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If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in **Sino Biopharmaceutical Limited** 中國生物製藥有限公司 you should at once hand this circular to the purchaser or the transferee or to the bank, stockbroker or other agent through whom the sale or the transfer was effected for transmission to the purchaser or the transferee.

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SINO BIOPHARMACEUTICAL LIMITED

中國生物製藥有限公司

(Incorporated in the Cayman Islands with limited liability)

Website: www.sino-biopharm.com

(Stock code: 1177)

MAJOR TRANSACTION

Sale of Sino Concept Technology Limited

中外科技有限公司,

a wholly-owned subsidiary of the Company

A letter from the board of directors of **Sino Biopharmaceutical Limited** 中國生物製藥有限公司 is set out on pages 4 to 10 of this circular. A notice convening an extraordinary general meeting of **Sino Biopharmaceutical Limited** 中國生物製藥有限公司 to be held at 10:00 a.m. on Monday, 15 August 2005 at 8th Floor, Crown Room, The Dynasty Club Limited, South West Tower, Convention Plaza, 1 Harbour Road, Wanchai, Hong Kong is set out on pages 67 to 68 of this circular. Whether or not you are able to attend the meeting, please complete and return the accompanying form of proxy in accordance with the instructions printed thereon as soon as possible and in any event not later than 48 hours before the time appointed for the holding of the meeting or any adjourned meeting. Completion and return of the form of proxy shall not preclude you from attending and voting at the meeting or any adjourned meeting if you so wish.

26 July 2005

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DEFINITIONS

In this circular, the following expressions shall have the following meanings unless the context otherwise requires:

“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Bausch & Lomb”	Bausch & Lomb Incorporated, a company incorporated in the US, whose shares are listed and traded on the New York Stock Exchange
“Board”	the board of Directors
“Business Day”	a day on which banks are generally open for business in Hong Kong and which is not a Saturday, a Sunday, a public holiday or a day on which typhoon signal no. 8 or a “black” rainstorm warning is hoisted in Hong Kong
“Company”	Sino Biopharmaceutical Limited 中國生物製藥有限公司, a company incorporated in the Cayman Islands whose shares are listed and traded on the Main Board of the Stock Exchange
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“CTF”	山東正大福瑞達製藥有限公司 (Shandong Chia Tai Freda Pharmaceutical Co. Ltd.), a sino-foreign equity joint venture established in the PRC, 55% of the equity interest in the registered capital of which is held by Sino Concept and the remaining 45% held by third parties which are independent of the Company and its connected persons (save for their respective interests in CTF and CTFP) and of Bausch & Lomb and its connected persons
“CTFP”	山東正大福瑞達包裝新材料有限公司 (Shandong Chia Tai Freda New Packaging Resources Co. Ltd.), a sino-foreign equity joint venture established in the PRC, 55% of the equity interest in registered capital of which is held by Sino Concept and the remaining 45% held by third parties which are independent of the Company and its connected persons (save for their respective interests in CTF and CTFP) and of Bausch & Lomb and its connected persons
“Directors”	the directors of the Company
“Disposal”	the sale of the Sale Shares as contemplated under the Sale and Purchase Agreement

DEFINITIONS

“EGM”	an extraordinary general meeting to be held at 10:00 a.m. on Monday, 15 August 2005 at 8th Floor, Crown Room, The Dynasty Club Limited, South West Tower, Convention Plaza, 1 Harbour Road, Wanchai, Hong Kong to consider and, if thought fit, to approve the Sale and Purchase Agreement and the Disposal pursuant to the terms thereunder
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Latest Practicable Date”	22 July 2005, being the latest practicable date prior to the printing of this circular for ascertaining certain information included in this circular
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Long Stop Date”	30 September 2005
“PRC”	the People’s Republic of China (which, for the purposes of this circular, excludes Hong Kong, the Macau Special Administrative Region of the People’s Republic of China and Taiwan)
“RMB”	Renminbi, the lawful currency of the PRC
“Sale Group”	Sino Concept, CTF and CTFP
“Sale Shares”	the 10,100 ordinary shares of HK\$1.00 each in the share capital of Sino Concept, being the entire issued share capital of Sino Concept
“SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Shareholder(s)”	holder(s) of shares of the Company
“Sino Concept”	Sino Concept Technology Limited 中外科技有限公司, a company incorporated in Hong Kong with limited liability and a wholly-owned subsidiary of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited

DEFINITIONS

“subsidiary”	has the meaning ascribed to it under the Companies Ordinance (Chapter 32, Laws of Hong Kong) and “subsidiaries” shall be construed accordingly
“US”	United States of America
“US\$”	US dollars, the lawful currency of the US

Notes:

1. For the purpose of this circular, translations of US\$ into HK\$ and RMB into HK\$ are made for illustration purposes only at the exchange rate of US\$1.00 to HK\$7.77 and RMB 1.00 to HK\$0.94 respectively.
2. In the event of inconsistency between the Chinese names of the PRC entities mentioned in this circular and their English translations, the Chinese version shall prevail.

LETTER FROM THE BOARD



SINO BIOPHARMACEUTICAL LIMITED

中國生物製藥有限公司

(Incorporated in the Cayman Islands with limited liability)

Website: www.sino-biopharm.com

(Stock code: 1177)

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

Registered office:

Century Yard
Cricket Square
Hutchins Drive
P.O. Box 2681 GT
George Town
Grand Cayman
British West Indies

Non-executive Director:

Ms. Josephine Price

*Head office and principal place
of business in Hong Kong:*

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

Independent non-executive Directors:

Ms. Zheng Qun, Grace
Mr. Li Dakui
Ms. Li Jun

26 July 2005

To the Shareholders

Dear Sirs,

MAJOR TRANSACTION

Sale of Sino Concept Technology Limited
中外科技有限公司,
a wholly-owned subsidiary of the Company

A. INTRODUCTION

The Company announced on 6 July 2005 that it had entered into the Sale and Purchase Agreement with Bausch & Lomb in respect of the sale of the Sale Shares for a consideration of US\$200,000,000 (approximately HK\$1,554 million). The Sale Shares represent the entire issued share capital of Sino Concept, the sole assets of which are its 55% equity interests in the registered capital of each of CTF and CTFP.

LETTER FROM THE BOARD

The Disposal constitutes a major transaction for the Company pursuant to Rule 14.06(3) of the Listing Rules and is therefore subject to the approval of the Shareholders at an extraordinary general meeting to be convened for such purpose.

