SINO BIOPHARMACEUTICAL LIMITED

中國生物製藥有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code:1177)

2005 Annual Report

CONTENTS

CORPORATE PROFILE

Sino Biopharmaceutical Limited (the "Company"), together with its subsidiaries and a jointly-controlled entity (the "Group") (Fig.1.1), 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 two core therapeutic categories: cardio cerebral diseases and hepatitis, and also actively develops medicines for treathy oncology, analgesia, respiratory system, diabetes and digestive system diseases to meet the increase demands of the market, medical practitioners and patients. Principal products include:

Cardio-cerebral medicines	:	Kaishi (Alprostadil) injections and Spring (Purarin) injections
Hepatitis medicines	:	Ganlixin (Diammonium Glycyrrhizinate) injections and capsules, Tianqingfuxin (Marine) injections and capsules
Oncology medicines	:	Tianqingyitai (Zolebronate Acid) injections
Analgesic medicines	:	Kaifen (Flurbiprofen Axetil) injections

Products with great potentials include:

Hepatitis medicines	:	Tianqingganmei (Magnesium Isoglycyrrhizinate) injections, Tianqingganping (Diammonium Glycyrrhizinate) enteric capsules, Carnet (Foscarnet Sodium) injections;
Cardio-cerebral medicines	:	Tianqingganan (Glycerin and Fructose) injections
Oncology medicines	:	Renyi (Pamidronate Disodium) injections
Respiratory medicines:	:	Tianqingzhengshu (Loratadine) tablets

The Group's medicines have received 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; tablets; capsules; powdered medicines; granulated medicines; and PVC-free soft bags for intravenous injections.

The Group's principal subsidiary – Jiangsu Chia Tai – Tianqing Pharmaceutical Co. Ltd. ("JCTT") and a jointly-controlled entity, Beijing Tide Pharmaceutical Co. Ltd. ("Beijing Tide") have been designated as "High and New Technology Enterprise" and "Advanced Technology Enterprise". Beijing Chia Tai Green Continent Pharmaceutical Co. Ltd. ("CTGC") has been designated as "High and New Technology Enterprise".

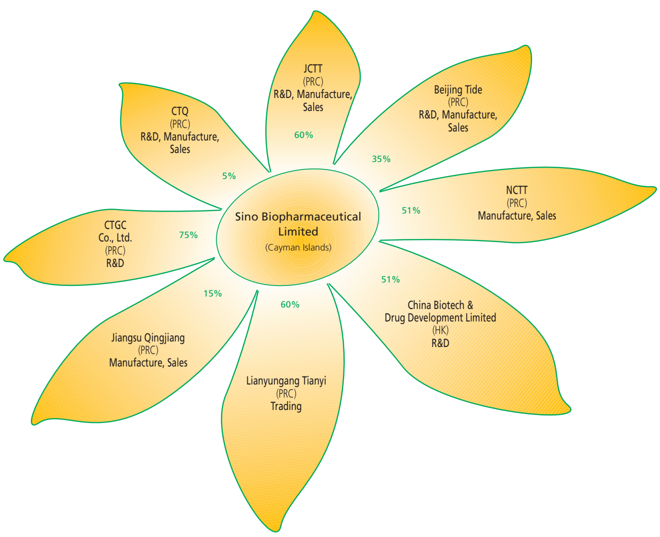
The research department of JCTT was recognized as the "Postdoctoral Research & Development Institute" by the PRC's. Ministry of Personnel. It is the country's unique "New Hepatitis Pharmaceutical Engineering Research and Technology Centre" designated from Science and Technology Committee of Jiangsu Provincial.

Website: http://www.sinobiopharm.com

Stock code: 1177

GROUP STRUCTURE

Fig.1.1



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.

	2005	2004	2003	2002	2001
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
		(Restated)	(Restated)	(Restated)	(Restated)
RESULTS					
REVENUE	**756,073**	664,296	456,089	342,610	284,930
Cost of sales	**(139,418)**	(133,163)	(105,872)	(73,201)	(68,670)
Gross profit	**616,655**	531,133	350,217	269,409	216,260
Other income and gains	**28,599**	7,063	8,154	3,389	4,590
Selling and distribution costs	**(310,609)**	(253,390)	(176,167)	(152,372)	(118,559)
Administrative expenses	**(110,866)**	(101,885)	(79,396)	(53,550)	(41,026)
Other expenses	**(42,224)**	(33,382)	(18,593)	(13,349)	(7,073)
Finance costs	**(2,729)**	(1,050)	(843)	(418)	(1,559)
PROFIT BEFORE TAX AND BEFORE FAIR VALUE ADJUSTMENT FOR DERIVATIVE FINANCIAL INSTRUMENT	**178,826**	148,489	83,372	53,109	52,633
Fair value adjustment for derivative financial instrument	**(66,315)**	–	–	–	–
PROFIT BEFORE TAX AND AFTER FAIR VALUE ADJUSTMENT FOR DERIVATIVE FINANCIAL INSTRUMENT	**112,511**	148,489	83,372	53,109	52,633
Tax	**(18,311)**	(15,407)	(11,625)	(9,540)	(2,222)
PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS	**94,200**	133,082	71,747	43,569	50,411
DISCONTINUED OPERATION					
Profit for the year from a discontinued operation	**152,213**	152,129	78,209	74,842	59,054
Gain on disposal of subsidiaries	**1,406,191**	–	–	–	–
Total profit for the year from a discontinued operation	**1,558,404**	152,129	78,209	74,842	59,054
PROFIT FOR THE YEAR	**1,652,604**	285,211	149,956	118,411	109,465
Attributable to:					
Equity holders of the parent	**1,532,929**	168,485	81,636	57,369	61,735
Minority interests	**119,675**	116,726	68,320	61,042	47,730
	1,652,604	285,211	149,956	118,411	109,465
TOTAL ASSETS	**2,140,222**	950,535	787,244	593,986	433,129
TOTAL LIABILITIES (exclude convertible bonds)	**(164,978)**	(239,845)	(215,531)	(124,653)	(91,800)
CONVERTIBLE BONDS	**–**	(42,900)	(78,000)	(46,800)	–
NET ASSETS	**1,975,244**	667,790	493,713	422,533	341,329
MINORITY INTERESTS	**(121,997)**	(211,716)	(156,348)	(129,725)	(96,790)

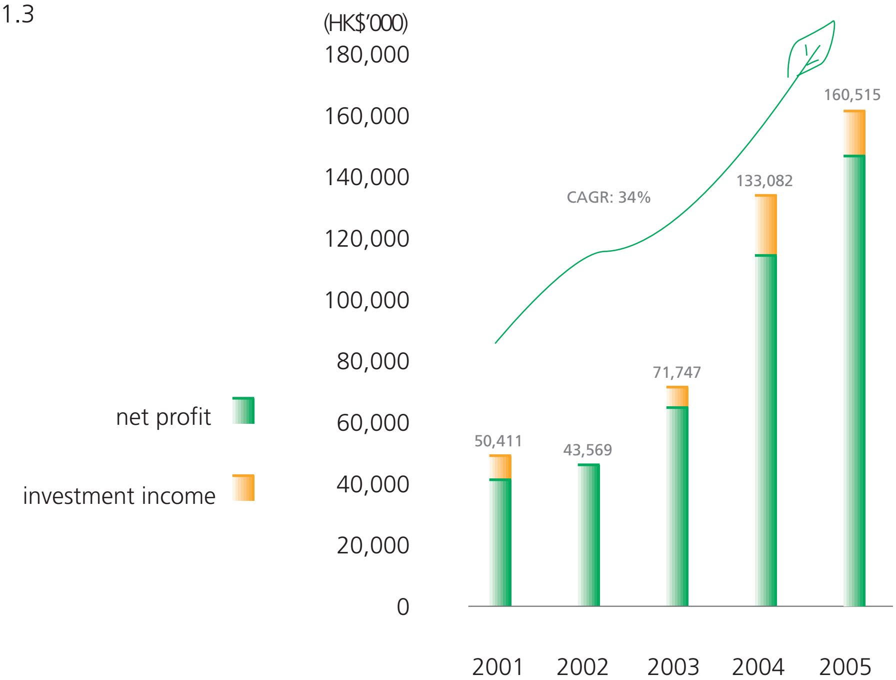
FINANCIAL SUMMARY

SALES GROWTH OF CONTINUING OPERATIONS

Fig.1.2

GROWTH OF PROFIT FROM CONTINUING OPERATIONS (BEFORE FAIR VALUE ADJUSTMENT TO EMBEDDED DERIVATIVE OF CONVERTIBLE BONDS)

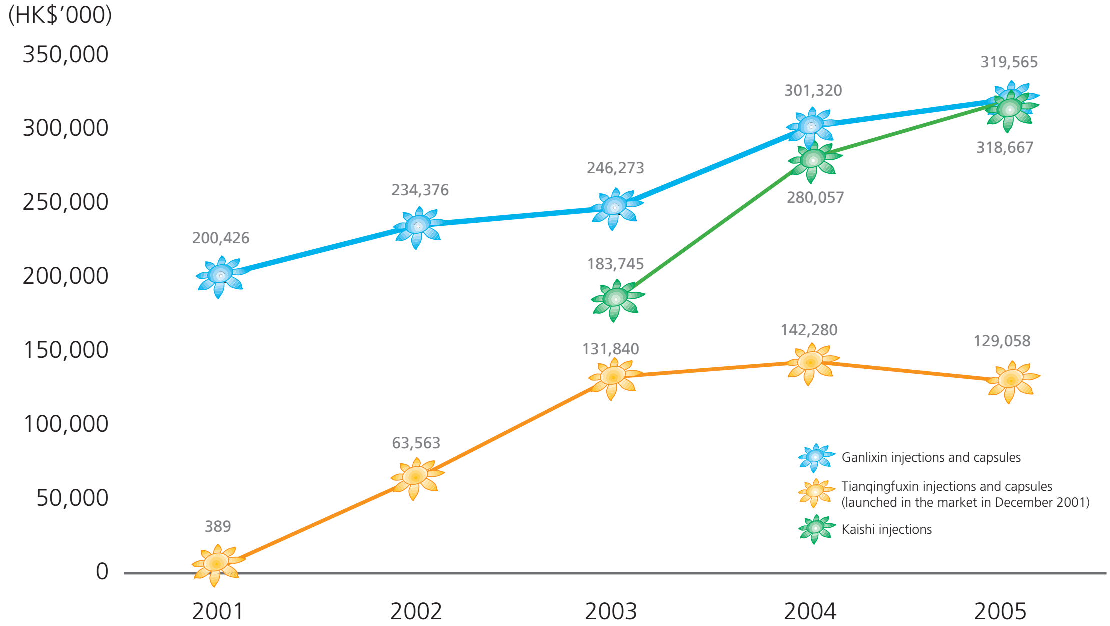
Fig.1.3



FINANCIAL SUMMARY

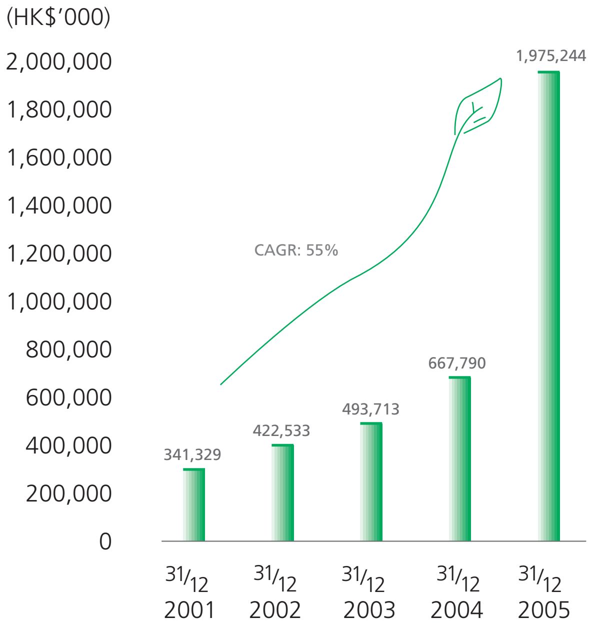
SALES GROWTH OF BLOCKBUSTER PRODUCTS

Fig.1.4



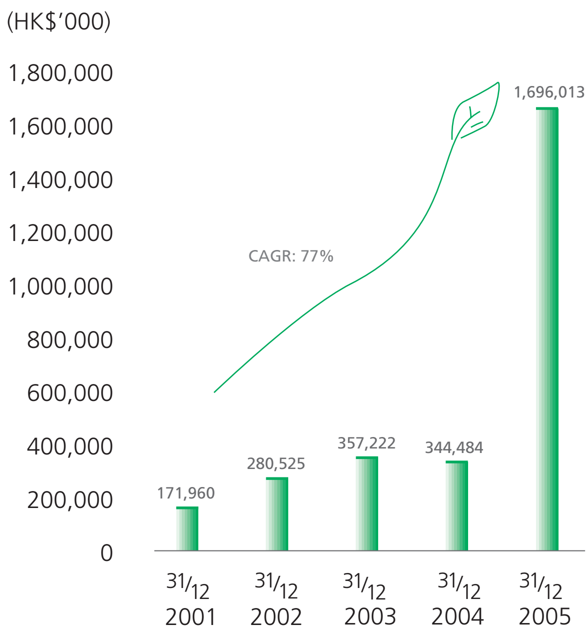
NET ASSET VALUE

Fig.1.5



CASH & CASH EQUIVALENTS

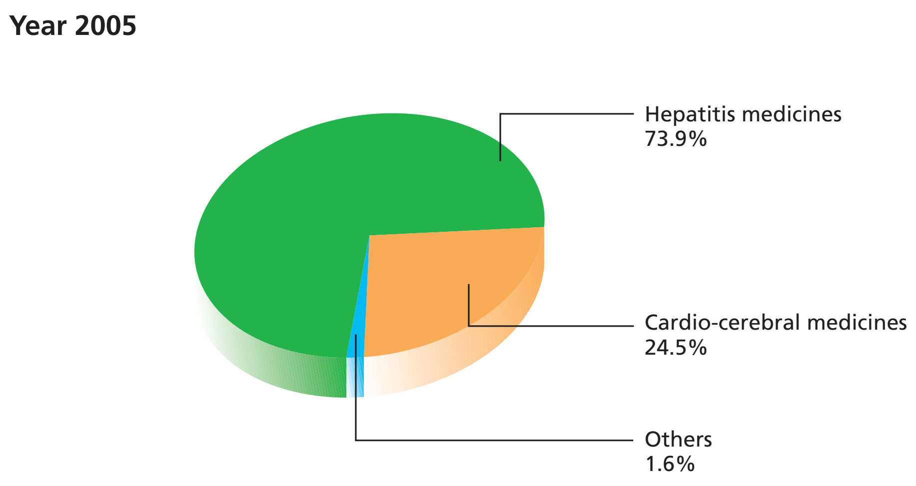
Fig.1.6



FINANCIAL SUMMARY

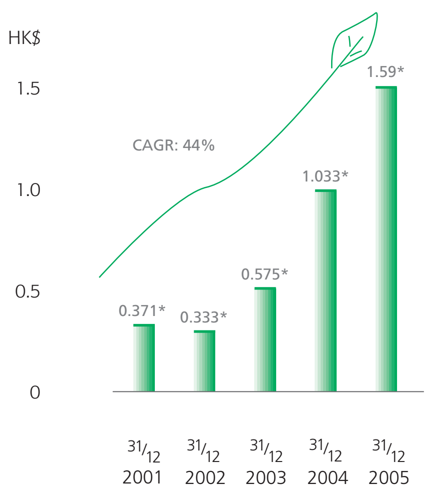
TURNOVER BY THERAPEUTIC CATEGORIES

Fig.1.7



SHARE PRICE (CLOSING PRICE)

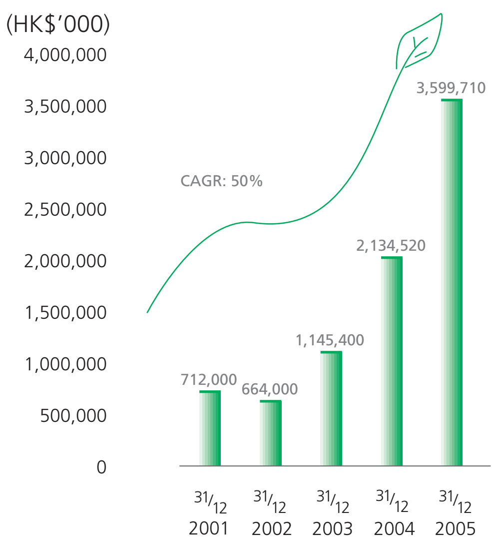
Fig.1.8



* After consideration of the share subdivision and the issue of bonus shares

MARKET CAPITALISATION (CLOSING PRICE)

Fig.1.9



AWARDS

Corporate Awards

- The Company was awarded "Best under a Billion within the Asia Pacific region in 2005" by Forbes Asia
- The Company was awarded "Hong Kong Outstanding Enterprises 2005" by Economic Digest
- The Company was awarded "Red Herring Small Cap 100" by Red Herring Magazine
- Chia Tai Qingchunbao Pharmaceutical Co. Ltd. ("CTQ") ranks 18th, Beijing Tide ranks 34th and JCTT ranks 49th in the Chinese Medicine Entity Independent Audited Enterprises based on aggregated profit for 2005 according to China Medical Economic Information Network.
- JCTT ranks 14th and CTQ ranks 45th in the "2005 National Pharmaceutical Industry's 100 Best Innovative Enterprise" according to the announcement by "Chinese Medicine Economic Statistic Network".
- JCTT was commended "People's Safe Medicine" enterprise in "Safe Medicine for Everyone", an event jointly organized by Health Times magazine, Health Digest magazine, China Health magazine and People's Health magazine
- JCCT was designated "Torch Programme Excellent High and New Technology Enterprise" from the PRC's Ministry of Science and Technology
- JCTT was designated "Post-doctoral Technology Innovation Centre" from the Post-doctoral Administration Committee of the PRC's Ministry of Personnel
- JCTT received "Jiangsu Top 100 High and New Technology Enterprise" title jointly awarded by Jiangsu Provincial Technology Evaluation Consulting Centre and Jiangsu Provincial Association of Private Enterprises in 2005
- JCTT received "Advanced Technology Foreign Investment Enterprise" certificate from Outward Trade & Economic Cooperation Committee of Jiangsu Provincial
- JCTT was designated "High and New Technology Enterprise" certificate, "Technology Intensive and Knowledge Intensive Enterprise" and "Jiangsu Provincial New Hepatitis Pharmaceutical Engineering Research and Technology Centre" from Science and Technology Committee of Jiangsu Provincial
- Beijing Tide and CTGC was designated "High and New Technology Enterprise" by Beijing Municipal Science and Technology Committee
- Beijing Tide received "Advanced Technology Foreign Investment Enterprise Certificate" from Beijing Municipal Bureau of Commerce

Product Awards

- Ganlixin was commended "People's Safe Medicine Branding" in "Safe Medicine for Everyone", an event jointly organized by Health Times magazine, Health Digest magazine, China Health magazine and People's Health magazine
- Ganlixin product line received "Jiangsu Provincial Well-known Product" from Jiangsu Provincial Committee of Well-known Product Designation
- Tianqingganping was awarded "National Torch Programme Project Certificate" from the PRC's Ministry of Science and Technology
- Kaishi Injections received "National New Main Product" certificate jointly awarded from the PRC's Ministry of Science and Technology, the PRC's Ministry of Commerce, the PRC's National General Administration of Quality Supervision, Inspection and Quarantine, and the State Environmental Protection Administration of China
- Kaishi Injections received "Beijing Science and Technology Second Honor Award" from the Beijing Municipal People's Government
- Spring Injections was named as "China's Consumers Satisfactory Branding" in 2005 by "China's Medium-Light Products Quality Assurance Centre"
- Kaifen injections received "National New Main Product" certificate jointly awarded from the PRC's Ministry of Science and Technology, the PRC's Ministry of Commerce, the PRC's National General Administration of Quality Supervision, Inspection and Quarantine, and the State Environmental Protection Administration of China

CHAIRMAN'S STATEMENT

DEAR SHAREHOLDERS,

ON BEHALF OF THE BOARD OF DIRECTORS (THE "BOARD"), I AM PLEASED TO REPORT A PROFITABLE YEAR ENDED 31 DECEMBER, 2005 FOR THE GROUP.

Mr. Tse Ping *Chairman*

RESULTS

The Group had a solid year ended 31 December, 2005, with earnings and dividend reaching record highs. Though on 26 September, 2005 the Group disposed one of its subsidiaries, Sino Concept Technology Limited (whose sole asset is its 55% equity interests in Shandong Chia Tai Freda Pharmaceutical Co. Ltd. and Shandong Chia Tai Freda New Packaging Resources Co. Ltd. respectively) at a consideration of USD200 million, the Group has still achieved noteable growth. Revenue from continuing operations amounted to approximately HK$756.07 million compared with the previous year (fig.1.2), profit attributable to the Group amounted to approximately HK$1,532.93 million, and profit attributable to the Group from continuing operations (before fair value adjustment*) increased by 28.1% to approximately HK$108.96 million compared with the previous year. Basic earnings per share is HK69.39 cents, rose by 723.1% as compared with last year. Basic earnings per share from continuing operations (before fair value adjustment) is HK 4.93 cents, rose by 15.7% as compared with last year. Sales of new products amounted to 11.4% of the Group's total turnover. Return on shareholders' fund increased from 25.2% to 77.6%. Cash and cash equivalents at the balance sheet date were approximately HK$1,696.01 million (fig.1.6).

DIVIDEND

The board of Directors (the "Board") has recommended the payment of a final dividend of HK1.5 cents per share, subject to the approval of shareholders at the Annual General Meeting to be held on 5 June, 2006. The final dividend, together with the first quarter dividend of HK2 cents per share (HK1.33 cents after consideration of bonus share issue), the interim dividend of HK1.5 cents per share, the third quarter dividend of HK1.5 cents per share and a special dividend of HK5 cents per share already paid, the total dividend paid for the year 2005 amounted to HK11.5 cents per share (HK10.83 cents after consideration of bonus share issue) (2004: the total dividend paid was HK8 cents per share, HK5.33 cents after consideration of bonus share issue). The Register of Members of the Company will be closed from Tuesday, 30 May, 2006 to Monday, 5 June, 2006, both days inclusive, during which period no transfer of share of the Company will be effected. In order to qualify for the final dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's branch share registrar, Tengis Limited, 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong by 4:00 p.m. on Monday, 29 May, 2006.

* ***FAIR VALUE ADJUSTMENT***

On the first year adoption of HKAS 39 for accounting the Company's convertible bonds, a fair value adjustment of HK$66,315,000 to the embedded derivative of the convertible bonds of the Company were expensed in the income statement in the current year. The fair value adjustment was one-off and non-cash in nature as the convertible bonds were fully converted into the Company's shares in April 2005. The net asset value of the Group is no change.

CORPORATE AWARDS

Forbes Award

Since the Company's listing on the Stock Exchange in Hong Kong in September 2000, the Group, by being aggressive but prudent and adopting appropriate policies, has achieved very impressive growth in an environment faced with challenges and opportunities. During the past five years, the Group's CAGR of sales is 28% and the CAGR of net asset is 55%. Due to its stellar performance over the past years, the Group has drawn a lot of attention and brought back home many awards. On 29 September 2005, the Company made Forbes Asia's Annual "Best 200 under a Billion" list within the Asia Pacific region. In addition, the Company was awarded "Hong Kong Outstanding Enterprises 2005" by Economic Digest and "Red Herring Small Cap 100" by Red Herring Magazine. These awards are milestones in the Company's history. The awards are recognition of not only the Group's excellent past financial performance and business development, but also acknowledgments that the Group has the best operation and management practice. It is an indication that the Group is recognized as one of the best companies within the Asia Pacific region and the world. It also means that the management team of the Group is of the elite class in Asia Pacific region and the world.

INDUSTRY OVERVIEW

The Chinese pharmaceutical industry continued to see steady growth in 2005. Demands from hospitals and pharmaceutical retailers were huge and import and export trading of medicines also reported satisfactory growth and performance.

2005 was the year of standardization for the pharmaceutical industry. On the policy front:

More in-depth drug pricing reforms took place. In 2005, the National Development and Reform Commission ("NDRC") revised the national-priced medicines catalogue to expand its scope; From 1 August, 2005 onwards, NDRC handed over the pricing right of non-prescription medicine to the provincial office; From 1 December, 2005 onwards, the ban on medicine online trading was lifted; Progress was made in the management of pharmaceutical categorization – from 1 January, 2006 onwards, Category-nine medicines have been barred from pharmaceutical retailers, while Category-eleven medicines could only be purchased with prescription; The 2005 pharmacopoeia was launched on 1 July, 2005; The "Direct Sale Regulations" became effective on 1 December, 2005; "Provisions for Health Food Registration" was effective in 2005; Commencing from 2006, the nation has stepped up implementation of the "Industrial Back Feeding Agriculture Policy". This helps to speed up the establishment of medicine delivery and monitory networks for rural areas; The third-tier end markets (village and town hospitals, public health hospitals, public health centers, public health clinics, private clinics) are taking shape; NDRC has stated its intention to implement a clear pricing system for medicines commencing 2006; Outsourcing production will become the new market trend.

