SINO BIOPHARMACEUTICAL LIMITED

中國生物製藥有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1177)

INTERIM REPORT 2005

FINANCIAL HIGHLIGHTS

	Six months ended 30 June, 2005 *HK$'000*	2004 *HK$'000*	YOY changes
Turnover from continuing operations	**363,798**	325,990	11.6%
Profit attributable to the Group from continuing operations	**47,700**	42,625	11.9%
Basic earnings per share from continuing operations (HK cents)	**2.22**	2.14	3.7%
Dividend per share (HK cents)	**1.5**	1.33	12.8%

The Board of Directors has recommended the payment of a second quarterly dividend of HK1.5 cents per share for the second quarter ended 30 June, 2005.

Contributions of the part of the Disposal Group have been excluded from the above financial highlights.

The financial results of three major subsidiaries and jointly-controlled entity of the Group for the six months ended 30 June, 2005 were summarized as below:–

	Turnover *HK$'000*	Net profit *HK$'000*	Net profit attributable to the Group *HK$'000*
CTF	301,545	85,226	46,874
JCTT	260,689	54,062	32,437
Beijing Tide	172,414	70,571	24,700

Expenses of head office was not included in the CTF's net profit attributable to the Group.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

In the first half of 2005, all of the Group's business lines reported steady growth. Turnover from continuing operations increased 11.6% to approximately HK$363.80 million compared with the corresponding period in 2004. Profit attributable to the Group from continuing operations amounted to approximately HK$47.70 million, 11.9% ahead of the corresponding period last year. Basic earnings per share from continuing operations were approximately HK2.22 cents, 3.7% higher than the same period last year. During the period under review, the increase of basic earnings per share from continuing operations was less than the increase of profit attributable to the Group from continuing operations. This was a result of the conversion of convertible bonds and the exercise of share options during 2005. Blockbuster drugs and new products accounted for approximately 75.8% and 9.7% of the Group's turnover from continuing operations respectively. This remarkable performance was mainly attributable to the growth of the Group's subsidiaries and a jointly-controlled entity. Under the adoption of new Hong Kong Financial Reporting Standards, profit of Shandong Chia Tai Freda Pharmaceutical Co., Ltd. ("CTF") and Shandong Chia Tai Freda New Packaging Resources Co., Ltd. ("CTTP") attributed to the Group for the six months ended 30 June, 2005 was classified as profit for the period from discontinued operation.

During the period under review, net profit mainly came from Jiangsu Chia Tai-Tianqing Pharmaceutical Co., Ltd. ("JCTT"), Beijing Tide Pharmaceutical Co, Ltd. ("Beijing Tide"), and Chia Tai Qingchunbao Pharmaceutical Co. Ltd. Nanjing Chia Tai Tianqing Pharmaceutical Co., Ltd. ("NJCTT") started recording profits since 2004.

Zolebronate Acid injections (天晴依泰注射液), the new anti-cancer drug was launched by JCTT in January 2005, recorded sales of approximately HK$9.25 million in the first half of the year. The new drug will prove to be an important treatment domain for development by the Group. Since the launch of Kaifen injections (凱紛注射液), Beijing Tide's new Prostaglandin El target sustained release analgesia injection, over 100 hospitals have started to formally subscribe the drug. The Group believes the product will provide a solid foundation for it to expand into yet the treatment area of analgesia medicines. Beijing Tide's new production plant (located in the Beijing Economic Technological Development Zone) has obtained GMP certificate and started to commence production in June 2005.

On 2 July, 2005, the Company (as a vendor) entered into a Sale and Purchase Agreement with Bausch & Lomb Incorporated (as purchaser) in relation to the sale to the latter of the entire issued share capital of Sino Concept Technology Limited ("Sino Concept"), which is 100% owned by the Company, at a cash consideration of US$200,000,000 (approximately HK$1,554,000,000) (the "Disposal"). The sole asset of Sino Concept is its 55% equity interests in the registered capital of CTF and CTFP (the "Disposal Group") respectively. The conditions of the Disposal were satisfied and completion took place on 26 September, 2005. CTF and CTFP have ceased to be subsidiaries of the Group or member companies of the Group, and ophthaluric and osteoarthritis medicines are then no longer the treatment domains of the Group's business.

The Directors will at a later stage consider whether it is appropriate to declare a special dividend out of the net proceeds received from the Disposal to shareholders of the Company, taking into account the requirements at that time to maintain sufficient cash resources to finance future investment opportunities.

Cardio-cerebral medicines

The Group's cardio-cerebral medicines are mainly manufactured by its jointly-controlled entity Beijing Tide. Beijing Tide's major product, Alprostadil injections (凱時注射液), is a Prostaglandin El target sustained release medicine. Riding on its exclusive R&D technologies in the country and superb therapeutic effects, Alprostadil injections (凱時注射液) recorded sales of HK$171.70 million during the period under review, up approximately 21.5% compared with the corresponding period in 2004, accounting for approximately 16.5% of the Group's turnover from continuing operations.

In addition, Spring injections (普潤注射液)and the PVC-free soft bags for intravenous injections (普潤非PVC共擠膜注射液) – jointly manufactured by JCTT and NJCTT – recorded sales of HK$25.62 million, representing an approximately 5.8% growth from last year.

Hepatitis medicines

JCTT is responsible for the manufacture of hepatitis medicines. During the period under review, hepatitis medicines recorded continuous sales growth, accounting for approximately 66.2% of the Group's sales from continuing operations. Its major products, Diammonium Glycyrrhizinate injections and capsules (甘利欣注射液和膠囊) and Tianqingfuxin injections and capsules (天晴複欣注射液和膠囊), continued to report satisfactory sales. Launched in May 2004, Ganping capsules (甘平膠囊), a drug which protects and heals liver cells and lowers the enzyme ALT, recorded sales amounted to HK$18.68 million in the first half of the year. It is expected to become another high growth potential product in the family of hepatitis medicines.

