selected eligible participants as incentives or rewards for their contribution or potential contribution to the Group. Under the 2003 Scheme, the eligibility of the participants for the grant of any options shall be determined by the directors of the Company from time to time on the basis of their contribution or potential contribution to the development and growth of the Group and the directors may at their discretion, invite any person belonging to any of the following classes of participants to take up options for the Shares:

- (i) any director or proposed director (whether executive or non-executive, including any independent non-executive director), employee or proposed employee (whether full time or part time) of any member of the Group or any controlling shareholder ("Controlling Shareholder" as defined under rules of the share option scheme adopted by the shareholders of the Company at an extraordinary general meeting on 24 November, 2003) or any company controlled by a Controlling Shareholder ("Controlling Shareholder's Company");
- (ii) any individual for the time being selected to work for any member of the Group or any Controlling Shareholder or any Controlling Shareholder's Company;
- (iii) any holder of any securities issued by any member of the Group or any Controlling Shareholder or any Controlling Shareholder's Company;
- (iv) any business or joint venture partner, contractor, agent or representative of any member of the Group or any Controlling Shareholder or any Controlling Shareholder's Company;
- (v) any person or entity that provides research, development or other technological support or any advisory, consultancy, professional or other services incidental to the business of the Company and/or its subsidiaries to any member of the Group or any Controlling Shareholder or any Controlling Shareholder's Company;

31. SHARE OPTION SCHEMES (Cont'd)

(c) The Proposed Scheme (hereafter to be known as the "2003 Scheme") (Cont'd)

- (vi) any investor, vendor, supplier, producer, developer, agent, licensor service provider of any member of the Group or any Controlling Shareholder or any Controlling Shareholder's Company;
- (vii) any customer, licensee (including any sub-licensee), wholesaler, retailer, trader or distributor of goods or services of any member of the Group or any Controlling Shareholder or any Controlling Shareholder's Company;
- (viii) any landlord or tenant (including sub-tenant) of any member of the Group, or any Controlling Shareholder or any Controlling Shareholder's Company; and
- (ix) any company controlled by one or more persons belonging to any of the above classes of participants.

The maximum number of shares which may be allotted to and issued upon the exercise of all outstanding share options granted and yet to be exercised under the 2003 Scheme and any other share option schemes of the Company must not in aggregate exceed 30% of the relevant class of shares of the Company in issue at any time.

The total number of shares which may be allotted to and issued upon the exercise of all options to be granted under the 2003 Scheme and any other share option schemes of the Company must not in aggregate exceed 10% of the relevant class of shares of the Company in issue as at the date of adoption of the 2003 Scheme, unless shareholders' approval of the Company has been obtained.

The total number of shares issued and to be issued upon exercise of options granted under the 2003 Scheme and any other share option schemes of the Company to each participant, including cancelled, exercised and outstanding option, in any 12-month period up to the date of grant, shall not exceed 1% of the issued share capital of the Company. Any further grant of share options in excess of such limit is subject to shareholders' approval in a general meeting.

Share options granted to a director, chief executive, or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors. Where any grant of share options to a substantial shareholder of the Company or an independent non-executive director of the Company, or any of their respective associates, would result in the total number of Shares issued and to be issued upon exercise of share options already granted and to be granted to such person under the 2003 Scheme and any other share option schemes of the Company (including option exercised, cancelled and outstanding) in any 12-month period up to and including the date of such grant (a) representing in aggregate over 0.1% of the Shares in issue; and (b) having an aggregate value (based on the closing price of the Shares at the date of each grant) in excess of HK\$5 million, such further grant of options must be approved by the shareholders in a general meeting.

Any change in the terms of the share options granted to a substantial shareholder of the Company or any independent non-executive director, or any of their respective associates must be approved by the shareholders in a general meeting.

