



SINO BIOPHARMACEUTICAL LIMITED

中國生物製藥有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code:1177)



2006 Interim Report



CORPORATE INFORMATION

LEGAL NAME OF THE COMPANY

Sino Biopharmaceutical Limited

STOCK CODE

1177

COMPANY'S WEBSITE ADDRESS

www.sinobiopharm.com

PLACE OF INCORPORATION

Cayman Islands

DATE OF LISTING ON MAIN BOARD

8 December, 2003

DATE OF LISTING ON GEM BOARD

29 September, 2000

DIRECTORS

Executive Directors

Mr. Tse Ping (*Chairman*)

Mr. Tao Huiqi

Mr. Wang Jinyu

Mr. He Huiyu

Ms. Cheng Cheung Ling

Ms. Zhao Yanping

Mr. Tse Hsin

Mr. Zhang Baowen

Independent non-executive Directors

Mr. Lu Zhengfei

Mr. Li Dakui

Ms. Li Jun

AUDIT COMMITTEE

Mr. Lu Zhengfei (*Chairman*)

Mr. Li Dakui

Ms. Li Jun

REMUNERATION COMMITTEE

Mr. Tse Ping (*Chairman*)

Mr. Lu Zhengfei

Ms. Li Jun

COMPANY SECRETARY

Ms. Leung Sau Fung, Fanny

QUALIFIED ACCOUNTANT

Ms. Yu Chau Ling, FCCA, CPA

AUTHORISED REPRESENTATIVES

Mr. Tse Ping

Ms. Leung Sau Fung, Fanny

AUTHORISED PERSON TO ACCEPT SERVICES OF PROCESS AND NOTICES

Ms. Tse Wun

PRINCIPAL BANKERS

CITIC Ka Wah Bank Limited

166 Hennessy Road

Wanchai

Hong Kong

Agricultural Bank of China, Lianyungang Branch

No. 43 North Tong-guan Road

Xinpu, Lianyungang

Jiangsu Province

PRC

CORPORATE INFORMATION

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Bank of Butterfield International
(Cayman) Limited
P.O. Box 705
Butterfield House
Fort Street
George Town
Grand Cayman
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tengis Limited
26th Floor
Tesbury Centre
28 Queen's Road East
Wanchai
Hong Kong

REGISTERED OFFICE

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

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

AUDITORS

Ernst & Young
Certified Public Accountants
18th Floor, Two International Finance Centre
8 Finance Street
Central
Hong Kong

LEGAL ADVISERS

As to Hong Kong Law:
Morrison & Foerster
41st Floor, Edinburgh Tower
The Landmark
15 Queen's Road Central
Hong Kong

As to Cayman Islands Law:
Conyers Dill & Pearman, Cayman
Century Yard
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Hutchins Drive
P.O. Box 2681GT
George Town
Grand Cayman
British West Indies

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

INVESTOR RELATIONS CONSULTANT

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

FINANCIAL HIGHLIGHTS

For the six months ended 30 June, 2006, the Group recorded the following operational results:

- Revenue from continuing operations was approximately HK\$330.82 million, a decrease of approximately 9.1% against the same period last year;
- Profit attributable to the Group from continuing operations was approximately HK\$57.44 million, approximately 20.4% higher than in the same period last year;
- Basic earnings per share from continuing operations were HK2.54 cents, approximately 14.4% higher than in the same period last year;
- Sales of new products accounted for 17.2% of the Group's total revenue;
- Cash equivalents and bank balance as at 30 June, 2006 was approximately HK\$1,742.91 million; and
- For the six months ended 30 June, 2006, the Board of Directors (the "Directors") declared an interim dividend payment of HK 1 cent per share; plus the dividend of HK 1 cent paid in the first quarter, a total of HK 2 cents will be paid for the first two quarters of the year.

On 30 August, 2006, the Company through its wholly-owned subsidiary, Chia Tai Refined Chemical Industry Limited, entered into the Joint Venture Agreement with three companies for the establishment of Shaanxi Xinxing Energy Chemical Industry Limited. It is principally engaged in the refining of coal into methanol to low carbon olefin (MTO) chemical products.

CORPORATE PROFILE

Sino Biopharmaceutical Limited (the "Company"), together with its subsidiaries and jointly-controlled entity (the "Group"), is an integrated pharmaceutical enterprise. Applying advanced biotechnology and modernized Chinese medicinal technology, the Group researches, develops, manufactures and markets a vast array of health enhancing biopharmaceuticals, modernized Chinese medicines and chemical medicines.