The Chinese pharmaceutical market is still undergoing restructuring, the impact of which is reflected in the differences in profitability of different players. Companies with own prominent brands, technology and resources are set to grow with the industry. Players able to replicate products quickly and innovate are also more prone to grow. It is also apparent that pharmaceutical companies are changing from replicating medicines to innovation formulae. Chinese modernized medicines become more popular, and those companies with mastered and patented technology would experience the fastest growth. The industry is also seeing an adjustment in weight among its different segments – Chinese medicine and biological medicine are developing much quicker than chemical medicine, and the proprietary medicines will also gain a larger portion.

CHAIRMAN'S STATEMENT

In 2005, despite the global pharmaceutical entities faced the challenges from cost saving control, the restrictions of policies and rules, and the safety assurance of products; the longevity of human beings, increase in wealth, product innovations and the new progress of the existing products will drive the growth in the pharmaceutical industry and is expected to grow at 7% each year in the following years. Proprietary medicines will continue to steer market development but at a slower pace, whereas non-patented medicines will gain a bigger market share.

The intrinsic factors causing the growth in demand for medicines in the PRC are: a growing population, aging, and the increase in consumption of medicine per capita. The pharmaceutical industry is at the peak of merging and restructuring, and the trend is expected to continue and hasten. The restructuring will boost the industry's total assets, but the industry has first to bring scattered markets together. The next few years will see Chinese pharmaceutical enterprises merging and restructuring favoring the stronger players, and the gap between them and the weaker players will continue to widen.

THE GROUP'S POSITION IN THE PRC PHARMACEUTICAL MARKET

According to the "National Pharmaceutical Economic Statistics Network", JCTT, Beijing Tide, and Chia Tai Qingchunbao ranked amongst the top fifty enterprises in the industry in terms of profitability in 2005. The average profit of the pharmaceutical industry in the PRC was 8.4% in 2005.

The Group's principal profit contributors were JCTT, Beijing Tide and CTQ.

OUTLOOK AND PROSPECT

Players in the PRC pharmaceutical industry are presented with both challenges and opportunities in the face of changing policy. The pharmaceutical economy is still on the path of steady growth. The continuous development of the national economy, improving living standard, growing population, increasing urbanization of rural areas and the accelerating penetration of the village medical system together are driving the development of the industry, presenting to it huge business opportunities.

The Group will continue to develop medicines for treating hepatitis and cardio-cerebral diseases, its two existing markets, and at the same time, strive to expand the markets for oncology medicines, analgesic medicines, respiratory system drugs and anti-diabetic drugs. With a sound operating profit base; a quality management team; an extensive sales network spanning over 30 provinces, cities and autonomous regions; various patented products; a strong sense of intellectual property rights protection; strong product development capabilities; experience in effecting fast entry of product into market, shrewd market judgment; superb quality products with proven therapeutic effects; reasonable pricing; well-established corporate and product image among medical practitioners and patients; and GMP-certified production facilities and blockbuster drugs addressing continual market needs, the Group is set to capture every business opportunity and benefit from the booming market. Our target is to achieve the highest cost effectiveness and thereby ensure our business will deliver outstanding results and we will continue to lead the pharmaceutical market in the PRC.

Being recognized by and working in close collaboration with other industry players, and with abundant cash reserves, the Group has attracted a number of business propositions from various domestic and overseas pharmaceutical enterprises. The Group plans to accelerate business development and create a new driver of profit growth in the years to come through mergers, acquisitions and restructuring.

APPRECIATION

On behalf of the Directors, I would like to extend my gratitude to our shareholders for their full trust, support and understanding, and to all our staff for their contribution, diligence and creativity that helped the Group to achieve such outstanding performance.

Tse Ping
Chairman

11 April, 2006

MANAGEMENT DISCUSSION AND ANALYSIS

RESULTS

By disposing one of its subsidiaries, Sino Concept Technology Limited (whose sole asset is its 55% equity interests in Shandong Chia Tai Freda Pharmaceutical Co. Ltd. and Shandong Chia Tai Freda New Packaging Resources Co. Ltd. respectively) at a consideration of USD200 million on 26 September, 2005, the Group disposed of its ophthalmic and osteoarthritis operations. Though the two businesses were excluded, the Group's other continuing operations still reported notable growth. For the year ended 31 December, 2005, turnover from the Group's continuing operations was approximately HK$756.07 million (fig.1.2), approximately 13.8% higher than that in last year. Profit attributable to the Group from continuing operations (before fair value adjustment) amounted to approximately HK$108.96 million, about 28.1% more than that in last year. Basic earnings per share from continuing operations (before fair value adjustment) were HK4.93 cents. Profit attributable to the Group from the discontinued operations was approximately HK$1,490.28 million. Profit attributable to the Group was approximately HK$1,532.93 million. Earnings per share were HK69.39 cents, around 723.1% higher than last year. Cash and cash equivalents and bank balances on the balance sheet date were approximately HK$1,696.01 million (fig.1.6). Return on equity was 77.6%.

BUSINESS REVIEW

In spite of the challenging conditions in the pharmaceutical industry, the Group reported outstanding performance and it was mainly attributable to its persistence in executing the proven business and human resources policies.

In 2005, the pharmaceutical industry experienced fluctuation because of government policy changes, in particular the pricing control policy that squeezed the industry's profitability; the expiration of patents and the release of encouraged replication of products that intensified competition; and the promulgation of the new pharmacopoeia to raise product quality that led to higher production costs. Other factors aggravating competition included regulation on direct selling, stringent pharmaceutical categorization and more medicine wholesale companies entering the market. Pharmaceutical organizations purchasing through centralized tendering also lowered profit.

The Group adjusted its sales and marketing strategy to cope with the changing market conditions. Riding on its established sales network and thorough understanding of regional markets, the Group conducted more academic promotions to reinforce its professional image and brandings. In addition, the Group stepped up marketing to hospitals and pharmaceutical retailers and also actively developed third-tier end markets. Currently, the Group employed over 1,358 sales staff and its products are sold in 30 provinces, cities and autonomous regions in the PRC.

The Group adheres to a dual emphasis management concept of "achieving results and containing crisis". Besides, the Group's employees are its most important asset and one of its core competitive advantages. As such, the Group adopts an effective staff incentive mechanism that links staff rewards and personal advancement with the Group's performance.


JCTT R&D Centre


Beijing Tide's new plant

The Group committed strong efforts towards research and development ("R&D") to strengthen its edges for future development. The R&D expenses contributed approximately 7.1% of the sales of the Group. The Group undertakes self-development and co-development of innovative drugs, and self-development of generic drugs. To enhance its R&D capabilities, the Group fully utilizes the society's R&D resources and power and conducts joint development projects with domestic and international R&D institutes.

Beijing Tide's production workshop

The Group emphasizes on intellectual property rights to new drugs. The year of 2005 was a rewarding year for the Group in terms of filing and securing patent for its products and technology. During the year, it filed 212 invention patents applications and obtained 17 patents. The Group has an accumulation of 322 patents applications, of which 21 secured patents included 12 invention patents, 2 utility models patent and 7 apparel design patents. The announced product invention patents are 247. One patent that is worth mentioning is that of a new chiral compound extracted from Licorice and then chiral restructured and purified, used for treating severe hepatitis and protecting liver by lowering enzyme level. The compound is used to produce Tianqingganmei injections, and that of a new anti-viral drug for hepatitis with a new crystal of Adefovir Dipivoxil tablets. It has laid the foundation for the Group to expand its business and extend its share in the hepatitis drug market.

NJCTT's production workshop

Tianqingganmei injections

The Group has been focusing on developing specialty treatment, product series and specialty brands. After years of effort, the Group has successfully developed its own line of hepatitis medicines and cardio-cerebral medicines; and has begun to actively develop its own analgesic medicines, oncology medicines, and respiratory system and anti-diabetic drugs, etc.

Cardio-cerebral medicines

Kaishi injections

Cardio-cerebral medicines are mainly manufactured and sold by Beijing Tide and NJCTT, representing 24.5% of the Group's turnover from continuing operations (fig.1.7). Cardio-cerebral disease is the No. 1 killer in the world, as such, the type of medicines are the best seller worldwide and the second best seller in the PRC market. The Kaishi injections produced by Beijing Tide is one of the cardio-cerebral medicines and the first Prostaglandin El target sustained release medicine in the PRC. This product has adopted an internationally-advanced target preparation of PGEI invented by, and patent technology of which was transferred from, Professor Mizushima Yataka, a renowned medical scientist in Japan. With exclusive R&D technologies, Beijing Tide's products yield much better therapeutic effects than other similar products in the country. This medicine is thus well received by medical practitioners and patients, and currently enjoys a substantial market share. In February 2005, the Beijing Municipal People's Government awarded Beijing Tide the "Beijing Science & Technology Second Honor Award", in recognition of its scientific development efforts; its achievement in the production technology of the Alprostadil injections and its contribution to economic and social development in Beijing. With the SFDA's approval for its

Spring injections

MANAGEMENT DISCUSSION AND ANALYSIS

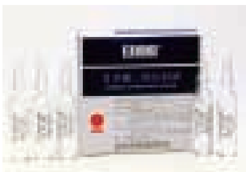

Tianqingganan injections

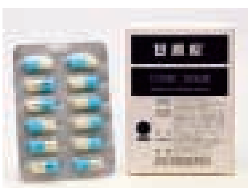
use to treat hepatitis indications in 2005, the product's market potential was further boosted. Its sales grew 12.8% to HK$318.67 million when compared with last year (fig.1.4).

Designed to serve different patients' needs, the Spring PVC-free soft bags for intravenous injections and the Spring injections manufactured by NJCTT and JCTT recorded with total sales of HK$50.47 million, in spite of pricing pressure.

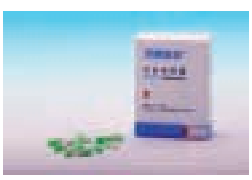
NJCTT launched its Tianqinganan injections in April 2004 and received positive market response . The new product will become a new driver for the development of cardio-cerebral medicines.

Hepatitis medicines


Ganlixin injections


Ganlixin capsules

JCTT is responsible for the R&D and manufacture of hepatitis medicines, one of the Group's major treatment areas, which recorded a total sales of approximately HK$558.85 million this year, accounting for 73.9% of the Group's turnover from continuing operations (fig.1.7). Hepatitis is one of the most common diseases in the PRC. Currently, hepatitis medicines are mainly for protecting the liver, combating hepatitis virus, and boosting the body's immunity, out of which the liver protecting medicine has shown the most encouraging development in recent years and boasts great prospects. As more anti-hepatitis measures are introduced by the PRC authority, fewer new viral hepatitis cases are expected to surface. However, the number of patients with fatty liver and alcohol liver has been rising year on year and these conditions are best treated by medicine for protecting the liver. JCTT's hepatitis medicines are consistently among the five best sellers in the market. Tianqingfuxin, which is used to combat the hepatitis virus, also ranks one of the five best sellers two years after being launched in the market.


Tianqingfuxin capsules

Hepatitis medicines made with ingredient extracted from Licorice are commonly used in the industry. It also has the best therapeutic effects in protecting the liver and lowering enzyme levels. JCTT is the largest Licorice R&D unit and is the largest manufacturer of the type of medicine. Its major products Ganlixin injections and capsules and Tianqingganpin enteric capsules (launched in May 2004) are all made with extracts from Licorice.


Tianqingfuxin injections

The Tianqinganmei injection, a hepatitis drug (protecting the liver by lowering enzyme level) produced by the Group for treating severe hepatitis, uses a new chemical compound extracted and separated from Licorice. The product received a patent certificate of independent intellectual property right. It was launched in November 2005 and drew immediate industry attention. It is expected to soon become another "blockbuster drug" of the Group, with total sales exceeding HK$100 million.

Since the patent of Ganlixin expired, many replica products emerged in the market, which affected its sales performance. The Group took combative measures and turned the sales around but its overall growth slowed down last year at approximately 5.2%, reaching approximately HK$319.67 million (fig.1.4). As for Tianqinganping enteric capsules, its expedient dosage and proven therapeutic effects pushed up sales to HK$41.21 million this year.

Tianqinganping enteric capsules

Affected by the intense market competition in the segment of combating hepatitis virus, a major product, Tianqingfuxin injections and capsules, made with extract and separate from the Chinese Herb called Sophora Alpecuroides L, reported a drop in sales of HK$129.06 million this year (fig.1.4).

Carnet injections

JCTT has built a foundation in hepatitis treatment with the core focus on protecting the liver and fighting hepatitis virus.

Oncology medicines

Tumor is the No. 2 killer in the world and the mortality rate is rising every year. oncology medicines have thus shown the highest growth among various products. Currently, their sales rank third in the country and are rising continuously. Tianqinyitai injections, the new oncology medicines launched by JCTT in January 2005, is used for easing the pain caused by osteolytic bone metastasis. Supported by its established sales network, strong sales team, abundant marketing experience, and the product's remarkable therapeutic effects, the new medicine immediately attracted the attention of medical practitioners and recorded total sales amounted to HK$26.53 million. The Group believes its other oncology medicines Renyi injections, which is manufactured by NJCTT, will also see encouraging performance.

Tianqingyitai injections

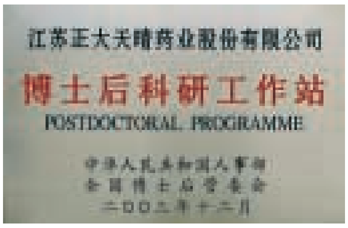
Renyi injections

Analgesic medicines

Beijing Tide's new Flurbiprofen micro-sphere target sustained release analgesic injection or Kaifen injections, using advanced production technology, has notable effect in alleviating pain with minimal side effects. In addition to receiving a RMB1 million R&D grant from Beijing Municipal Bureau of Industrial Development and State Administration of Foreign Experts Affairs, the product also received the certificate of the "National New Product" jointly awarded from the PRC's Ministry of Science and Technology, the PRC's Ministry of Commerce, the PRC's General Administration of Quality Supervision, Inspection and Quarantine, and the State Environmental Protection Administration of China. The medicine boasts tremendous growth potential as the Group believes that it will take up a certain share of the traditional analgesic medicine market.

Kaifen injections

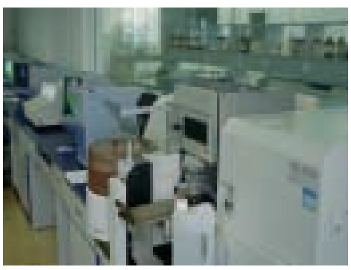
MANAGEMENT DISCUSSION AND ANALYSIS



Postdoctoral Programme

R & D laboratory

R & D laboratory



R & D laboratory

Tianqingzhengshu tablets

RESEARCH AND DEVELOPMENT

The Group focuses on the R&D of therapeutic medicines for cardio-cerebral diseases, hepatitis, oncology, analgesia, respiratory system and diabetes. During the year, the Group received a total of 17 production approvals and 31 clinical research approvals from the SFDA. A total of 56 cases had completed clinical research, under clinical trial or applying for production approval. The Group received R&D subsidies from the PRC Government totalling RMB7.15 million, of which RMB5.61 million was secured for JCTT and RMB1.54 million for Beijing Tide.

The Group received research funding from the Innovation and Technology Commission of the Hong Kong Special Administrative Region in November 2003 for cooperating with the Hong Kong Polytechnic University on a joint pharmaceutical research project by using biotechnology in genetic engineering in hepatitis treatment. This project progressed smoothly and the result report was submitted at the end of the year.

CTGC

CTGC is principally engaged in the R&D of medicines used to treat cardio-cerebral diseases, respiratory system, diabetes and digestive system. It specializes in the research of sustained release and controlled release of the drop pills for Chinese medicines and chemical medicines. The size of the drop pills can also be adjusted according to the effect desired and market requirements. CTGC has 5 SFDA approvals for clinical research and has signed product transfer contracts for 39 drugs. Boasting low development cost, outstanding therapeutic effects and convenient application, the product fits in with the direction of the pharmaceutical industry in the PRC and is expected to attract strong demand from the third-tier end markets in the country. We see promising prospects for the product and it is expected to broaden the Group's product mix, prolong its product life spans and expand its market.

JCTT

During the year, JCTT received 24 approvals for clinical research from the SFDA. A total of 36 cases received approval for clinical research, under clinical trial or had completed clinical trial, and applying for production approval. These products are used to treat hepatitis, oncology, cardio-cerebral diseases, respiratory system, bacteria and flammation as well as diabetes. The Group will obtain the necessary production approvals and launch the products to the market.

The newly patented drug Adefovir Dipivoxil, a new anti-viral drug for hepatitis, has completed the clinical stage and is applying for production approval from the SFDA. The Group expects to launch the product in the first half of 2006. The Group has also applied to the SFDA for the production approval of Tianqingsule (Tiotropium Bromide) spray, a drug for treating respiratory ailments, targeting to launch in the first half of 2006. It is expected that the two mentioned products will become the blockbuster products of the Group in the future.

NJCTT

2 approvals were received for clinical research this year. A total of 9 cases were in clinical research, or had completed clinical trials, or are applying for production approval from the SFDA. One of them is the plasma volume expauder, which is expected to obtain the production approval in first half of 2006 and will become another blockbuster product of the Group.

Beijing Tide

A total of 6 products were in clinical trial, or had completed clinical trial and applying for production approval from the SFDA. Three of them are drugs for treating cardio-cerebral diseases, two are for reducing blood glucose level (treating diabetes) and one new drug for treating digestive diseases. These products, which are expected to be launched in 2006 and 2007, will help to consolidate the Group's position in the area of cardio-cerebral disease treatment, enlarging its corresponding market shares, and also expanding in the area of diabetes and digestive diseases treatment.

CORPORATE GOVERNANCE

Investors' Relations

The Group strongly believes that its commitment to good corporate governance has increased its transparency. During the period under review, the Group actively arranged three media conferences and four investor presentations to enhance analysts' and fund managers' understanding about the latest business development of the Group. The senior management also met with the analysts and fund managers regularly to provide them updated information and corporate development of the Group.

To further strengthen its investor relations, the Group participated in various large-scale investor roadshows during the period. These roadshows include:

- CLSA China Forum;
- CLSA Hong Kong Forum;
- Goldman Sachs' China Investment Frontier;
- 2005 BOCI Investors Conference;
- DBS' roadshow/corporate presentation events in Japan and New York.

The Group's high level of transparency has allowed it to gain the trust of international conglomerates, facilitating potential future merger and restructuring. In the past year, the Group was awarded by various renowned organizations for its remarkable performance, which revealed the extensive recognition and support it had from the investment community. The Group is committed to putting more resources in enhancing transparency.

Code on Corporate Governance Practices

In the opinion of the directors, the Company had complied with all Code Provisions set out in the Code on Corporate Governance Practices as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") for the year ended 31 December, 2005, except for the following deviation from Code Provision A.2.1 and that Code Provision B.1 is complied in the second half of the year:–

1. Code Provision A.2.1 – The Code Provision stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Mr. Tse Ping is the chairman and chief executive officer of the Company. The Board considers that Mr. Tse Ping's substantial experience in the pharmaceutical business and management will enhance the Company's decision making and operational efficiency. To help achieve better balance of power and authority, the chairman discusses important issues and decisions relating to the Group's business with other executive directors.

2. Code Provision B.1 – The Company has established a remuneration committee on 6th October, 2005 with specific terms of reference in compliance with this Code Provision.

The Company has adopted a code of conduct regarding securities transactions by directors set out in Appendix 10 of the Listing Rules. 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.

CAPITAL STRUCTURE

On 11 April, 2005, 71,760,000 ordinary shares of HK$0.025 each have been issued on the exercise of the share options. On 13 April, 2005, 60,202,807 new ordinary shares of HK$0.025 each have been issued on the exercise of the conversion rights of convertible bonds held by Jian Kang Limited. On 29 April, 2005, 240,000 ordinary shares of HK$0.025 each have been issued on the exercise of the share options. On 31 May, 2005, 754,656,245 bonus shares have been issued and an amount of HK$18,866,406.13, being part of the Company's share premium account, has been capitalised. Such sum has been applied accordingly in paying up in full at par of the 754,656,245 bonus shares.

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 and the disposal of Sino Concept Technology Limited. As at 31 December, 2005, the Group's bank balance and cash in hand was approximately HK$1,696.01 million (2004: approximately HK$344.48 million).

CAPITAL COMMITMENT

The Group's capital expenditure commitments amounted to approximately HK$23.83 million as at 31 December, 2005 (2004: approximately HK$60.37 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, 2005 (2004: Nil).

CONTINGENT LIABILITIES

As at the balance sheet date, the Group had contingent liabilities of HK$4,970,000 (2004: Nil).

ASSETS AND GEARING RATIO

As at 31 December, 2005, total assets of the Group amounted to approximately HK$2,140.22 million (2004: approximately HK$950.54 million) whereas total liabilities amounted to approximately HK$164.98 million (2004: approximately HK$282.75 million). The gearing ratio (total liabilities over total assets) was approximately 7.7% (2004: approximately 29.7%).

EMPLOYEE AND REMUNERATION POLICIES

As at 31 December, 2005, the Group had about 2,546 employees (2004: 3,008). 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) of continuing operations for the year were HK$154,312,000 (2004: HK$94,055,000).

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES

Most of the assets and liabilities of the Group were denominated in Renminbi, US dollars and Hong Kong dollars. In Mainland China, 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 exchange rate between Hong Kong dollars and US dollars has been pledged under a fixed linked system over a long period of time. The Directors consider that the Group is not significantly exposed to foreign currency risk and no hedging or other alternatives have been implemented.

CORPORATE GOVERNANCE REPORT

The Company is pleased to present the Corporate Governance Report. The Company is committed to achieving high standards of corporate governance that properly protect and promote the interests of all the shareholders and enhance corporate value and accountability. The Company has applied the principles and complied with the code provisions prescribed in Appendix 14 – Code on Corporate Governance Practices ("CG Code") as required under the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), which became effective on 1 January, 2005, except for the following deviation from Code Provision A.2.1 and that Code Provision B.1 is complied in the second half of the year:–

1. Code Provision A.2.1 – The Code Provision stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Mr. Tse Ping is the chairman and chief executive officer of the Company. The Board considers that Mr. Tse Ping's substantial experience in the pharmaceutical business and management will enhance the Company's decision making and operational efficiency. To help achieve better balance of power and authority, the chairman discusses important issues and decisions relating to the Group's business with other executive directors.

2. Code Provision B.1 – The Company has established a remuneration committee on 6th October, 2005 with specific terms of reference in compliance with this Code Provision.

To ensure compliance with the CG Code, the Board has reviewed and proposed the necessary amendments to the Articles of Association of the Company to bring the constitution of the Company in alignment with certain provisions of the CG Code. This report describes our corporate governance practices and explains the applications of the principles of the CG Code and deviations (if any).

A. BOARD OF DIRECTORS

BOARD

The Board is accountable to the shareholders for leadership and control of the Company and is collectively responsible for promoting the success of the Company and its businesses by directing and supervising the Company's affairs. The Board focuses on overall corporate strategies and policies with attention particularly paid to the growth and financial performance of the Group.

The Board has determined that certain matters such as strategic planning, significant transactions and budget be retained for the Board's approval. It has formalised the functions reserved to the Board to achieve a clear division of the responsibilities between the Board and the management. The Board delegated its responsibilities to the senior management to deal with day-to-day operations and review those arrangements on a periodic basis. Management reports back to the Board and obtains prior approval before making decisions for key matters or entering into any material commitments on behalf of the Company.

To maximise the effectiveness of the Board and to encourage active participation and contribution from Board members, the Board has established an executive board committee, audit committee and remuneration committee with specific written terms of reference to assist in the execution of their duties. The terms of reference of each of the committees are reviewed and amended (if necessary) from time to time, including the committees' structure, duties and memberships.

CORPORATE GOVERNANCE REPORT

The Company Secretary and the Qualified Accountant shall, as far as possible, attend all meetings of the Board/committees to advise on corporate governance, statutory compliance, accounting and financial matters. All directors have access to the Company Secretary who is responsible for the Group's compliance with the continuing obligations of the Listing Rules, Code on Takeover and Mergers and Share Repurchases, Companies Ordinance, Securities and Futures Ordinance and other applicable laws, rules and regulations etc.

All directors are given the opportunities to include matters to be discussed in the agenda of the Board/committee meetings. The Company Secretary is delegated with the responsibility of preparing the agenda and, where appropriate, take into account any matters proposed by each director/committee member for inclusion in the agenda.

Other than exceptional circumstances, an agenda accompanied by any related materials are circulated to all directors in a timely manner and at least three days before the date of scheduled meeting. Where queries are raised by directors, responses are given as promptly and fully as possible within a reasonable time.