31. SHARE OPTION SCHEMES (Cont'd)

(c) The Proposed Scheme (hereafter to be known as the "2003 Scheme") (Cont'd)

The offer of a grant of share options may be accepted within 30 days from the date of the offer, upon payment of a nominal consideration of HK\$1 in total by the grantee. A share option may be exercised in accordance with the terms of the 2003 Scheme at any time during a period to be determined on the date of offer of grant of share option and notified by the directors to each grantee. The exercise period may commence once the offer of the grant is accepted by the grantee within the prescribed time from the date of its offer and shall end in any event not later than 10 years from the date grant of the share option. Unless otherwise determined by the directors and provided in the offer of the grant of options to a grantee, there is no minimum period required under the 2003 Scheme for the holding of a share option before it can be exercised.

The exercise price of the Shares under the 2003 Scheme shall be a price determined by the board of directors but shall not be less than the highest of (i) the closing price of the Shares on the date of the offer of the grant; (ii) the average closing price of the Shares for the five business days immediately preceding the date of the offer of grant; and (iii) the nominal value of the Shares.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

Pursuant to Clause 10 of the Rules of the 2003 Scheme regarding the alteration in the capital structure of the Company and the approval of the shareholders for the subdivision of the every issued and un-issued shares of HK\$0.10 each into four shares of HK\$0.025 each, the outstanding share options and the exercise price have been adjusted under the 2003 Scheme accordingly.

No share options were granted under the 2003 Scheme during the year.

32. RESERVES

Group

	Notes	Share		Leasehold properties		Statutory reserve funds	Exchange fluctuation reserve	Retained profits	Total
		premium account	Contributed surplus	Capital reserve	revaluation reserve				
		HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January, 2003		90,038	52,605	28,924	2,546	4,565	361	51,889	230,928
Issue of shares		7,680	-	-	-	-	-	-	7,680
Interim dividend for 2003	12	-	-	-	-	-	-	(16,600)	(16,600)
Net profit for the year		-	-	-	-	-	-	81,615	81,615
Transfer from retained profits		-	-	-	-	16,339	-	(16,339)	-
Proposed final dividend 2003	12	-	-	-	-	-	-	(33,200)	(33,200)
Surplus on revaluation of leasehold buildings	14	-	-	-	4,555	-	-	-	4,555
Exchange realignment		-	-	-	-	(51)	(1,341)	-	(1,392)
At 31 December, 2003 and 1 January, 2004		97,718	52,605	28,924	7,101	20,853	(980)	67,365	273,586
Issue of shares	30	33,763	-	-	-	-	-	-	33,763
Interim dividend for 2004	12	-	-	-	-	-	-	(54,102)	(54,102)
Net profit for the year		-	-	-	-	-	-	168,337	168,337
Transfer from retained profits		-	-	-	-	56,842	-	(56,842)	-
Proposed final dividend 2004	12	-	-	-	-	-	-	(55,084)	(55,084)
Surplus on revaluation of leasehold buildings	14	-	-	-	971	-	-	-	971
Exchange realignment		-	-	-	-	(57)	671	-	614
At 31 December, 2004		131,481	52,605	28,924	8,072	77,638	(309)	69,674	368,085
Reserves retained by:									
Company and subsidiaries		131,481	52,605	28,924	8,072	77,638	(309)	15,685	314,096
A jointly-controlled entity		-	-	-	-	-	-	53,989	53,989
At 31 December, 2004		131,481	52,605	28,924	8,072	77,638	(309)	69,674	368,085
Company and subsidiaries		97,718	52,605	28,924	7,101	20,853	(980)	60,923	267,144
A jointly-controlled entity		-	-	-	-	-	-	6,442	6,442
At 31 December, 2003		97,718	52,605	28,924	7,101	20,853	(980)	67,365	273,586

32. RESERVES (Cont'd)

The Group's contributed surplus represents the difference between the nominal value of the shares and the share premium account of the former Group holding companies acquired pursuant to the Group reorganisation as stated in the Company's prospectus dated 22 September, 2000, over the nominal value of the Company's shares issued in exchange therefor.

On 24 November, 2004, the US\$4,500,000 convertible bonds were converted into 49,109,684 unit shares at a conversion price of HK\$0.7125 each, representing an increase in share capital of HK\$1,200,000 and an increase in share premium account of HK\$33,800,000 (see note 30).