The purpose of this circular is (i) to give Shareholders further particulars of the Disposal; (ii) to provide Shareholders with such information concerning the Company as required by the Listing Rules; and (iii) to give Shareholders the notice convening the EGM at which an ordinary resolution will be proposed to approve the Sale and Purchase Agreement and the Disposal pursuant to the terms thereunder.

B. THE SALE AND PURCHASE AGREEMENT

Date

2 July 2005

Parties

Vendor: the Company

Purchaser: Bausch & Lomb

Bausch & Lomb is an eye health company, dedicated to perfecting vision and enhancing life for consumers around the world. Its core businesses include soft and rigid gas permeable contact lenses and lens care products and ophthalmic surgical and pharmaceutical products. Founded in 1853, Bausch & Lomb is headquartered in Rochester, New York, US.

To the best of the knowledge, information and belief of the Directors having made all reasonable enquiries, Bausch & Lomb and its ultimate beneficial owners are third parties independent of the Group and connected persons of the Group.

Assets to be disposed of

The Sale Shares, which represent the entire issued share capital of Sino Concept. The Sale Shares will not be subject to any transfer restriction under the Sale and Purchase Agreement subsequent to the Disposal.

Consideration

The consideration of US\$200,000,000 (approximately HK\$1,554 million) for the Disposal is payable by Bausch & Lomb in cash at Completion. The consideration was arrived at after arm's length negotiations between the Company and Bausch & Lomb, and represents the equivalent of approximately 18.6 times the audited consolidated net profit after tax and minority interests of the Sale Group for the year ended 31 December 2004 of HK\$83,442,000.

LETTER FROM THE BOARD

Conditions precedent

Completion of the Sale and Purchase Agreement is conditional upon, among other things, the following conditions being fulfilled:

1. the approval of the Shareholders being obtained in respect of the sale and purchase of the Sale Shares pursuant to the Sale and Purchase Agreement; and
2. no statute, regulation or decision which would prohibit, restrict or materially delay the sale and purchase of the Sale Shares or the operation of any member of the Group after completion of the Sale and Purchase Agreement having been proposed, enacted or taken by any governmental or official authority.

In the event that the conditions to the completion of the Disposal as set out in the Sale and Purchase Agreement are not fulfilled or waived (where it can be waived) on or before the Long Stop Date, the Sale and Purchase Agreement shall lapse provided that if non-fulfillment of such conditions is the result of the Vendor's failure in good faith to use its best efforts to procure the fulfillment of such conditions, then Bausch & Lomb shall have the right to extend the date of fulfillment of the relevant condition(s) past the Long Stop Date.

Completion

Completion of the Sale and Purchase Agreement shall take place on the fifth Business Day after the day upon which all conditions relevant to the determination of the date of Completion shall have been fulfilled or waived, or such other date as the Company and Bausch & Lomb may agree in writing.

Upon completion of the Sale and Purchase Agreement, each of Sino Concept, CTF and CTFP will cease to be a subsidiary of the Company and a member of the Group.

C. INFORMATION ON THE SALE GROUP

Sino Concept is an investment holding company which, save for the 55% equity interest in the registered capital of each of CTF and CTFP, does not carry on any other business or has any other material assets, and has no material liabilities.

CTF is a sino-foreign equity joint venture and is principally engaged in the research, development, production and sale in the PRC of a series of biopharmaceutical products for the medical treatment of ophthalmic conditions and osteoarthritis and for external use to treat skin disease.

CTFP is a sino-foreign equity joint venture which is principally engaged in the production of packaging materials for sale to CTF.

LETTER FROM THE BOARD

The audited consolidated net assets of the Sale Group as at 31 December 2004 and 2003 and the consolidated net profit and turnover of the Sale Group for the two years ended 31 December 2004 prepared in accordance with the accounting principles generally accepted in Hong Kong are as follows:

	31 December 2004	31 December 2003
Consolidated net assets	HK\$128,729,000	HK\$ 81,460,000
Consolidated net profit (before tax)	HK\$166,662,000	HK\$89,883,000
Consolidated net profit (after tax but before minority interests)	HK\$152,129,000	HK\$78,209,000
Consolidated net profit (after tax and minority interests)	HK\$83,442,000	HK\$43,153,000
Turnover	HK\$484,161,000	HK\$378,553,000

D. REASONS FOR THE DISPOSAL AND USE OF PROCEEDS

The Group is principally engaged in the research, development, production and sale of a series of biopharmaceutical products for the medical treatment of ophthalmic diseases and a series of modernized Chinese medicines and chemical medicines for the treatment of hepatitis and cardio cerebral diseases.

The consideration for the Disposal of US\$200,000,000 (approximately HK\$1,554 million) represents a substantial premium over the audited consolidated net asset value of the Sale Group, which stood at HK\$128,729,000 as at 31 December 2004.

Based on the consideration of US\$200,000,000 (approximately HK\$1,554 million), the audited consolidated net asset value of the Sale Group as at 31 December 2004 of HK\$128,729,000 and after taking into account the estimated expenses in relation to the Disposal, the net gain from the Disposal which is expected to accrue to the Group is estimated to be approximately HK\$1,418 million. The net gain that will be recognized in the Group's consolidated accounts for 2005 is expected to be reduced by the amount of the share of profits of the Sale Group which would have accrued to the Company from 1 January 2005 to the completion of the Disposal.

As a result of the Disposal, the earnings of the Group immediately after completion of the Disposal are expected to increase by the amount of the estimated net gain from the Disposal (being approximately HK\$1,418 million) less the amount of the share of the profits of the Sale Group which would have accrued to the Company from 1 January 2005 to the completion of the Disposal. The total assets of the Group immediately after completion of the Disposal are expected to increase by the amount of the estimated net proceeds of HK\$1,547 million less the total assets of the Sale Group as at the date of completion (audited consolidated total assets of the Sale Group as at 31 December 2004: HK\$328,742,000) and the total liabilities of the Group immediately after completion of the Disposal are expected to decrease by the amount of the total liabilities of the Sale Group as at the date of completion of the Disposal (audited consolidated total liabilities (excluding minority interests as at 31 December 2004 of HK\$100,757,000) of the Sale Group as at 31 December 2004: HK\$99,256,000).

LETTER FROM THE BOARD

The Directors consider that the Disposal represents a good opportunity for the Company to realize its investment in the Sale Group at a satisfactory price and are of the view that the terms of Sale and Purchase Agreement are fair and reasonable and in the interests of the Shareholders as a whole.