The Board meets regularly and at least four board meetings are scheduled annually at approximately quarterly intervals. Ad-hoc meetings are convened when it considers necessary. Notices of regular Board/committee meetings are given at least 14 days before the date of meeting. For all other Board/committee meetings, reasonable notices are given.

Minutes of the Board/committee meetings are recorded in details including the matters considered by the participants of such meetings, decisions reached and concerns raised by directors or dissenting views expressed. Draft and final versions of minutes are circulated to relevant directors or committee members within a reasonable time after the meetings are held and taken as the true records of the proceedings of such meetings. They are kept by the Company Secretary or secretary of the committees and are open for inspection at any reasonable time on reasonable notice by any director. All directors are entitled to have access to board papers and related materials unless there are legal or regulatory restrictions on disclosure due to regulatory requirements.

Directors are provided with complete, adequate explanation and information to enable them to make an informed decision or assessment of the Group's performance, position and prospects, and to discharge their duties and responsibilities on a timely basis. The directors, to properly discharge their duties, will be given access to independent professional advisers when necessary, at the expense of the Company.

If a substantial shareholder or a director has a conflict of interest in a matter to be considered by the Board which the Board has determined to be material, the matter will be dealt with by way of a Board/committee meeting and the interested shareholder or director shall not vote nor shall he/she be counted in the quorum present at the relevant meeting. Independent non-executive director ("INED") who, and whose associates, have no material interest in the transaction, may be present at such a board meeting.

BOARD COMPOSITION

The Board currently consists of twelve directors, namely a Chairman and Chief Executive Officer ("CEO"), eight Executive directors, a Non-executive director and three INEDs.

Position		Name
Chairman, CEO and executive director	:	Mr. Tse Ping
Executive directors	:	Mr. Tao Huiqi
		Mr. Wang Jinyu
		Mr. He Huiyu
		Ms. Cheng Cheung Ling
		Ms. Zhao Yanping
		Mr. Tse Hsin
		Mr. Zhang Baowen
Non-executive director ("NED")	:	Ms. Josephine Price ("Ms. Price")
INEDs	:	Mr. Lu Zhengfei
		Mr. Li Dakui
		Ms. Li Jun

The attributes, skills and expertise among the existing directors are a balanced mix of core competencies in areas such as pharmaceutical, accounting and finance, legal, business and management and marketing strategies.

The INEDs meet the requirements of independence under the Listing Rules so that there is a sufficient element of independence in the Board to exercise independent judgement. The Board considers that all of the INEDs are independent and has received from each of them the confirmation of independence as required by the Listing Rules.

The INEDs have the same duties of care and skill and fiduciary duties as the executive directors. They are expressly identified as such in all corporate communications that disclose the names of directors of the Company. The functions of INEDs include, but not limited to:

- participating in Board meetings to bring an independent judgement to bear on issues of corporate strategy, corporate performance, accountability, resources, key appointments and standard of conducts;
- taking the lead where potential conflicts of interests arise;
- serving and active participating on committees, if invited;
- attending general meetings of the Company and developing a balanced understanding of the views of shareholders; and
- scrutinising the Group's performance in achieving agreed corporate goals and objectives and monitoring the reporting of performance.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The Chairman and CEO of the Company is Mr. Tse Ping. He is the spouse of Ms. Cheng Cheung Ling, an Executive director of the Company. He and Mr. Tse Hsin, an Executive director, are cousins. The Chairman is responsible for overseeing the function of the Board and formulating overall strategies and policies of the Company. Being the CEO of the Company, Mr. Tse is also responsible for managing the Group's business and operations.

The Chairman also seeks to ensure that all directors are properly briefed on issues arising at Board meetings and receive adequate and reliable information in a timely manner.

APPOINTMENT, RE-ELECTION AND REMOVAL

Appointment of new directors is a matter for consideration by the Board. It reviews the profiles of the candidates and makes recommendations on the appointment, re-election and retirement of directors. During the year, six directors were appointed by the Board.

A special resolution was passed on 13 May, 2005 at an extraordinary general meeting to amend the Articles of Association of the Company to provide that (1) one-third of the directors for the time being or, if their number is not a multiple of three, the number nearest to but not less than one-third shall be subject to retirement by rotation provided that every director shall be subject to retirement by rotation at least once every three years; and (2) the directors to retire by rotation shall include any director who wishes to retire and not to offer himself for re-election. The retiring directors shall be those who have longest in office since their last re-election or appointment and that all retiring directors are eligible for re-election.

Newly appointed director(s) of the Company will receive induction and reference materials to enable him/them to familiarise with the Group's history, mission, business operations and the Company's policies. Each director is briefed and updated to ensure that he has a proper understanding of the operations and business of the Group and that he is fully aware of his responsibilities of the latest changes under statute and common law, the Listing Rules, Companies Ordinance, Securities and Futures Ordinance, applicable legal and other regulatory requirements and the governance policies of the Company. Every new director received a "Memorandum on the Duties and Responsibilities of Directors of a Company Listed on the Main Board of The Stock Exchange of Hong Kong Limited" which set out guidelines on statutory and regulatory requirements.

Each of the Executive Directors are appointed for a term of three years. Ms. Price, NED and each of the INEDs are appointed for a term of two years. All the Directors are subject to retirement by rotation and re-election at the Annual General Meeting ("AGM") of the Company, in accordance with the Articles of Association of the Company.

The names and biographical details of the directors who will offer themselves for election or re-election at the AGM are set out in a circular, which will be despatched together with the annual report accompanying the notice of AGM, to assist shareholders in making an informed decision on their elections.

Every director shall ensure that he can contribute sufficient time and effort to the corporate affairs of the Company once he accepts the appointment.

COMMITTEES

The Board has established Executive Board Committee ("EBC") and Remuneration Committee ("RC") in October, 2005 with written terms of reference to enable such committees to discharge their functions properly.

Executive Board Committee

The EBC consists of Mr. Tse Ping (Chairman), Ms. Zhao Yanping and Mr. Tse Hsin.

The EBC meets as and when required to oversee the day-to-day management of the Group.

CORPORATE GOVERNANCE REPORT

All resolutions or recommendations approved by the EBC will be reported to the Board, unless there are legal or regulatory restriction.

Remuneration Committee

The RC consists of Mr. Tse Ping (Chairman), Mr. Lu Zhengfei (INED) and Ms. Li Jun (INED).

The principal functions of the RC include:

- recommending the Board on the Company's policies and structure for the remuneration of the directors and senior management of the Group;
- determining the remuneration packages of all executive directors and senior management;
- reviewing and approving their performance-based remuneration;
- reviewing and approving compensation to directors and senior management in connection with any loss or termination of their office or appointment; and
- ensuring no director or any of his associates is involved in deciding his own remuneration.

The RC has held a meeting to discuss and review the remuneration policy and package for directors. The emoluments of directors are determined by reference to the skills, experiences, responsibilities, employment conditions and time-commitment in the Group's affairs and performance of each director as well as salaries paid by comparable companies and the prevailing market conditions. The Company has adopted a share option scheme on 24th November, 2003. The share option scheme serves as an incentive to attract, retain and motivate talented eligible staff, including the directors. Members of the RC, however, do not participate in the determination of their own remuneration.

The RC consults the Chairman and the CEO about its proposals relating to the remuneration of other executive directors and has access to professional advice if it considers necessary. The Company provides sufficient resources to RC to discharge its duties.

The terms of reference of the RC is available from the Company Secretary on request and is posted on the Company's website.

Audit Committee

The Audit Committee ("AC") was established on 19 September, 2000. The AC consists of three INEDs, Mr. Lu, Zhengfei, Mr. Li Dakui and Ms. Li Jun, who together have sufficient accounting and financial management expertise, legal and business experience to discharge their duties. In accordance with the provisions of the CG Code, the terms of reference of the AC were revised on 27 June, 2005 in terms substantially the same as the provisions set out in the CG Code.

The Company provides sufficient resources to the AC for discharging the duties. The duties and responsibilities are set out clearly in the terms of reference which includes:

- considering and recommending the appointment, re-appointment and removal of external auditors;
- approving the remuneration and terms of engagement of external auditor, any questions of resignation or dismissal of that auditor;
- discussing with external auditor's independency, the nature and scope of the audit and reporting obligations before the audit commences;
- monitoring integrity of financial statements and reviewing the quarterly, interim and annual financial statements and reports before submission to the Board;
- reviewing the Group's financial controls, internal control and risk management systems;
- considering any findings of major investigations of internal control matters as delegated by the Board or on its own initiative and management's response; and
- reviewing the external auditors' management letter, any material queries raised by the auditor to management in respect of the accounting records, financial accounts or systems of control and management's response and ensuring that the Board will provide a timely response to the issues raised.

The AC met two times during the year 2005 and performed the following work:

- Reviewed and discussed with management and the external auditors regarding the audited financial statements for the year ended 31 December, 2004 and management letter;
- Reviewed with management the unaudited quarterly financial statements for the three months ended 31 March, 2005, interim financial statements for the six months ended 30 June, 2005 and the quarterly financial statements for the nine months ended 30 September, 2005;
- Reviewed the findings and recommendations of the internal audit department on the operations and performance of Group;
- Reviewed the effectiveness of internal control system;
- Reviewed the external auditors' statutory audit plan and engagement letter; and
- Recommended to the Board, for the approval by shareholders, of the re-appointment of the auditors.

Minutes of AC are kept by the Secretary. Draft and final versions of minutes have been sent to all members of the AC within a reasonable time after the meeting for their comments and records respectively.

The terms of reference of the AC is available from the Secretary on request and is posted on the Company's website.

CORPORATE GOVERNANCE REPORT

BOARD AND COMMITTEE ATTENDANCE

The Board held four regular meetings and two additional meetings in 2005. Details of the attendance of individual director at Board meetings and committee meetings during the year 2005 are set out below:

	No. of meetings attended/held		
Directors	**Board**	**Remuneration Committee**	**Audit Committee**
Executive Directors			
Mr. Tse Ping (Chairman and CEO)	6/6	1/1	N/A
Mr. Tao Huiqi	3/6	N/A	N/A
Mr. Wang Jinyu	2/6	N/A	N/A
Mr. He Huiyu (appointed on 13/1/2005)	5/6	N/A	N/A
Ms. Cheng Cheung Ling (appointed on 13/1/2005)	4/6	N/A	N/A
Ms. Zhao Yanping (appointed on 13/1/2005)	4/6	N/A	N/A
Mr. Tse Hsin (appointed on 7/4/2005)	4/6	N/A	N/A
Mr. Zhang Baowen (appointed on 11/4/2006)	–	N/A	N/A
Non-Executive Director			
Ms. Josephine Price	3/6	N/A	N/A
Independent Non-Executive Directors			
Mr. Lu Zhengfei (appointed on 22/11/2005)	–	1/1	–
Mr. Li Dakui	4/6	N/A	1/2
Ms. Li Jun (appointed on 13/1/2005)	5/6	1/1	2/2
Ms. Zheng Qun, Grace (resigned on 22/11/2005)	5/6	–	2/2
Mr. Hu Ximing (resigned on 13/1/2005)	–	N/A	N/A
No. of meetings	6	1	2

Mr. Tse Ping, the Chairman and CEO, is the spouse of Ms. Cheng Cheung Ling, an Executive director of the Company. Mr. Tse Ping and Mr. Tse Hsin, an Executive director, are cousins. Save as disclosed above, there are no family relationships among members of the Board and between the Chairman and the CEO.

SECURITIES TRANSACTIONS BY DIRECTORS/OFFICERS

The Company has adopted a code of securities dealing for directors/senior management/employees (the "Code") on terms no less exacting than the model code for securities transactions by directors of listed issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules, as its own code of conduct regarding securities transactions.

Having made specific enquiry of all directors, they have confirmed that they have fully complied with the required standards as set out in the Model Code.

Officers/employees as defined in the Code deemed to be in possession of unpublished price-sensitive or confidential information in relation to the Company or its shares are required to prohibit to deal in securities of the Company during the black-out period for compliance with the Code.

B. ACCOUNTABILITY AND AUDIT

FINANCIAL REPORTING

The Board acknowledges its responsibility for preparing the accounts which give a true and fair view of the state of affairs of the Company and of the Group on a going concern basis, with supporting assumptions or qualifications as necessary. The directors have also ensure the timely publication of the financial statements of the Group.

The management provides explanation and information to the Board to enable it to make an informed assessment of the financial and other information to be approved.

The Board endeavours to ensure a balanced, clear and understandable assessment of the Group's position and prospects to extend the Group's financial reporting including annual and interim reports, other price-sensitive announcements and other financial disclosures required under the Listing Rules, and reports to regulators as well as to information required to be disclosed pursuant to statutory requirements and application accounting standards.

INTERNAL CONTROLS

The Board is responsible for managing business and operational risks, and maintaining a proper and effective system of internal control to safeguard the shareholders' investment and the Group's assets.

The directors conducted annual review of the effectiveness of the Group's system of internal control covering all material controls, including financial, operational and compliance and risk management functions.

The Group maintain a centralised cash management system for the Group's treasury function to oversee the Group's investment, lending and borrowing activities.

The Group has established guidelines and procedures for the approval and control of expenditure. Operating expenditures are subject to the overall budget control and are controlled by each business with approval levels for such expenditures being set by reference to each executive's and officer's level of responsibility. Capital expenditures are subject to overall control within the annual budget review and approval process, and more specific control and approval prior to commitment.

AUDITORS' REMUNERATION

During the year under review, the remuneration paid to the Group's external auditors, Messrs Ernst & Young is set out as follows:

	Fee Paid/Payable 2005 (HK$'000)
Services rendered	
Audit Services	880
Non-Audit Services	–

C. COMMUNICATION WITH SHAREHOLDERS AND INVESTORS

The Company aims to provide its shareholders with high standards of disclosure and financial transparency through the publication of annual and interim reports, quarterly, interim and annual results press announcements and circulars made through the Company's and Stock Exchange's websites.

The AGM or other general meetings provide a useful forum for shareholders to exchange views with the Board. The Chairman of the Board as well as the Chairmen of AC and/or RC, or in their absence, members of the committees or senior management of the Company should be available to answer the shareholders' questions. The Chairman of the independent board committee should also attend the general meetings for approving a connected transaction or any transaction that is subject to independent shareholders' approval.

Separate resolutions are proposed at general meetings on each substantially separate issue, including the election of individual directors.

Details of the poll voting procedures and rights of shareholders to demand a poll are included in circular convening a general meeting despatching to the shareholders of the Company. The Chairman of the meeting should ensure compliance with the voting by poll requirement.

The Company should count all proxy votes, and except where a poll is required, the Chairman of a meeting should indicate to the meeting the level of proxies lodged on each resolution, and the balance for and against the resolution, after it has been dealt with on a show of hands. The Company should ensure that votes cast are properly counted and recorded.

The Company regularly releases latest corporate news of the Group's developments on its website at http://www.sinobiopharm.com. The public are welcome to give comments and make enquiries through the Company's website.

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, 2005.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the subsidiaries are set out in note 19 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, 2005 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 50 to 129.

The addition payment for 2004 final dividend of HK$5,288,000 due to the conversion of convertible bonds in 2005, together with the first quarter dividend of HK$0.02 per ordinary share (HK$0.0133 per ordinary share after consideration of bonus share issue), the interim dividend of HK$0.015 per ordinary share, the third quarter dividend of HK$0.015 per ordinary share and the special dividend of HK$0.05 per ordinary share totalling HK$216,592,000 was paid during 2005.

The directors recommend the payment of a final dividend of HK$0.015 per ordinary share in respect of the year ended 31 December, 2005 to shareholders on the register of members on Monday, 5 June, 2006. This recommendation has been incorporated in the financial statements as an allocation of retained profits within equity section of the balance sheet.

REPORT OF THE DIRECTORS

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.

	2005	2004	2003	2002	2001
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
		(Restated)	(Restated)	(Restated)	(Restated)
RESULTS					
REVENUE	**756,073**	664,296	456,089	342,610	284,930
Cost of sales	**(139,418)**	(133,163)	(105,872)	(73,201)	(68,670)
Gross profit	**616,655**	531,133	350,217	269,409	216,260
Other income and gains	**28,599**	7,063	8,154	3,389	4,590
Selling and distribution costs	**(310,609)**	(253,390)	(176,167)	(152,372)	(118,559)
Administrative expenses	**(110,866)**	(101,885)	(79,396)	(53,550)	(41,026)
Other operating expenses	**(42,224)**	(33,382)	(18,593)	(13,349)	(7,073)
Finance costs	**(2,729)**	(1,050)	(843)	(418)	(1,559)
PROFIT BEFORE TAX AND BEFORE FAIR VALUE ADJUSTMENT FOR DERIVATIVE FINANCIAL INSTRUMENT	**178,826**	148,489	83,372	53,109	52,633
Fair value adjustment for derivative financial instrument	**(66,315)**	–	–	–	–
PROFIT BEFORE TAX AND AFTER FAIR VALUE ADJUSTMENT FOR DERIVATIVE FINANCIAL INSTRUMENT	**112,511**	148,489	83,372	53,109	52,633
Tax	**(18,311)**	(15,407)	(11,625)	(9,540)	(2,222)
PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS	**94,200**	133,082	71,747	43,569	50,411
DISCONTINUED OPERATION					
Profit for the year from a discontinued operation	**152,213**	152,129	78,209	74,842	59,054
Gain on disposal of subsidiaries	**1,406,191**	–	–	–	–
Total profit for the year from a discontinued operation	**1,558,404**	152,129	78,209	74,842	59,054
PROFIT FOR THE YEAR	**1,652,604**	285,211	149,956	118,411	109,465
Attributable to:					
Equity holders of the parent	**1,532,929**	168,485	81,636	57,369	61,735
Minority interests	**119,675**	116,726	68,320	61,042	47,730
	1,652,604	285,211	149,956	118,411	109,465
TOTAL ASSETS	**2,140,222**	950,535	787,244	593,986	433,129
TOTAL LIABILITIES (exclude convertible bonds)	**(164,978)**	(239,845)	(215,531)	(124,653)	(91,800)
CONVERTIBLE BONDS	**–**	(42,900)	(78,000)	(46,800)	–
NET ASSETS	**1,975,244**	667,790	493,713	422,533	341,329
MINORITY INTERESTS	**(121,997)**	(211,716)	(156,348)	(129,725)	(96,790)

PROPERTIES, PLANT AND EQUIPMENT

Details of movements in the properties, plant and equipment, and investment properties of the Company and the Group during the year are set out in note 15 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 28 to the financial statements.

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, 2005, 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$33,959,000 (2004: HK$55,084,000), amounted to HK$1,589,790,000 (2004: HK$125,512,000). 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.

REPORT OF THE DIRECTORS

DIRECTORS

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

Executive directors:

Mr. Tse Ping	
Mr. Wang Jinyu	
Mr. Tao Huiqi	
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)
Mr. Zhang Baowen	(appointed on 11 April, 2006)

Non-executive director:

Ms. Josephine Price

Independent non-executive directors:

Mr. Lu Zhengfei	(appointed on 22 November, 2005)
Ms. Zheng Qun, Grace	(resigned on 22 November, 2005)
Mr. Li Dakui	
Ms. Li Jun	(appointed on 13 January, 2005)
Mr. Hu Ximing	(resigned on 13 January, 2005)

In accordance with article 87 of the Company's articles of association, Mr. Tse Ping, Mr. Tao Huiqi, Mr. Wang Jinyu, Ms. Josephine Price, Mr. Lu Zhengfei and Mr. Zhang Baowen shall hold office until the forthcoming Annual General Meeting and shall then be eligible for re-election. Save for Ms. Josephine Price, such retiring Directors have offered themselves for re-election at the forthcoming annual general meeting.

Each of the independent non-executive directors are appointed for a term of two years subject to retirement by rotation and re-election at the annual general meeting of the Company, in accordance with the Company's articles of association.

The Company has received from each of independent non-executive director an annual confirmation of independence pursuant to the new independence guidelines under the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules") and that the Company considers such directors to be independent.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 41 to 46 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 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, 2005, the interests and short positions of each director and chief executive of the Company in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong ("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

		Number of shares held, capacity and nature of interest					
Name of director	*Notes*	**Capacity/ Nature of interest**	**Directly beneficial owned**	**Through controlled corporations**	**Through Spouse**	**Total**	**Percentage of the Company's issued share capital**
Mr. Tse Ping	*(1)*	Beneficial owner	45,000,000	1,035,488,908	–	1,080,488,908	47.73%
Ms. Cheng Cheung Ling	*(2)*	Deemed interest	–	–	1,080,488,908	1,080,488,908	47.73%
Mr. Wang Jinyu	*(3)*	Beneficial owner	3,600,000	53,280,000	–	56,880,000	2.51%
Mr. Tao Huiqi		Beneficial owner	6,000,000	–	–	6,000,000	0.27%
Mr. Tse Hsin		Beneficial owner	25,800,000	–	–	25,800,000	1.14%
Ms. Zhao Yanping		Beneficial owner	636,000	–	–	636,000	0.03%

Notes:

(1) Mr. Tse Ping held 1,035,488,908 shares through Remarkable Industries Limited and Validated Profits Limited. The entire issued share capital in each of these companies is owned by Mr. Tse Ping.

(2) Ms. Cheng Cheung Ling is the spouse of Mr. Tse Ping and is therefore deemed to be interested in the same shares in which Mr. Tse Ping has an interest.

(3) Mr. Wang Jinyu held 53,280,000 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 shares of an associated corporation of the Company

Name of Director	Name of associated corporation	Capacity	Number of shares	Percentage of shareholding
Mr. Tse Hsin	Jiangsu Chia Tai-Tianqing Pharmaceutical Co., Ltd. (江蘇正大天晴藥業股份有限公司)	Beneficial owner	173,250	0.18%

Saved as disclosed above, as at 31 December, 2005, none of the Directors and chief executives of the Company had any interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporation (within the meaning of the SFO) as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

PERSONS WHO HAVE AN INTEREST OR SHORT POSITION WHICH IS DISCLOSEABLE UNDER THE SECURITIES AND FUTURES ORDINANCE AND SUBSTANTIAL SHAREHOLDERS

As at 31 December, 2005, the following persons (not being a Director or chief executive of the Company) had the following interests and/or short positions in the shares and/or underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

Long position in shares

Name	*Notes*	Capacity/Nature of Interest	Number of Underlying shares of the Company	Approximate percentage of issued share capital of the Company
Validated Profits Limited	*(1)*	Beneficial owner	691,582,348	30.55%
Remarkable Industries Limited	*(1)*	Beneficial owner	343,906,560	15.19%
The Goldman Sachs Group, Inc.	*(2)*	Interest of a controlled corporation	162,000,000	7.16%
Conspicuous Group Limited		Beneficial owner	142,431,091	6.29%
Chia Tai Development Investment Company Limited	*(3)*	Interest of a controlled corporation	142,431,091	6.29%
Mr. Dhanin Chearavanont	*(4)*	Interest of a controlled corporation	142,431,091	6.29%

PERSONS WHO HAVE AN INTEREST OR SHORT POSITION WHICH IS DISCLOSEABLE UNDER THE SECURITIES AND FUTURES ORDINANCE AND SUBSTANTIAL SHAREHOLDERS (Cont'd)

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. The 162,000,000 shares were held by Goldman Sachs (Asia) Finance. Based on the disclosure of interests filing received by the Company, Goldman Sachs (Asia) Finance is a controlled corporation of Goldman Sachs (Asia) Finance Holdings L.L.C., which in turn is a controlled corporation of Goldman Sachs & Co., which in turn is a controlled corporation of The Goldman Sachs Group, Inc., all of which are deemed under the SFO to be interested in the same shares.

3. Chia Tai Development Investment Company Limited ("CT Development") has declared an interest in the same 142,431,091 shares in which Conspicuous Group Limited has declared an interest, by virtue of its shareholding in Conspicuous Group Limited.

4. Mr. Dhanin Chearavanont has declared an interest in the same 142,431,091 shares in which CT Development has declared an interest for the purpose of the SFO as mentioned in Note (3) above, by virtue of his shareholding in CT Development.

Save as disclosed above, as at 31 December, 2005, no person (not being a Director or chief executive of the Company) had an interest and/or short position in the shares and/or underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Saved 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 Scheme be and is hereby approved and adopted and the board of directors of the Company be and is hereby 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 Scheme including, but without limitation:

(1) to administer the Scheme under which options may be granted to Participants (as defined in the Scheme) to subscribe for Shares;

(2) to modify and/or amend the Scheme from time to time provided that such modification and/or amendment is effected in accordance with the provisions of the 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 Scheme; and

REPORT OF THE DIRECTORS

SHARE OPTION SCHEME (Cont'd)

(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 Scheme.

CONNECTED TRANSACTIONS

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

(i) 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 ("Jiangsu Agribusiness"), 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.

During the year, Chia Tai Pharmaceutical (Lianyungang) Company Limited, a wholly-owned subsidiary of the Company, had entered into the new joint venture contract and new articles of association of Lianyungang Tianyi Medicine Co., Ltd. with Lianyungang Runzi Consultation Centre and Jiangsu Juxin Investment Management Corporation Limited, 51% owned by Jiangsu Agribusiness.