Pursuant to the relevant laws and regulations for foreign investment enterprises incorporated under the Law of the Mainland China on Joint Venture Using Chinese and Foreign Investment and the articles of association of the Group's Mainland China joint ventures, profits of the Group's Mainland China joint ventures as determined in accordance with the accounting rules and regulations in the Mainland China are available for distribution in the form of cash dividends to the joint venture partners after the joint ventures have: (1) satisfied all tax liabilities; (2) provided for losses in previous years; and (3) made any required appropriations to the statutory reserve funds, including the general reserve fund, enterprise expansion fund and staff welfare and bonus fund. According to the articles of association of the respective Mainland China joint ventures of the Group, the appropriation to the statutory reserve funds are at the discretion of the board of directors of the respective joint ventures. The basis of appropriation of the general reserve fund and the enterprise expansion fund is 5% of the statutory annual net profit after tax of the respective Mainland China joint ventures. The appropriation to staff welfare and bonus fund is based on nil to 10% of the statutory annual net profit after tax of the respective Mainland China joint ventures and has been reclassified as expense on consolidation as it is a liability to the employees.

The general reserve fund can be used either to offset accumulated losses or be capitalised as equity. The enterprise expansion fund can be used to expand the joint venture's production and operation and subject to the approval of the relevant government authorities, can be utilised for increasing the capital of the joint venture. The staff welfare and bonus fund is recorded and reported as a current liability of the joint ventures and can be utilised for making special bonuses or collective welfare to the employees of the joint venture.

The capital reserve is non-distributable and arose from the capitalisation of the statutory reserve funds as paid-up capital upon approval for increasing the registered capital of the Mainland China joint ventures.

32. RESERVES (Cont'd)

Company

		Share premium account	Contributed surplus	Accumulated losses	Total
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
At 1 January, 2003		90,038	107,299	(39,752)	157,585
Issue of shares		7,680	–	–	7,680
Interim dividend for 2003	12	–	–	(16,600)	(16,600)
Net profit for the year		–	–	10,573	10,573
Proposed final 2003 dividend	12	–	–	(33,200)	(33,200)
At 31 December, 2003 and 1 January, 2004		97,718	107,299	(78,979)	126,038
Issue of shares	30	33,763	–	–	33,763
Interim dividend for 2004	12	–	–	(54,102)	(54,102)
Net profit for the year		–	–	74,897	74,897
Proposed final 2004 dividend	12	–	–	(55,084)	(55,084)
At 31 December, 2004		131,481	107,299	(113,268)	125,512

The contributed surplus of the Company represents the excess of the fair value of the shares of the subsidiaries acquired pursuant to the Group reorganisation as set out in the Company's prospectus dated 22 September, 2000, over the nominal value of the Company's shares issued in exchange therefor. Under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, the share premium account may be distributed to shareholders under certain circumstances.

Notes to Financial Statements

31 December, 2004

33. CONVERTIBLE BONDS

Pursuant to the shareholders' approval on 27 April, 2004 for the subdivision of each issued and un-issued shares of HK\$0.10 each of the Company into four subdivided shares of HK\$0.025 each, the conversion price of the 2002 Convertible Bond and the 2003 Convertible Bond issued by the Company has been adjusted from HK\$2.85 per share to HK\$0.7125 per subdivided share accordingly.

On 24 November, 2004, Jian Kang Ltd. exercised the conversion rights attached to the 2003 Convertible Bond in accordance with the terms and conditions contained in the instrument in the amount of US\$4,500,000 (approximately HK\$35,100,000) of the principal amount outstanding, and were converted into 49,109,684 shares of the Company at a conversion price of HK\$0.7125 per share, representing an increase in share capital of HK\$1,200,000 and share premium of HK\$33,800,000.

34. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Disposal of a subsidiary

	2004 HK\$'000
Net assets disposed of:	
Fixed assets	180
Prepayments and other receivables	16
Inventories	40
Trade payables	(516)
Accruals and other payables	(23)
Taxes payable other than profits tax	157
	(146)
Gain on disposal of a subsidiary	805
	659
Satisfied by:	
Cash	659

An analysis of the net inflow of cash and cash equivalents in respect of the disposal of a subsidiary is as follows:

	2004 HK\$'000
Cash consideration	659
Cash and bank balances disposed of	-
Net inflow of cash and cash equivalents in respect of the disposal of a subsidiary	659

(84)

34. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Cont'd)**(b) Liquidation of a subsidiary**

On the date of liquidation, the subsidiary's balance sheet solely comprise amounts due from shareholders and retained profits. There was no cash flow effect arising from this liquidation.

35. CONTINGENT LIABILITIES

At the balance sheet dates, neither the Group nor the Company had any significant contingent liabilities.

36. COMMITMENTS

At the balance sheet dates, the Group had the following commitments:

(a) Capital commitments

	Group	
	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Contracted, but not provided for the acquisition of:		
– fixed assets	19,623	25,583
– product technology	3,914	3,054
	23,537	28,637
Authorised, but not contracted for the acquisition of:		
– fixed assets	27,263	35,545

In addition, the Group's share of the jointly-controlled entity's capital commitments, which are not included in the above, were as follows:

	Group	
	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Contracted, but not provided for the acquisition of:		
– fixed assets	9,573	19,233

The Company did not have any capital commitments at the balance sheet dates.

Notes to Financial Statements

31 December, 2004

36. COMMITMENTS (Cont'd)

(b) Commitments under operating leases

As at 31 December, 2004, the Group and the Company had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group		Company	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Within one year	2,751	2,862	1,605	832
In the second to fifth years, inclusive	3,087	4,089	342	55
After five years	23,515	24,037	–	–
	29,353	30,988	1,947	887

The Group's operating leases for land and buildings are entered into for terms ranging from one to fifty years.

In addition, the Group's share of the jointly-controlled entity's minimum lease payments under non-cancellable operating leases, which are not included in the above, were as follows:

	Group	
	2004 HK\$'000	2003 HK\$'000
Within one year	16	–

37. RELATED PARTY TRANSACTIONS

In addition to the transactions and balances detailed elsewhere in the consolidated financial statements, the Group had the following material transactions with related parties during the year:

	2004 HK\$'000	2003 HK\$'000
Sales of products to:		
– a Chinese joint venture partner of a subsidiary (<i>note a</i>)	290	3,632
– a related party with a common shareholder of a subsidiary (<i>note a</i>)	689	445
Purchases of raw materials from a related party with a common shareholder of a subsidiary (<i>note b</i>)	18,704	15,056
Purchases of raw materials from:		
– a Chinese joint venture partner of a subsidiary (<i>note b</i>)	1,780	1,834
– a company indirectly owned by a director (<i>note b</i>)	40	317
Operating lease rentals payable to:		
– a fellow subsidiary of a subsidiary's Chinese joint venture partner (<i>note c</i>)	4,756	4,340
– a Chinese joint venture partner of a subsidiary (<i>note c</i>)	561	561
– a company beneficially owned by a director (<i>note c</i>)	684	660
Research and development expenses to a fellow subsidiary of a subsidiary's Chinese joint venture partner (<i>note d</i>)	941	6,406

Notes:

- (a) Sales of products to the Chinese joint venture partner of the subsidiary and a related party with a common shareholder of a subsidiary were conducted with reference to the market prices.
- (b) Purchases of raw materials were conducted with reference to the market prices.
- (c) Lease rentals were based on tenancy agreements entered into between the Group and each of the related parties with reference to the market prices.
- (d) Research and development expenses were based on the terms of the agreements entered into with the related party.

38. POST BALANCE SHEET EVENTS

Subsequent to the balance sheet date, on 30 March, 2005, the directors of the Company proposed a final dividend of HK\$0.04 per share which has been classified as a separate allocation of retained profits within the reserve section of the financial statements (notes 12 and 32). In addition, on the same date, the directors of the Company proposed a bonus issue of one share for every two existing shares of the Company.