The net proceeds of approximately HK\$1,547 million from the Disposal will provide funds for the Group 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 (please refer to the section headed “Proposed Policy on Future Dividends” below). The Company and Bausch & Lomb have been negotiating this transaction for several months before the signing of the Sale and Purchase Agreement on 2 July 2005. Prior to the signing of the Sale and Purchase Agreement, the Directors were not in a position to consider any detailed proposal for the use of proceeds from the then possible Disposal. The Directors will exercise due care and attention in identifying appropriate future investment opportunities before committing such funds and will comply with all applicable disclosure and shareholders’ approval requirements under the Listing Rules in relation to any investment which the Group may make in the future in regard to any such investment opportunities.

The Directors believe that the Group’s existing businesses following completion of the Disposal including the research, development, manufacturing and sale of modernized Chinese medicines and chemical medicines for the treatment of hepatitis and cardio cerebral diseases, will continue to deliver satisfactory growth.

E. PROPOSED POLICY ON FUTURE DIVIDENDS

The Company has historically paid to its Shareholders dividends representing a relatively high proportion of its net profit from ordinary activities attributable to Shareholders. The Directors presently intend that, following the Disposal, the Company will seek to maintain its total annual dividend pay-out to Shareholders at a level which will match or exceed that made in respect of the 2004 financial year.

The Directors also intend, subject to and following completion of the Disposal, to declare a special dividend out of the net proceeds received from the Disposal to Shareholders, the exact amount of which will be determined taking into account the requirements at that time to maintain sufficient cash resources to finance future investment opportunities.

F. EGM

The Disposal constitutes a major transaction for the Company pursuant to Rule 14.06(3) of the Listing Rules and is therefore subject to the approval of the Shareholders at an extraordinary general meeting to be convened for such purpose.

A notice of the EGM to be held at 10:00 a.m. on Monday, 15 August 2005 at 8th Floor, Crown Room, The Dynasty Club Limited, South West Tower, Convention Plaza, 1 Harbour Road, Wanchai, Hong Kong at which an ordinary resolution will be proposed to approve, among other things, the Sale and Purchase Agreement and the Disposal pursuant to the terms thereunder is set out on pages 67 to 68 of this circular.

LETTER FROM THE BOARD

A form of proxy for use at the EGM is enclosed. Whether or not you are able to attend the EGM, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return the same to the principal place of business of the Company at Unit 09, 41st Floor, Office Tower, Convention Plaza, 1 Harbour Road, Wanchai, Hong Kong as soon as possible and in any event not later than 48 hours before the time appointed for the holding of the EGM or any adjournment thereof. Completion and return of the form of proxy shall not preclude you from attending and voting in person at the EGM or any adjourned meeting should you so wish.

No Shareholder is required to abstain from voting at the EGM pursuant to the Listing Rules.

Pursuant to the articles of association of the Company, a resolution put to vote at a general meeting shall be decided on a show of hands unless a poll is required by the rules of the 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) is duly demanded.

A poll may be demanded by:

- (a) the chairman of the meeting; or
- (b) at least three Shareholders present in person or by a duly authorized corporate representative or by proxy and entitled to vote at the meeting; or
- (c) any Shareholder or Shareholders present in person or by a duly authorized corporate representative or by proxy and representing in the aggregate 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) any Shareholder or Shareholders present in person or by a duly authorized corporate representative or by proxy and holding shares conferring a right to attend and vote at the meeting on which there have been paid up sums in the aggregate equal to not less than one-tenth of the total sum paid up on all shares conferring that right.

G. RECOMMENDATION

Having regard to the information described above, the Directors are of the opinion that the Disposal pursuant to the terms of the Sale and Purchase Agreement is in the interest of the Company and the Shareholders as a whole. Accordingly, the Directors recommend the Shareholders to vote in favour of the relevant resolution to approve the same at the EGM.

Shareholders should note additionally that Mr. Tse Ping, Remarkable Industries Limited and Validated Profits Limited (being companies controlled by Mr. Tse Ping) together with Conspicuous Group Limited, which collectively hold 63.24% of the total issued share capital of the Company, have undertaken to Bausch & Lomb to vote in favour of the relevant resolution to approve the Disposal pursuant to the terms of the Sale and Purchase Agreement.

LETTER FROM THE BOARD

H. ADDITIONAL INFORMATION

Your attention is also drawn to the additional information set out in the appendices to this circular.

Yours faithfully,
For and on behalf of the Board
SINO BIOPHARMACEUTICAL LIMITED
Tse Ping
Chairman

1. SUMMARY OF FINANCIAL INFORMATION ON THE GROUP

The following is a summary of the audited financial results of the Group for the three financial years ended 31 December 2002, 2003 and 2004 as extracted from the audited financial statements of the Group for the relevant periods.

CONSOLIDATED PROFIT AND LOSS ACCOUNT

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
TURNOVER	1,050,383	821,700	692,320
Cost of sales	(186,312)	(168,696)	(145,286)
Gross profit	864,071	653,004	547,034
Other revenue	10,347	9,318	3,932
Selling and distribution costs	(411,393)	(338,446)	(309,437)
Administrative expenses	(158,124)	(116,215)	(84,257)
Other operating expenses	(39,073)	(40,191)	(20,562)
PROFIT FROM OPERATING ACTIVITIES	265,828	167,470	136,710
Finance costs	(1,348)	(1,380)	(1,124)
Share of profit of:			
A jointly-controlled entity	54,985	7,411	–
Amortisation of goodwill on acquisition of a jointly-controlled entity	(4,462)	(267)	–
PROFIT BEFORE TAX	315,003	173,234	135,586
Tax	(29,940)	(23,299)	(17,175)
PROFIT BEFORE MINORITY INTERESTS	285,063	149,935	118,411
Minority interests	(116,726)	(68,320)	(61,042)
NET PROFIT ATTRIBUTABLE TO SHAREHOLDERS	<u>168,337</u>	<u>81,615</u>	<u>57,369</u>