Beijing Chia Tai Green Continent Pharmaceutical Co., Ltd. ("CTGC"), a 75% subsidiary of the Company, had also entered into the new joint venture contract and new articles of association of Jiangsu Qingjiang Pharmaceutical Co., Ltd. ("Jiangsu Qingjiang") with Jiangsu Agribusiness, Huaian Hongda Investment Consulting Centre and Jiangsu Juxin Investment Management Company Limited whereby CTGC would contribute to the registered capital of Jiangsu Qingjiang through the injection of certain pharmaceutical technologies.

During the year, the Group had entered into the following agreements, which would constitute continuing connected transactions under the the Listing Rules for a term of three years from 1 January, 2006 to 31 December, 2008:–

(i) Provision of technology development services for certain pharmaceutical products by CTGC, a 75% subsidiary of the Company to Xian C.P. Pharmaceutical Co., Ltd., a company held as to 60% (indirect) by Mr. Tse Ping, Chairman of the Company.

(ii) Provision of technology development services for certain pharmaceutical products by CTGC to Jiangsu Chia Tai Fenghai Pharmaceutical Co., Ltd., a company held as to 51% (indirect) by Mr. Tse Ping, Chairman of the Company.

RULE 13.18 OF THE LISTING RULES

As at 31 December, 2005, there were convenants 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 amount of US$6 million to Jian Kang Ltd. and one per cent. convertible bonds due 2006 in the aggregate principal amount 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.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the directors, at least 25% of the Company's total issued share capital was held by the public throughout the year ended 31 December, 2005.

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"), Ankang Chia Tai Pharmaceutical Co., Ltd. ("CT Ankang"), Hainan Tigerlily Pharmaceutical Co., Ltd. ("HTPC") and ABH Nature's Products Inc. ("ABH"), Jiangsu Chia Tai Fenghai Pharmaceutical Co., Ltd. ("CTFH") and Yancheng Suhai Pharmaceutical Co., Ltd. ("YSPC").

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 Ankang 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 Ankang acquired a PRC pharmaceutical company which has one product for the treatment of cardiovascular namely, Puerain injections which may compete with an existing product namely, Spring (Puerain 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. CTFH is principally engaged in the production and distribution of synthetic raw material and medicines. YSPC is principally engaged in the production and distribution of autibiotics and raw materials.

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

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.

Mr. Tse Ping has also executed a new deed of non-competition undertaking in favour of the Company on 9 September, 2003 which will become 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 or the management shareholders of the Company (as defined in the Listing Rules) 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 39 to the financial statements.

EMOLUMENT POLICY

Including the Directors, the Group had around 2,546 employees as at 31 December, 2005. 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.

In order to properly reflect the public accountability and time and effort spent on the Board and various committees and meetings, the determination of emoluments of the directors of the Company had taken into consideration of their expertise and job specifications.

CODE ON CORPORATE GOVERNANCE PRACTICES

In the opinion of the directors, the Company has complied with the Code Provisions set out in the Code on Corporate Governance as set out in Appendix 14 of the Listing Rules for the year ended 31 December, 2005, except for the following deviations from Code Provision A.2.1 and that Code Provision B.1 is complied in the second half of the year:–

1. Code Provision A.2.1 – The Code Provisions stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Mr. Tse Ping's the chairman and chief executive officer of the Company. The Board considers that Mr. Tse Ping's substantial experience in the pharmaceutical business and management will enhance the Company's decision making and operational efficiency. To help achieve a better balance of power and authority, the chairman discusses important issues and decisions relating to the Group's business with other executive directors.

2. Code Provision B.1 – The Company has established a remuneration committee on 6 October, 2005 with specific terms of reference in compliance with this Code Provision.

The Company has adopted a code of conduct regarding securities transactions by directors set out in Appendix 10 of the Listing Rules. 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.

The Group has complied with Rules 3.10(1) and 3.10(2) of the Listing Rules relating to appointment of a sufficient number of the independent non-executive directors ("INEDs") and at least an INED with appropriate professional qualifications, or accounting or related financial management expertise. The Company has appointed three INEDs including one with financial management expertise, details of their biographies were set out on pages 42 to 43 of the annual report.

AUDIT COMMITTEE

The Company has established an audit committee (the "Committee") with written terms of reference in accordance with the requirement of the Code on Corporate Governance Practices. 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 three members comprising the three INEDs, Mr. Lu Zhengfei, Mr. Li Dakui and Ms. Li Jun.

The Group's financial statements for the year ended 31 December, 2005 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.

REPORT OF THE DIRECTORS

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
11 April, 2006

DIRECTORS AND SENIOR MANAGEMENT PROFILE

DIRECTORS

Executive Directors

Mr. Tse Ping (謝炳先生), aged 54, is the Founder, Chairman and CEO 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 56, 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 36, 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 62, 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 a director of Beijing Tide, 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 41, joined the Company as an executive director in January 2005. She is an executive director of the Company. Ms. Cheng is a medical practician 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.

Ms. Zhao Yanping (趙艷萍女士), aged 43, 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 over 20 years of experience in the pharmaceutical industry.

DIRECTORS AND SENIOR MANAGEMENT PROFILE

Mr. Tse Hsin (謝炘先生), aged 36, 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 and is the vice chairman of Foreign-invested Enterprises Association of Shaanxi Province. He is a cousin of Mr. Tse Ping and the brother of Ms. Tse Wun, a senior management of the Company.

Mr. Zhang Baowen (張寶文先生), aged 49, 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 CTGC. Mr. Zhang is a member of the 20th and 21st committee of the China Medicine Association. He has over 20 years of experience in the pharmaceutical industry.

Non-executive Director

Ms. Josephine Price (潘佐芬女士), aged 51, 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

Mr. Lu Zhengfei (陸正飛先生), aged 42, received P.h.D. degree in economics with concentration in financial management. Mr. Lu is currently the Professor and Chairman of the Department of Accounting and supervisor of doctoral students, Guanghua School of Management of Peking University. He has previously held various senior positions in the Department of Accounting of both Peking University and Nanjing University. He is the consulting expert of the China Financial Accounting Standards Board, Ministry of Finance. He is also a member and director of the China Accounting Association and China Auditing Association. Mr. Lu is the editor of several accounting and finance journals and he has issued various publications. He is an independent non-executive director of PICC Property and Casualty Company Limited and Sinotrans Limited, whose shares are listed on The Stock Exchange of Hong Kong Limited. In addition, Mr. Lu is also the independent non-executive director of CITIC Offshore Helicopter Co. Ltd, a company whose shares are listed on the Shenzhen Stock Exchange.

Mr. Li Dakui (李大魁先生), aged 61, 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 37, 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 Fudan 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. Hai Tianmin (海天敏先生), aged 49, is the assistant to the president of the Company. Mr. Hai joined the Group in 1992. He was the Vice President of the Group and Chia Tai International Finance Corporation. In 1997 Mr. Hai left the Group and was the general manager of Shenzhen Medical Development Corporation. In January 2006 Mr. Hai rejoined the Group. Mr. Hai has extensive experience in finance and investment.

Dr. Jeffrey L. Winkelhake (杰弗里L 溫克赫博士), aged 60, is assistant to president of the Company. He joined the Group in May 2005. He is principally responsible for the Group's international operations, business development and management. He has over 30 years of experience in the American medical and pharmaceutical business. After receiving his Ph.D. from the University of Illinois and post-doctoral training at The Salk Institute, Dr. Winkelhake went through the ranks to Professor, Medical Microbiology & Immunology at The Medical College of Wisconsin. In 1983 he joined Cetus, Corp. (now Chiron) in San Francisco, directing preclinical development for one of the first biotechnology companies in the U.S.. In the 1990's he worked in executive management with Cytel Corp., and Anergen, Inc., before becoming President and CEO of Analytica Therapeutics, Inc. in San Francisco -a U.S.-Australian joint venture- in 2000.

Ms. Leung Sau Fung, Fanny (梁秀鳳女士), is the assistant vice president and the company secretary of the Company. She joined the Group in 1992. She is responsible for overseeing the corporate compliance of the Group's listed and statutory issues. She obtained a Honours Diploma in Company Secretaryship and Administration. She is an associate member of both the Institute of Chartered Secretaries and Administrators and The Hong Kong Institute of Company Secretaries. Before joining the Group, Ms. Leung worked in the Company Secretarial Department of an international audit firm.

Ms. Yu Chau Ling (余秋玲女士), 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 and obtained the MBA degree from The Open University of Hong Kong in 2005. 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 52, 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 was a director of CTF and is a director of Beijing Tide and NJCTT. Ms. Chen is a certified accountant in the PRC and has over 25 years of experience in accounting and finance.

Ms. Cheng Hui (程惠女士), aged 42, is the deputy financial controller of the Group. Ms. Cheng joined the Group in May 1993 and is responsible for the Group's PRC financial and personnel issues. 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. Ms. Cheng received international advanced human resources management professional training held by the International Public Management Association for Human Resources (IPMA-HR).

DIRECTORS AND SENIOR MANAGEMENT PROFILE

Ms. Li Mingqin (李名沁女士), aged 47, is the general manager of the Group's R&D division in the Beijing Representative Office, the director and deputy general manager of CTGC and the director of Beijing Tide. 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 from 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 the University of Massachusetts. Ms. Li joined the Group in March 1997 and she has more than 20 years of experience in the pharmaceutical industry.

Ms. Dong Ping (董萍女士), aged 37, is the assistant to the financial controller of the Company in the PRC. Ms. Dong joined the Group in June 2000. She graduated from the Economic Management Department of Beijing Youth Politics College. She also holds Certificate of Completion of Executive MBA Programme for Marketing Management of Pharmaceutical Industry jointly awarded by Beijing Asia-Pacific Education Centre and Social Development Research Institute, and Beijing Qunyin Enterprise Management Corporation Ltd.. Ms. Dong has been the deputy manager of the financial division of the Group and the deputy general manager of Xi'an Chia Tai Pharmaceutical Co. Ltd.. Ms. Dong has about 15 years of experience in accounting and finance, and is a certified accountant in China.

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

Mr. Tian Zhoushan (田舟山先生), aged 42, 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, and assistant to the president of JCTT. Mr. Tian has 20 years of experience in the pharmaceutical industry.

Mr. Li Jinming (李金明先生), aged 41, is the general manager of Lianyungang Chia Tai Tianyi Pharmaceutical Co. Ltd.. Mr. Li studied in the pharmaceutical major of Chinese Pharmaceutical University. He also studied in Huadong University of Science and Technology. Mr. Li holds the MBA degree from the University of Management and Technology. Mr. Li has over 10 years experience as major district manager in pharmaceutical sales in two well-known pharmaceutical enterprises in China. He was the major district manager of JCTT for five years. Mr. Li has extensive sales and management experience.

Mr. Qu Yunzhi (曲韵智先生), aged 50, joined the Group in October 2002 and is responsible for the business of CTGC. He is the vice chairman and the general manager of CTGC. 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 and has expertise in R&D of dripping pills.

Mr. Tang Zhaocheng (唐兆成先生), aged 39, 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 in GMP and assistant to president of JCTT. He has been a team leader in the production of Ganlixin and Zegui Longshuang in JCTT. Mr. Tang has over 15 years of experience in the pharmaceutical industry.

Mr. Wang Hong (王宏先生), aged 42, is a vice president and is responsible for the sales of JCTT. Mr. Wang graduated from Shanghai Medical University in 1991 with a Master degree in medical science. He also holds an 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 more than 10 years of experience in sales and he joined JCTT in December 2002.

DIRECTORS AND SENIOR MANAGEMENT PROFILE

Mr. Zhang Xiquan (張喜全先生), aged 36, is the chief engineer of JCTT. Mr. Zhang graduated from Nankai University in 1994 with a M.S. degree. 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.

Ms. Gu Liping (顧莉萍女士), aged 44, is a vice president 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 M.S. degree. Ms. Gu is a senior engineer and she joined the Group in December 2001. She was the vice director of the finance division of Jiangsu Agribusiness and the deputy general manager of Jiangsu Juxin Investment Management Company Limited.

Mr. Zhang Xichang (張夕昌先生), aged 64, is a senior advisor of JCTT. Mr. Zhang has been a workshop officer, deputy factory director and vice president of JCTT and was responsible for the production, sales, finance and R&D of JCTT. Mr. Zhang has over 30 years experience in pharmaceutical enterprise management. Mr. Zhang joined the Group in April 1997.

Ms. Wu Ruizhen (吳瑞珍女士), aged 58, is a senior advisor and was a vice president 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.

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 48, is an assistant to the chairman of the Company and personnel manager. Ms. Chia joined the Group in November 1991 and has more than 20 years of experience in financial area. Ms. Chia is a director of various companies including Chia Tai Pharmaceutical (Lianyungang) Co., 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 39, 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 B.S. degree. 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.

Mr. Pei Xinmin (裴新民先生), aged 41, is the vice general manager of the audit department of the company and is principally responsible for the management auditing of the Group. He graduated from Inner Mongolia Finance Institute with a Bachelor degree in industrial accounting. In 2002, Mr. Pei completed studies in financial capital class in Capital University of International Business and Economics and received completion certificate. In 2004, he started studies in CFO Programme in College of Economics of Peking University and was awarded completion certificate. 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. Li Chun Ling (李春玲女士), aged 34, 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 was a manager 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.

DIRECTORS AND SENIOR MANAGEMENT PROFILE

Mr. Lu Yuehui (呂月輝先生), aged 52, is the financial controller and a deputy general manager NJCTT. He joined the Group in February, 1995. Mr. Lu graduated from the Department of Foreign Language Department in Beijing Hongqi University and 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. Zhang Zhenqian (張震乾先生), aged 36, 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.

Mr. Tse Hsuan, Johnny (謝炫先生), aged 36, 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 B.S. degree in 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. Wang Yonggan (王永干先生), aged 28, is the assistant to the Company's financial controller in the PRC. Mr. Wang studied in the department of economics with concentration in accounting at Shandong University of Science and Technology and graduated with a Bachelor degree in economics. In September 1999 Mr. Wang joined the Group and was the deputy manager in the finance and accounting division of JCTT, and was the financial manager of the Company. Mr. Wang holds China's Certified Public Accountant certificate and Registered Tax Agent certificate.

Mr. Jiang yi (蔣誼先生), aged 39, is the deputy general manager of the investment management department of the Company. Mr. Jiang joined the Group in March 2004 and is principally responsible for new project investment and management. Mr. Jiang graduated from The Third Military Medical University with a Bachelor degree in medical science. Mr. Jiang has been the regional business manager and national business manager for about nine years in China representative offices of foreign pharmaceutical enterprises. He has about 14 years of experience in sales and marketing in pharmaceutical industry.

Mr. Shen Xiaoguang (沈曉光先生), aged 34, is the deputy general manager of the investment management department of the Company. Mr. Shen participates in the business development and management of the Group, and is responsible for the market analysis of main products and R&D of new products. Mr. Shen graduated from the Heilongjiang College of Business with a B.S. degree in pharmaceutical manufacturing, and has about 10 years experience in pharmaceutical sales and marketing and product R&D. Mr. Shen joined the Group in February 2003.

CORPORATE INFORMATION

LEGAL NAME OF THE COMPANY

Sino Biopharmaceutical Limited

STOCK CODE

1177

COMPANY'S WEBSITE ADDRESS

www.sinobiopharm.com

PLACE OF INCORPORATION

Cayman Islands

DATE OF LISTING ON MAIN BOARD

8 December, 2003

DATE OF LISTING ON GEM BOARD

29 September, 2000

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
Mr. Zhang Baowen

Non-executive Director

Ms. Josephine Price

Independent non-executive Directors

Mr. Lu Zhengfei
Mr. Li Dakui
Ms. Li Jun

COMPANY SECRETARY

Ms. Leung Sau Fung, Fanny

QUALIFIED ACCOUNTANT

Ms. Yu Chau Ling, FCCA, CPA

AUDIT COMMITTEE

Mr. Lu Zhengfei *(Chairman)*
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

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

CORPORATE INFORMATION

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tengis Limited
26th Floor
Tesbury Centre
28 Queen's Road East
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
18th Floor, Two International Finance Centre
8 Finance Street
Central
Hong Kong

LEGAL ADVISERS

As to Hong Kong Law:
Morrison & Foerster
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

ERNST & YOUNG
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 50 to 129 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 Hong Kong Standards on Auditing 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, 2005 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
11 April, 2006

CONSOLIDATED INCOME STATEMENT

Year ended 31 December, 2005

	Notes	2005 HK$'000	2004 HK$'000 (Restated)
CONTINUING OPERATIONS			
REVENUE	5	**756,073**	664,296
Cost of sales		**(139,418)**	(133,163)
Gross profit		**616,655**	531,133
Other income and gains	5	**28,599**	7,063
Selling and distribution costs		**(310,609)**	(253,390)
Administrative expenses		**(110,866)**	(101,885)
Other expenses		**(42,224)**	(33,382)
Finance costs	7a	**(2,729)**	(1,050)
PROFIT BEFORE TAX AND BEFORE FAIR VALUE ADJUSTMENT FOR DERIVATIVE FINANCIAL INSTRUMENT		**178,826**	148,489
Fair value adjustment for derivative financial instrument	7b	**(66,315)**	–
PROFIT BEFORE TAX AND AFTER FAIR VALUE ADJUSTMENT FOR DERIVATIVE FINANCIAL INSTRUMENT		**112,511**	148,489
Tax	10	**(18,311)**	(15,407)
PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS		**94,200**	133,082
DISCONTINUED OPERATION			
Profit for the year from a discontinued operation	12	**152,213**	152,129
Gain on disposal of subsidiaries	12	**1,406,191**	–
Total profit for the year from a discontinued operation		**1,558,404**	152,129
PROFIT FOR THE YEAR		**1,652,604**	285,211
Attributable to :			
Equity holders of the parent	14	**1,532,929**	168,485
Minority interests		**119,675**	116,726
		1,652,604	285,211
DIVIDENDS	13		
Interim		**216,592**	54,102
Proposed final		**33,959**	55,084
		250,551	109,186
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	14		
Basic			
– For profit for the year		**HK69.39 cents**	HK8.43 cents
– For profit from continuing operations		**HK1.93 cents**	HK4.26 cents
Diluted			
– For profit for the year		**HK69.39 cents**	HK7.75 cents
– For profit from continuing operations		**HK1.93 cents**	HK3.92 cents

CONSOLIDATED BALANCE SHEET

31 December, 2005

	Notes	**2005** **HK$'000**	2004 HK$'000 (Restated)
NON-CURRENT ASSETS			
Property, plant and equipment	15	**198,662**	287,250
Prepaid land lease payments	16	**7,438**	24,717
Goodwill	17	**41,948**	41,900
Other intangible assets	18	**3,802**	15,813
Interest in a jointly-controlled entity	20	**–**	–
Available-for-sale equity investments	21	**29,820**	29,820
Deferred tax assets	29	**3,647**	7,964
TOTAL NON-CURRENT ASSETS		**285,317**	407,464
CURRENT ASSETS			
Inventories	22	**44,339**	61,057
Trade receivables	23	**102,013**	106,193
Prepayments, deposits and other receivables	24	**11,446**	30,466
Due from a related company	37	**1,094**	871
Cash and cash equivalents	25	**1,696,013**	344,484
TOTAL CURRENT ASSETS		**1,854,905**	543,071
CURRENT LIABILITIES			
Trade payables	26	**20,559**	17,236
Other payables and accruals	27	**133,688**	201,253
Tax payable		**7,146**	14,167
Due to a related company	37	**1,181**	5,151
TOTAL CURRENT LIABILITIES		**162,574**	237,807
NET CURRENT ASSETS		**1,692,331**	305,264
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,977,648**	712,728

CONSOLIDATED BALANCE SHEET

31 December, 2005

	Notes	**2005** ***HK$'000***	2004 *HK$'000* (Restated)
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,977,648**	712,728
NON-CURRENT LIABILITIES			
Convertible bonds	*28*	**–**	42,900
Deferred tax liabilities	*29*	**2,404**	2,038
TOTAL NON-CURRENT LIABILITIES		**2,404**	44,938
NET ASSETS		**1,975,244**	667,790
EQUITY			
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT			
Issued capital	*30*	**56,599**	34,428
Reserves	*32(a)*	**1,762,689**	366,562
Proposed final dividend	*13*	**33,959**	55,084
		1,853,247	456,074
MINORITY INTERESTS		**121,997**	211,716
TOTAL EQUITY		**1,975,244**	667,790

Ms. Zhao Yanping
Director

Mr. Tse Hsin
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December, 2005

		Attributable to equity holders of the parent											
	Notes	**Issued share capital**	**Share premium account**	**Capital reserve**	**Asset revaluation reserve**	**Con-tributed surplus**	**Reserve funds**	**Exchange fluctuation reserve**	**Retained profits**	**Proposed final dividend**	**Total**	**Minority interests**	**Total equity**
		HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
		(note 30)	*(note 30)*				*(note 32(a))*			*(note 13)*			
At 1 January, 2004													
As previously reported		33,200	97,718	28,924	7,101	52,605	20,853	(980)	67,365	33,200	339,986	156,348	496,334
Prior year adjustments	*2.4(b)*	–	–	–	(1,446)	–	–	–	–	–	(1,446)	(1,174)	(2,620)
As restated		33,200	97,718	28,924	5,655	52,605	20,853	(980)	67,365	33,200	338,540	155,174	493,714
Exchange realignment		–	–	–	–	–	(335)	801	–	–	466	–	466
Total income and expense for the year recognised directly in equity		–	–	–	–	–	(335)	801	–	–	466	–	466
Net profit for the year		–	–	–	–	–	–	–	168,485	–	168,485	116,726	285,211
Total income and expense for the year		–	–	–	–	–	(335)	801	168,485	–	168,951	116,726	285,677
Dividends paid to minority shareholders		–	–	–	–	–	–	–	–	–	–	(61,922)	(61,922)
Final 2003 dividend paid to equity shareholders		–	–	–	–	–	–	–	–	(33,200)	(33,200)	–	(33,200)
Exercise of convertible bonds		1,228	33,763	–	–	–	–	–	–	–	34,991	–	34,991
Proposed final 2004 dividend	*13*	–	–	–	–	–	–	–	(55,084)	55,084	–	–	–
Interim 2004 dividend paid to equity shareholders		–	–	–	–	–	–	–	(54,102)	–	(54,102)	–	(54,102)
Surplus on revaluation of buildings		–	–	–	894	–	–	–	–	–	894	477	1,371
Increase in issued capital		–	–	–	–	–	–	–	–	–	–	1,261	1,261
Transfer from/(to) retained profits		–	–	–	–	–	57,462	–	(57,462)	–	–	–	–
At 31 December, 2004		34,428	131,481	28,924	6,549	52,605	77,980	(179)	69,202	55,084	456,074	211,716	667,790

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December, 2005

		Attributable to equity holders of the parent											
	Notes	**Issued share capital** *HK$'000* *(note 30)*	**Share premium account** *HK$'000* *(note 30)*	**Capital reserve** *HK$'000*	**Asset revaluation reserve** *HK$'000*	**Con-tributed surplus** *HK$'000*	**Reserve funds** *HK$'000* *(note 32(a))*	**Exchange fluctuation reserve** *HK$'000*	**Retained profits** *HK$'000*	**Proposed final dividend** *HK$'000* *(note 13)*	**Total** *HK$'000*	**Minority interests** *HK$'000*	**Total equity** *HK$'000*
At 1 January, 2005													
As previously reported		34,428	131,481	28,924	8,072	52,605	77,638	(309)	69,674	55,084	457,597	212,964	670,561
Prior year adjustments	*2.4(b)*	–	–	–	(1,523)	–	342	130	(472)	–	(1,523)	(1,248)	(2,771)
Opening adjustments	*2.4(b)*	–	–	–	–	–	–	–	(49,685)	–	(49,685)	–	(49,685)
As restated		34,428	131,481	28,924	6,549	52,605	77,980	(179)	19,517	55,084	406,389	211,716	618,105
Exchange realignment		–	–	–	–	–	2,314	8,536	–	–	10,850	–	10,850
Total income and expense recognised directly in equity		–	–	–	–	–	2,314	8,536	–	–	10,850	–	10,850
Net profit for the year		–	–	–	–	–	–	–	1,532,929	–	1,532,929	119,675	1,652,604
Total income and expense for the year		–	–	–	–	–	2,314	8,536	1,532,929	–	1,543,779	119,675	1,663,454
Dividends paid to minority shareholders		–	–	–	–	–	–	–	–	–	–	(104,667)	(104,667)
Disposal of a discontinued operation	*12*	–	–	–	–	–	–	–	–	–	–	(106,226)	(106,226)
Final 2004 dividend paid to equity shareholders		–	–	–	–	–	–	–	–	(55,084)	(55,084)	–	(55,084)
Issue of shares		20,666	(7,346)	–	–	–	–	–	–	–	13,320	–	13,320
Exercise of convertible bonds	*28*	1,505	157,711	–	–	–	–	–	–	–	159,216	–	159,216
Interim 2005 dividend paid to equity shareholders	*13*	–	–	–	–	(30,186)	–	–	(73,207)	–	(103,393)	–	(103,393)
Special dividend paid to equity shareholders	*13*	–	–	–	–	–	–	–	(113,199)	–	(113,199)	–	(113,199)
Proposed final 2005 dividend	*13*	–	–	–	–	–	–	–	(33,959)	33,959	–	–	–
Surplus on revaluation of buildings		–	–	–	2,219	–	–	–	–	–	2,219	1,499	3,718
Transfer from/(to) retained profits		–	–	(11,404)	(807)	–	(12,409)	(2,516)	27,136	–	–	–	–
At 31 December, 2005		56,599	281,846*	17,520*	7,961*	22,419*	67,885*	5,841*	1,359,217*	33,959	1,853,247	121,997	1,975,244

* These reserve accounts comprise the consolidated reserve of HK$1,762,689,000 (2004: HK$366,562,000) in the consolidated balance sheet.

CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 December, 2005

	Notes	2005 HK$'000	2004 HK$'000 (Restated)
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax:			
From continuing operations		**112,511**	148,489
From a discontinued operation	12	**177,349**	166,662
Adjustments for:			
Finance costs	7a	**3,461**	1,348
Fair value adjustment for derivative financial instrument	7b	**66,315**	–
Interest income	5	**(21,358)**	(4,789)
Dividend income from an unlisted investment	5	**(7,520)**	(10,727)
Depreciation	15	**29,384**	26,090
Recognition of prepaid land lease payments	16	**727**	282
Goodwill amortisation	17	**–**	5,388
Amortisation of patents and licenses	18	**1,595**	1,323
Gain on disposal of a subsidiary	33	**–**	(805)
(Gain)/Loss on disposal of items of property, plant and equipment		**(88)**	2,203
Deficit/(Reversal of a deficit) on revaluation of buildings		**122**	(712)
Operating profit before working capital changes		**362,498**	334,752
Increase in inventories		**(14,207)**	(1,865)
Increase in trade receivables		**(90,348)**	(44,030)
Increase in prepayments, deposits and other receivables		**(19,960)**	(19,490)
Increase in due from a related company		**(357)**	(673)
Increase/(decrease) in trade payables		**11,886**	(3,757)
Increase in other payables and accruals		**62,198**	22,640
Increase/(decrease) in due to a related company		**(2,308)**	648
Cash generated from operations		**309,402**	288,225
Mainland China profits tax paid		**(45,673)**	(33,003)
Net cash inflow from operating activities		**263,729**	255,222
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received	5	**21,358**	4,789
Dividend received from an unlisted investment	5	**7,520**	10,727
Purchases of items of property, plant and equipment	15	**(70,497)**	(113,219)
Increase in prepaid land lease payments	16	**(233)**	(18,253)
Proceeds from disposal of items of property, plant and equipment		**3,389**	206
Additions to other intangible assets	18	**(6,576)**	(2,311)
Proceeds from disposal of subsidiaries	33	**–**	659
Proceeds from disposal of a discontinued operation	12	**1,514,910**	–
Expenses in relation to the disposal of a discontinued operation	12	**(20,291)**	–
Net cash inflow/(outflow) from investing activities		**1,449,580**	(117,402)

CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 December, 2005

	Notes	2005 HK$'000	2004 HK$'000 (Restated)
Net cash inflow/(outflow) from investing activities		**1,449,580**	(117,402)
CASH FLOWS FROM FINANCING ACTIVITIES			
Interest paid		**(3,138)**	(1,348)
Dividends paid		**(271,676)**	(87,302)
Dividends paid to minority shareholders		**(104,667)**	(61,922)
Proceeds from issue of shares	30	**13,320**	–
Net cash outflow from financing activities		**(366,161)**	(150,572)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**1,347,148**	(12,752)
Cash and cash equivalents at beginning of year		**344,484**	357,222
Effect of foreign exchange rate changes, net		**4,381**	14
CASH AND CASH EQUIVALENTS AT END OF YEAR		**1,696,013**	344,484
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	25	**223,532**	198,491
Time deposits with original maturity of less than three months when acquired	25	**1,472,481**	145,993
		1,696,013	344,484

BALANCE SHEET

31 December, 2005

	Notes	2005 HK$'000	2004 HK$'000 (Restated)
NON-CURRENT ASSETS			
Property, plant and equipment	15	**2,405**	3,266
Investments in subsidiaries	19	**101,513**	131,300
Total non-current assets		**103,918**	134,566
CURRENT ASSETS			
Due from subsidiaries	19	**84,406**	82,606
Prepayments, deposits and other receivables	24	**2,483**	2,063
Cash and cash equivalents	25	**1,502,262**	62,223
Total current assets		**1,589,151**	146,892
CURRENT LIABILITIES			
Due to subsidiaries	19	**8,337**	18,551
Other payables and accruals	27	**4,384**	4,957
Tax payable		**–**	26
Total current liabilities		**12,721**	23,534
NET CURRENT ASSETS		**1,576,430**	123,358
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,680,348**	257,924
NON-CURRENT LIABILITIES			
Convertible bonds	28	**–**	42,900
Total non-current liabilities		**–**	42,900
Net assets		**1,680,348**	215,024
EQUITY			
Issued capital	30	**56,599**	34,428
Reserves	32(b)	**1,589,790**	125,512
Proposed final dividend	13	**33,959**	55,084
Total equity		**1,680,348**	215,024

Ms. Zhao Yanping
Director

Mr. Tse Hsin
Director

NOTES TO FINANCIAL STATEMENTS

31 December, 2005

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 on 8 December, 2003.

The head office and principal place of business of the Company in Hong Kong is located at Room 4109, Office Tower, Convention Plaza, 1 Harbour Road, Wanchai, Hong Kong.

During the year, the Group 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.

In September 2005, the Group disposed of its wholly-owned subsidiary, Sino Concept Technology Limited and its subsidiaries, hence the Group's manufacture, distribution and sale of biopharmaceutical medicine products activities were ceased upon the disposal.

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which also include Hong Kong Accounting Standards ("HKASs") 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 periodic remeasurement of buildings as further explained in note 15. These financial statements are presented in Hong Kong dollars and all values are rounded to the nearest thousand (HK$'000) except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December, 2005. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. 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.

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The following new and revised HKFRSs affect the Group and are adopted for the first time for the current year's financial statements:

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 12	Income Taxes
HKAS 14	Segment Reporting
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 18	Revenue
HKAS 19	Employee Benefits
HKAS 20	Accounting for Government Grants and Disclosure of Government Assistance
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 31	Interests in Joint Ventures
HKAS 32	Financial Instruments: Disclosure and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 37	Provisions, Contingent Liabilities and Contingent Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 39 Amendment	Transition and Initial Recognition of Financial Assets and Financial Liabilities
HKFRS 2	Share-based Payment
HKFRS 3	Business Combinations
HKFRS 5	Non-current Assets Held for Sale and Discontinued Operations

The adoption of HKASs 2, 7, 8, 10, 12, 14, 16, 18, 19, 20, 27, 33, 36, 37 and 38 has had no material impact on the accounting policies of the Group and the Company and the methods of computation in the Group's and the Company's financial statements.

HKAS 1 has affected the presentation of minority interests on the face of the consolidated balance sheet, consolidated income statement, consolidated statement of changes in equity and other disclosures.

HKAS 21 had no material impact on the Group. As permitted by the transitional provisions of HKAS 21, goodwill arising in a business combination prior to 1 January, 2005 and fair value adjustments arising on that acquisition are deemed to be in the currency of the Company. In respect of acquisitions subsequent to 1 January, 2005, any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of the assets and liabilities are treated as assets and liabilities of the foreign operation and are translated at the closing rate in accordance with HKAS 21.

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (Cont'd)

HKAS 24 has expanded the definition of related parties and affected the Group's related party disclosures.

The impact of adopting the other HKFRSs is summarised as follows:

(a) HKAS 17 – Leases

In the prior years, land and buildings held for own use were stated at valuation.

Upon the adoption of HKAS 17, the Group's leasehold interests in land and buildings is separated into leasehold land and buildings. The Group's leasehold land is classified as an operating lease, because the title of the land is not expected to pass to the Group by the end of the lease term, and is reclassified from property, plant and equipment to prepaid land lease payments, while buildings continue to be classified as part of property, plant and equipment. Prepaid land lease payments under operating leases are initially stated at cost and subsequently amortised on the straight-line basis over the lease term.

Under the new accounting policy adopted by the Group, prepaid land lease payments under operating leases are initially stated at cost and subsequently amortised on the straight-line basis over the lease term. This change in the Group's accounting policy is retrospectively applied and the comparative amounts for the year ended 31 December, 2004 in the consolidated balance sheet have been restated to reflect the reclassification of the leasehold land to prepaid land lease premium. The effect on the Group's financial statements is summarised in note 2.4.

(b) HKAS 31 – Interest in Joint Ventures

Under HKAS 31, the Group's interests in a jointly-controlled entity can be stated in the consolidated balance sheet by using the proportionate consolidation method for the Group's share of assets, liabilities, income and expenses of a jointly-controlled entity on a line by line basis in the financial statements of the Group. The Group can also adopt equity accounting method for its share of profit and net assets in the jointly-controlled entity, as adopted in the prior years.

With the adoption from 1 January, 2005 by the Group for the proportionate consolidation method as allowed by HKAS 31 "Interest in Joint Ventures", the presentation of the comparative amount as at 31 December, 2004 in the financial statements have been restated. The impact on adoption of the proportionate consolidation method on the Group's financial statements is summarised in note 2.4.

(c) HKAS 32 and HKAS 39 – Financial Instruments

(i) Equity securities

In the prior years, the Group classified its investments in equity securities, which were held for non-trading purposes, as long term investments, and were stated at cost less any impairment losses.

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (Cont'd)

(c) HKAS 32 and HKAS 39 – Financial Instruments (Cont'd)

(i) Equity securities (Cont'd)

Upon the adoption of HKAS 32 and HKAS 39, these securities are classified as available-for-sale investment. After initial recognition, available-for-sale investment is measured at fair value with gains or losses being recognised as a separate component of equity until the investment is sold, collected or otherwise disposed of or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in equity is included in the profit or loss account. When the fair value of unlisted equity securities cannot be reliably measured because (i) the variability in the range of reasonable fair value estimates is significant for that investment, or (ii) the probabilities of the various estimated within the range cannot be reasonably assessed and used in estimating the fair value, such securities are stated at cost.

There is no impact on the Group's overall financial statements as investments in equity security have continued to be stated at cost less impairment losses. See note 2.4 for the impact on the Group's financial statements.

(ii) Convertible bonds

In the prior years, convertible bonds were stated at amortised cost. Upon the adoption of HKAS 39, convertible bonds are bifurcated into a debt component and an embedded derivative component. The effects of the above changes are summarised in note 2.4 to the financial statements.

(d) HKFRS 2 – Share-based Payment

In the prior years, no recognition and measurement of share-based payment transactions in which employees (including directors) were granted share options over shares in the Company were required until such options were exercised by employees, at which time the share capital and share premium were credited with the proceeds received.

Upon the adoption of HKFRS 2, when employees (including directors) render services as consideration for equity instruments ("equity-settled transactions"), the cost of the equity-settled transactions with employees is measured by reference to the fair value at the date at which the instruments are granted.

The main impact of HKFRS 2 on the Group is the recognition of the cost of these transactions and a corresponding entry to equity for employee share options. The revised accounting policy for share-based payment transactions is described in more detail in note 2.5 "Summary of significant accounting policies" below.

The Group has adopted the transitional provisions of HKFRS 2 under which the new measurement policies have not been applied to (i) options granted to employees on or before 7 November, 2002; and (ii) options granted to employees after 7 November, 2002 but which had vested before 1 January, 2005.

As disclosed in note 31, the Group did not have any share options which were granted during the period from 7 November, 2002 to 31 December, 2004 but had not yet vested as at 1 January, 2005, the adoption of HKFRS 2 has had no impact on the retained profits as at 31 December, 2003 and at 31 December, 2004.

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (Cont'd)

(d) HKFRS 2 – Share-based Payment (Cont'd)

Due to the adoption of the above transitional provisions and the full exercise of share options during the year, there is no impact on the Group's income statement for the current year nor retained profits as at 31 December, 2005.

(e) HKFRS 3 – Business Combinations and HKAS 36 – Impairment of Assets

In the prior years, goodwill and negative goodwill arising on acquisitions prior to 1 January, 2001 were eliminated against the consolidated retained profits and credited to the consolidated capital reserve, respectively, in the year of acquisition and were not recognised in the income statement until disposal or impairment of the acquired businesses.

Goodwill arising on acquisitions on or after 1 January, 2001 was capitalised and amortised on the straight-line basis over its estimated useful life and was subject to impairment testing when there was any indication of impairment.

The adoption of HKFRS 3 and HKAS 36 has resulted in the Group ceasing annual goodwill amortisation and commencing testing for impairment at the cash-generating unit level annually (or more frequently if events or changes in circumstances indicate that the carrying value may be impaired).

Any excess of the Group's interest in the net fair value of the acquirees' identifiable assets, liabilities and contingent liabilities over the cost of acquisition of subsidiaries (previously referred to as negative goodwill), after reassessment, is recognised immediately in the income statement.

The transitional provisions of HKFRS 3 have required the Group to eliminate at 1 January, 2005 the carrying amounts of accumulated amortisation with a corresponding adjustment to the cost of goodwill and to derecognise at 1 January, 2005 the carrying amounts of negative goodwill (including that remaining in the consolidated capital reserve) against retained profits. Goodwill previously eliminated against the retained profits remains eliminated against the retained profits and is not recognised in the income statement when all or part of the business to which the goodwill relates is disposed of or when a cash-generating unit to which the goodwill relates becomes impaired.

The effects of the above changes are summarised in note 2.4 to the financial statements. In accordance with the transitional provisions of HKFRS 3, comparative amounts have not been restated.

(f) HKFRS 5 – Non-current Assets Held for Sale and Discontinued Operations

The Group has applied HKFRS 5 prospectively in accordance with the transitional provisions of HKFRS 5, which has resulted in a change in accounting policy on the recognition of a discontinued operation. Under the previous SSAP 33 "Discontinuing Operations", the Group would recognise a discontinued operation at the earlier of:

- the date the Group entered into a binding sale agreement; and
- the date the board of directors had approved and announced a formal disposal plan.

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (Cont'd)

(f) HKFRS 5 – Non-current Assets Held for Sale and Discontinued Operations (Cont'd)

HKFRS 5 requires a component of the Group to be classified as discontinued when the criteria to be classified as held for sale have been met or when that component of the Group has been disposed of. An item is classified as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. Such a component represents a separate major line of business or geographical area of operations, is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations or is a subsidiary acquired exclusively with a view to resale. The principal impact of this change in accounting policy is that a discontinued operation is recognised by the Group at a later point than it would be under SSAP 33 due to the stricter criteria in HKFRS 5.

2.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements. Unless otherwise stated, these HKFRSs are effective for annual periods beginning on or after 1 January, 2006:

HKAS 1 Amendment	Capital Disclosures
HKAS 39 Amendment	The Fair Value Option
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC)-Int 4	Determining whether an Arrangement contains a Lease

The HKAS 1 Amendment shall be applied for annual periods beginning on or after 1 January, 2007. The revised standard will affect the disclosures about qualitative information about the Group's objective, policies and processes for managing capital; quantitative data about what the Company regards as capital; and compliance with any capital requirements and the consequences of any non-compliance.

HKFRS 7 will replace HKAS 32 and has modified the disclosure requirements of HKAS 32 relating to financial instruments. This HKFRS shall be applied for annual periods beginning on or after 1 January, 2007.

Except as stated above, the Group expects that the adoption of the other pronouncements listed above will not have any significant impact on the Group's financial statements in the period of initial application.

NOTES TO FINANCIAL STATEMENTS

31 December, 2005

2.4 SUMMARY OF THE IMPACT OF CHANGES IN ACCOUNTING POLICIES

(a) Effect on the consolidated balance sheet

At 1 January, 2005

Effect of new policies (Increase/(decrease))	Effect of adopting: HKAS 17# Prepaid land lease payments	HKAS 31# Proportionate consolidation of a jointly-controlled entity	HKASs 32# and 39* Change in classification of available-for-sale equity investments	HKAS 39* Convertible bonds	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Assets					
Property, plant and equipment	(29,036)	38,937	–	–	9,901
Prepaid land lease payments	24,717	–	–	–	24,717
Goodwill	–	39,889	–	–	39,889
Interests in a jointly-controlled entity	–	(124,164)	–	–	(124,164)
Inventories	–	2,045	–	–	2,045
Trade receivables	–	8,266	–	–	8,266
Available-for-sale equity investments	–	–	29,820	–	29,820
Long term investments	–	–	(29,820)	–	(29,820)
Prepayments, deposits and other receivables	1,059	1,398	–	–	2,457
Due from a related company	–	871	–	–	871
Cash and cash equivalents	–	68,270	–	–	68,270
					32,252
Liabilities/equity					
Trade payables	–	199	–	–	199
Other payables and accruals	–	30,838	–	–	30,838
Tax payable	–	4,462	–	–	4,462
Deferred tax liabilities	(489)	–	–	–	(489)
Due to a related company	–	13	–	–	13
Debt component of convertible bonds	–	–	–	(3,380)	(3,380)
Embedded derivative component of convertible bonds	–	–	–	53,065	53,065
Asset revaluation reserve	(1,523)	–	–	–	(1,523)
Retained profits	–	–	–	(49,685)	(49,685)
Minority interests	(1,248)	–	–	–	(1,248)
					32,252

* Adjustments taken effect prospectively from 1 January, 2005

\# Adjustments/presentation taken effect retrospectively

2.4 SUMMARY OF THE IMPACT OF CHANGES IN ACCOUNTING POLICIES (Cont'd)

(a) Effect on the consolidated balance sheet (Cont'd)

At 31 December, 2005

Effect of new policies (Increase/(decrease))	Effect of adopting HKAS 17# Prepaid land lease payments HK$'000	HKAS 31# Proportionate consolidation of a jointly-controlled entity HK$'000	HKASs 32# and 39* Change in classification of available-for-sale equity investments HK$'000	HKAS 39* Convertible bonds HK$'000	HKFRS 3* Discontinuation of amortisation of goodwill HK$'000	Total HK$'000
Assets						
Property, plant and equipment	(10,952)	44,889	–	–	–	33,937
Prepaid land lease payments	7,438	–	–	–	–	7,438
Goodwill	–	35,427	–	–	5,388	40,815
Interests in a jointly-controlled entity	–	(124,273)	–	–	–	(124,273)
Due from holding company	–	961	–	–	–	961
Inventories	–	4,138	–	–	–	4,138
Trade receivables	–	9,103	–	–	–	9,103
Available-for-sale equity investments	–	–	29,820	–	–	29,820
Long term investments	–	–	(29,820)	–	–	(29,820)
Prepayments, deposits and other receivables	254	1,617	–	–	–	1,871
Due from a related company	–	1,094	–	–	–	1,094
Cash and cash equivalents	–	72,886	–	–	–	72,886
						47,970
Liabilities/equity						
Trade payables	–	261	–	–	–	261
Other payables and accruals	–	43,131	–	–	–	43,131
Tax payable	–	2,450	–	–	–	2,450
Deferred tax liabilities	(489)	–	–	–	–	(489)
Share premium account	–	–	–	116,322	–	116,322
Asset revaluation reserve	(1,523)	–	–	–	–	(1,523)
Retained profits	–	–	–	(116,322)	5,388	(110,934)
Minority interests	(1,248)	–	–	–	–	(1,248)
						47,970

* Adjustments taken effect prospectively from 1 January, 2005

Adjustments/presentation taken effect retrospectively

NOTES TO FINANCIAL STATEMENTS

31 December, 2005

2.4 SUMMARY OF THE IMPACT OF CHANGES IN ACCOUNTING POLICIES (Cont'd)

(b) Effect on the balances of equity at 1 January, 2004 and at 1 January, 2005

	Effect of adopting			
Effect of new policies (Increase/(decrease))	**HKAS 17 Prepaid land lease payments**	**HKAS 31 Proportionate consolidation of a jointly-controlled entity**	**HKAS 39 Convertible bonds**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
1 January, 2004				
Asset revaluation reserve	(1,446)	–	–	(1,446)
Minority interests	(1,174)	–	–	(1,174)
	(2,620)	–	–	(2,620)
1 January, 2005				
Asset revaluation reserve	**(1,523)**	**–**	**–**	**(1,523)**
Reserve funds	**–**	**342**	**–**	**342**
Exchange fluctuation reserve	**–**	**130**	**–**	**130**
Retained profits	**–**	**(472)**	**(49,685)**	**(50,157)**
Minority interests	**(1,248)**	**–**	**–**	**(1,248)**
	(2,771)	**–**	**(49,685)**	**(52,456)**

2.4 SUMMARY OF THE IMPACT OF CHANGES IN ACCOUNTING POLICIES (Cont'd)

(c) Effect on the consolidated income statement for the years ended 31 December, 2005 and 2004

Effect of new policies (Increase/(decrease))	Effect of adopting HKAS 31 Proportionate consolidation of a jointly-controlled entity HK$'000	HKAS 39 Convertible bonds HK$'000	HKFRS 3 Discon-tinuation of amortisation of goodwill HK$'000	Total HK$'000
Year ended 31 December, 2005				
Increase in sales	**112,742**	**–**	**–**	**112,742**
Increase in cost of sales	**(12,021)**	**–**	**–**	**(12,021)**
Increase in other income and gains	**1,182**	**–**	**–**	**1,182**
Increase in selling and distribution costs	**(27,298)**	**–**	**–**	**(27,298)**
Increase in administrative expenses	**(12,529)**	**–**	**(5,388)**	**(17,917)**
Increase in other expenses	**(1,876)**	**–**	**–**	**(1,876)**
Increase in finance costs	**(1,788)**	**(322)**	**–**	**(2,110)**
Increase in fair value adjustment	**–**	**(66,315)**	**–**	**(66,315)**
Decrease in share of profits of a jointly-controlled entity	**(58,412)**	**–**	**–**	**(58,412)**
Total increase/(decrease) in profit	**–**	**(66,637)**	**(5,388)**	**(72,025)**
Increase/(decrease) in basic earnings per share	**–**	**HK(3) cents**	**HK(0.27) cents**	**–**
Increase/(decrease) in diluted earnings per share	**–**	**–**	**–**	**–**
Year ended 31 December, 2004				
Increase in sales	98,074	–	–	98,074
Increase in cost of sales	(8,439)	–	–	(8,439)
Increase in other income and gains	890	–	–	890
Increase in selling and distribution costs	(22,549)	–	–	(22,549)
Increase in administrative expenses	(9,675)	–	–	(9,675)
Increase in other expenses	(1,731)	–	–	(1,731)
Increase in finance costs	(1,585)	–	–	(1,585)
Decrease in share of profits of a jointly-controlled entity	(54,985)	–	–	(54,985)
Total increase in profit	–	–	–	–
Increase/(decrease) in basic earnings per share	–	–	–	–
Increase/(decrease) in diluted earnings per share	–	–	–	–

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

A subsidiary is an entity whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities. The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable.

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

Joint ventures

A joint venture is an entity set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture 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 entity and the basis on which the assets are to be realised upon its dissolution. The profits and losses from the joint venture'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 is treated as:

(a) a subsidiary, if the Group has unilateral control, directly or indirectly, over the joint venture;

(b) a jointly-controlled entity, if the Group does not have unilateral control, but has joint control, directly or indirectly, over the joint venture;

(c) an associate, if the Group does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20% of the joint venture's registered capital and is in a position to exercise significant influence over the joint venture; or

(d) an equity investment accounted for in accordance with HKAS 39, if the Group holds, directly or indirectly, less than 20% of the joint venture's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture.

Jointly-controlled entities

A jointly-controlled entity is a joint venture that 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 interests in its jointly-controlled entities are accounted for by proportionate consolidation, which involves recognising its share of the jointly-controlled entities' assets, liabilities, income and expenses with similar items in the consolidated financial statements on a line-by-line basis. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Goodwill

Goodwill arising on the acquisition of subsidiaries and jointly-controlled entities represents the excess of the cost of the business combination over the Group's interest in the net fair value of the acquirees' identifiable assets acquired, and liabilities and contingent liabilities assumed as at the date of acquisition.

Goodwill on acquisitions for which the agreement date is on or after 1 January, 2005
Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset, initially measured at cost and subsequently at cost less any accumulated impairment losses.

The carrying amount of goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units. Each unit or group of units to which the goodwill is so allocated:

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and

- is not larger than a segment based on either the Group's primary or the Group's secondary reporting format determined in accordance with HKAS 14 "Segment Reporting".

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised.

Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

An impairment loss recognised for goodwill is not reversed in a subsequent period.