The Group focuses on two core therapeutic categories: cardio-cerebral diseases and hepatitis, and also actively develops medicine for treating oncology, analgesia, respiratory system, diabetes and digestive system diseases to meet the increasing demands of the market, medical practitioners and patients.

Cardio-cerebral medicines: Kaishi (Alprostadil) injections, Spring (Purarin) injections

Hepatitis medicines: Ganlixin (Diammonium Glycyrrhizinate) injections and capsules, Tianqingfuxin (Marine) injections and capsules

Oncology medicines: Tianqingyitai (Zolebronate Acid) injections

Analgesic medicines: Kaifen (Flurbiprofen Axetil) injections

Products with great potentials include:

Hepatitis medicines: Tianqingganmei (Magnesium Isoglycyrrhizinate) injections, Tianqingganping (Diammonium Glycyrrhizinate) enteric capsules, Adefovir Dipivoxil (Mingzheng) capsules

Cardio-cerebral medicines: Tianqinggan (Glycerin and Fructose) injections

Oncology medicines: Renyi (Pamidronate Disodium) injections

Respiratory medicines: Tianqingzhengshu (Loratadine) tablets

The Group's medicines have received Good Manufacturing Practice ("GMP") certifications issued by the State Food and Drug Administration ("SFDA") of the People's Republic of China (the "PRC"). They are in the following dosage forms: large volume injections, small volume injections, PVC-free soft bags for intravenous injections, capsules, tablets, powdered medicines and granulated medicines.

The Company was awarded Forbes Asia's Annual "Best 200 under a Billion" list within the Asia Pacific region. The Company was also awarded "Hong Kong Outstanding Enterprises 2005" by Economic Digest and "Red Herring Small Cap 100" by Red Herring magazine. It was awarded "Chinese Outstanding Enterprise Achievement Prize" by Capital Magazine on 22 May, 2006.

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

JCTT, Beijing Tide and Chia Tai Qingchunbao Pharmaceutical Co. Ltd. ("CTQ") ranked amongst top 50 enterprises in the Chinese Medicine Entity Independent Audited Enterprises based on aggregated profit for 2005 according to Chinese Medicine Economic Statistic Network.

JCTT and CTQ ranked amongst top 50 enterprises in the "2005 National Pharmaceutical Industry's Best Innovative Enterprise" according to the announcement by "Chinese Medicine Economic Statistic Network".

The research department of JCTT was recognized as the "Postdoctoral Research & Development Institute" by the PRC's Ministry of Personnel. It is the country's unique "New Hepatitis Medicine Research Center".

Website of the Group: <http://www.sinobiopharm.com>

MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY OVERVIEW

For China's pharmaceutical industry, 2006 is a year of consolidation, adjustment and standardization. "High medical fees leading to difficulty in obtaining medical treatment" has become a key concern of the Chinese people and the Government. As the medical reform advances, laws and regulations are fine-tuned and regulatory efforts are stepped up. That plus the Government's continuous effort to suppress prices and clamp down on replica medicines by applying effectively the medicine approval system and pricing method, vicious competition created by replica medicines in the market has been suppressed. The intensifying price and product competition in the market have seen sales increased. The phenomenon favors companies with strong advantages giving them larger shares of the market and has led to more severe polarization in the industry. The development will benefit large pharmaceutical companies with proven advantages, and ultimately help to rationalize profit attribution along the value chain. The future better-regulated pharmaceutical industry in China will be brand-focused and will grow through mergers and acquisitions. Companies with prominent brands, sound technologies, abundant resources, outstanding management and scale advantages will emerge as winners after the adjustment and standardization concluded.

BUSINESS REVIEW

To cope with the current industry adjustments and policy changes, the management is actively adjusting the Group's strategies based on thorough study of the possible impacts that regulations may have on its operations. Boasting unique products, strong R&D capabilities, brand supremacy, an extensive sales network, patented products and state-of-art technologies, the Group will strengthen promotion of its corporate and product brands. It will reinforce

internal governance to lower operation costs and adjust its product R&D structure to focus on main product development. To boost sales, it will conduct more academic promotions for main products and products with great potentials, reinforce development of third-tier end markets (village and town hospitals, public health hospitals, public health centers, public health clinics, private clinics) and retail markets. Leveraging JCTT's "People's Safe Medicine Enterprise" in "Safe Medicine for Everyone" status, won at an event jointly organized by Health Times magazine, China Health magazine, Health Digest magazine and People's Health magazine in 2005, the Group has been actively promoting its brands. At the same time, taking into account and pinpointing the characteristics of different products, the Group has sought to exploit new sales channels, such as setting up a non-prescription medicine (OTC) team to target the retail market and embarking on direct sales via TV channels, to increase revenue, enlarge market share and lower sales costs for health care medicine. All those policies were introduced in the second quarter.

