

On behalf of the Board of Directors, I am pleased to present the annual report of the Company for the year ended December 31, 2004.

RESULTS AND FINAL DIVIDEND

In 2004, the Group's turnover and net profit amounted to HK\$2,450.6 million and HK\$245.0 million, representing decreases of 1% and 51% over 2003 respectively.

The Board of Directors does not recommend the payment of a final dividend for the year ended December 31, 2004 (2003: HK7 cents per share).

BUSINESS REVIEW AND OUTLOOK

Vitamin C Series

The output of vitamin C for the year amounted to 18,434 tonnes, an increase of 30% over last year. Following the completion of the capacity expansion of some PRC manufacturers, prices of vitamin C declined from the exceptionally high level in 2003. The average price of vitamin C for the year was US\$4.3 per kg, a decrease of 27% as compared with US\$5.9 kg in 2003. The gross profit margin of the entire series decreased from 60.2% in 2003 to 41.8% in current year.

With the completion of the Group's new production line in June 2004, our total production capacity has reached 30,000 tonnes per annum. Following the expansion of capacity, we are now devoting all our efforts to expand our domestic and overseas market shares and produce more downstream products.

Penicillin Series

The output of penicillin for the year amounted to 4,889 tonnes, a decrease of 7% over last year. Owing to the intensive market competition, prices remained low. The average prices of penicillin industrial salt and amoxicillin for the year were US\$9.05 and US\$20.76 per kg respectively. The gross profit margin of the entire series decreased from 32.6% in 2003 to 15.9% in current year. However, following the reduction in production volume and closure of production lines of some PRC manufacturers, product prices have rebounded slightly in the fourth quarter of 2004.

The Company's new production lines in Inner Mongolia are close to completion and are expected to put into full production in the second quarter of 2005. With the competitive edge in low production cost, we will be in a stronger position to expand our market share and improve the profit margin.

Cephalosporin Series

The output of 7-ACA for the year reached 819 tonnes, an increase of 26% over last year. The 7-ACA market was relatively stable in 2004 and the average price was US\$85.13 per kg, slightly higher than last year's. Affected by the rise in production cost, the gross profit margin of the entire series decreased from 22.6% in 2003 to current year's 17.8%.

In 2005, we will strive to improve the production efficiency of 7-ACA in order to increase the production volume and reduce the cost.

Finished Drugs

Owing to the intensive market competition and the tightened government control over the use of antibiotics, various finished drug products witnessed a decrease in prices, thereby bringing down the gross profit margin of this line of business from 29.3% in 2003 to 23.0% in current year. Notwithstanding the unfavourable market conditions, the Group managed to expand our market share and the turnover increased 21% to HK\$947.8 million in current year.

With the capacity expansion of the bulk drugs and the increase in downstream products, the Group will strive to increase our market share in the finished drug market and increase the profit contribution.

FINANCIAL REVIEW

Liquidity and Financial Position

The Group's operating activities generated a net cash inflow of HK\$501.8 million for 2004. As a result of the capacity expansion of all our major products, capital expenditure for the year reached HK\$1,453.7 million, which was financed by the operating cash flow, bank loans and cash on hand of the Group. At December 31, 2004, the Group's current ratio was 0.95 to 1. Subsequent to December 31, 2004, the Group has obtained long-term bank loans of HK\$140 million in order to restore the current ratio to a more healthy level. Debtor turnover period (ratio of the total of trade receivables and bills receivable balance to sales, inclusive of value added tax for sales in PRC) was 59 days. Inventory turnover period (ratio of inventories balance to cost of goods sold) was 91 days.

At December 31, 2004, the Group had total borrowings of HK\$1,122.0 million (comprising bank loans of HK\$1,067.2 million and loans from ultimate holding company of HK\$54.8 million). The maturity profile of the total borrowings spreads over a period of four years with HK\$249.8 million repayable within one year and HK\$872.2 million between one to four years. Net gearing ratio was 27%, which was calculated on the basis of the Group's total borrowings net of bank balances and cash of HK\$518.0 million over equity at the balance sheet date.

60% of the Group's borrowings is denominated in Hong Kong dollars and the remaining 40% in Renminbi. The Group's revenues are either in Renminbi or in US dollars. Our exposure to foreign exchange rate fluctuations is limited as the exchange rates between these currencies are relatively stable.

Capital Commitment and Pledge of Assets

At December 31, 2004, the Group had capital commitment of HK\$339.8 million in respect of capital expenditure for the acquisition of property, plant and equipment.

At December 31, 2004, the Group had pledged all the equity interests of a wholly-owned subsidiary and bank deposits of HK\$16.7 million for securing certain banking facilities granted to the Group.

EMPLOYEES

At the balance sheet date, the Group has about 9,815 employees, the majority of them are employed in the PRC. The Group continues to offer competitive remuneration packages, discretionary share options and bonuses to staff based on the performance of the Group and the individual employee.

ACKNOWLEDGEMENT

On behalf of the Board of Directors, I would like to take this opportunity to express our sincere thanks to our shareholders for their support and to our staff for their commitment and diligence during the year.

By order of the Board
CAI DONG CHEN
Chairman

Hong Kong, April 11, 2005