Ophthalmic medicines

CTF is responsible for the manufacture of ophthalmic medicines, its sales was increased by approximately 19.6% as compared with the corresponding period last year. Moisten eyedrops (潤舒滴眼液), Mioclear eyedrops (潤潔滴眼露) and Red Mioclear eyedrops (紅潤潔滴眼液), the Group's key products, continued to report strong sales. The sales of ophthalmic medicines was accounted for approximately 82.3% of CTF's sales.

Collyium Eye Wash (潤潔眼部護理液), launched in April 2004, has won consumer acceptance with its promotional tag of "Setting the Trend – Unveiling a New Concept in Eyecare". To explore new sales channels, the Group introduced the product into supermarkets chains, a strategy to bump up the sales of the Group's products.

Osteoarthritis medicines

CTF is responsible for the manufacture of the Group's osteoarthritis medicines. Its major product, Sofast injections, which is used to treat osteoarthritis, contains the biological compound HA (hyaluronic acid) as the main ingredient. After years of marketing promotion, the product is well-received by medical practitioners and patients. During the period under review, Sofast injections recorded booming sales of over HK$46.49 million, representing an approximately 39.8% growth compared with the corresponding period last year.

Research and Development

The Group has placed special emphasis on new product development, securing ownership of its proprietary intellectual property and protecting its research outcomes. It seeks to protect the fruits of its R&D efforts by securing patents or complete registration for them. The 63 projects currently under development are progressing satisfactorily. During the period under review, the Group received SFDA approvals for 13 clinical research projects and mass production of 3 new drugs.

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

CTGC has filed a total of 234 patent applications, of which 30 have been announced, and 3 are still in clinical stage, of which 1 has been received approval for clinical research. Its R&D philosophy, product development directions and dripping pill technology have already aroused widespread industry attention. Its research results will have positive effect on the nation, particularly in the reform of rural medical systems and the development of the rural market.

JCTT

Under the period of review, it has obtained 3 production approvals of new drugs and 12 approvals for clinical research. Magnesium Isoglycyrrhizinate injections (天晴甘美注射液), a modernised Chinese medicine used for treating severe hepatitis, has finished its clinical stage. Boasting impressive clinical trial results, the drug received a patent certificate from the State Intellectual Property Office. The drug is expected to obtain production approval for new medicines from SFDA in the fourth quarter, and be available in the market by the end of this year. It is expected to become another blockbuster drug of the Group with sales estimated over HK$100 million. Another new drug with patent granted by the State Intellectual Property Office is the Adefovir Dlpivoxil tablets (天晴康陽片), an anti-viral drug for hepatitis. The Group expects to obtain the production approval for new medicines and launch to the market in the first half of 2006 and sees it becoming another blockbuster drug.

Tiotropium Bromride spray (天晴速樂噴霧劑), a drug for treating respiratory ailments, has completed the clinical trial. It is expected to obtain the production approval for new medicines from SFDA in the fourth quarter this year and will also be marketed in the first half of 2006. It is expected to deliver strong sales performance after launch.

Beijing Tide

It is researching a new drug for treating digestive ailments, which has now entered clinical stage. The clinical trials are progressing satisfactorily.

Beijing Tide has applied 3 cardio-cerebral medicines for production approval from SFDA. It is expected to obtain 2 production approvals in second half of 2006 and will be launched in the market simultaneously. Another production approval will be obtained in the first half of 2007 and will be launched in the market simultaneously. Following the launch of these Medicines, it can enhance the sales potential of cardio-cerebral medicines of the Group and further enlarge the market shares of the Group on the cardio-cerebral treatment domain. In addition, Beijing Tide has developed 2 medicines for reducing blood sugar level (treating for diabetes) and has applied for the production approval. It is expected to obtain the production approval in the second half of 2006 and will be launched in the market simultaneously, and will also enhance the core treatment domains of the Group.

Corporate Governance

The Group strongly believes that its commitment to good corporate governance has allowed it to grow from firm foundation and transparent management, while maximizing shareholder returns. Maintaining high transparency, the Group adopted a policy of prompt disclosure of important information about corporate strategy and new corporate moves to shareholders and analysts. Senior management regularly meets with analysts and fund managers to enhance their understanding and update them about the latest development of the Group. In the first half of 2005, the Group participated in various investor events, namely CLSA China Forum & Japan Forum, and Goldman Sachs' China Investment Frontier, as well as DBS' roadshow/corporate presentation events in Japan and New York. In addition, the Group staged non-deal road shows pursuant to the results announcement to keep investors informed.

CAPITAL STRUCTURE

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

As at 30 June, 2005, the Group had a short term bank loan of approximately HK$97.44 million (31 December, 2004: Nil).

LIQUIDITY AND FINANCIAL RESOURCES

The Group's liquidity remains strong. During the period, the Group's primary source of funds was cash derived from operating activities. As at 30 June, 2005, the Group's bank balance and cash in hand was approximately HK$246.58 million (31 December, 2004: approximately HK$344.93 million).

CHARGE ON ASSETS

As at 30 June, 2005, bank time deposits amounting to HK$59,904,000 of the Group were pledged to secure a bank loan granted to the Group (31 December, 2004: Nil).

CONTINGENT LIABILITIES

As at the balance sheet date, neither the Group, nor the Company had any significant contingent liabilities (31 December, 2004: Nil).

ASSETS AND GEARING RATIO

As at 30 June, 2005, total assets of the Group amounted to approximately HK$1,114.42 million (31 December, 2004: approximately HK$954.06 million) whereas total liabilities amounted to approximately HK$446.27 million (31 December, 2004: approximately HK$282.86 million). The gearing ratio (total liabilities over total assets) was approximately 40.0% (31 December, 2004: approximately 29.6%).