CONSOLIDATED BALANCE SHEET

	2004 HK\$'000	2003 HK\$'000	2002 HK\$'000
NON-CURRENT ASSETS			
Fixed assets	277,349	197,951	173,293
Intangible assets	8,532	3,784	2,389
Deferred development costs	7,281	11,024	–
Goodwill	2,011	2,937	2,388
Interest in a jointly-controlled entity	124,164	81,079	–
Long term investment	29,820	29,820	29,820
Deferred tax assets	7,964	–	–
	<u>457,121</u>	<u>326,595</u>	<u>207,890</u>
CURRENT ASSETS			
Inventories	59,012	57,695	45,251
Trade receivables	97,927	54,550	51,667
Other receivables	28,009	8,314	8,637
Amount due from a related company	–	–	16
Cash and cash equivalents	276,214	288,849	280,525
	<u>461,162</u>	<u>409,408</u>	<u>386,096</u>
CURRENT LIABILITIES			
Trade payables	17,037	21,424	24,437
Profit tax payable	9,706	7,816	3,415
Taxes payable other than profit tax	13,359	11,100	14,347
Other payables and accruals	157,055	116,828	77,629
Interest-bearing bank loan, unsecured	–	–	4,712
Amounts due to related companies	5,138	4,501	113
	<u>202,295</u>	<u>161,669</u>	<u>124,653</u>
NET CURRENT ASSETS	<u>258,867</u>	<u>247,739</u>	<u>261,443</u>
TOTAL ASSETS LESS CURRENT LIABILITIES	715,988	574,334	469,333
NON-CURRENT LIABILITIES			
Deferred tax liabilities	2,527	–	–
Convertible bonds	42,900	78,000	46,800
	<u>45,427</u>	<u>78,000</u>	<u>46,800</u>
MINORITY INTERESTS	<u>212,964</u>	<u>156,348</u>	<u>129,725</u>
	<u>457,597</u>	<u>339,986</u>	<u>292,808</u>
CAPITAL AND RESERVES			
Issued capital	34,428	33,200	32,000
Reserves	368,085	273,586	230,928
Proposed final dividend	55,084	33,200	29,880
	<u>457,597</u>	<u>339,986</u>	<u>292,808</u>

2. AUDITED FINANCIAL INFORMATION OF THE GROUP

The following financial information includes the financial statements of the Group for the two financial years ended 31 December 2003 and 2004 together with the notes thereto.

CONSOLIDATED PROFIT AND LOSS ACCOUNT

Year ended 31 December 2004

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

CONSOLIDATED BALANCE SHEET*As at 31 December 2004*

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

These financial statements have been approved for issue by the Board of Directors on 30 March 2005.

Zhao Yanping
Director

He Huiyu
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2004

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

CONSOLIDATED CASH FLOW STATEMENT*Year ended 31 December 2004*

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

CONSOLIDATED CASH FLOW STATEMENT*Year ended 31 December 2004*

	<i>Notes</i>	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
CASH FLOWS FROM			
FINANCING ACTIVITIES			
Proceeds from issue of shares		–	8,880
Repayment of bank loans		–	(4,712)
Interest paid	7	(1,348)	(1,380)
Dividends paid		(87,302)	(46,480)
Dividends paid to minority shareholders		(61,922)	(46,890)
Proceeds from issue of a convertible bond	33	–	31,200
		<u> </u>	<u> </u>
Net cash outflow from financing activities		(150,572)	(59,382)
		<u> </u>	<u> </u>
NET (DECREASE)/INCREASE IN			
CASH AND CASH EQUIVALENTS			
		(12,794)	9,353
Cash and cash equivalents at beginning of year		288,849	280,525
Effect of foreign exchange rate changes, net		159	(1,029)
		<u> </u>	<u> </u>
CASH AND CASH EQUIVALENTS			
AT END OF YEAR			
		<u>276,214</u>	<u>288,849</u>
ANALYSIS OF BALANCES OF			
CASH AND CASH EQUIVALENTS			
Cash and bank balances	24	183,696	170,313
Time deposits with original maturity of less than three months when acquired	24	92,518	118,536
		<u> </u>	<u> </u>
		<u>276,214</u>	<u>288,849</u>

APPENDIX I**FINANCIAL INFORMATION ON THE GROUP****BALANCE SHEET***31 December 2004*

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

These financial statements have been approved for issue by the Board of Directors on 30 March 2005.

Zhao Yanping
Director

He Huiyu
Director

NOTES TO FINANCIAL STATEMENTS*31 December 2004***1. CORPORATE INFORMATION**

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

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

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**Basis of preparation**

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

Basis of consolidation

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

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

Subsidiaries

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

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

Joint venture companies

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

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

A joint venture company is treated as:

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

Jointly-controlled entity

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

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

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

Goodwill

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

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

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

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

Related parties

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

Impairment of assets

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

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

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

Fixed assets and depreciation

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

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

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

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

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

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

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

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

Intangible assets*Patents*

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

Research and development costs

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

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

Deferred development costs

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

Operating leases

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

Long term investment

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

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

Inventories

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

Cash and cash equivalents

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

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

Provisions

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

Income tax

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

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

Deferred tax liabilities are recognised for all taxable temporary differences:

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

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

- except where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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

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

Government grants

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

Revenue recognition

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

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

Employee benefits

Pension schemes

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

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

Share option scheme

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

Borrowing costs

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

All other borrowing costs are recognised as expenses when incurred.

Dividends

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

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

Foreign currencies

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

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

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

4. SEGMENT INFORMATION

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

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

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

APPENDIX I
FINANCIAL INFORMATION ON THE GROUP
For the year ended 31 December

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

Note:

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

APPENDIX I**FINANCIAL INFORMATION ON THE GROUP****As at 31 December**

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

5. TURNOVER AND OTHER REVENUE AND GAINS

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

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

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

6. PROFIT FROM OPERATING ACTIVITIES

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

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

Notes:

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

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

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

7. FINANCE COSTS

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

8. DIRECTORS' REMUNERATION

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

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

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

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

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

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

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

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

9. FIVE HIGHEST PAID EMPLOYEES

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

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

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

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

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

10. TAX

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

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

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

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

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

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

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

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

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

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

11. NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

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

12. DIVIDENDS

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

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

13. EARNINGS PER SHARE

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

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

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

14. FIXED ASSETS

Group

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

Company

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

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

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

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

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

15. INTANGIBLE ASSETS

Patents

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

16. DEFERRED DEVELOPMENT COSTS

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

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

17. GOODWILL

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

18. INTERESTS IN SUBSIDIARIES

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

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

Particulars of the subsidiaries are as follows:

Company name	Place of incorporation/ registration and operations	Paid-up/ registered capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Ace Elite Investments Limited	British Virgin Islands/ Mainland China	US\$50,000 Ordinary	100	–	Investment holding
Beijing Chia Tai Green Continent Pharmaceutical Co., Ltd.	Mainland China	US\$1,000,000	–	75	Research and development of pharmaceutical products
Champion First Investments Limited	British Virgin Islands/ Mainland China	US\$2 Ordinary	100	–	Investment holding
Chia Tai Healthcare (Holdings) Limited	British Virgin Islands/ Mainland China	US\$50,000 Ordinary	100	–	Investment holding
Chia Tai Pharmaceutical (Lianyungang) Company Limited	British Virgin Islands/ Mainland China	US\$3 Ordinary	100	–	Investment holding
China Biotech & Drug Development Limited	Hong Kong	HK\$100 Ordinary	–	85	Research and development of pharmaceutical products
Jiangsu Chia Tai-Tianqing Pharmaceutical Co., Ltd. (JCTT)	Mainland China	Rmb99,000,000	–	60	Development, manufacture and distribution of pharmaceutical products
Magnificent Technology Limited	British Virgin Islands/ Hong Kong	US\$1 Ordinary	100	–	Investment holding
Nanjing Chia Tai Tianqing Pharmaceutical Co., Ltd.	Mainland China	US\$5,050,000	–	51	Manufacture and sale of pharmaceutical products
Shandong Chia Tai Freda Pharmaceutical Co., Ltd. (“CTF”)	Mainland China	Rmb42,000,000	–	55	Development, manufacture and distribution of pharmaceutical products

APPENDIX I

FINANCIAL INFORMATION ON THE GROUP

Company name	Place of incorporation/ registration and operations	Paid-up/ registered capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Shandong Chia Tai Freda New Packaging Resources Co., Ltd.	Mainland China	Rmb11,000,000	–	55	Production and sale of packaging materials
Sino Biopharmaceutical (Beijing) Limited	British Virgin Islands/ Mainland China	US\$50,000 Ordinary	100	–	Investment holding
Sino Concept Technology Limited	Hong Kong	HK\$10,100 Ordinary	100	–	Investment holding and provision of management services
Talent Forward Limited	British Virgin Islands/ Mainland China	US\$50,000 Ordinary	100	–	Investment holding

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

19. INTEREST IN A JOINTLY-CONTROLLED ENTITY

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

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

Particulars of the jointly-controlled entity are as follows:

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

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

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

20. LONG TERM INVESTMENT

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

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

21. INVENTORIES

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

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

22. TRADE RECEIVABLES

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

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

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

23. OTHER RECEIVABLES

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

24. CASH AND CASH EQUIVALENTS

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

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

25. TRADE PAYABLES

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

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

26. TAXES PAYABLE OTHER THAN PROFITS TAX

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

27. OTHER PAYABLES AND ACCRUALS

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

28. AMOUNTS DUE TO RELATED COMPANIES

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

29. DEFERRED TAX

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

Deferred tax liabilities**Group**

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

Deferred tax assets

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

30. SHARE CAPITAL

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

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

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

Notes:

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

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

31. SHARE OPTION SCHEMES

(a) The Existing Scheme

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

No share options were exercised or granted during the year.

(b) The New Scheme

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

32. RESERVES

Group

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

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

On 24 November 2004, the US\$4,500,000 convertible bonds were converted into 49,109,684 unit shares at a conversion price of HK\$0.71 each, representing an increase in share capital of HK\$1,200,000 and an increase in share premium account of HK\$33,800,000 (see note 30).

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

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

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

Company

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

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

33. CONVERTIBLE BONDS

Pursuant to the shareholders' approval on 27 April 2004 for the subdivision of each issued and un-issued shares of HK\$0.10 each of the Company into four subdivided shares of HK\$0.025 each, the conversion price of the 2002 Convertible Bond and the 2003 Convertible Bond issued by the Company has been adjusted from HK\$2.85 per share to HK\$0.71 per subdivided share accordingly.

On 24 November 2004, Jian Kang Ltd. exercised the conversion rights attached to the 2003 Convertible Bond in accordance with the terms and conditions contained in the instrument in the amount of US\$4,500,000 (approximately HK\$35,100,000) of the principal amount outstanding, and were converted into 49,109,684 shares of the Company at a conversion price of HK\$0.71 per share, representing an increase in share capital of HK\$1,200,000 and share premium of HK\$33,800,000.

34. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT**(a) Disposal of a subsidiary**

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

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

	2004 <i>HK\$ '000</i>
Cash consideration	659
Cash and bank balances disposed of	<u>—</u>
Net inflow of cash and cash equivalents in respect of the disposal of a subsidiary	<u>659</u>

(b) Liquidation of a subsidiary

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

35. CONTINGENT LIABILITIES

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

36. COMMITMENTS

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

(a) Capital commitments

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

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

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

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

(b) Commitments under operating leases

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

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

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

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

	Group	
	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within one year	<u>16</u>	<u>—</u>

37. RELATED PARTY TRANSACTIONS

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

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

Notes:

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

38. POST BALANCE SHEET EVENTS

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

39. COMPARATIVE AMOUNTS

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

40. APPROVAL OF THE FINANCIAL STATEMENTS

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

3. INDEBTEDNESS

As at 31 May 2005 (being the latest practicable date for the presentation of this statement), the Group had outstanding a secured bank loan of US\$7.7 million (approximately HK\$59,829,000) which is secured by a fixed deposit of RMB63,830,000 (approximately HK\$60,000,000), unsecured bank loans of RMB40 million (approximately HK\$37,600,000), an entrusted loan of RMB10 million (approximately HK\$9,400,000) and bills payable of RMB20 million (approximately HK\$18,800,000).

Save as disclosed in this circular, the Group did not have any outstanding indebtedness, loan capital, bank overdrafts and liabilities under acceptances or other similar indebtedness, debentures, mortgages, charges or loans or acceptance credits or hire purchase or finance lease commitments, guarantees or other material contingent liabilities as at 31 May 2005.

4. WORKING CAPITAL

Taking into account the Group's existing cash, bank balance, credit facilities and internal resources available and the expected net proceeds of the Disposal, the Directors are of the opinion that the Group will following the Disposal have sufficient working capital for its present requirements.