Impairment of assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

NOTES TO FINANCIAL STATEMENTS

31 December, 2005

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Impairment of assets (Cont'd)

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the income statement in the period in which it arises, unless the asset is carried at a revalued amount, in which case the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that 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 the prior years. A reversal of such impairment loss is credited to the income statement in the period in which it arises, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

Related parties

A party is considered to be related to the Group if:

(a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;

(b) the party is an associate;

(c) the party is a jointly-controlled entity;

(d) the party is a member of the key management personnel of the Group or its parent;

(e) the party is a close member of the family of any individual referred to in (a) or (d); or

(f) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e).

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost or valuation less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment 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 items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement 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 an item of property, plant and equipment, and where the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement.

Valuations are performed frequently enough to ensure that the fair value of a revalued asset does not differ materially from its carrying amount. Changes in the values of property, plant and equipment are dealt with as movements in the asset 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 income statement. Any subsequent revaluation surplus is credited to the income statement to the extent of the deficit previously charged. On disposal of a revalued asset, the relevant portion of the asset revaluation reserve realised in respect of previous valuations 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 item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Buildings	4% – 5%
Leasehold improvements	5% – 20%
Plant and machinery	5% – 9%
Motor vehicles	9% – 18%
Furniture and fixtures	18%

Where parts of an item of property, plant and equipment have different useful lives, the cost or valuation of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and depreciation method are reviewed, and adjusted if appropriate, at each balance sheet date.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the income statement in the year the asset is derecognised 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 assets under construction or installation, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction, installation and testing during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

NOTES TO FINANCIAL STATEMENTS

31 December, 2005

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Intangible assets (other than goodwill)

The useful lives of intangible assets are assessed to be finite. Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each balance sheet date.

Patents and licences

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

Research and development costs

All research costs are charged to the income statement as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. 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 the 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 assets remain with the lessor are accounted for as operating leases. Where the Group is the lessee, rentals payable under the operating leases net of any incentives received from the lessor are charged to the income statement on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

Investments and other financial assets

Applicable to the year ended 31 December, 2004:

The Group classified its equity investments, other than subsidiaries and jointly-controlled entities, as long term investments.

Long term investments

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

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 income statement in the period in which it arises.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Investments and other financial assets

Applicable to the year ended 31 December, 2005:

Financial assets in the scope of HKAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, and available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at the balance sheet date.

All regular way purchases and sales of financial assets are recognised on the trade date, i.e., the date that the Group commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Financial assets at fair value through profit or loss

Financial assets classified as held for trading are included in the category "financial assets at fair value through profit or loss". Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Gains or losses on investments held for trading are recognised in the income statement.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets in listed and unlisted equity securities that are designated as available for sale or are not classified in any of the other two categories. After initial recognition, available-for-sale financial assets are measured at fair value, with gains or losses recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the income statement.

When the fair value of unlisted equity securities cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such securities are stated at cost less any impairment losses.

Fair value

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business at the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; a discounted cash flow analysis; and option pricing models.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Impairment of financial assets (applicable to the year ended 31 December, 2005)

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired.

Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through the use of an allowance account. The amount of the impairment loss is recognised in the income statement.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

Assets carried at cost

If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

Available-for-sale financial assets

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in profit or loss, is transferred from equity to the income statement. Impairment losses on equity instruments classified as available for sale are not reversed through the income statement.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Derecognition of financial assets (applicable to the year ended 31 December, 2005)

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the Group retains the rights to receive cash flows from the asset, but has assumed an obligation to pay in full without material delay to a third party under a "pass-through" arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, where the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Convertible bonds

Convertible bonds are bifurcated into a debt component and an embedded derivative component.

The debt component is initially recognised at fair value, determined by discounting the future contractual cash flows at the prevailing market interest rate for a similar non-convertible borrowing. The debt component is subsequently measured at amortised cost using the effective interest rate method until extinguished on conversion or redemption.

The embedded derivative is initially recognised at fair value determined with reference to the net proceeds from the issuance of the convertible bonds and the fair value of debt component at initial recognition. The embedded derivative is subsequently measured at fair value with reference to the market value of the share price of the Company, after taking into account the fair value of the debt component. Changes in fair value of the embedded derivative component in the convertible bonds are charged/credited to the income statement, net of income tax effects, for the period.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Derecognition of financial liabilities (applicable to the year ended 31 December, 2005)

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the income statement.

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 sheets, 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 of the amount of the obligation.

Income tax

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

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities.

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.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Income tax (Cont'd)

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred tax liability arises from goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination 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, 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.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits 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 credits 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 in a transaction that is not a business combination 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 jointly-controlled entities, 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 reassessed at each balance sheet date and 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.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Government grants

Government grants are recognised at their fair value 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 it is intended to compensate.

2.5 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:

(a) 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;

(b) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset; and

(c) dividend income, when the shareholders' right to receive payment has been established.

Employee benefits

Share-based payment transactions

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. Employees (including directors) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined using a binomial model. In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of the Company ("market conditions"), if applicable.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (the "vesting date"). The cumulative expense recognised for equity-settled transactions at each balance sheet date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the income statement for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any modification, which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Employee benefits (Cont'd)

Share-based payment transactions (Cont'd)

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

The Group has adopted the transitional provisions of HKFRS 2 in respect of equity-settled awards and has applied HKFRS 2 only to equity-settled awards granted after 7 November, 2002 that had not vested on 1 January, 2005 and to those granted on or after 1 January, 2005.

Pension scheme

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for all of its 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 income statement 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 Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

The employees of the Group's subsidiary which operates in Mainland China are required to participate in a central pension scheme operated by the local municipal government. This subsidiary is required to contribute 20-23% of its payroll costs to the central pension scheme. The contributions are charged to the income statement 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 income statement 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.

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.

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2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Borrowing costs (Cont'd)

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 equity 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

These financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions are initially recorded using the functional currency rates ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the balance sheet date. All differences are taken to the income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The functional currencies of certain overseas subsidiaries are currencies other than the Hong Kong dollar. As at the balance sheet date, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates ruling at the balance sheet date and, their income statements are translated into Hong Kong dollars at the weighted average exchange rates for the year. The resulting exchange differences are included in a separate component of equity the exchange fluctuation reserve. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the income statement.

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Recognition of deferred tax assets

The Group recognised deferred tax assets which resulted from the deductible temporary differences of subsidiaries level. The Group considers that the deferred tax assets are recognised to the extent that it is probable that subsidiaries will have sufficient taxable profit relating to the same taxation authority and the same taxable entity in the same period as the reversal of the deductible temporary differences. The carrying amount of deferred tax assets at 31 December, 2005 was HK$3,647,000 (2004: HK$7,964,000). More details are given in note 29.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Impairment of goodwill

The Group determines whether goodwill is impaired on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December, 2005 was HK$41,948,000 (2004: HK$41,900,000). More details are given in note 17.

Presentation of convertible bonds

Convertible bonds of the Group are presented into the debt component and the embedded derivative component of the convertible bonds upon the adoption of HKAS 39 in the current year. This requires an initial recognition of the debt component and the embedded derivative at fair value.

The debt component at fair value is determined by discounting the future contractual cash flows at the prevailing market interest rate for a similar non-convertible borrowing. The debt component is subsequently measured at amortised cost using the effective interest rate method until the extinguished on conversion or redemption. The embedded derivative initially recognised at fair value is determined with reference to the net proceeds from the issuance of the convertible bonds and the fair value of debt component at initial recognition. The embedded derivative is subsequently measured at fair value with reference to the market value of the share price of the Company, after taking into account the fair value of the debt component. The carrying amount of convertible bonds at 31 December, 2005 was nil (2004: HK$42,900,000). More details are given in note 28.

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 based in Mainland China, and over 90% of the Group's assets 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 disclosures, 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 products; and chemical medicine products; and

(c) the investment segment is engaged in long term investment.

4. SEGMENT INFORMATION (Cont'd)

Business segments

The following tables present revenue, profit and certain asset, liability and expenditure information for the Group's business segments for the years ended 31 December, 2005 and 2004.

Year ended 31 December, 2005	Continuing operations: Modernised Chinese medicines and chemical medicines HK$'000	Continuing operations: Investment HK$'000	Continuing operations: Others HK$'000	Continuing operations: Eliminations HK$'000	Continuing operations: Total HK$'000	Discontinued operation: Biopharma-ceutical medicines HK$'000	Consolidated HK$'000
Segment revenue:							
Sales to external customers	744,378	–	4,175	–	748,553	479,838	1,228,391
Dividend income	–	7,520	–	–	7,520	–	7,520
Total	744,378	7,520	4,175	–	756,073	479,838	1,235,911
Segment results	190,963	7,686	(896)	–	197,753	173,650	371,403
Interest and unallocated gains					28,599	4,431	33,030
Unallocated expenses					(44,797)	–	(44,797)
Fair value adjustment to embedded derivative of convertible bonds					(66,315)	–	(66,315)
Finance costs					(2,729)	(732)	(3,461)
Profit before tax					112,511	177,349	289,860
Tax					(18,311)	(25,136)	(43,447)
Profit for the year					94,200	152,213	246,413
Assets and liabilities							
Segment assets	551,947	1,579,514	5,114	–	2,136,575	–	2,136,575
Other unallocated assets					3,647	–	3,647
Total assets					2,140,222	–	2,140,222
Segment liabilities	145,981	8,398	1,049	–	155,428	–	155,428
Other unallocated liabilities					9,550	–	9,550
Total liabilities					164,978	–	164,978
Other segment information:							
Depreciation and amortisation	19,011	1,185	672	–	20,868	10,838	31,706
Capital expenditure	34,439	322	1,385	–	36,146	41,160	77,306
Other non-cash expenses	2,166	2	–	–	2,168	145	2,313

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4. SEGMENT INFORMATION (Cont'd)

Business segments (Cont'd)

	Continuing operations					Discontinued operation	
Year ended 31 December, 2004	Modernised Chinese medicines and chemical medicines HK$'000	Investment HK$'000	Others HK$'000	Eliminations HK$'000	Total HK$'000	Biopharma-ceutical medicines HK$'000	Consolidated HK$'000
Segment revenue:							
Sales to external customers	653,569	–	–	–	653,569	484,161	1,137,730
Dividend income	–	10,727	–	–	10,727	–	10,727
Total	653,569	10,727	–	–	664,296	484,161	1,148,457
Segment results	172,524	4,030	–	–	176,554	162,786	339,340
Interest and unallocated gains					7,063	4,174	11,237
Unallocated expenses					(34,078)	–	(34,078)
Finance costs					(1,050)	(298)	(1,348)
Profit before tax					148,489	166,662	315,151
Tax					(15,407)	(14,533)	(29,940)
Profit for the year					133,082	152,129	285,211
Assets and liabilities							
Segment assets	478,794	137,914	2,595	–	619,303	328,742	948,045
Other unallocated assets					2,490	–	2,490
Elimination					4,987	(4,987)	–
Total assets					626,780	323,755	950,535
Segment liabilities	116,106	55,547	1,177	–	172,830	99,256	272,086
Other unallocated liabilities					10,659	–	10,659
Total liabilities					183,489	99,256	282,745
Other segment information:							
Depreciation and amortisation	18,926	1,142	280	–	20,348	12,735	33,083
Capital expenditure	47,524	1,231	227	–	48,982	55,218	104,200
Other non-cash expenses	1,754	–	–	–	1,754	456	2,210

5. REVENUE, OTHER INCOME AND GAINS

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold, after allowances for returns and trade discounts, and dividend income from an unlisted investment.

An analysis of revenue, other income and gains is as follows:

	Notes	**2005** **HK$'000**	2004 HK$'000 (Restated)
Revenue			
Sale of goods		**1,228,391**	1,137,730
Dividend income		**7,520**	10,727
		1,235,911	1,148,457
Attributable to continuing operations reported in the consolidated income statement		**756,073**	664,296
Attributable to a discontinued operation	*12*	**479,838**	484,161
		1,235,911	1,148,457
Other income			
Bank interest income		**21,358**	4,789
Government grants		**6,671**	1,226
Sale of scrap materials		**1,930**	1,078
Others		**2,867**	2,627
		32,826	9,720
Attributable to continuing operations		**28,395**	7,063
Attributable to a discontinued operation		**4,431**	2,657
		32,826	9,720
Gains			
Gain on disposal of property, plant and equipment		**204**	–
Gain on disposal of a subsidiary	*33*	**–**	805
Reversal of a revaluation deficit		**–**	712
		204	1,517
Attributable to continuing operations		**204**	–
Attributable to a discontinued operation		**–**	1,517
		204	1,517
Total other income and gains			
Attributable to continuing operations reported in the consolidated income statement		**28,599**	7,063
Attributable to a discontinued operation		**4,431**	4,174
		33,030	11,237

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31 December, 2005

6. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging /(crediting):

	Notes	**2005** **HK$'000**	2004 HK$'000 (Restated)
Attributable to continuing operations reported in the consolidated income statement:			
Cost of sales		**139,418**	133,613
Depreciation	*15 & 16*	**20,153**	14,649
Amortisation of intangible assets*	*18*	**715**	311
Research and development costs		**46,661**	30,896
		206,947	179,469
Goodwill:	*17*		
Amortisation for the year		**–**	5,388
		–	5,388
Minimum lease payments under operating leases:			
Land and buildings		**2,931**	5,111
		2,931	5,111
Auditors' remuneration		**937**	600
Employee benefits expense (including directors' remuneration *(note 8)*):			
Wages and salaries		**136,942**	87,349
Pension scheme contributions **		**17,370**	6,706
		154,312	94,055
Provision for bad and doubtful debts		**1,134**	732
Foreign exchange differences, net		**(1,164)**	(690)

6. PROFIT BEFORE TAX (Cont'd)

	Notes	**2005** **HK$'000**	2004 HK$'000 (Restated)
Attributable to a discontinued operation:			
Cost of sales		**80,126**	61,589
Depreciation	*15 & 16*	**9,958**	11,723
Amortisation of intangible assets*	*18*	**880**	1,012
Research and development costs		**5,668**	6,392
		96,632	80,716
Minimum lease payments under operating leases:			
Land and buildings		**4,583**	5,997
Employee benefits expense (including directors' remuneration *(note 8)*):			
Wages and salaries		**41,396**	59,198
Pension scheme contributions **		**11,447**	7,402
		52,843	66,600
Provision for bad and doubtful debts		**–**	400
Foreign exchange differences, net		**(119)**	(188)

Notes:

* The amortisation of patents and licences and deferred development costs for the year are included in "Cost of sales" and "Other expenses" on the face of the consolidated income statement.

** 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% (2004: 20% – 23%) of the employees' salaries and were charged to the consolidated income statement 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, 2005 (2004: 5%).

NOTES TO FINANCIAL STATEMENTS

31 December, 2005

7. a) FINANCE COSTS

		Group	
		2005	2004
	Notes	***HK$'000***	*HK$'000*
Interest on bank loans wholly repaid during the year		**2,996**	604
Interest on the debt component of convertible bonds	*28*	**465**	744
Total interest		**3,461**	1,348
Attributable to continuing operations reported in the consolidated income statement		**2,729**	1,050
Attributable to a discontinued operation	*12*	**732**	298
		3,461	1,348

b) FAIR VALUE ADJUSTMENT FOR DERIVATIVE FINANCIAL INSTRUMENT

This solely represented the changes in the fair value to the embedded derivative component of the convertible bonds, which is charged to the consolidated income statement for the current year as a result of the first year adoption of HKAS 39. As the adoption of HKAS 39 is applied prospectively from 1 January, 2005, the fair value of the embedded derivative component was determined by reference to the respective market value of the Company's share price as at 1 January, 2005 and the date of conversion of the convertible bonds on 13 April, 2005. The fair value adjustment to the embedded derivative of convertible bonds was one-off and non-cash in nature and the Company's convertible bonds were fully converted into the Company's shares by April 2005.

8. DIRECTORS' REMUNERATION

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

	Group	
	2005	2004
	HK$'000	*HK$'000*
Fees	**288**	173
Other emoluments:		
Salaries, allowances and benefits in kind	**7,013**	3,138
Employee share option benefits	**–**	–
Pension scheme contributions	**74**	33
Discretionary bonuses	**10,897**	2,866
	17,984	6,037
	18,272	6,210

(a) Independent non-executive directors

The fees paid to independent non-executive directors during the year were as follows:

	2005	2004
	HK$'000	*HK$'000*
Ms. Zheng Qun, Grace	**110**	108
Mr. Lu Zhengfei	**16**	–
Mr. Li Dakui	**65**	17
Ms. Li Jun	**97**	–
Mr. Hu Ximing	**–**	48
	288	173

Mr. Hu Ximing resigned as an independent non-executive director on 13 January, 2005.

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

NOTES TO FINANCIAL STATEMENTS

31 December, 2005

8. DIRECTORS' REMUNERATION (Cont'd)

(b) Executive directors and a non-executive director

	Fees *HK$'000*	Salaries, allowances and benefits in kind *HK$'000*	Discretionary bonuses *HK$'000*	Employee share option benefits *HK$'000*	Pension scheme contributions *HK$'000*	Total remuneration *HK$'000*
2005						
Executive directors:						
Mr. Tse Ping	**–**	**3,000**	**5,000**	**–**	**12**	**8,012**
Mr. Tao Huiqi	**–**	**384**	**534**	**–**	**10**	**928**
Mr. Wang Jinyu	**–**	**276**	**–**	**–**	**12**	**288**
Mr. He Huiyu	**–**	**108**	**–**	**–**	**–**	**108**
Ms. Cheng Cheung Ling	**–**	**900**	**425**	**–**	**12**	**1,337**
Ms. Zhao Yanping	**–**	**600**	**4,300**	**–**	**16**	**4,916**
Mr. Tse Hsin	**–**	**845**	**638**	**–**	**12**	**1,495**
	–	**7,013**	**10,897**	**–**	**74**	**17,984**
Non-executive director:						
Ms. Josephine Price	**–**	**–**	**–**	**–**	**–**	**–**
	–	**7,013**	**10,897**	**–**	**74**	**17,984**
2004						
Executive directors:						
Mr. Tse Ping	–	2,520	2,300	–	12	4,832
Mr. Tao Huiqi	–	354	566	–	9	929
Mr. Wang Jinyu	–	264	–	–	12	276
	–	3,138	2,866	–	33	6,037
Non-executive director:						
Ms. Josephine Price	–	–	–	–	–	–
	–	3,138	2,866	–	33	6,037

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

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

During the year, all share options were exercised by the directors. The details of these benefits in kind are disclosed under the paragraph "Share Option Scheme" in the Report of the Directors and note 31 to the financial statements.

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included five (2004: one) directors, details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining four non-director, highest paid employees for the prior year are as follows:

	Group	
	2005	2004
	HK$'000	*HK$'000*
Salaries, allowances and benefits in kind	–	1,692
Employee share option benefits	–	–
Pension scheme contributions	–	42
Discretionary bonuses	–	3,022
	–	4,756

The number of non-director, highest paid employees whose remuneration fell within the following bands is as follows:

	Number of employees	
	2005	2004
Nil to HK$1,500,000	–	4

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.

	2005	2004
	HK$'000	*HK$'000*
		(Restated)
Group:		
Current – Mainland China income tax	**11,708**	10,464
Deferred tax *(note 29)*	**(1,152)**	(2,495)
	10,556	7,969
Tax attributable to a jointly-controlled entity	**7,755**	7,438
Total tax charge for the year	**18,311**	15,407

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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 2005.

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 the 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 was subject to a corporate income tax rate of 10% since 2002. The preferential tax rate for "Advanced Technology Enterprise" expired on 31 December, 2004 and CTF is subject to a corporate income tax rate of 15% in 2005.

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 rate and therefore, CTFP's corporate income tax rate was 7.5% for the year ended 31 December, 2005. 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 the 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% reduction 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, provided that the minimum corporate income tax rate is not lower than 10%. Consequently, Beijing Tide is subject to a corporate income tax rate of 12% from 2005 to 2007.

10. TAX (Cont'd)

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

Group

	2005
	HK$'000
Profit before tax (including profit from a discontinued operation)	**1,696,051**
Tax at the statutory tax rate of 33%	**559,697**
Less: Preferential tax rate reduction	**(305,289)**
Income not subject to tax	**(212,057)**
Expenses not deductible for tax	**32,481**
Tax losses of subsidiaries	**786**
Tax exemptions/deductions	**(32,171)**
Tax charge at the Group's effective rate	**43,447**
Tax charge attributable to a discontinued operation *(note 12)*	**(25,136)**
Tax charge attributable to continuing operations reported in the consolidated income statement	**18,311**

Group

	2004
	HK$'000
	(Restated)
Profit before tax (including profit from a discontinued operation)	315,151
Tax at the statutory tax rate of 33%	104,000
Less: Preferential tax rate reduction by 18%	(56,727)
Income not subject to tax	(1,609)
Expenses not deductible for tax	7,247
Tax losses of subsidiaries	6,441
Tax exemptions/deductions	(29,412)
Tax charge at the Group's effective rate	29,940
Tax charge attributable to a discontinued operation *(note 12)*	(14,533)
Tax charge attributable to continuing operations reported in the consolidated income statement	15,407

11. NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT

The net profit from ordinary activities attributable to equity holders of the parent for the year ended 31 December, 2005 dealt with in the financial statements of the Company, was HK$1,614,149,000 (after the fair value adjustment to embedded derivative of convertible bonds of HK$66,315,000 (note 7 (b)) (2004: HK$74,897,000) (note 32(b)).

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12. DISCONTINUED OPERATION

	2005	2004
	HK$'000	*HK$'000*
Profit of the year from a discontinued operation	**152,213**	152,129
Gain on disposal of subsidiaries	**1,406,191**	–
	1,558,404	152,129

On 2 July, 2005, the Company entered into the Sale and Purchase Agreement with Bausch & Lomb Incorporated ("Bausch & Lomb") in relation to the disposal of the Company's entire equity interests in Sino Concept Technology Limited ("Sino Concept"), the sole assets of which are the 55% equity interests in the registered capital of each of Shandong Chia Tai Freda Pharmaceutical Co., Ltd. ("CTF") and Shandong Chia Tai Freda New Packaging Resources Co., Ltd. ("CTFP") (hereinafter referred to as the "Sino Concept group" or the "disposed subsidiaries") at a consideration of US$ 200,000,000 (equivalent to approximately HK$1,560 million). The Sino Concept group was principally engaged in the research, development, production and sale in Mainland China of a series of biopharmaceutical products for the medical treatment of ophthalmic conditions and osteoarthritis and for external use to treat skin diseases and is a separate business segment that is part of the Mainland China operation of the Group.

The directors considered that the disposal represents a good opportunity for the Company to realise its investment in Sino Concept group at a satisfactory price and are of the view that the terms of the Sale and Purchase Agreement are fair and reasonable and in the interests of the shareholders as a whole. The Group has decided to cease its manufacture, distribution and sales business although it is profit-making because the Group expects to explore appropriate investment opportunities in the future and additional general working capital for the Group and, if the directors so determine, finance the payment of any special dividend which may be declared. The disposal of the Sino Concept group was completed on 26 September, 2005. Details of the disposed subsidiaries were set out in the Company's announcement and circular dated on 6 July, 2005 and 26 July, 2005, respectively.