EMPLOYEE AND REMUNERATION POLICIES

The Group remunerates its employees based on their performance, experience and the prevailing market rates. Other employee benefits include mandatory provident fund, insurance and medical coverage, subsidized training programmes as well as a share option scheme.

Total staff costs (including Directors' remuneration) for the period were HK$100,378,000 (30 June, 2004: HK$74,914,000).

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES

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

OUTLOOK AND PROSPECT

Though anticipating further policy changes for the pharmaceutical industry and also restructuring of the industry, together with the good foundation of medical reform and development under the macroeconomic environment, the pharmaceutical economy will continue to see steady growth. The country's 1.3-billion population, increasing rural-urbanisation and the commencement of village medical system kicking off will promote the development of, and create lucrative business opportunities for the pharmaceutical industry.

Despite CTF will be disposed, the Group still has other strong treatment domains to develop. Hepatitis will continue to be the major development focus of JCTT. And the Group will continue to penetrate this potentially rich market and strengthen its leading industry position. The Group has gradually launched other hepatitis drugs like Ganping capsules (甘平膠囊) in May 2004, Magnesium Isoglycyrrhizinate injections (天晴甘美注射液), a patented drug for treating severe hepatitis, which has completed clinical trials and Adefovir Dlpivoxil tablets (天晴康陽片), the anti-viral patented drug for hepatitis has completed clinical trial and has applied for the production approval for new medicines from SFDA. These products will be launched to the market gradually in this year and in the first half of 2006, further enhance the Group's share in the hepatitis drug market. Tiotropium Bromride spray (天晴速樂噴霧劑), a drug for treating respiratory ailments, will be launched to the market in the first half of 2006.

Cardio-cerebral drugs developed by Beijing Tide, JCTT and NJCTT reported strong growth momentum. The Prostaglandin E1 target sustained release medicine, Alprostadil injections (凱時注射液), in particular, reported sales growth over 20% compared with the corresponding period last year. Kaifen injections (凱紛注射液), Prostaglandin E1 target sustained release analgesia injection, and the launch of the cardio-cerebral under research medicines and new drugs for reducing blood sugar level, will contribute to the fast growing sales of the Group.

Boasting high level of corporate transparency and governance, the Group has grown continuously over the five years since its listing on the Hong Kong Stock Exchange in 2000. The proceeds from the Disposal will provide sufficient financial support for the Group to explore appropriate investment opportunities in the future and additional general working capital for the Group, and recognition from and cooperation experience with other industry players, the Group attracted mergers and acquisitions propositions from various domestic and overseas pharmaceutical enterprises during the period. The Group has a long track record in acquiring assets and turning them around. It will continue to look for such opportunities and further strengthen its market presence and leadership in the pharmaceutical industry.

In conclusion, with an extensive sales network spanning over 30 provinces, cities and autonomous regions; strong product development capabilities; patent of many products; comprehensive strategy and methods for the protection of its intellectual property rights; experience in effecting fast entry of product into market, shrewd market judgment; superb quality products with proven therapeutic effects; reasonable pricing; well-established corporate and product image among medical practitioners and patients; a quality management team; GMP-certified production facilities for 12 dosage forms; blockbuster drugs addressing continual market needs; and prime capital status, the Group is set to capture every business opportunity and enhance its leadership position in the domestic pharmaceutical market.

RESULTS

The board of Directors (the "Board") announces the unaudited condensed consolidated results of the Group for the six months ended 30 June, 2005 together with the comparative figures for 2004 as follows:

Condensed Consolidated Profit and Loss Account

	Notes	For the six months ended 30 June, 2005 Unaudited HK$'000	2004 Restated HK$'000
CONTINUING OPERATIONS			
Turnover	(3)	**363,798**	325,990
Cost of sales		**(72,974)**	(67,676)
Gross profit		**290,824**	258,314
Other revenue and gains	(3)	**3,686**	2,958
Selling and distribution costs		**(143,999)**	(120,448)
Administrative expenses		**(43,548)**	(38,186)
Other operating expenses		**(27,654)**	(26,743)
Finance costs	(6)	**(644)**	(477)
Profit before tax	(5)	**78,665**	75,418
Income tax	(7)	**(10,058)**	(14,573)
Profit for the period from continuing operations		**68,607**	60,845
DISCONTINUED OPERATION			
Profit for the period from discontinued operations	(12)	**100,067**	65,101
Profit for the period		**168,674**	125,946
Attributable to:			
Equity holders of the parent		**103,551**	78,022
Minority interests		**65,123**	47,924
		168,674	125,946
DIVIDENDS			
– quarterly	(8)	**69,433**	26,560
Earnings per share			
From continuing and discontinued operations:			
– basic	(9)	**HK4.81 cents**	HK3.92 cents
– diluted	(9)	**N/A**	HK3.50 cents
From continuing operations:			
– basic	(9)	**HK2.22 cents**	HK2.14 cents
– diluted	(9)	**N/A**	HK1.92 cents