5. PROSPECTS AND OUTLOOK

The Group will continue to focus on the development and manufacture of hepatitis medicines through Jiangsu Chia Tai-Tianqing Pharmaceutical Co. Ltd. ("JCTT") and continue to strengthen its position in this area. Ganping (甘平), a new hepatitis medicine developed by the Group and launched in May 2004, has already shown good signs. Another medicine for liver diseases developed by the Group has just finished clinical research in which outstanding performance was noted. A patent has been obtained for this medicine from the State Intellectual Property Rights Bureau and it is expected that the Group will obtain the approval

for production by the end of this year and this medicine will be launched in late 2005. The Group has also obtained a patent from the State Intellectual Property Rights Bureau with respect to another medicine which it has developed and which aims at combating hepatitis virus, and which is undergoing the final stage of clinical tests. It is expected that the medicine will be launched in the market in the second half of 2006. The Group is optimistic that these two products will likely become our “blockbuster” drugs.

JCTT also launched an anti-cancer medicine in January 2005. We shall focus on developing this market where the Group sees a promising future. JCTT has performed research into a medicine to treat respiratory system diseases. This medicine is anticipated to be launched in the first half of 2006 and good market response is expected.

The cardio cerebral medicines developed and manufactured by Beijing Tide Pharmaceutical Co. Ltd. (“Beijing Tide”), JCTT and Nanjing Chia Tai Tianqing Pharmaceutical Co. Ltd. have experienced good results, particularly the alprostadil injection using the lipo-microsphere target and sustained release technology.

Beijing Tide launched an analgesic injection which is based on the lipo-microsphere target and sustained release preparation in January 2005. At present, the medicine is in use at more than 100 hospitals in China with promising market potential.

Beijing Chia Tai Green Continent Pharmaceutical Co. Ltd. has applied for a total of 182 patents, of which 30 have been announced. Among these patents, the Group has obtained 3 clinical approvals.

The Group has an extensive sales network spanning more than 30 provinces, municipalities and autonomous regions in the PRC. It has a distinctive strength in product development, which is demonstrated by its ownership of patents for various product innovations and its strong awareness of intellectual property rights. It has broad experience in introducing new products into the market and strong market sensibility enabling it to make sharp judgments. The Group operates production facilities which are GMP-certified in 12 dosage forms and it is thus able to produce “blockbuster” drugs to meet market needs. With the aforesaid advantages and good financial position, the Group considers itself to have an entrenched leadership position in China’s pharmaceutical industry.

The Group puts heavy emphasis on high level of corporate transparency and governance. Since its listing on the Stock Exchange in 2000, the Group’s business has continued to grow. Due to solid earning base and cooperative relationship with the pharmaceutical industry in China that bring forth praise and experience, the Group attracted mergers and acquisitions propositions from various domestic and overseas pharmaceutical enterprises, which is expected to further speed up the Group’s expansion and development and help the Group to formulate another growth opportunity.

The Group will simultaneously enhance the level of its corporate governance by continuously strengthening its internal control. While the Group aims to expand its market share, it also seeks management and market efficiency so that it can bring rewarding returns to the Shareholders.

A. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief there are no other facts the omission of which would make any statement herein misleading.

B. DISCLOSURE OF INTERESTS

- (i) Save as disclosed below, as at the Latest Practicable Date, none of the Directors and chief executive of the Company had any interest or short position in the Shares, underlying Shares or debentures of the Company or any associated corporations (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the Stock Exchange pursuant to the provisions under Divisions 7 and 8 of Part XV of the SFO (including the interests and short positions which he would be deemed or taken to have under Sections 344 and 345 of the SFO) or the Model Code for Securities Transactions by Directors of Listed Companies, or which would have to be, pursuant to Section 352 of the SFO, entered in the register referred to therein:

Long positions in Shares

Name of director	Notes	Capacity/Nature of Interest	Number of Shares held, capacity and nature of interest				Percentage of the Company's issued share capital
			Directly beneficial owned	Through controlled corporations	Through spouse	Total	
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. Tse Hsin		Beneficial owner	25,200,000	–	–	25,200,000	1.11
Mr. Tao Huiqi		Beneficial owner	6,000,000	–	–	6,000,000	0.27
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 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 of these Shares through Discover Profits Limited, the entire issued share capital of which is owned by Mr. Wang Jinyu.

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	江蘇正大天晴藥業股份有限公司 (Jiangsu Chia Tai-Tianqing Pharmaceutical Co., Ltd.)	Beneficial owner	173,250	0.18%

- (ii) Save as disclosed below, the Directors or chief executive of the Company are not aware of any other person who (not being a Director or the chief executive of the Company), as at the Latest Practicable Date, had an interest or short position in the Shares or the underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or who was interested, directly or indirectly, in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group:

Long position in Shares and/or underlying Shares

Name	Notes	Capacity/Nature of interest	Number of shares and/or underlying shares of the Company	Approximately 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
Conspicuous Group Limited	–	Beneficial owner	351,231,091	15.51
Chia Tai Development Investment Company Limited	(2)	Interest of a controlled corporation	351,231,091	15.51
Mr. Dhanin Chearavanont	(3)	Interest of a controlled corporation	351,231,091	15.51
TMB Bank Public Company Limited, Hong Kong branch	(4)	Person having a security interest in shares	205,000,000	9.05
Jian Kang Ltd.	–	Beneficial owner	163,968,736	7.24
Aria Investment Partners, L.P.	(5)	Interest of a controlled corporation	163,968,736	7.24
CLSA Private Equity Management Limited	(6)	Investment manager	163,968,736	7.24
CLSA Funds Ltd.	(7)	Interest of a controlled corporation	163,968,736	7.24
CLSA B.V.	(8)	Interest of a controlled corporation	163,968,736	7.24
Calyon Capital Markets Asia BV	(9)	Interest of a controlled corporation	163,968,736	7.24

Name	Notes	Capacity/Nature of interest	Number of shares and/or underlying shares of the Company	Approximately percentage of issued share capital of the Company
Credit Lyonnais Capital Markets International SASU	(10)	Interest of a controlled corporation	163,968,736	7.24
Calyon S.A.	(11)	Interest of a controlled corporation	163,968,736	7.24
Credit Agricole S.A.	(12)	Interest of a controlled corporation	163,968,736	7.24
SAS Rue La Boetie	(13)	Interest of a controlled corporation	163,968,736	7.24