On 29 July, 2006, the Group's Tianqingganmei (Magnesium Isoglycyrrhizinate raw materials and injections) won the gold medal in "The Third Chinese International Patented and Famous Brands Exhibition" organized by State Intellectual Property Office of the PRC. The Group holds a patent certificate of independent intellectual property right to Tianqingganmei which was introduced to the market in November 2005. It is the world's first Magnesium Isoglycyrrhizinate with chemical compound patent protection that was independently developed by JCTT. Because of the product's unique structure which gives it multiple medical functions and outstanding pharmacokinetics and liver targeting advantages, it has become the most popular product among hepatitis medicines.

During the period under review, the Group recorded revenue from continuing operations of approximately HK\$330.82 million, approximately 9.1% lower than in the corresponding period last year, the second quarter showed approximately 27.8% more than the first quarter. Profit attributable to the Group from continuing operations amounted to approximately HK\$57.44 million, representing an increase of approximately 20.4% from that in the same period last year, and the second quarter showed approximately 8% more than the first quarter. Basic earnings per share from continuing operations were approximately HK2.54 cents, approximately 14.4% more than last year and the second quarter showed approximately 8.2% more than the first quarter. New products accounted for approximately 17.2% of the Group's total turnover. The Group had cash equivalent and bank balance of approximately HK\$1,742.91 million, an increase of approximately 606.8% from the level in the same period last year.

The Group's principal profit contributors are JCTT, Beijing Tide, Nanjing Chia Tai Tianqing Pharmaceutical Co. Ltd. ("NJCTT") and CTQ.

Cardio-cerebral medicines

Cardio-cerebral medicines are mainly manufactured by Beijing Tide and NJCTT, representing approximately 24.8% of the Group's turnover. Produced by Beijing Tide, the segment's major product Kaishi injections is the first Prostaglandin E1 target sustained release medicine in the PRC. Based on the Drug Delivery System (DDS) theory, this product has been awarded many

national prizes and its sales has been increasing. The revenue of Kaishi amounted to HK\$156.67 million in the review period.

NJCTT and JCTT are engaged in the manufacturing of the Spring PVC-free soft bags for intravenous injections and the Spring (Purarin) injections. Spring injections was named “China’s Consumers Satisfactory Branding” in March 2006 by the China’s Medium-Light Products Quality Assurance Center. However, despite that Spring PVC-free soft bags for intravenous injections and the Spring injections are famous supreme products with assured quality, with them under scrutiny of the government, hospitals have been more cautious on prescribing the medicines. Thus, their sales dropped approximately 34.3% to HK\$17.36 million for the six months ended 30 June, 2006, when compared with the same period last year.

The Tianqinggan (Glycerin and Fructose) injections introduced by NJCTT in April 2004 has been well-received by the market. For the six months ended 30 June, 2006, sales of the product during the first six months amounted to HK\$8.21 million, approximately 78.8% more against the same period last year.

Hepatitis medicines

JCTT is responsible for the R&D and manufacture of hepatitis medicines, which recorded sales of HK\$198.73 million during the period under review, accounted for approximately 60.1% of the Group’s turnover. Since the administrative protection period of its major product Ganlixin injections and capsules was expired, many replica products have emerged in the market, resulting in intensified competition which dragged down prices. Its turnover amounted to HK\$119.12 million. Tianqingfuxin injections and capsules, another major product for combating hepatitis virus, reported sales of HK\$48.34 million.

An adequate expedient dosage being protected by intellectual property right, Tianqingganping enteric capsules launched in May 2004, recorded persistent sales surge reaching HK\$23.67 million, a growth of approximately 22.8% compared with the same period last year.

Using a new chiral compound extracted from Licorice, as well as restructured and purified, the Tianqinganmei injection is for treating severe hepatitis by lowering enzyme level. With exclusive intellectual property right, the product was launched in November 2005 and reported strong sales exceeding HK\$5.65 million in the past six months. It is expected to soon become another “blockbuster drug” of the Group. Adefovir Dipivoxil raw material and capsules (Mingzheng capsules) has received the new medicine certificate and production approval from SFDA. It is expected that the product is deemed to be another blockbuster product with sales exceeding HK\$100 million among the Group’s hepatitis medicines.