Notes to Financial Statements

31 December, 2004

39. COMPARATIVE AMOUNTS

As disclosed in note 13 to the financial statements, disclosure on the earnings per share has been revised to reflect the sub-division of shares during the year.

40. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 30 March, 2005.

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN THAT the Annual General Meeting of Sino Biopharmaceutical Limited (the "Company") (Stock Code: 1177) will be held at 8/F., Crown Room, The Dynasty Club Limited, South West Tower, Convention Plaza, 1 Harbour Road, Wanchai, Hong Kong on Friday, 13 May, 2005 at 11:00 a.m. for the following purposes:

1. To receive, consider and adopt the audited consolidated financial statements of the Company and the reports of the Directors and the auditors for the year ended 31 December, 2004;
2. To approve the payment of a final dividend for the year ended 31 December, 2004;
3. To re-elect the Directors and to authorize the Board of Directors to fix the remuneration of the Directors of the Company;
4. To re-appoint the auditors and to authorize the Board of Directors to fix the remuneration of the auditors of the Company; and
5. (By way of special business) to consider, and, if thought fit, pass with or without amendments the following Resolutions as Ordinary Resolutions:

A. **"THAT:**

- (a) subject to paragraph (c) below, the exercise by the directors of the Company (the "Directors") during the Relevant Period (as hereinafter defined) of all the powers of the Company to allot, issue and deal with additional shares in the capital of the Company and to make or grant offers, agreements, options and other securities, including warrants to subscribe for shares of the Company, which would or might require the exercise of such powers, be and is hereby generally and unconditionally approved;
- (b) the approval of paragraph (a) above shall be in addition to any other authorization given to the Directors and shall authorize the Directors during the Relevant Period to make or grant offers, agreements, options and other securities, including warrants to subscribe for shares of the Company, which would or might require the exercise of such powers at any time during or after the end of the Relevant Period;
- (c) the aggregate nominal value of the share capital of the Company which may be allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to an option or otherwise), issued or otherwise dealt with by the Directors pursuant to the approval in paragraph (a) above, otherwise than pursuant to a Rights Issue (as hereinafter defined) or any issue of shares of the Company on the exercise of the subscription or conversion rights attaching to any securities which may be issued by the Company from time to time or the exercise of the options granted under the share option scheme of the Company or any issue of shares in lieu of the whole or part of a dividend on shares shall not exceed 20% of the aggregate nominal value of the share capital of the Company in issue as at the date of the passing of this Resolution and the said approval shall be limited accordingly; and

Notice of Annual General Meeting

- (d) for the purpose of this Resolution:

“Relevant Period” means the period from the time of the passing of this Resolution until whichever is the earliest of:

- (i) the conclusion of the next annual general meeting of the Company;
- (ii) the expiration of the period within which the next annual general meeting of the Company is required by any applicable law or the articles of association of the Company to be held; and
- (iii) the time of the passing of an ordinary resolution of the Company in general meeting revoking or varying the authority set out in this Resolution.

“Rights Issue” means an offer of shares open for a period fixed by the Directors to holders of shares whose names on the register of members of the Company on a fixed record date in proportion to their then holdings of such shares (subject to such exclusions or other arrangements as the Directors may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws of, or the requirements of any recognized regulatory body or any stock exchange in, any territory applicable to the Company).”

B. **“THAT:**

- (a) subject to paragraph (b) below, the exercise by the Directors during the Relevant Period (as hereinafter defined) of all the powers of the Company to repurchase securities of the Company on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) or on any other stock exchange on which the securities of the Company may be listed and which is recognized by the Securities and Futures Commission and the Stock Exchange for this purpose, subject to and in accordance with all applicable laws and/or the requirements of the Rules Governing the Listing of Securities on the Stock Exchange or of any other stock exchange as amended from time to time, be and is hereby generally and unconditionally approved;
- (b) the aggregate nominal value of securities authorized to be repurchased by the Company pursuant to the approval in paragraph (a) above during the Relevant Period shall not exceed 10% of the aggregate nominal value of the issued share capital of the Company in issue as at the date of the passing of this Resolution and the said approval shall be limited accordingly; and

(c) for the purpose of this Resolution:

“Relevant Period” means the period from the time of the passing of this Resolution until whichever is the earliest of:

- (i) the conclusion of the next annual general meeting of the Company;
- (ii) the expiration of the period within which the next annual general meeting of the Company is required by any applicable laws or the articles of association of the Company to be held; and
- (iii) the time of the passing of an ordinary resolution of the Company in general meeting revoking or varying the authority set out in this Resolution.”