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) Chia Tai Development Investment Company Limited (“**CT Development**”) has declared an interest in the same 351,231,091 Shares in which Conspicuous Group Limited has declared an interest, by virtue of its shareholding in Conspicuous Group Limited.
- (3) Mr. Dhanin Chearavanont has declared an interest in the same 351,231,091 Shares in which CT Development has declared an interest for the purpose of the SFO as mentioned in Note(2) above, by virtue of his shareholding in CT Development.
- (4) 205,000,000 Shares were held by TMB Bank Public Company Limited, Hong Kong Branch as security.
- (5) Aria Investment Partners, L.P. is beneficially interested in the entire issued share capital of Jian Kang Ltd. and is deemed or taken to be interested in the same 163,968,736 Shares in which Jian Kang Ltd. has declared an interest for the purpose of the SFO.
- (6) CLSA Private Equity Management Limited is the investment manager of Aria Investment Partners, L.P. and is therefore deemed or taken to be interested in the same 163,968,736 Shares in which Aria Investment Partners, L.P. has declared an interest for the purposes of the SFO as mentioned in Note (5) above.
- (7) CLSA Funds Ltd. is beneficially interested in the entire issued share capital of CLSA Private Equity Management Limited and is deemed or taken to be interested in the same 163,968,736 Shares in which CLSA Private Equity Management Limited has declared an interest for the purpose of the SFO as mentioned in Note (6) above.
- (8) CLSA B.V. is beneficially interested in the entire issued share capital of CLSA Funds Limited and is deemed or taken to be interested in the same 163,968,736 Shares in which CLSA Private Equity Management Limited has declared an interest for the purpose of the SFO as mentioned in Notes (6) and (7) above.
- (9) Calyon Capital Markets Asia BV is beneficially interested in 65% of the issued share capital of CLSA B.V. and is deemed or taken to be interested in the same 163,968,736 Shares in which CLSA Private Equity Management Limited has declared an interest for the purpose of the SFO as mentioned in Notes (6), (7) and (8) above.

- (10) Credit Lyonnais Capital Markets International SASU is beneficially interested in the entire issued share capital of Credit Lyonnais Capital Markets Asia BV and is deemed or taken to be interested in the same 163,968,736 Shares in which CLSA Private Equity Management Limited has declared an interest for the purpose of the SFO as mentioned in Notes (6), (7), (8) and (9) above.
- (11) Calyon S.A. is beneficially interested in the entire issued share capital of Credit Lyonnais Capital Markets International SASU and is deemed or taken to be interested in the same 163,968,736 Shares in which CLSA Private Equity Management Limited has declared an interest for the purpose of the SFO as mentioned in Notes (6), (7), (8), (9) and (10) above.
- (12) Credit Agricole S.A. is beneficially interested in the entire issued share capital of Calyon S.A. and is deemed or taken to be interested in the same 163,968,736 Shares in which CLSA Private Equity Management Limited has declared an interest for the purpose of the SFO as mentioned in Notes (6), (7), (8), (9), (10) and (11) above.
- (13) SAS Rue La Boetie is beneficially interested in 51.50% of the share capital of Credit Agricole S.A. and is deemed or taken to be interested in same 163,968,736 Shares in which CLSA Private Equity Management Limited has declared an interest for the purpose of the SFO as mentioned in Notes (6), (7), (8), (9) (10), (11) and (12) above.

C. COMPETING INTEREST

Mr. Tse Ping owns a controlling interest in each of Xian C.P. Pharmaceutical Co., Ltd. (“**CT Xian**”), Ankang Chia Tai Pharmaceutical Co., Ltd. (“**CT Ankang**”), Hainan Tigerlily Pharmaceutical Co., Ltd. (“**HTPC**”), ABH Nature’s Products Inc. (“**ABH**”) and Jiangsu Chia Tai Fenghai Pharmaceutical Company Limited (“**CT Fenghai**”).

CT Xian is 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 which aims at reducing blood-fat level, gynaecomastia medicines, medicines for treating cardiovascular disease and other chemical medicines.

HTPC is a trading company engaged in the import and export of medicines, including vitamins, anti-biotics and gastro medicines, from Europe, US, Korea and other countries.

ABH is principally engaged in the re-processing of natural medicines and vitamins in US.

CT Fenghai is principally engaged in the production and distribution of raw material and preparation of antibiotics and synthetic drugs.

Mr. Tse Ping entered into a deed of non-competition undertaking in favour of the Company on 9 September 2003 (the “**Undertaking**”) pursuant to which Mr. Tse has undertaken to the Company that, for so long as (i) 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; and (ii) the shares of the Company shall remain traded on the Main Board of the Stock Exchange, neither Mr. Tse Ping nor any of the companies or other entities more than 50% of the issued shares of which or equity of other nature carrying voting rights of which are directly or indirectly owned by Mr. Tse Ping, or in respect of which Mr. Tse Ping is entitled to

control the board of directors or management body of similar nature will, within the PRC (including Hong Kong), carry on, or become engaged or otherwise become interested in, any business which falls within the definition of “Restricted Business”, which is defined to mean:–

- (i) the research and development, production and sale of biopharmaceutical products for the medical treatment of ophthalmia and osteoarthritis, biopharmaceutical products for external use for the medical treatment of skin disease, modernized Chinese medicines, chemical medicines and modern health-care products or the medical treatment of hepatitis and angiopathy of cardio-cerebral; and
- (ii) the research and development of new medicines and modern health-care products for the medical treatment of cardiovascular and respiratory disease.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors and their respective associates had any interest in a business which competes or is likely to compete, either directly or indirectly, with the business of any member of the Group.

D. INTEREST IN CONTRACTS

Save as disclosed below, as at the Latest Practicable Date, none of the Directors had any material interest in any contract or arrangement which is significant in relation to the business of the Group.

- 1. Pursuant to a lease agreement between Ledo Properties Limited, a company in which Mr. Tse Ping (the Chairman of the Company) and his wife Ms. Cheng Cheung Ling, each owns 50% shareholdings, and the Company dated 8 September 2000 and a supplemental lease agreement dated 1 June 2004, Ledo Properties Limited has agreed to lease to the Company an office premises situated at Unit F (also known as Unit 09), 41st Floor, Office Tower, Convention Plaza, No. 1 Harbour Road, Wanchai, Hong Kong. The premises has a saleable area of 1,547 sq.ft. and is leased to the Company on normal commercial terms for a fixed term of two years from 1 June 2004 to 31 May 2006. The total annual rental amounts to HK\$684,000 with monthly rental of HK\$57,000. All monthly rentals are exclusive of rates and management fees. The Company is required to pay a monthly management fee of HK\$9,486.
- 2. The purchase of raw materials by Jiangsu Chia Tai-Tianqing Pharmaceutical Co., Ltd. from CT Ankang, a company owned as to 30% by Chia Tai Pharmaceutical (Ankang) Co. Ltd., wholly-owned by Mr. Tse Ping (the Chairman of the Company).