Condensed Consolidated Balance Sheet

	Notes	30 June, 2005 Unaudited *HK$'000*	31 December, 2004 Restated *HK$'000*
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment		**188,497**	288,323
Land lease payments		**10,758**	28,000
Intangible assets		**469**	8,532
Deferred development costs		**–**	7,281
Goodwill		**41,433**	41,900
Available-for-sale investment		**29,820**	29,820
Deferred tax assets		**2,495**	7,964
		273,472	411,820
CURRENT ASSETS			
Inventories		**43,474**	61,111
Trade receivables	*(10)*	**108,770**	106,405
Other receivables		**53,538**	29,791
Cash and cash equivalents	*(11)*	**246,577**	344,930
Pledged time deposits	*(11)*	**59,904**	–
Disposal Group classified as held for sale	*(12)*	**328,681**	–
		840,944	542,237
TOTAL ASSETS		**1,114,416**	954,057
EQUITY AND LIABILITIES			
Capital and reserve			
Issued capital	*(15)*	**56,599**	34,428
Reserves		**434,842**	368,717
Proposed final dividend		**–**	55,084
Equity attributable to equity holders of the parent		**491,441**	458,229
Minority interests		**176,703**	212,964
TOTAL EQUITY		**668,144**	671,193
NON-CURRENT LIABILITIES			
Deferred tax liabilities		**2,271**	2,527
Convertible bonds		**–**	42,900
		2,271	45,427
CURRENT LIABILITIES			
Trade payables	*(13)*	**21,151**	18,633
Profit tax payable		**5,211**	15,520
Taxes payable other than profit tax		**11,499**	13,359
Other payables and accruals		**155,807**	184,787
Amounts due to related companies		**–**	5,138
Bank loan	*(14)*	**97,439**	–
Liabilities directly associated with Disposal Group classified as held for sale	*(12)*	**152,894**	–
		444,001	237,437
TOTAL LIABILITIES		**446,272**	282,864
TOTAL EQUITY AND LIABILITIES		**1,114,416**	954,057

Condensed Consolidated Summary Statement of Changes in Equity

	Six months ended 30 June,	
	2005	2004
	Unaudited	Restated
	HK$'000	*HK$'000*
Total equity at 1 January:		
As previously reported as equity	**457,597**	339,986
As previously reported separately as minority interests	**212,964**	156,348
Exchange differences arising from the inclusion of balance sheet items of a jointly-controlled entity under the adoption of proportionate consolidation method	**632**	456
As restated	**671,193**	496,790
Changes in equity during the period:		
Exchange differences on translation of the financial statements of foreign entities	**(2,037)**	1,555
Profit for the period	**168,674**	125,946
Dividend paid	**(124,517)**	(59,760)
Dividend paid to minority shareholders	**(101,382)**	(61,759)
Issue of new shares, including share premium	**56,213**	–
Total recognised income and expense for the period	**(3,049)**	5,982
Total equity at 30 June	**668,144**	502,772
Total recognised income and expense for the period attributable to:		
Equity holders of the parent	**33,210**	19,817
Minority interests	**(36,259)**	(13,835)
	(3,049)	5,982

Condensed Consolidated Cash Flow Statement

	Six months ended 30 June,	
	2005	2004
	Unaudited	Restated
	HK$'000	*HK$'000*
NET CASH INFLOW FROM OPERATING ACTIVITIES	**91,375**	110,330
NET CASH (OUTFLOW) FROM INVESTING ACTIVITIES	**(39,262)**	(63,921)
NET CASH (OUTFLOW) FROM FINANCING ACTIVITIES	**(116,537)**	(112,864)
NET (DECREASE) IN CASH AND CASH EQUIVALENTS	**(64,424)**	(66,455)
Cash and cash equivalents at beginning of year	**344,929**	357,222
Classified as part of Disposal Group held for sale	**(32,354)**	–
Effect of foreign exchange rate changes, net	**(1,574)**	603
CASH AND CASH EQUIVALENTS AT END OF PERIOD	**246,577**	291,370
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	**123,212**	174,092
Time deposits with original maturity of less than three months when acquired	**123,365**	59,879
Time deposits with original maturity of less than one year when acquired	**–**	57,399
	246,577	291,370

NOTES

(1) Basis of consolidation

The unaudited condensed consolidated interim 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.

The principal accounting policies adopted in preparing the consolidated quarterly financial statements are consistent with those followed in the Group's annual financial statements for the year ended 31 December, 2004. The Group has also adopted a number of new Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards ("HKFRSs") which became effective on 1 January, 2005.

Due to the adoption of certain new HKFRSs during the period, the accounting treatment and presentation of certain items in the financial statements have been revised to comply with the new requirements. Accordingly, certain comparative amounts have been reclassified to conform with the current period's presentation.

(2) Change in accounting policies

The followings are the effects on the financial statements of the Group for the six months ended 30 June, 2005 upon its adoption of the new HKFRSs on 1 January, 2005:

HKAS 1 "Presentation of Financial Statements"

Minority interests shall be presented in the consolidated balance sheet within equity, separately from the parent shareholders' equity.

HKAS 17 "Leases"

Upon the adoption of HKAS 17, the Group's leasehold interest in land and buildings is separated into leasehold land and leasehold buildings. The Group's leasehold land is classified as an operating lease, because the title of the land is not expected to pass to the Group by the end of the lease term, and is reclassified from fixed assets to land lease payments, while leasehold buildings continue to be classified as part of property, plant and equipment. Prepaid land premiums for land lease payments under operating leases are initially stated at cost and subsequently amortised on the straight-line basis over the lease term. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease payments are included in the cost of the land and buildings as a finance lease in property, plant and equipment.

This change in accounting policy has had no effect on the condensed consolidated profit and loss account and retained earnings. The comparatives on the condensed consolidated balance sheet for the year ended 31 December, 2004 have been restated to reflect the reclassification of leasehold land.

HKAS 31 "Interests in Joint Ventures"

The interests in a jointly-controlled entity can be stated in the consolidated balance sheet by using the proportionate consolidation method that the share of each of assets, liabilities, income and expenses of a jointly-controlled entity with the similar items, line by line, is combined in the financial statements of the Group.

HKAS 32 and HKAS 39 "Financial Instruments"

In prior periods, the group classified its investment in equity securities as long term investment which was held for non-trading purpose and was stated at cost less any impairment losses.