C. **“THAT**, conditional upon the Resolutions numbered A and B in paragraph 5 of the notice convening this Meeting being duly passed, the general mandate granted to the Directors and for the time being in force to exercise the powers of the Company to allot, issue and deal with additional shares in the capital of the Company pursuant to the Resolution numbered A of the notice convening this Meeting be and is hereby extended by the addition thereon of an amount representing the aggregate nominal value of the share capital of the Company repurchased by the Company under the authority granted pursuant to the Resolution numbered B of the notice convening this Meeting provided that such extended amount shall not exceed 10% of the aggregate nominal value of the share capital of the Company in issue at the date of passing of the said Resolution.”

By Order of the Board
Leung Sau Fung, Fanny
Company Secretary

Hong Kong, 14 April, 2005

As at the date of this notice, the board of the Company comprises seven executive directors, namely Mr. Tse Ping, Mr. Tao Huiqi, Mr. Wang Jinyu, Mr. He Huiyu, Ms. Cheng Cheung Ling, Ms. Zhao Yanping and Mr. Tse Hsin and one non-executive director, namely Ms. Josephine Price, and three independent non-executive directors, namely Ms. Zheng Qun, Grace, Mr. Li Dakui and Ms. Li Jun.

Notice of Annual General Meeting

Notes:

1. Any member entitled to attend and vote at the above meeting is entitled to appoint another person as his proxy to attend and vote instead of him. A proxy need not be a member of the Company.
2. To be valid, a form of proxy, together with the power of attorney or other authority, if any, under which it is signed, or a certified copy of that power or authority must be deposited at the Company's principal place of business in Hong Kong at Unit 09, 41st Floor, Office Tower Convention Plaza, 1 Harbour Road, Hong Kong not less than 48 hours before the time appointed for the holding of the meeting or any adjourned meeting.
3. The register of members of the Company will be closed from Tuesday, 10 May, 2005 to Friday, 13 May, 2005 (both dates inclusive) during which period no transfer of shares will be registered. In order to ascertain the entitlement to attendance at the above meeting, all properly completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tengis Limited, Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong not later than 4:00 p.m. on Monday, 9 May, 2005 for registration.
4. Pursuant to Article 66 of the Articles of Association of the Company, a resolution put to the vote of a meeting shall be decided on a show of hands unless (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) a poll is demanded (a) by the chairman of such meeting; or (b) by at least three members present in person or in the case of a member being a corporation by its duly authorised representative or by proxy for the time being entitled to vote at the meeting; or (c) by a member or members present in person or in the case of a member being a corporation by its duly authorised representative or by proxy and representing not less than one-tenth of the total voting rights of all members having the right to vote at the meeting; or (d) by a member or members present in person or in the case of a member being a corporation by its duly authorised representative or by proxy and holding shares in the Company conferring a right to vote at the meeting being shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all shares conferring that right.



SINO BIOPHARMACEUTICAL LIMITED

中國生物製藥有限公司

(Incorporated in the Cayman Islands with Limited Liability)
(STOCK CODE: 1177)
(the "Company")

Form of Proxy for use at the Annual General Meeting (or any adjournment thereof)

I/We ^(Note 1) _____

of _____

being the registered holder(s) of _____ shares ^(Note 2) of

HKS0.025 each in the share capital of the Company (the "Shares") HEREBY APPOINT ^(Note 3) _____ of

or failing him, the chairman of the meeting as my/our proxy/proxies to attend and vote and act for me/us and on my/our behalf at the Annual General Meeting (and at any adjournment thereof) of the Company to be held at 8th Floor, Crown Room, The Dynasty Club Ltd., South West Tower, Convention Plaza, 1 Harbour Road, Wanchai, Hong Kong on Friday, 13th May, 2005 at 11:00 a.m. for the purpose of considering and, if thought fit, passing the ordinary resolutions set out in the notice convening such meeting and at such meeting (and at any adjournment thereof) to vote for me/us in my/our names(s) in respect of the said resolutions as hereunder indicated or, if no such indication is given, as my/our proxy thinks fit.