The results of the Sino Concept group is presented below:

	For the nine months ended 26 September 2005	For the year ended 31 December 2004
	HK$'000	*HK$'000*
Revenue	**479,838**	484,161
Expenses	**(301,757)**	(317,201)
Finance costs	**(732)**	(298)
Profit of the discontinued operation	**177,349**	166,662
Profit before tax from a discontinued operation	**177,349**	166,662
Tax related to pre-tax profit	**(25,136)**	(14,533)
Profit for the year from a discontinued operation	**152,213**	152,129

12. DISCONTINUED OPERATION (Cont'd)

Net assets of the disposed subsidiaries on the completion date were as follows:

	Notes	2005 HK$'000
Net assets disposed of:		
Property, plant and equipment	*15*	**136,161**
Prepaid land lease payments	*16*	**18,124**
Other intangible assets	*18*	**17,329**
Deferred tax assets	*29*	**5,469**
Cash and cash equivalents		**45,090**
Inventories		**30,925**
Trade receivables		**94,528**
Due from a related party		**134**
Prepayments, deposits and other receivables		**38,175**
Trade payables		**(8,563)**
Other payables and accruals		**(129,763)**
Tax payable		**(5,948)**
Due to a related party		**(1,662)**
Deferred tax liabilities	29	**(255)**
Minority interests		**(106,226)**
		133,518
Expenses in relation to the disposal		**20,291**
Gain on disposal of subsidiaries		**1,406,191**
		1,560,000
Satisfied by:		
Cash consideration		**1,560,000**

An analysis of the net inflow of cash and cash equivalents in respect of the disposed subsidiaries is as follows:

	2005 HK$'000
Cash consideration	**1,560,000**
Cash and bank balances disposed of	**(45,090)**
Net inflow of cash and cash equivalents in respect of the disposed subsidiaries	**1,514,910**

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12. DISCONTINUED OPERATION (Cont'd)

The net cash flows incurred by the disposed subsidiaries are as follows:

	2005 *HK$'000*	2004 *HK$'000*
Operating activities	**119,933**	142,922
Investing activities	**(40,269)**	(53,705)
Financing activities	**(145,519)**	(68,544)
Net cash outflow/(inflow)	**(65,855)**	20,673
Earnings per share:		
Basic, from the discontinued operation	**HK67.46 cents**	HK4.17 cents
Diluted, from the discontinued operation	**HK67.46 cents**	HK3.83 cents

The calculations of basic and diluted earnings per share from the discontinued operation are based on:

	2005	2004 (Restated)
Net profit attributable to ordinary equity holders of the parent from the discontinued operation	**HK$1,490,285,000**	HK$83,442,000
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	**2,209,126,245**	1,999,669,184
Weighted average number of ordinary shares used in the diluted earnings per share calculation	**2,209,126,245**	2,178,364,926

13. DIVIDENDS

	2005 *HK$'000*	2004 *HK$'000*
Interim – HK$0.05 (HK$0.0433 after consideration of bonus share issue) (2004: HK$0.04 (HK$0.0267 after consideration of bonus share issue)) per ordinary share		
– paid out from profit after tax	**73,207**	54,102
– paid out from contributed surplus	**30,186**	–
Special dividend – HK$0.05 (2004: nil) per ordinary share	**113,199**	–
Proposed final – HK$0.015 (2004: HK$0.04 (HK$0.0267 after consideration of bonus share issue)) per ordinary share	**33,959**	55,084
	250,551	109,186

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

14. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of basic earnings per share amounts is based on the net profit for the year attributable to ordinary equity holders of the parent for the year of HK$1,532,929,000 (2004: HK$168,485,000), and the weighted average number of 2,209,126,245 (2004: 1,999,669,184 as restated) ordinary shares in issue during the year, as adjusted to reflect the exercises of share options, bonus issues and conversion of convertible bonds during the year. Had the fair value adjustment of HK$66,315,000 to the embedded derivative of the convertible bonds been excluded from the net profit for the year attributable to ordinary equity holders of the parent, the basic earnings per share for the current year would have been HK72.39 cents.

The calculation of diluted earnings per share amounts is based on the net profit for the year attributable to ordinary equity holders of the parent, adjusted to reflect the interest on the convertible bonds, as applicable in 2004 (see below). The weighted average number of ordinary shares used in the calculation is the ordinary shares in issue during the prior year, as used in the basic earnings per share calculation and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares. Had the fair value adjustment of HK$66,315,000 to the embedded derivative of the convertible bonds been excluded from the net profit for the year attributable to ordinary equity holders of the parent, the diluted earnings per share for the current year would have been HK72.39 cents.

The calculations of basic and diluted earnings per share (after the fair value adjustment to embedded derivative of convertible bonds) are based on:

	2005	2004
	HK$'000	*HK$'000*
		(Restated)
Earnings		
Net profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation: (after the fair value adjustment to embedded derivative of convertible bonds as set out in note 7(b))		
From continuing operations (after fair value adjustment to embedded derivative of convertible bonds)	**42,644**	85,043
From a discontinued operation	**1,490,285**	83,442
	1,532,929	168,485
Interest on convertible bonds used in the diluted earnings per share calculation	**–**	354
Net profit attributable to ordinary equity holders of the parent after interest on convertible bonds	**1,532,929**	168,839
Attributable to:		
Continuing operations	**42,644**	85,397
Discontinued operation	**1,490,285**	83,442
	1,532,929	168,839

14. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT (Cont'd)

	Number of shares	
	2005	2004 (Restated)
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	**2,209,126,245**	1,999,669,184
Effect of dilution – weighted average number of ordinary shares:		
Share options	**–**	88,379,953
Convertible bonds	**–**	90,315,789
	2,209,126,245	2,178,364,926

15. PROPERTY, PLANT AND EQUIPMENT

Group

	Buildings *HK$'000*	Land use rights *HK$'000*	Leasehold improvements *HK$'000*	Plant and machinery *HK$'000*	Motor vehicles *HK$'000*	Furniture and fixtures *HK$'000*	Construction in progress *HK$'000*	Total *HK$'000*
31 December, 2005								
Cost or valuation:								
As previously reported	73,193	24,797	23,574	114,930	20,198	28,652	77,470	362,814
Adoption of HKAS 17	–	(29,036)	–	–	–	–	–	(29,036)
Adoption of HKAS 31	1,465	4,239	–	–	1,012	5,651	31,619	43,986
Restated at beginning of year	74,658	–	23,574	114,930	21,210	34,303	109,089	377,764
Additions	3,063	–	47	11,149	2,504	6,272	47,462	70,497
Surplus on revaluation	2,532	–	–	–	–	–	–	2,532
Disposal of a discontinued operation *(note 12)*	(45,466)	–	(12,950)	(92,236)	(6,351)	(11,801)	(14,530)	(183,334)
Disposals	(2,598)	–	–	(3,959)	(513)	(583)	–	(7,653)
Transfers	50,451	–	–	76,126	135	2,867	(129,579)	–
Exchange realignment	1,862	–	334	2,449	387	702	2,296	8,030
At 31 December, 2005	84,502	–	11,005	108,459	17,372	31,760	14,738	267,836
Analysis of cost or valuation:								
At cost	–	–	11,005	108,459	17,372	31,760	14,738	183,334
At valuation	84,502	–	–	–	–	–	–	84,502
	84,502	–	11,005	108,459	17,372	31,760	14,738	267,836
Accumulated depreciation:								
As previously reported	–	–	12,971	50,305	9,369	12,820	–	85,465
Adoption of HKAS 17	–	–	–	–	–	–	–	–
Adoption of HKAS 31	202	–	–	–	390	4,457	–	5,049
Restated at beginning of year	202	–	12,971	50,305	9,759	17,277	–	90,514
Provided during the year								
– Attributable to continuing operations	3,825	–	62	9,218	2,831	3,947	–	19,883
– Attributable to a discontinued operation	1,135	–	2,641	5,021	551	153	–	9,501
Written back on revaluation	(1,685)	–	–	–	–	–	–	(1,685)
Disposal of a discontinued operation *(note 12)*	(2,894)	–	(8,567)	(26,223)	(4,319)	(5,170)	–	(47,173)
Disposals	(1,092)	–	–	(2,563)	(252)	(445)	–	(4,352)
Exchange realignment	509	–	191	1,173	208	405	–	2,486
At 31 December, 2005	–	–	7,298	36,931	8,778	16,167	–	69,174
Net book value:								
At 31 December, 2005	84,502	–	3,707	71,528	8,594	15,593	14,738	198,662
At 31 December, 2004	74,456	–	10,603	64,625	11,451	17,026	109,089	287,250

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15. PROPERTY, PLANT AND EQUIPMENT (Cont'd)

Group

	Buildings	Land use rights	Leasehold improvements	Plant and machinery	Motor vehicles	Furniture and fixtures	Construction in progress	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
31 December, 2004								
Cost or valuation:								
As previously reported	60,050	6,100	23,009	106,074	17,368	24,176	29,686	266,463
Adoption of HKAS 17	–	(10,410)	–	–	–	–	–	(10,410)
Adoption of HKAS 31	1,462	4,310	–	–	729	5,402	3,961	15,864
Restated at beginning of year	61,512	–	23,009	106,074	18,097	29,578	33,647	271,917
Additions	541	–	540	7,033	3,316	7,221	94,568	113,219
Surplus on revaluation	2,429	–	–	–	–	–	–	2,429
Disposal of a subsidiary *(note 33)*	–	–	–	–	–	(302)	–	(302)
Disposals	(2,625)	–	–	(4,774)	(269)	(2,288)	–	(9,956)
Transfers	12,681	–	–	6,409	56	35	(19,181)	–
Exchange realignment	120	–	25	188	10	59	55	457
At 31 December, 2004	74,658	–	23,574	114,930	21,210	34,303	109,089	377,764
Analysis of cost or valuation:								
At cost	1,465	–	23,574	114,930	21,210	34,303	109,089	304,571
At valuation	73,193	–	–	–	–	–	–	73,193
	74,658	–	23,574	114,930	21,210	34,303	109,089	377,764
Accumulated depreciation:								
As previously reported	–	–	10,103	40,945	6,412	11,052	–	68,512
Adoption of HKAS 17	–	–	–	–	–	–	–	–
Adoption of HKAS 31	135	–	–	–	236	4,244	–	4,615
At beginning of year	135	–	10,103	40,945	6,648	15,296	–	73,127
Provided during the year								
– Attributable to continuing operations	2,697	–	52	5,952	2,577	3,089	–	14,367
– Attributable to a discontinued operation	618	–	2,810	6,562	722	1,011	–	11,723
Written back on revaluation	(1,156)	–	–	–	–	–	–	(1,156)
Disposal of a subsidiary *(note 33)*	–	–	–	–	–	(122)	–	(122)
Disposals	(2,119)	–	–	(3,218)	(194)	(2,016)	–	(7,547)
Exchange realignment	27	–	6	64	6	19	–	122
At 31 December, 2004	202	–	12,971	50,305	9,759	17,277	–	90,514
Net book value:								
At 31 December, 2004	74,456	–	10,603	64,625	11,451	17,026	109,089	287,250
At 31 December, 2003	61,377	–	12,906	65,129	11,449	14,282	33,647	198,790

15. PROPERTY, PLANT AND EQUIPMENT (Cont'd)

Company

	Motor vehicles HK$'000	Furniture and fixtures HK$'000	Total HK$'000
31 December, 2005			
Cost:			
At beginning of year	3,408	1,609	5,017
Additions	–	321	321
Disposal	–	(4)	(4)
Exchange realignment	6	3	9
At 31 December, 2005	3,414	1,929	5,343
Accumulated depreciation:			
At beginning of year	1,250	501	1,751
Provided during the year	802	383	1,185
Disposal	–	(2)	(2)
Exchange realignment	3	1	4
At 31 December, 2005	2,055	883	2,938
Net book value:			
At 31 December, 2005	1,359	1,046	2,405
At 31 December, 2004	2,158	1,108	3,266

The Group's buildings are all situated in Mainland China and are held under long term leases.

The Group's buildings of all subsidiaries as at 31 December, 2005 were revalued as at that date by DTZ Debenham Tie Leung Limited, independent professionally qualified valuers at an aggregate open market value of HK$84,502,000 (2004: HK$73,194,000) based on their existing use. The Group's share in the jointly-controlled entity's buildings amounted to HK$11,414,000 (2004: HK$1,262,000) were revalued as at the balance sheet date. The revaluation resulted in a surplus of HK$7,281,000 (2004: HK$4,033,000) and a deficit of HK$3,064,000 (2004: HK$448,000). The Group has credited HK$2,576,000 (2004: HK$1,755,000) to the revaluation reserve and charged HK$122,000 (2004: a credit of HK$712,000) to the income statement, respectively, in the current year.

Had the buildings been carried at historical cost less accumulated depreciation, their carrying values would have been approximately HK$68,422,000 (2004: HK$67,391,000).

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16. PREPAID LAND LEASE PAYMENTS

	Group	
	2005	2004
	HK$'000	*HK$'000*
		(Restated)
Carrying amount at 1 January		
As previously reported	**–**	–
Effect of adopting HKAS 17 *(note 2.2(a))*	**29,036**	10,410
Effect of adopting HKAS 17 *(note 2.2(a))*	**(3,260)**	(2,620)
As restated	**25,776**	7,790
Additions during the year	**233**	18,253
Recognised during the year		
– Attributable to continuing operations	**(270)**	(282)
– Attributable to a discontinued operation	**(457)**	–
Disposal of a discontinued operation *(note 12)*	**(18,124)**	–
Exchange realignment	**534**	15
Carrying amount at 31 December	**7,692**	25,776
Current portion included in prepayments, deposits and other receivables	**(254)**	(1,059)
Non-current portion	**7,438**	24,717

The prepaid land lease payments for land use rights are held under a long term lease and are situated in Mainland China.

17. GOODWILL

Group

	2005
	HK$'000
31 December, 2005	
At 1 January, 2005:	
Cost as previously reported	**8,245**
Effect of adopting HKAS 31 *(note 2.2(b))*	**44,618**
Effect of adopting HKFRS 3 *(note 2.2(e))*	**(10,963)**
Cost as restated	**41,900**
Accumulated amortisation as previously reported	**(6,234)**
Effect of adopting HKAS 31 *(note 2.2(b))*	**(4,729)**
Effect of adopting HKFRS 3 *(note 2.2(e))*	**10,963**
Accumulated amortisation as restated	**–**
Net carrying amount	**41,900**
Cost at 1 January, 2005	**41,900**
Attributable to a discontinued operation	**–**
Impairment during the year	**–**
Exchange realignment	**48**
Cost and carrying amount at 31 December, 2005	**41,948**
At 31 December, 2005	
Cost	**41,948**
Accumulated impairment	**–**
Net carrying amount	**41,948**

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17. GOODWILL (Cont'd)

Group

	2004 HK$'000 (Restated)
31 December, 2004	
At 1 January, 2004:	
Cost as previously reported	8,245
Effect on adopting HKAS 31 *(note 2.2 (b))*	44,618
Cost as restated	52,863
Accumulated amortisation as previously reported	(5,308)
Effect on adopting HKAS 31 *(note 2.2 (b))*	(267)
Amortisation provided during the year	(5,388)
Impairment during the year	–
Exchange realignment	–
Accumulated amortisation as restated	(10,963)
Net carrying amount	41,900
At 31 December, 2004:	
Cost	52,863
Accumulated amortisation	(10,963)
Net carrying amount	41,900

In 2004, goodwill not previously eliminated against the consolidated reserves was amortised on the straight-line basis over the estimated useful lives of 8 and 10 years.

Impairment testing of goodwill

The Group tests goodwill annually for impairment, or more frequently if there are indications that goodwill might be impaired.

The recoverable amount of Beijing Tide is determined from a value in use calculation using cash flow forecasts based on financial budgets. The key assumptions for the value in use calculations are those regarding the discount rates, growth rates and expected changes to selling prices and direct costs during the period. The directors estimate discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to Beijing Tide. The growth rates are based on industry growth forecasts. Changes in selling prices and direct costs are based on past practices and expectations of future changes in the market.

The Group prepares cash flow forecasts derived from the most recent financial budgets approved by the directors for 2006 and extrapolates cash flows for the following nine years based on an estimated average industry growth rate. The rate does not exceed the average long-term growth rate for the relevant markets. The rate used to discount the forecast cash flows from Beijing Tide is based on the prevailing bank's borrowing rate offered by major financial institutions in Mainland China.

Based on the above, the directors consider that there is no impairment loss for goodwill.

18. OTHER INTANGIBLE ASSETS

Group

	Patents and licences HK$'000	Deferred development costs HK$'000	Total HK$'000
31 December, 2005:			
Cost			
At beginning of the year	**10,503**	**7,281**	**17,784**
Additions	**3,843**	**2,733**	**6,576**
Exchange realignment	**258**	**145**	**403**
Disposal of a discontinued operation *(note 12)*	**(9,750)**	**(10,159)**	**(19,909)**
At 31 December, 2005	**4,854**	**–**	**4,854**
Accumulated amortisation			
At beginning of the year	**1,971**	**–**	**1,971**
Provided during the year			
– Attributable to continuing operations	**715**	**–**	**715**
– Attributable to a discontinued operation	**880**	**–**	**880**
Exchange realignment	**66**	**–**	**66**
Disposal of a discontinued operation *(note 12)*	**(2,580)**	**–**	**(2,580)**
At 31 December, 2005	**1,052**	**–**	**1,052**
Net carrying amount	**3,802**	**–**	**3,802**
31 December, 2004			
Cost			
At beginning of the year	4,432	11,024	15,456
Additions	1,371	940	2,311
Transfer	4,700	(4,700)	–
Exchange realignment	–	17	17
At 31 December, 2004	10,503	7,281	17,784
Accumulated amortisation			
At beginning of the year	648	–	648
Provided during the year			
– Attributable to continuing operations	311	–	311
– Attributable to a discontinued operation	1,012	–	1,012
At 31 December, 2004	1,971	–	1,971
Net carrying amount	8,532	7,281	15,813

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19. INTERESTS IN SUBSIDIARIES

	Company 2005 HK$'000	2004 HK$'000
Unlisted shares, at cost	**101,513**	131,300
Due from subsidiaries	**84,406**	82,606
Due to subsidiaries	**(8,337)**	(18,551)
	177,582	195,355
Impairment during the year	**–**	–
	177,582	195,355

The amounts due from/(to) subsidiaries are unsecured, interest-free and have no fixed terms of repayment. The carrying amount of these amounts due from/(to) approximates to the fair values.

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 Direct	Indirect	Principal activities
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	–	51	Research and development of pharmaceutical products

19. INTERESTS IN SUBSIDIARIES (Cont'd)

Particulars of the subsidiaries are as follows (continued):

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. ("JCTT")	Mainland China	RMB99,000,000	–	60	Development, manufacture and distribution of pharmaceutical products
Magnificent Technology Limited ("Magnificent")	British Virgin Islands/ Hong Kong	US$1 Ordinary	–	60	Investment holding
Nanjing Chia Tai Tianqing Pharmaceutical Co., Ltd.	Mainland China	US$5,050,000	–	51	Manufacture and sale of pharmaceutical products
Sino Biopharmaceutical (Beijing) Limited	British Virgin Islands/ Mainland China	US$50,000 Ordinary	100	–	Investment holding
Talent Forward Limited	British Virgin Islands/ Mainland China	US$50,000 Ordinary	100	–	Investment holding

On 2 July, 2005, the Company entered into an agreement with Bausch & Lomb to dispose of its entire equity interests in Sino Concept, which in turn owned 55% equity interests in each of Shandong Chia Tai Freda Pharmaceutical Co., Ltd. ("CTF") and Shandong Chia Tai Freda New Packaging Resources Co., Ltd. (the "Sino Concept group"), for a total cash consideration of US$200 million (equivalent to approximately HK$1,560 million). The disposal and transfer of ownership of interests in the Sino Concept group were completed in September 2005. Further details of the disposal are in note 12 to the financial statements.

In January 2005, the Company disposed and transferred its entire equity interests in its wholly-owned subsidiary, Ace Elite Investments Limited ("ACE"), to a director based on the net asset value of ACE for a nil consideration which gave rise to a net gain on the disposal of HK$6,000 as ACE had net liabilities of HK$6,000 on the disposal date. The disposal and transfer of ownership interests in ACE was completed during 2005.

In December 2005, the Company disposed and transferred its entire equity interests in its wholly-owned subsidiary, Magnificent, to JCTT, based on the net value for nil consideration as Magnificent had net liabilities of HK$16,000. With the completion of transfer of the ownership interest from the Company to JCTT, Magnificent becomes a wholly-owned subsidiary of JCTT and an indirect subsidiary of the Company.

20. INTEREST IN A JOINTLY-CONTROLLED ENTITY

	Group	
	2005	2004
	HK$'000	*HK$'000*
As previously reported		
Share of net assets	**–**	84,275
Goodwill on acquisition	**–**	39,889
Effect of adopting HKAS 31 *(note 2.2(b))*	**–**	(124,164)
As restated	**–**	–

The interest in a jointly-controlled entity, Beijing Tide is indirectly held by the Company, in which the Group holds 35% equity interests therein. In the prior years, the Group had equity accounted for its share of profit and net assets in Beijing Tide. With the adoption of HKAS 31 which effect from 1 January, 2005, proportionate consolidation was adopted and accordingly, 2004 amounts were restated.

The following table illustrates the summarised financial information of the Group's jointly-controlled entity:

	2005	2004
	HK$'000	*HK$'000*
Share of the jointly-controlled entity's assets and liabilities:		
Current assets	**89,798**	80,838
Non-current assets	**46,852**	39,825
Current liabilities	**(29,443)**	(36,388)
Non-current liabilities	**–**	–
Net assets	**107,207**	84,275
Share of the jointly-controlled entity's results:		
Turnover	**112,742**	98,074
Other revenue	**–**	–
Total revenue	**112,742**	98,074
Total expenses	**(54,330)**	(43,089)
Tax	**(7,755)**	(7,438)
Profit after tax	**50,657**	47,547

21. AVAILABLE-FOR-SALE EQUITY INVESTMENTS

	Group	
	2005	2004
	HK$'000	*HK$'000*
Unlisted equity investments, at cost	**29,820**	29,820
Provision for impairment	**–**	–
	29,820	29,820

The amount represented:

(i) the Group's 5% equity investments in Chia Tai Qingchunbao Pharmaceutical Co., Ltd., which is engaged in the manufacture, distribution and sale of pharmaceutical products primarily from natural herbal ingredients in Mainland China; and

(ii) the Group's 15% equity investments in Jiangsu Qingjiang Pharmaceutical Co. Ltd., which was newly acquired in December 2005.

The unlisted equity investments are stated at cost less any impairment losses, rather than at fair value. The directors considered that the fair value of unlisted equity investments cannot be reliably measured because (i) the variability in the range of reasonable fair value estimates is significant for that investment or (ii) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating the fair value. Accordingly, such equity investments are stated at cost less any impairment losses.

22. INVENTORIES

	Group	
	2005	2004
	HK$'000	*HK$'000*
		(Restated)
Raw materials	**13,043**	21,039
Work in progress	**10,056**	11,687
Finished goods	**20,993**	27,707
Spare parts and consumables	**247**	624
	44,339	61,057

23. 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 period 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. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. Trade receivables are non-interest-bearing.

23. TRADE RECEIVABLES (Cont'd)

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

	Group	
	2005	2004
	HK$'000	*HK$'000*
		(Restated)
Current to 90 days	**94,947**	90,001
91 days to 180 days	**5,266**	14,216
Over 180 days	**1,800**	1,976
	102,013	106,193

Trade receivables approximate to their fair values due to their relatively short maturity term.

24. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
		(Restated)		
Prepayments	**1,565**	19,190	**175**	–
Other receivables	**8,646**	9,169	**1,683**	1,769
Prepaid expenses	**981**	1,048	**625**	294
Current portion of prepaid land lease payments	**254**	1,059	**–**	–
	11,446	30,466	**2,483**	2,063

Prepayments, other receivables and prepaid expenses approximate to their fair values due to their relatively short maturity terms.

25. CASH AND CASH EQUIVALENTS

	Group		Company	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
		(Restated)		
Cash and bank balances	**223,532**	198,491	**131,816**	2,028
Time deposits	**1,472,481**	145,993	**1,370,446**	60,195
Cash and cash equivalents	**1,696,013**	344,484	**1,502,262**	62,223

25. CASH AND CASH EQUIVALENTS (Cont'd)

At the balance sheet date, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to HK$299,005,000 (2004: HK$260,269,000 as restated). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at bank earns interest at floating rates based on daily bank deposits rates. Short term time deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The carrying amounts of the cash and cash equivalents approximate to their fair values.

26. TRADE PAYABLES

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

	Group	
	2005	2004
	HK$'000	*HK$'000*
		(Restated)
Current to 90 days	**18,944**	16,217
91 days to 180 days	**790**	349
Over 180 days	**825**	670
	20,559	17,236

Trade payables are non-interest-bearing and are normally settled on 90-day terms. The trade payables approximate to their fair values due to their relatively short maturity term.

27. OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
		(Restated)		
Advances from customers	**1,285**	13,099	**–**	–
Accrued payroll and bonuses	**28,821**	27,686	**2,959**	782
Other payables	**60,005**	55,283	**196**	960
Accrued expenses	**21,696**	48,839	**1,167**	3,204
Housing fund	**372**	702	**–**	–
Staff welfare and bonus fund	**10,088**	40,121	**11**	11
Tax payable other than profit tax	**11,421**	15,523	**51**	–
	133,688	201,253	**4,384**	4,957

27. OTHER PAYABLES AND ACCRUALS (Cont'd)

Other payables are non-interest-bearing and have an average term of three months. Other payables and accruals approximate to their fair values due to their relatively short maturity term.

28. CONVERTIBLE BONDS

On 14 August, 2002, the Company entered into subscription agreements (the "Subscription Agreements") with Jian Kang Ltd. ("Jian Kang") and Super Demand Investments Limited ("Super Demand"), respectively. Pursuant to the Subscription Agreements, the Company agreed to issue to Jian Kang (the "2002 Convertible Bond") and Super Demand (the "2003 Convertible Bond") convertible bonds for principal amount of US$6,000,000 (equivalent to approximately HK$46,800,000) and US$4,000,000 (equivalent to approximately HK$31,200,000), respectively.

The 2002 Convertible Bond was issued for gross cash proceeds of approximately HK$46,800,000 on 22 October, 2002 and bears interest at 1% per annum which is payable every three months in arrears. The 2002 Convertible Bond will mature on the fourth anniversary of the date of the convertible bond instrument, if not previously converted by the bondholders. The 2002 Convertible Bond is convertible into shares of the Company at any time after the date falling six months from the date of the convertible bond instrument and ending on the maturity date of the 2002 Convertible Bonds (both dates inclusive) at an initial conversion price of HK$2.85 per share, subject to adjustment. Based on the initial conversion price, a total of 16,421,053 new shares would be issued upon the full conversion of the 2002 Convertible Bonds.