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

HKFRS 3 "Business Combinations" and HKAS 36 "Impairment of Assets"

Upon the adoption of HKFRS 3 and HKAS 36, goodwill arising on acquisitions is no longer amortised but subject to an annual impairment review (or more frequently if events or changes in circumstances indicate that the carrying value may be impaired). Any impairment loss recognized for goodwill is not reversed in a subsequent period.

HKFRS 5 "Non-current Assets Held for Sale and Discontinued Operations"

An entity shall present the assets of a Disposal Group classified as held for sale separately from other assets in the balance sheet. The liabilities of a Disposal Group classified as held for sale shall be presented separately from other liabilities in the balance sheet. Those assets and liabilities shall not be offset and presented as a single amount. An entity shall not reclassify or re-present amount presented for the assets and liabilities of Disposal Group classified as held for sale in the balance sheet for prior periods to reflect the classification in the balance sheet for the latest period presented.

(3) **Turnover and other revenue and gains**

Turnover represents the net invoiced value of goods sold, after allowance for sales returns and discounts, and dividend income. All significant intra-group transactions have been eliminated on consolidation.

	Six months ended 30 June, 2005 Unaudited *HK$'000*	2004 Restated *HK$'000*
TURNOVER		
Continuing operations		
Sales of goods	**356,278**	317,401
Investment income	**7,520**	8,589
	363,798	325,990
Discontinued operations		
Sales of goods	**301,545**	246,287
Total	**665,343**	572,277
OTHER REVENUE AND GAINS		
Continuing operations		
Interest income	**2,432**	1,726
Government grants	**613**	–
Sale of scrap materials	**60**	85
Sale of fixed assets	**202**	6
Others	**379**	1,141
	3,686	2,958
Discontinued operations		
Interest income	**681**	612
Sale of scrap materials	**57**	–
Others	**3,027**	141
	3,765	753
Total	**7,451**	3,711

(4) **Segment information**

	Six months ended 30 June, 2005 Unaudited *HK$'000*	2004 Restated *HK$'000*
Segment revenue:		
Modernised Chinese medicines and chemical medicines	**356,278**	317,401
Investment	**7,520**	8,589
Total revenue from continuing operations	**363,798**	325,990
Segment results:		
Modernised Chinese medicines and chemical medicines	**87,157**	80,298
Investment	**6,873**	6,419
Segment results from continuing operations	**94,030**	86,717
Unallocated expenses	**(18,407)**	(13,780)
Other revenue and gains	**3,686**	2,958
Finance costs	**(644)**	(477)
Profit before tax	**78,665**	75,418
Tax	**(10,058)**	(14,573)
Profit for the period from continuing operations	**68,607**	60,845

All expenses of head office were recorded in the administrative expenses from the continuing operations.

More than 90% of the Group's turnover was derived from the principal activities carried out in the PRC.

(5) Profit before tax

After charging:

	Continuing operations Six months ended 30 June,		Discontinued operations Six months ended 30 June,		Total Six months ended 30 June,	
	2005 Unaudited *HK$'000*	2004 Restated *HK$'000*	2005 Unaudited *HK$'000*	2004 Restated *HK$'000*	2005 Unaudited *HK$'000*	2004 Restated *HK$'000*
Cost of inventories sold	**72,974**	67,676	**38,859**	38,321	**111,833**	105,997
Depreciation	**7,808**	7,045	**3,367**	5,406	**11,175**	12,451
Amortisation of intangible assets	**257**	106	**581**	469	**838**	575
Amortisation of goodwill	**453**	2,528	**–**	–	**453**	2,528
Minimum lease payments under operating leases:						
Land and buildings	**1,475**	1,248	**2,264**	2,448	**3,739**	3,696
Research and development costs	**27,385**	26,743	**2,771**	2,575	**30,156**	29,318
Auditors' remuneration	**411**	300	**–**	–	**411**	300
(Gain)/Loss on disposal of fixed assets	**(202)**	2,821	**–**	138	**(202)**	2,959
Staff costs (including directors' remuneration)						
– Wages and salaries	**54,702**	46,440	**37,067**	20,770	**91,769**	67,210
– Pension contributions	**4,696**	3,930	**3,913**	3,774	**8,609**	7,704
	59,398	50,370	**40,980**	24,544	**100,378**	74,914

(6) Finance costs

	Six months ended 30 June,	
	2005 Unaudited *HK$'000*	2004 Restated *HK$'000*
Continuing operations		
Interest on bank loans wholly repayable within one year	**524**	89
Interest on convertible bonds	**120**	388
	644	477
Discontinued operations		
Interest on bank loans wholly repayable within one year	**753**	294
	1,397	771

(7) **Income tax**

	Six months ended 30 June,	
	2005	2004
	Unaudited	Restated
	HK$'000	*HK$'000*
Continuing operations		
Mainland China income tax	**6,690**	11,769
Share of tax attributable to a jointly-controlled entity	**3,368**	2,804
	10,058	14,573
Discontinued operations		
Mainland China income tax	**16,300**	3,332
Total tax charge for the period	**26,358**	17,905

No Hong Kong profits tax has been provided for the six months ended 30 June, 2005 as there was no assessable profit arising in or derived from Hong Kong during the year (2004: Nil).

PRC income tax is provided at the rates applicable to enterprises in the PRC on the income for statutory reporting purposes, adjusted for income and expenses items which are not assessable or deductible for income tax purposes based on existing PRC income tax regulations, practices and interpretation thereof.