	RESOLUTIONS	FOR ^(Note 4)	AGAINST ^(Note 4)
1.	To receive and consider the Audited Consolidated Financial Statements and the Reports of Directors and Auditors for the year ended 31st December, 2004.		
2.	To approve the payment of a final dividend for the year ended 31 December, 2004.		
3.	(a) To re-elect the directors of the Company (the "Directors"):		
	(i) To re-elect Mr. He Huiyu as a Director;		
	(ii) To re-elect Ms. Cheng Cheung Ling as a Director;		
	(iii) To re-elect Ms. Zhao Yanping as a Director;		
	(iv) To re-elect Mr. Tse Hsin as a Director;		
	(v) To re-elect Mr. Li Dakui as a Director; and		
	(vi) To re-elect Ms. Li Jun as a Director.		
	(b) To authorise the Board of Directors to fix their remuneration.		
4.	To re-appoint Messrs. Ernst & Young as the Company's auditors and to authorise the Board of Directors to fix their remuneration.		
5.	To grant to the Directors a general mandate to allot, issue and otherwise deal with additional shares not exceeding 20 per cent. of the issued share capital of the Company.		
6.	To grant to the Directors a general mandate to repurchase not exceeding 10 per cent. of the issued share capital of the Company.		
7.	To extend the share allotment mandate by the addition thereto of the Company repurchased by the Company.		

Dated this _____ day of _____ 2005

Signature ^(Note 5) _____

Notes:

- Full name(s) and address(es) to be inserted in **BLOCK CAPITALS**.
- Please insert the number of Shares registered in your name(s). If no number is inserted, this form of proxy will be deemed to relate to all the Shares registered in your name(s).
- Please insert the name and address of the proxy desired. **IF NO NAME IS INSERTED, THE CHAIRMAN OF THE MEETING WILL ACT AS YOUR PROXY.** The proxy need not be a member of the Company but must attend the meeting in person to represent you. **ANY ALTERATION MADE TO THIS FORM OF PROXY MUST BE INITIALLED BY THE PERSON WHO SIGNS IT.**
- IMPORTANT: IF YOU WISH TO VOTE FOR ANY RESOLUTIONS, PUT A TICK IN THE APPROPRIATE BOX MARKED "FOR". IF YOU WISH TO VOTE AGAINST ANY RESOLUTIONS, PUT A TICK IN THE APPROPRIATE BOX MARKED "AGAINST".** Failure to do so will entitle your proxy to cast his votes at his discretion. Your proxy will also be entitled to vote at his discretion on any amendment to the resolutions referred to in the notice convening the meeting and on any resolutions which have been properly put to the meeting other than those referred to in the notice convening the meeting.
- This form of proxy must be signed by you or your attorney duly authorised in writing or, in the case of a corporation, must be signed under the hand of an officer duly authorised on that behalf together with a company chop.
- In the case of joint holders, the vote of the senior who tenders a vote, whether in person or by proxy, will be accepted to the exclusion of the votes of the other joint holder(s), and for this purpose, seniority will be determined by the order in which the names stand in the register of members.
- To be valid, this form of proxy, together with any power of attorney or other authority (if any under which is signed, or notorially certified copy of such power of authority must be deposited at the principal office of the Company at Unit 09, 41st Floor, Office Tower Convention Plaza, 1 Harbour Road, Wanchai, Hong Kong not less than 48 hours before the time appointed for holding of the meeting or the adjournment meeting (as the case may be).
- Completion and delivery of the form of proxy will not preclude you from attending and voting at the meeting if you so wish.