On 30 December, 2002, the Company and Super Demand agreed to defer the issuance of the 2003 Convertible Bond to 31 March, 2003 or such other date as both parties agree in writing. The 2003 Convertible Bond was issued for gross cash proceeds of approximately HK$31,200,000 on 31 March, 2003, and bears interest at 1% per annum which is payable every three months in arrears. The 2003 Convertible Bond will mature on the fourth anniversary of the date of the convertible bond instrument, if not previously converted by the bondholders. The 2003 Convertible Bond is convertible into shares of the Company at any time after the date falling six months from the date of the convertible bond instrument and ending on the maturity date of the 2003 Convertible Bonds (both dates inclusive) at an initial conversion price of HK$2.85 per share, subject to adjustment. Based on the initial conversion price, a total of 10,947,368 new shares would be issued upon the full conversion of the 2003 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 exercised the conversion rights attached to the 2002 Convertible Bond in accordance with the terms and conditions contained in the instrument in the amount of US$4,500,000 (equivalent to approximately HK$35,100,000) of the principal amount outstanding, and was 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$1,228,000 and share premium of HK$33,763,000.

28. CONVERTIBLE BONDS (Cont'd)

On 28 December, 2004, Super Demand transferred its entire bonds of US$4,000,000 (equivalent to approximately HK$31,200,000) to Jian Kang and on 13 April, 2005, Jian Kang had exercised all its convertible bonds (2002 Convertible Bond and 2003 Convertible Bond) of US$5,500,000 (equivalent to approximately HK$42,900,000) at a conversion price of HK$0.7125 per share, representing an increase in share capital of HK$1,505,700 and share premium of HK$157,711,000.

Upon adoption of HKAS 39, the convertible bonds shall be classified as a debt component and the conversion option as an embedded derivative component, both as liabilities at the balance sheet dates. The effective annual interest rates of the debt component of 2002 Convertible Bonds and 2003 Convertible Bonds are 2.95% and 3.61%, respectively. Interest expenses on the bonds were calculated using the effective interest method by applying the effective annual interest rate of 2.95% and 3.61% to the debt component, which are the market fair value interest rates.

HKAS 39 is applied prospectively, resulting in opening adjustments on 1 January, 2005. The accumulated impact on the consolidated financial statements is presented in note 2.4 (a) and (b).

The movements of the debt component and the embedded derivative component of the convertible bonds upon the adoption of HKAS 39 are as follows:

	Company			
	2005		2004	
	Debt component *HK$'000*	**Embedded derivative component** *HK$'000*	Debt component *HK$'000*	Embedded derivative component *HK$'000*
At 1 January				
As previously reported	**42,900**	**–**	78,000	–
Opening adjustments	**(3,380)**	**53,065**	–	–
As restated	**39,520**	**53,065**	78,000	–
Conversion into ordinary shares	**(39,843)**	**(119,380)**	(35,100)	–
Interest accrued	**465**	**–**	744	–
Payment of interest	**(142)**	**–**	(744)	–
Fair value adjustment on embedded derivative component	**–**	**66,315**	–	–
At 31 December	**–**	**–**	42,900	–

NOTES TO FINANCIAL STATEMENTS

31 December, 2005

29. DEFERRED TAX

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

Deferred tax liabilities

Group

	2005 Revaluation of properties *HK$'000*
At 1 January, 2005:	
As previously reported	**2,527**
Effect of adopting HKAS 17 (note 2.2(a))	**(489)**
As restated	**2,038**
Charged to the income statement *(note 10)*	**–**
Reversal upon discontinued operation *(note 12)*	**(255)**
Credited to equity	**621**
Gross deferred tax liabilities At 31 December, 2005	**2,404**

Deferred tax assets

Group **2005**

	Accruals *HK$'000*	**Provision for other receivables** *HK$'000*	**Provision for trade receivables** *HK$'000*	**Fixed assets depreciation** *HK$'000*	**Total** *HK$'000*
At 1 January, 2005	**5,971**	**–**	**539**	**1,454**	**7,964**
Credited to the income statement *(note 10)*	**835**	**99**	**218**	**–**	**1,152**
Reversal upon discontinued operation *(note 12)*	**(3,993)**	**–**	**(22)**	**(1,454)**	**(5,469)**
Gross deferred tax assets At 31 December, 2005	**2,813**	**99**	**735**	**–**	**3,647**

29. DEFERRED TAX (Cont'd)

Deferred tax liabilities

Group

	2004 Revaluation of properties *HK$'000*
At 1 January, 2004	–
Credited to equity	
Attributable to continuing operations	1,779
Attributable to a discontinued operation	259
Gross deferred tax liabilities	
At 31 December, 2004	2,038

Deferred tax assets

Group 2004

	Accruals *HK$'000*	Provision for other receivables *HK$'000*	Provision for trade receivables *HK$'000*	Fixed assets depreciation *HK$'000*	Total *HK$'000*
At 1 January, 2004	–	–	–	–	–
Credited to the income statement					
Attributable to continuing operations *(note 10)*	1,978	–	517	–	2,495
Attributable to a discontinued operation	3,993	–	22	1,454	5,469
Gross deferred tax assets					
At 31 December, 2004	5,971	–	539	1,454	7,964

NOTES TO FINANCIAL STATEMENTS

31 December, 2005

30. SHARE CAPITAL

Shares

	2005	2004
	HK$'000	*HK$'000*
Authorised:		
4,000,000,000 ordinary shares of HK$0.025 each (2004: 4,000,000,000 ordinary shares of HK$0.025 each)	**100,000**	100,000
Issued and fully paid:		
2,263,968,736 ordinary shares of HK$0.025 each (2004: 1,377,109,684 ordinary shares of HK$0.025 each)	**56,599**	34,428

During the year, the movements in share capital were as follows:

(a) On 11 April, 2005, 71,760,000 ordinary shares of HK$0.025 each were issued on the exercise of the share options. On 29 April, 2005, 240,000 ordinary shares of HK$0.025 each were issued on the exercise of the remaining balance of the share options.

(b) On 13 April, 2005, 60,202,807 ordinary shares of HK$0.025 each were issued on the exercise of the conversion rights of convertible bonds held by Jian Kang.

(c) As a result of the resolution passed by the Company's shareholders' meeting on 13 May, 2005, the issue of a bonus share for every two existing shares of the Company held by members on the register of members on 31 May, 2005 resulted in the issue of 754,656,245 ordinary shares of HK$0.025 each.

A summary of the transactions during the year with reference to the above movements in the Company's issued ordinary share capital is as follows:

	Number of shares in issue	**Issued share capital**	**Share premium account**	**Total**
		HK$'000	*HK$'000*	*HK$'000*
At 1 January, 2005	1,377,109,684	34,428	131,481	165,909
Share options exercised (a) *(note 31(a))*	72,000,000	1,800	11,520	13,320
Convertible bonds converted (b) *(note 32(a))*	60,202,807	1,505	157,711	159,216
Bonus shares issued (c)	754,656,245	18,866	(18,866)	–
	886,859,052	22,171	150,365	172,536
At 31 December, 2005	2,263,968,736	56,599	281,846	338,445

30. SHARE CAPITAL (Cont'd)

Share options

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

31. SHARE OPTION SCHEME

(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.

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.

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31 December, 2005

31. SHARE OPTION SCHEME (Cont'd)

(a) The Existing Scheme (Cont'd)

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.

31. SHARE OPTION SCHEME (Cont'd)

(a) The Existing Scheme (Cont'd)

The following share options were outstanding under the Scheme during the year:

Name or category of participant	Number of share options: At 1 January 2005	Granted during the year	Exercised during the year	Expired during the year	Forfeited during the year	At 31 December 2005	Date of grant of share options*	Exercise period of share options	Adjusted exercise price of share options** HK$	Price of the Company's shares***: At grant date of options HK$	Immediately before the exercise date HK$	At exercise date of options HK$	Benefit from share option HK$'000
Directors													
Mr. Tse Ping	18,000,000	–	(18,000,000)	–	–	–	2 January, 2001	3 January, 2003 to 1 January, 2007	0.185	0.74	2.9	2.9	48,870
Mr. Wang Jinyu	2,400,000	–	(2,400,000)	–	–	–	2 January, 2001	3 January, 2003 to 1 January, 2007	0.185	0.74	2.9	2.9	6,516
Mr. Tao Huiqi	2,400,000	–	(2,400,000)	–	–	–	2 January, 2001	3 January, 2003 to 1 January, 2007	0.185	0.74	2.9	2.9	6,516
Mr. Tse Hsin	13,440,000	–	(13,440,000)	–	–	–	2 January, 2001	3 January, 2003 to 1 January, 2007	0.185	0.74	2.9	2.9	36,490
	36,240,000	–	(36,240,000)	–	–	–							98,392
Other employees													
In aggregate	35,760,000	–	(35,760,000)	–	–	–	2 January, 2001	3 January, 2003 to 1 January, 2007	0.185	0.74	2.9	2.9/2.75	
	72,000,000	–	(72,000,000)	–	–	–							

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

** 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 grant of the share options is the Stock Exchange closing price on the trading day immediately prior to the date of the grant of the options. The price of the Company's shares disclosed immediately before the exercise date of the share options is the weighted average of the Stock Exchange closing prices immediately before the dates on which the options were exercised over all of the exercises of options within the disclosure line.

As disclosed in note 2.2(d), the benefit from the exercise of employee share options during the year has no impact on the Group's income statement for the current year nor retained profits as at 31 December, 2005.

The 72,000,000 share options exercised during the year resulted in the issue of 72,000,000 ordinary shares of the Group and new share capital of HK$1,800,000 and share premium of HK$11,520,000, as further detailed in note 30 to the financial statements.

At the balance sheet date, the Company had no share options outstanding under the Scheme.

31. SHARE OPTION SCHEME (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 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.

31. SHARE OPTION SCHEME (Cont'd)

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

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.

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

(a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on pages 53 to 54 of the financial statements.

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 13 April, 2005, Jian Kang exercised the conversion rights attached to the 2002 and 2003 convertible bonds in the amount of US$5,500,000 (equivalent to approximately HK$42,900,000) of the principal amount outstanding and were contained in the instrument in the amount converted into 60,202,807 shares of the Company at a conversion price of HK$0.025 per share, representing an increase in share capital of HK$1,505,000 and share premium account of HK$157,711,000 (see note 30).

32. RESERVES (Cont'd)

(a) Group (Cont'd)

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)

(b) Company

	Notes	Share premium account HK$'000	Contributed surplus HK$'000	Retained profits/ (Accumulated losses) HK$'000	Total HK$'000
Balance at 1 January, 2004		97,718	107,299	(78,979)	126,038
Net profit for the year	11	–	–	74,897	74,897
Interim 2004 dividend		–	–	(54,102)	(54,102)
Issue of shares on exercise of convertible bonds		33,763	–	–	33,763
Proposed final 2004 dividend	13	–	–	(55,084)	(55,084)
At 31 December, 2004		131,481	107,299	(113,268)	125,512
At 31 December, 2004 and 1 January, 2005					
As previously reported		131,481	107,299	(113,268)	125,512
Effect of adopting HKAS 39	2.4(b)	–	–	(49,685)	(49,685)
As restated		131,481	107,299	(162,953)	75,827
Issue of shares on exercise of share options	31	11,520	–	–	11,520
Issue of shares on exercise of convertible bonds	30	157,711	–	–	157,711
Issue of bonus shares	30	(18,866)	–	–	(18,866)
Net profit for the year	11	–	–	1,614,149	1,614,149
Interim 2005 dividend	13	–	(30,186)	(73,207)	(103,393)
Special dividend	13	–	–	(113,199)	(113,199)
Proposed final 2005 dividend	13	–	–	(33,959)	(33,959)
At 31 December, 2005		281,846	77,113	1,230,831	1,589,790

NOTES TO FINANCIAL STATEMENTS

31 December, 2005

33. DISPOSAL OF A SUBSIDIARY

	Notes	**2005** **HK$'000**	2004 HK$'000
Net assets disposed of:			
Property, plant and equipment	15	–	180
Inventories		–	40
Prepayments, deposits and other receivables		–	16
Trade payables		–	(516)
Other payables and accruals		–	134
		–	(146)
Gain on disposal of a subsidiary	5	–	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:

	2005 **HK$'000**	2004 HK$'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

34. CONTINGENT LIABILITIES

At the balance sheet date, contingent liabilities not provided for in the financial statements were as follows:

	Group		**Company**	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
Trade debtors factored with recourse	**4,970**	–	–	–

35. OPERATING LEASE ARRANGEMENTS

As lessee

The Group leases certain of its office properties and land use right under operating lease arrangements. Leases for office equipment are for terms ranging between two and five years, and for land use right are for terms ranging from one to fifty years.

At the balance sheet date, the Group and the Company had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group		Company	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
		(Restated)		
Within one year	**2,221**	2,768	**1,172**	1,605
In the second to fifth years, inclusive	**3,367**	3,087	**806**	342
After five years	**23,182**	23,515	**–**	–
	28,770	29,370	**1,978**	1,947

36. COMMITMENTS

In addition to the operating lease commitments detailed in note 35 above, the Group had the following capital commitments at the balance sheet date:

	Group	
	2005	2004
	HK$'000	*HK$'000*
		(Restated)
Contracted, but not provided for:		
Plant and machinery	**2,614**	19,623
Intangible assets (product technology)	**–**	3,914
	2,614	23,537
Authorised, but not contracted for:		
Plant and machinery	**20,994**	27,263

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

	Group	
	2005	2004
	HK$'000	*HK$'000*
Contracted, but not provided for:		
Plant and machinery	**223**	9,573

NOTES TO FINANCIAL STATEMENTS

31 December, 2005

37. RELATED PARTY TRANSACTIONS

(a) In addition to the transactions detailed elsewhere in these financial statements, the Group had the following transactions with related parties during the years:

	Group	
	2005	2004
	HK$'000	*HK$'000*
Sales of products to:		
– a Chinese joint venture partner of a subsidiary *(note a)*	**1,341**	290
– a related party with a common shareholder of a subsidiary *(note a)*	**773**	689
Purchases of raw materials from:		
– a related party with a common shareholder of a subsidiary *(note b)*	**17,264**	18,704
Purchases of raw materials from:		
– a Chinese joint venture partner of a subsidiary *(note b)*	**2,178**	1,780
– a company indirectly owned by a director *(note b)*	**5**	40
Service revenue from		
– a company indirectly owned by a director *(note c)*	**869**	–
Operating lease rentals payable to:		
– a fellow subsidiary of a subsidiary's Chinese joint venture partner *(note d)*	**3,635**	4,756
– a Chinese joint venture partner of a subsidiary *(note d)*	**565**	561
– a company beneficially owned by a director *(note d)*	**684**	684
Research and development expenses to		
– a fellow subsidiary of a subsidiary's Chinese joint venture partner *(note e)*	**1,439**	941

Notes:

(a) Sales of products to the Chinese joint venture partner of the subsidiary, Chinese joint venture of a jointly-controlled entity 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) Service revenue were conducted with reference to the market prices.

(d) Lease rentals were based on tenancy agreements entered into between the Group and each of the related parties with reference to the market prices.

(e) Research and development expenses were based on the terms of the agreements entered into with the related party.

37. RELATED PARTY TRANSACTIONS (Cont'd)

(b) Other transactions with related parties:

(i) In January 2005, the Company disposed and transferred its entire equity interests in its wholly-owned subsidiary, Ace Elite Investments Limited ("ACE") to a director based on its net liabilities of HK$6,000 on the disposal date for a nil consideration and resulted in a gain on disposal of HK$6,000. With the completion of the transfer of ownership interests to the director in January 2005, ACE ceased to be the subsidiary of the Group.

(c) Outstanding balances with related parties:

(i) As disclosed in the consolidated balance sheet, the Group had trade payables to its Chinese joint venture partner of HK$1,181,280 (2004: HK$5,151,000 as restated) and trade receivables from its Chinese joint venture partner of HK$1,094,026 (2004: HK$871,000 as restated). These trade payables and receivables are unsecured, interest-free and on normal trade terms for repayment.

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments, other than derivatives, comprise convertible bonds, cash and short term deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

It is, and has been, throughout the year under review, the Group's policy that no trading in financial instruments shall be undertaken.

The main risks arising from the Group's financial instruments are credit risk, significant concentrations of credit risk, interest rate risk, currency risk, liquidity and funding risk, and net fair value risk. The board reviews and agrees policies for managing each of these risks and they are summarised below.

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a loss to the Group. The Group has adopted the policy of only dealing with creditworthy counterparties and has a stringent procedure in extending credit terms to customers and in monitoring its credit risk.

The credit policy outlines clearly the guidelines on extending credit terms to customers, including monitoring the credit control process and use of related industry's practices as reference. This includes assessing and valuation of customers' credit reliability and periodic review of their financial status to determine credit limits to be granted. Customers may be required to provide security in terms of cash or immovable assets.

The carrying amount of financial assets recorded in the financial statements, net of any provision for bad and doubtful debts, represents the Group's maximum exposure to credit risk without taking account of the value of any collateral or other security obtained.

NOTES TO FINANCIAL STATEMENTS

31 December, 2005

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Cont'd)

Significant concentrations of credit risk

Concentrations of credit risk exist when changes in economic, industry or geographical factors similarly affect a group of counterparties whose aggregate credit exposure is significant in relation to the Group's total credit exposure.

The directors consider credit risk to be low as the major customers are large and medium corporations with good credit track records.

Interest rate risk

Interest rate risk arises from the potential changes in interest rates that may have adverse effects in the Group's results for the current reporting year and in the future years.

The directors consider that the Group is not significantly exposed to interest rate risk and no hedging or other alternatives have been implemented.

Currency risk

Foreign exchange risk arises from the change in foreign exchange rates that may have an adverse effect on the Group in the current reporting year and in the future years. Most of the assets and liabilities of the Group were denominated in Renminbi, US dollars and Hong Kong dollars. In the Mainland China, foreign investment enterprises are authorised 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 exchange rate between Hong Kong dollars and US dollars has been pledged under a fixed linked system over a long period of time.

The directors consider that the Group is not significantly exposed to foreign currency risk and no hedging or other alternatives have been implemented.

Liquidity and funding risk

The Group's liquidity remained strong as at balance sheet date. During the year, the Group's primary source of funds was cash derived from operating activities and investment income. The directors consider that the Group is not exposed to liquidity and funding risk.

Net fair value

The carrying amounts of cash and bank balances, trade and other receivables and payables, provisions and other liabilities approximate to their respective fair values due to the relatively short maturity terms.

It is not practicable within the constraint of cost to reliably determine the fair value of amounts of receivables and payables to related companies as these balances are on normal trade terms.

39. POST BALANCE SHEET EVENT

Subsequent to the balance sheet date, on 11 April, 2006, the directors of the Company proposed a final dividend of HK$0.015 per share which has been classified as a separate allocation of retained profits within the reserve section of the financial statements (notes 13 and 32).

40. COMPARATIVE AMOUNTS

As further explained in notes 2.2 and 2.4 to the financial statements, due to the adoption of new HKFRSs during the current year, the accounting treatment and presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain prior year and opening balance adjustments have been made and certain comparative amounts have been reclassified and restated to conform with the current year's presentation and accounting treatment.

41. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 11 April, 2006.

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that an annual general meeting of Sino Biopharmaceutical Limited (the "Company") will be held at 11:00 a.m. on Monday, 5 June, 2006 at 7th Floor, Board Room, The Dynasty Club Limited, South West Tower, Convention Plaza, 1 Harbour Road, Wanchai, Hong Kong for the following purposes:

1. To receive and consider and adopt the audited financial statements of the Company and the reports of the Directors and auditors for the year ended 31 December, 2005;

2. To approve the payment of a final dividend for the year ended 31 December, 2005;

3. To re-elect Directors and to authorize the Board of Directors to fix the remuneration of the Directors;

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. As special business, to consider, and, if thought fit, pass with or without amendments the following Resolutions as Ordinary Resolutions:

ORDINARY RESOLUTION

(A) "**THAT**:

(1) subject to paragraph (3) 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;

(2) the approval of paragraph (1) 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;

(3) 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 (1) 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

(4) 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.

"Right 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 requirements of any recognized regulatory body or any stock exchange in, any territory applicable to the Company)."

(B) "**THAT**:

(1) subject to paragraph (2) 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;

(2) the aggregate nominal value of securities authorized to be repurchased by the Company pursuant to the approval in paragraph (1) 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

(3) for the purpose of this Resolution:

"Relevant Period" means the period from time to 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 set out as Resolutions number 5(A) and 5(B) 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 set out as Resolution number 5(A) of the notice convening this Meeting be and is hereby extended by the addition to such mandate 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 set out as Resolution number 5(B) of the notice convening this Meeting, provided that such extended amount shall not exceed 10% aggregate nominal value of the share capital of the Company in issue at the date of passing of the said Resolution."

NOTICE OF ANNUAL GENERAL MEETING

6. As special business, to consider and, if thought fit, pass with or without amendments the following Resolution as a Special Resolution.

SPECIAL RESOLUTION

"**THAT** the Articles of Association of the Company be amended as follows:

(A) By deleting Article 66 in its entirety and substituting therefor the following:

"Subject to any special rights or restrictions as to voting for the time being attached to any shares by or in accordance with these Articles, at any general meeting on a show of hands every Member present in person (or being a corporation, is present by a duly authorized representative), or by proxy shall have one vote and on a poll every Member present in person or by proxy or, in the case of a Member being a corporation, by its duly authorized representative shall have one vote for every fully paid share of which he is the holder but so that no amount paid up or credited as paid up on a share in advance of calls or instalments is treated for the foregoing purposes as paid up on the share. Notwithstanding anything contained in these Articles, where more than one proxy is appointed by a Member which is a clearing house (or its nominee(s)), each such proxy shall have one vote on a show of hands. A resolution put to the vote of a meeting shall be decided on a show of hands unless a poll is required under the rules of the Designated Stock Exchange or (before or on the declaration of the result of the show of hands or on 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 authorized representative or by proxy for the time being entitled to vote at the meeting; or

(c) by any Member or Members present in person or in the case of a Member being a corporation by its duly authorized representative or by proxy and representing not less than one-tenth of the total voting rights of all Members having the right to attend and vote at the meeting; or

(d) by a Member or Members present in person or in case of a Member being a corporation by its duly authorized 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 equal to not less than one-tenth of the total sum paid up on all shares conferring that right; or

(e) by any of the Directors who individually or collectively (including the chairman of the relevant meeting of the Company) hold proxies in respect of shares representing 5% or more of the total voting rights at a particular meeting of the Company, and if on a show of hands such meeting votes in the opposite manner to that instructed in those proxies, such Directors shall have the right to demand a poll. If a poll is required under these circumstances, the chairman of the meeting should disclose to the meeting of the Company the total number of votes represented by all proxies held by Directors indicating an opposite vote to the votes cast at the meeting on a show of hands."

(B) By inserting a new Article 66A as follows immediately after the existing Article 66:

"66A The chairman should at the commencement of the meeting ensure that an explanation is provided of:

(a) the procedures for demanding a poll by members before putting a resolution to the vote on a show of hands; and

(b) the detailed procedures for conducting a poll and then answer any questions from members whenever voting by way of poll is required."

(C) By deleting Article 67 in its entirety and substituting therefor the following:

"67 Unless a poll is so required or demanded and, in the latter case, not withdrawn:

(i) the chairman of the meeting should indicate to the meeting of the Company the level of proxies lodged on each resolution and the balance for and against the resolution, after it has been dealt with on a show of hands. All proxy votes must be counted and recorded; and

(ii) a declaration by the chairman that a resolution has on a show of hands been carried, or carried unanimously, or by a particular majority, or lost, and an entry to that effect in the Company's book containing the minutes of proceedings of meetings of the Company shall be conclusive evidence of that fact without proof of the number or proportion of the votes recorded in favour of or against such resolution."

(D) By deleting the second sentence in Article 68 in its entirety.

(E) By replacing the word "special" in Article 86(5) by "ordinary" immediately before the word "resolution"."

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

Hong Kong, 28 April, 2006

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

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 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, Wanchai, 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, 30 May, 2006 to Monday, 5 June, 2006 (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, 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong not later than 4:00 p.m. on Monday, 29 May, 2006 for registration.

NOTICE OF ANNUAL GENERAL MEETING

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 Shareholders present in person or in the case of a Shareholder 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 Shareholder or Shareholders present in person or in the case of a Shareholder 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 Shareholders having the right to vote at the meeting; or

   (d) by a Shareholder or Shareholders present in person or in the case of a Shareholder 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.

5. An explanatory statement containing further details regarding the Resolutions set out as Resolutions number 5 and 6 will be sent to the Shareholders together with the annual report of the Company for the year ended 31 December, 2005.