E. INTEREST IN ASSETS

As at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any asset which has been acquired or disposed of by or leased to any member of the Group since 31 December 2004 (the date to which the latest published audited consolidated financial statements of the Group were made up to) or proposed to be so acquired, disposed of or leased.

F. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had entered into or proposed to enter into a service contract with any members of the Group which is not expiring or determinable by the relevant employer within one year without payment of compensation (other than statutory compensation).

G. MATERIAL LITIGATION

As at the Latest Practicable Date, no member of the Group was engaged in any litigation or claim of material importance and no litigation or claim of material importance was known to the Directors to be pending or threatened against any member of the Group.

H. MATERIAL CONTRACTS

Set out below are information on the material contracts, not being contracts entered into in the ordinary course of business, which were entered into by the Group within the two years immediately preceding the Latest Practicable Date:

- (i) the equity transfer agreement, joint venture contract amendment agreement, new joint venture contract, the articles amendment agreement and the new articles of association all dated 17 October 2003 entered into by Sino Biopharmaceutical (Beijing) Limited (“Sino Beijing”), CLSA Private Equity (China I) Limited (“CLSA China”), 中日友好醫院 (China-Japan Friendship Hospital) (“China-Japan Hospital”) and LTT Bio-Pharma Co., Ltd. (“LTT”) regarding the acquisition by Sino Beijing of a 35% equity interest in 北京泰德製藥有限公司 (Beijing Tide Pharmaceutical Co., Ltd.) (“Beijing Tide”);
- (ii) the capital increase agreement dated 17 October 2003 entered into by Sino Beijing, CLSA China, China-Japan Hospital, LTT and Beijing Tide regarding capital contribution into Beijing Tide;
- (iii) the joint venture agreement and the articles of association both dated 27 May 2005 entered into by Chia Tai Pharmaceutical (Lianyungang) Company Limited, a wholly-owned subsidiary of the Company, 連雲港潤資諮詢中心 (Lianyungang Runzi Consultation Centre) and 江蘇聚信投資管理有限公司 (Jiangsu Juxin Investment Management Corporation Limited) regarding the setting up of 連雲港天壹醫藥有限公司 (Lianyungang Tianyi Medicine Co., Ltd.); and
- (iv) the Sale and Purchase Agreement.

I. GENERAL

- (i) The secretary of the Company is Ms. Leung Sau Fung, Fanny. Ms. Leung is an associate member of The Institute of Chartered Secretaries and Administrators and The Hong Kong Institute of Company Secretaries.
- (ii) The qualified accountant of the Company is Ms. Yu Chau Ling. Ms. Yu is an associate member of the Hong Kong Institute of Certified Public Accountants.

- (iii) The Company's registered office is at Codan Trust Company (Cayman) Limited, Century Yard, Cricket Square, Hutchins Drive, P.O. Box 2681 GT, George Town Grand Cayman, British West Indies.

The principal place of business of the Company in Hong Kong is Unit 09, 41st Floor, Office Tower, Convention Plaza, 1 Harbour Road, Wanchai, Hong Kong.

- (iv) The branch share registrar and transfer office of the Company in Hong Kong is Tengis Limited at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong.

- (v) The English text of this circular shall prevail over the Chinese text.

J. DOCUMENTS FOR INSPECTION

Copies of the following documents will be available for inspection during normal business hours at Unit 09, 41st Floor, Office Tower, Convention Plaza, 1 Harbour Road, Wanchai, Hong Kong up to and including 15 August 2005:

- (i) the memorandum and articles of association of the Company;
- (ii) the contracts referred to under the paragraph headed "Material Contracts" in this appendix; and
- (iii) the audited consolidated accounts of the Group for each of the two years ended 31 December 2004.

NOTICE OF EXTRAORDINARY GENERAL MEETING



SINO BIOPHARMACEUTICAL LIMITED

中國生物製藥有限公司

(Incorporated in the Cayman Islands with limited liability)

Website: www.sino-biopharm.com

(Stock code: 1177)

NOTICE IS HEREBY GIVEN that an extraordinary general meeting of Sino Biopharmaceutical Limited 中國生物製藥有限公司 (the “**Company**”) will be held at 10:00 a.m. on Monday, 15 August 2005, at 8th Floor, Crown Room, The Dynasty Club Limited, South West Tower, Convention Plaza, 1 Harbour Road, Wanchai, Hong Kong for the purpose of considering and, if thought fit, passing, with or without modifications, the following resolution:

ORDINARY RESOLUTION

“THAT:

- (a) the sale and purchase agreement dated 2 July 2005 (the “**Sale and Purchase Agreement**”) entered into between the Company and Bausch & Lomb Incorporated (“**Bausch & Lomb**”) (a copy of which is tabled at the meeting and marked “A” and initialed by the chairman of the meeting for identification purpose) pursuant to which the Company has agreed to sell and Bausch & Lomb has agreed to purchase the entire issued share capital of Sino Concept Technology Limited 中外科技有限公司, and further particulars of which are set out in the circular of the Company dated 26 July 2005, (a copy of which is tabled at the meeting and marked “B” and initialed by the chairman of the meeting for identification purpose) and the transactions contemplated under the Sale and Purchase Agreement and the implementation thereof be and are hereby approved, ratified and confirmed; and
- (b) any one director of the Company be and is hereby authorized for and on behalf of the Company to execute all such other documents (with or without the affixation of the common seal), instructions and agreements and to do all such acts and things deemed by him to be incidental to, ancillary to, or in connection with the matters contemplated in the Sale and Purchase Agreement.”

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

Hong Kong, 26 July 2005

NOTICE OF EXTRAORDINARY GENERAL MEETING

Notes:

1. A shareholder entitled to attend and vote at the meeting convened by the above notice is entitled to appoint proxies to attend and vote in his stead. A proxy need not be a shareholder of the Company.
2. In order to be valid, the form of proxy must be deposited at the principal place of business of the Company at Unit 09, 41st Floor, Office Tower, Convention Plaza, 1 Harbour Road, Wanchai, Hong Kong together with a power of attorney or other authority, if any, under which it is signed or a certified copy of that power of attorney or authority not less than 48 hours before the time appointed for the holding of the meeting.
3. 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 of the Company 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.