Pursuant to the Income Tax Law of the PRC concerning Foreign Investment Enterprises and Foreign Enterprises and various local income tax laws, joint venture companies are subject to the statutory income tax rate of 33% (30% state income taxes plus 3% local income taxes) unless the enterprise is qualified as a "High and New Technology Enterprise" or "Advanced Technology Enterprise" or is located in specially designated regions or cities for which more favorable effective tax rates apply. The Group's principal operating subsidiaries are qualified as "High and New Technology Enterprise" to which a preferential tax rate of 15% applies and are entitled to an income tax exemption for two years commencing from the first profitable year (after deducting losses carried forward), and a 50% reduction for the succeeding three years. If these Foreign Investment Enterprises are qualified as "Advanced Technology Enterprises", they can extend three more years for 50% tax reduction, and the minimum tax rate should not be lower than 10%. The Group's principal operating subsidiaries are qualified as "Advanced Technology Enterprises".

As of 30 June, 2005, JCTT and CTF and Beijing Tide, the principal operating subsidiaries and a jointly-controlled entity of the Group are subject to an income tax rate of 10%, 15% and 12% respectively (2004: JCTT and CTF: 10%; Beijing Tide: 12%).

(8) **Dividends**

The Board has declared an interim dividend of HK1.5 cents per ordinary share for the six months ended 30 June, 2005 (2004: HK1.33 cents per ordinary share, after adjusted for the effect of issue of bonus shares). The dividend will be paid to shareholders on Wednesday, 26 October, 2005 whose names appear on the Register of Members of the Company on Wednesday, 19 October, 2005.

The Register of Members of the Company will be closed from Monday, 17 October, 2005 to Wednesday, 19 October, 2005, both days inclusive, during which period no transfer of share of the Company will be effected. In order to qualify for the interim dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's branch share registrar, Tengis Limited, G/F., Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong by 4:00 p.m. on Friday, 14 October, 2005.

(9) **Earnings per share**

The calculation of the basic earnings per share from continuing and discontinued operations is based on profit from continuing and discontinued operations attributable to the equity holders of the parent for the six months ended 30 June, 2005 of HK$103,551,000 (2004: HK$78,022,000) and the weighted average number of 2,153,374,762 ordinary shares (2004: 1,992,000,000 ordinary shares) in issue during the period.

The calculation of the basic earnings per share from continuing operations is based on profit from continuing operations attributable to the equity holders of the parent for the six months ended 30 June, 2005 of HK$47,700,000 (2004: HK$42,625,000) and the weighted average number of 2,153,374,762 ordinary shares (2004: 1,992,000,000 ordinary shares) in issue during the period.

No diluted earnings per share from continuing and discontinued operations or continuing operations for the six months ended 30 June, 2005 has been calculated as all of convertible bonds and share options of the Company have been exercised during the period.

Diluted earnings per share from continuing and discontinued operations for the six months ended 30 June, 2004 was based on profit for the period from continuing and discontinued operations attributable to the equity holders of the parent of HK$78,022,000 plus interest of HK$327,600 on convertible bonds and 1,992,000,000 ordinary shares which was the weighted average number of ordinary shares in issue during the period plus the weighted average number of 85,386,576 ordinary shares assumed to have been issued at nil consideration on the deemed exercise of all share options during the period and the weighted average of 164,210,526 ordinary shares assumed to have been issued at nil consideration on the deemed exercise of all convertible bonds during the period.

Diluted earnings per share from continuing operations for the six months ended 30 June, 2004 was based on profit for the period from continuing operations attributable to the equity holders of the parent of HK$42,625,000 plus interest of HK$327,600 on convertible bonds and 1,992,000,000 ordinary shares which was the weighted average number of ordinary shares in issue during the period plus the weighted average number of 85,386,576 ordinary shares assumed to have been issued at nil consideration on the deemed exercise of all share options during the period and the weighted average of 164,210,526 ordinary shares assumed to have been issued at nil consideration on the deemed exercise of all convertible bonds during the period.

(10) 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:

	30 June, 2005 Unaudited *HK$'000*	31 December, 2004 Restated *HK$'000*
Current to 90 days	**101,170**	90,456
91 days to 180 days	**3,166**	14,209
Over 180 days	**4,434**	1,740
	108,770	106,405
Classified as part of a Disposal Group held for sale	**45,766**	–
	154,536	106,405

(11) Cash and cash equivalents

	30 June, 2005 Unaudited *HK$'000*	31 December, 2004 Restated *HK$'000*
Cash and bank balances	**215,470**	219,315
Time deposits	**91,011**	125,615
	306,481	344,930
Less: Pledged time deposits	**(59,904)**	–
	246,577	344,930
Classified as part of a Disposal Group held for sale	**32,354**	–
	278,931	344,930

(12) Discontinued operations and Disposal Group classified as held for sale

On 2 July, 2005, the Company as vendor has entered into the Sale and Purchase Agreement with Bausch & Lomb Incorporated as purchaser in relation to the disposal of entire share capital of Sino Concept, the sole assets of which are the 55% equity interest in the registered capital of each of CTF and CTFP, at a consideration of USD200,000,000 (approximately HK$1,554,000,000). The transaction is expected to be completed within one year. The assets and liabilities of the Disposal Group have been classified as "Disposal Group classified held for sale" and "liabilities directly associated with Disposal Group classified as held for sale" respectively, in which they are presented separately in the balance sheet. The operations of the Disposal Group are included in the category of biopharmaceutical medicines for segment reporting purposes.

The proceeds of Disposal are expected to exceed the net carrying amount of the relevant assets and liabilities and, accordingly, no impairment loss has been recognized on the classification of the Disposal Group as held for sale.

(a) Profit for the period from discontinued operations is analyzed as follows:

	Six months ended 30 June,	
	2005	2004
	Unaudited	Unaudited
	HK$'000	*HK$'000*
Turnover	**301,545**	246,287
Cost of sales	**(38,859)**	(38,321)
Other revenue and gains	**3,765**	753
Selling and distribution costs	**(128,078)**	(114,416)
Administrative expenses	**(18,482)**	(23,001)
Other operating expenses	**(2,771)**	(2,575)
Finance costs	**(753)**	(294)
Profit before tax	**116,367**	68,433
Income tax	**(16,300)**	(3,332)
Profit for the period	**100,067**	65,101

The estimated net gain from the Disposal is calculated on the basis of the consideration of US$200,000,000 (approximately HK$1,554 million) less (i) audited consolidated net asset value of the Disposal Group as at 31 December, 2004 of HK$128,729,000; (ii) estimated expenses in relation to the Disposal; and (iii) the share of the profits of the Disposal Group for the period from 1 January, 2005 to the completion of the Disposal.

(b) Net cash flows of discontinued operations are summarized as below:

	Six months ended 30 June, 2005 Unaudited HK$'000	2004 Unaudited HK$'000
Net cash flows from operating activities	**103,121**	77,456
Net cash flows from investing activities	**(37,071)**	(40,060)
Net cash flows from financing activities	**(144,247)**	(69,282)
Net (decrease) in cash and cash equivalents	**(78,197)**	(31,886)
Cash and cash equivalents at beginning of year	**110,845**	90,976
Effect of foreign exchange rate changes, net	**(294)**	(694)
Cash and cash equivalents at end of period	**32,354**	58,396

(c) The major classes of assets and liabilities comprising the Disposal Group classified as held for sale are as follow:

	Six months ended 30 June, 2005 Unaudited HK$'000
Property, plant and equipment	**132,030**
Land lease payments	**17,349**
Intangible assets	**7,309**
Deferred development costs	**9,484**
Deferred tax assets	**5,469**
Inventories	**33,534**
Trade receivables	**45,766**
Other receivables	**45,386**
Cash and cash equivalents	**32,354**
Disposal Group classified as held for sale	**328,681**
Trade payables	**10,036**
Profits tax payable	**8,241**
Taxes payable other than profit tax	**6,816**
Other payables and accruals	**125,488**
Amount due to related companies	**2,057**
Deferred tax liabilities	**256**
Liabilities directly associated with Disposal Group classified as held for sale	**152,894**

The presentation requirements for Disposal Group classified as held for sale at the end of the reporting period do not apply retrospectively. The comparative figures in the balance sheets for any previous periods are therefore not re-presented.

(13) Trade payables

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

	30 June, 2005 Unaudited *HK$'000*	31 December, 2004 Restated *HK$'000*
Current to 90 days	**16,262**	17,614
91 days to 180 days	**1,450**	349
Over 180 days	**3,439**	670
	21,151	18,633
Classified as part of a Disposal Group held for sale	**10,036**	–
	31,187	18,633

(14) Bank and other borrowings

	30 June, 2005 Unaudited *HK$'000*	31 December, 2004 Restated *HK$'000*
Interest-bearing bank loans repayable within one year:		
– secured	**59,899**	–
– unsecured	**37,540**	–
	97,439	–

(15) Share capital

	30 June, 2005 Unaudited *HK$'000*	31 December, 2004 Restated *HK$'000*
Authorised:		
4,000,000,000 ordinary shares of HK$0.025 each	**100,000**	100,000
Issued and fully paid:		
2,263,968,736 ordinary shares of HK$0.025 each (2004: 1,377,109,684 ordinary shares of HK$0.025 each)	**56,599**	34,428

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

	Number of ordinary shares	**Amount** *HK$'000*
At 1 January, 2005	1,377,109,684	34,428
Share issued on exercise of share options (note a)	72,000,000	1,800
Shares issued on exercise of convertible bonds (note b)	60,202,807	1,505
Bonus shares issued (note c)	754,656,245	18,866
At 30 June, 2005	2,263,968,736	56,599

Notes:

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

(b) On 31 April, 2005, 60,202,807 ordinary shares of HK$0.025 each have been issued on the exercise of the conversion rights of convertible bonds held by Jian Kang Limited.

(c) 754,656,245 bonus shares have been issued to the shareholders of the Company on 31 May, 2005.

(16) Reserve

	Share premium account HK$'000	Contributed surplus HK$'000	Capital Reserve HK$'000	Fixed assets revaluation reserve HK$'000	Statutory reserve fund HK$'000	Exchange fluctuation reserve HK$'000	Retained profits HK$'000	Minority interests HK$'000	Total HK$'000
Previously reporting balance as at 1 January 2004	97,718	52,605	28,924	7,101	20,853	(980)	67,365	156,360	429,946
HKAS 31 – Interest in jointly – controlled entity	–	–	–	–	–	457	–	–	457
As restated	97,718	52,605	28,924	7,101	20,853	(523)	67,365	156,360	430,403
Quarterly dividend for 2004	–	–	–	–	–	–	(26,560)	–	(26,560)
Profit for the period	–	–	–	–	–	–	78,022	47,924	125,946
Transfer from retained profits	–	–	–	–	22,069	–	(22,069)	–	–
Dividend paid to minority interests	–	–	–	–	–	–	–	(61,759)	(61,759)
Exchange realignment	–	–	–	–	82	1,460	–	–	1,542
As at 30 June 2004	97,718	52,605	28,924	7,101	43,004	937	96,758	142,525	469,572
Issue of shares	33,763	–	–	–	–	–	–	–	33,763
Quarterly dividend for 2004	–	–	–	–	–	–	(27,542)	–	(27,542)
Profit for the period	–	–	–	–	–	–	90,315	63,798	154,113
Transfer from retained profits	–	–	–	–	34,773	–	(34,773)	–	–
Proposed final dividend 2004	–	–	–	–	–	–	(55,084)	–	(55,084)
Surplus on revaluation of fixed assets	–	–	–	971	–	–	–	871	1,842
Increase in minority interest	–	–	–	–	–	–	–	5,934	5,934
Exchange realignment	–	–	–	–	(139)	(614)	–	(164)	(917)
Balance as at 31 December 2004 and 1 January 2005 (restated)	131,481	52,605	28,924	8,072	77,638	323	69,674	212,964	581,681
Previously reporting balance as at 1 January 2005	131,481	52,605	28,924	8,072	77,638	(309)	69,674	212,964	581,049
HKAS 31– Interest in jointly - controlled entity	–	–	–	–	–	632	–	–	632
As restated	131,481	52,605	28,924	8,072	77,638	323	69,674	212,964	581,681
Issue of shares	34,043	–	–	–	–	–	–	–	34,043
Quarterly dividend for 2005	–	(30,186)	–	–	–	–	(39,247)	–	(69,433)
Profit for the period	–	–	–	–	–	–	103,551	65,123	168,674
Dividend paid to minority interests	–	–	–	–	–	–	–	(101,382)	(101,382)
Exchange realignment	–	–	–	–	(118)	(1,918)	–	(2)	(2,038)
Balance as at 30 June 2005	165,524	22,419	28,924	8,072	77,520	(1,595)	133,978	176,703	611,545

(17) **Related Party Transaction**

The Group had the following material transactions with related parties during the period:

Particulars	For six months ended 30 June, 2005 Unaudited *HK$'000*	2004 Unaudited *HK$'000*
Sales of products to:		
– a Chinese joint venture partner of a subsidiary (note a)	**951**	259
– a related party with a common shareholder of a subsidiary (note a)	**14**	249
– a fellow subsidiary of a subsidiary's Chinese joint venture partner (note a)	**27**	–
– a fellow subsidiary of a subsidiary's Chinese joint venture partner (note a)	**594**	–
Purchase of raw materials from a related company with common shareholder of a subsidiary (note b)	**14,353**	7,387
Purchase of raw materials from:		
– a Chinese joint venture partner of a subsidiary (note b)	**1,738**	929
– a company indirectly owned by a director (note b)	**5**	40
Operating lease rentals payable to:		
– a fellow subsidiary of a subsidiary's Chinese joint venture partner (note c)	**–**	1,166
– a Chinese joint venture partner of a subsidiary (note c)	**279**	280
– a company beneficially owned by a director (note c)	**342**	342
Research and development expenses to a fellow subsidiary of a subsidiary's Chinese joint venture partner (note d)	**1,408**	188

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.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES OR DEBENTURES

As at 30 June, 2005, the interests and short positions of each Director and chief executive of the Company in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) ("SFO")) as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, were as follows:

Long positions in ordinary shares of the Company

			Number of shares held, capacity and nature of interest				
Name of director	Notes	Capacity/Nature of Interest	Directly beneficial owned	Through controlled corporations	Through spouse	Total	Percentage of the Company's issued share capital
Mr. Tse Ping	(1)	Beneficial owner	45,000,000	1,035,488,908	–	1,080,488,908	47.73
Ms. Cheng Cheung Ling	(2)	Deemed interest	–	–	1,080,488,908	1,080,488,908	47.73
Mr. Wang Jinyu	(3)	Beneficial owner	3,600,000	53,280,000	–	56,880,000	2.51
Mr. Tao Huiqi		Beneficial owner	6,000,000	–	–	6,000,000	0.27
Mr. Tse Hsin		Beneficial owner	25,200,000	–	–	25,200,000	1.11
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%

Save as disclosed above, as at 30 June, 2005, none of the Directors and chief executives of the Company had any interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporation (within the meaning of the SFO) as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

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

As at 30 June, 2005, the following persons (not being a Director or chief executive of the Company) had the following interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO:

Long position in shares 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

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
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
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.

Save as disclosed above, as at 30 June, 2005, no other person (not being a Director or chief executive of the Company) had an interest or a short position in shares or underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

CODE ON CORPORATE GOVERNANCE PRACTICES

In the opinion of the directors, the Company had complied with all Code Provisions set out in the Code on Corporate Governance Practices as set out in the Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") during the period for the six months ended 30 June, 2005, except for the following deviations:–

1. Code Provision A.2.1 – The Code Provisions stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Mr. Tse Ping is the chairman and chief executive officer of the Company. The Board considers that Mr. Tse Ping has substantial experience in the business of pharmaceutical and management and this could enhance the Company's decision making and operational efficiency.

2. Code Provision B.1 – the Company has not yet established a remuneration committee with specific terms of reference during the Period. The Board intends to establish a remuneration committee with specific written terms of reference and in accordance with this Code Provision in the second half of the year.

The Company has adopted a code of conduct regarding securities transactions by directors set out in Appendix 10 of the Listing Rules. All directors have complied with the required standard set out in the Model Code and the code of conduct regarding securities transactions by directors adopted by the Company.

The Group has complied with Rules 3.10(1) and 3.10(2) of the Listing Rules relating to appointment of a sufficient number of the independent non-executive directors ("INEDs") and at least an INED with appropriate professional qualifications, or accounting or related financial management expertise. The Company has appointed three independent non-executive directors including one with financial management expertise, details of their biographies were set out in the 2004 Annual Report of the Company.

The Audit Committee is composed of three INEDs. It has reviewed with management the accounting standards, principles and practices adopted by the Group including a review of the unaudited interim results of the Company for the six months ended 30 June, 2005.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

For the period from 1 January, 2005 to 30 June, 2005, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

BOARD OF DIRECTORS

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

By Order of the Board
Sino Biopharmaceutical Limited
Tse Ping
Chairman

Hong Kong, 27 September, 2005