JCTT has built a foundation in hepatitis treatment with a series of liver protecting and treating medicines focusing on lowering enzyme level and combating hepatitis virus, fatty liver and alcohol liver. The Group has become the biggest manufacturer and producer of hepatitis medicine in the PRC.

Oncology medicines

Developed and manufactured by JCTT and NJCTT, Tianqingyitai injections was launched in January 2005 for easing pain caused by osteolytic bone metastasis. With remarkable therapeutic effects, the new oncology medicine immediately captured the attention of medical practitioners and patients. The sales of Tianqingyitai amounted to HK\$16.23 million in the first six months, up approximately 69.9% when compared with the same period last year. Representing approximately 4.9% of the Group's total turnover, oncology medicines have great growth potentials and are expected to become strong drivers of the Group's sales and profit.

Analgesic medicines

In 2005, Beijing Tide launched another new Flurbiprofen micro-sphere target sustained release analgesic injection which is also based on DDS theory, Kaifen injections. Enabled by advanced EI target technology, the product boasts strong pain relieving effect and minimal side effects and has been well received by medical practitioners. In 2005, it also received the "National New Product" certificate, which was jointly awarded from the PRC's Ministry of Science and Technology, the PRC's Ministry of Commerce, the PRC's General Administration of Quality Supervision, Inspection and Quarantine, and the State Environmental Protection Administration of China. The product has been on the growth path since it was launched. However, with the sales of analgesic medicines under government scrutiny, improving sales of the product will take time.

RESEARCH AND DEVELOPMENT

The Group continues to focus R&D efforts on therapeutic medicines for cardio-cerebral diseases, hepatitis, oncology, analgesia, respiratory system and diabetes. During the period under review, the Group received 9 production approvals or new medicine certificates from the SFDA. A total of 64 cases had completed clinical research, under clinical trial or applying for production approval. The R&D testing work of the Group also progressed smoothly.

It is worth to mention Adefovir Dipivoxil (Crystal Form E) raw material and capsules (Mingzheng capsules), a product that the Group has independent intellectual property right, received the new medicine certificate and production approval in May 2006 from the SFDA. The product can quickly and effectively suppress the replication of type B hepatitis virus with no cross medicine resistance, meaning it has prolonged control on the disease and promising long-term medical effect. The product has been launched to the market in 12 July and the sales of that month was reached over HK\$3 million. Adefovir Dipivoxil has thus been included as a first-tier medicine for treating chronic type B hepatitis by authoritative professionals both domestically and internationally. Backed up by the Group's extensive hepatitis medicine sales network, the product is deemed to be another blockbuster product with sales exceeding HK\$100 million in among the Group's hepatitis medicines.

During the period under review, the Group filed 6 invention patent applications with the State Intellectual Property Office, and obtained 2 invention patents and 8 announced product invention patents. As at 30 June, 2006, the Group had accumulated 336 patents, 276 announced product invention patents, 26 secured patents of which 17 were invention patents, 2 were utility model patents and 7 were design patents.

During the period under review, JCTT was chosen as the National Enterprise Intellectual Property Experimental Unit by the State Intellectual Property Office for a period of three years, during which the State Intellectual Property Office would help the company establish and improve intellectual property management regulations, put more emphasis on intellectual property management, conduct research and implement patent strategy. The Group will also be offered various intellectual property training. This will definitely help to brace the Group's ability to innovate and lay a solid foundation for it to sustain a strong operation.

FORMATION OF A JOINT VENTURE COMPANY

On 30 August, 2006, the Company through its wholly-owned subsidiary, Chia Tai Refined Chemical Industry Limited ("CTRC"), entered into the Joint Venture Agreement with three companies for the establishment of Shaanxi Xinxing Energy Chemical Industry Limited (陝西新興能源化工有限公司) ("SXEC"). It will be owned as to 43% and contributed as to RMB752,500,000 (approximately HK\$722,400,000) by CTCR. SXEC will principally be engaged in the refining of coal into methanol to low carbon olefin (MTO) chemical products i.e. ethylene and propylene in Yulin City, Shaanxi Province, PRC.

The Board considers that it is the first cabinol project in the PRC, its technology has obtained various kinds of patents. Its technical specification and installment scale were regarded as the international leading level by the Chinese Petroleum and Chemical Industry Industrial Association, and it can lower its cost when compared to the conventional methods of extracting similar products from petroleum. As the prices of petroleum continue to rise, the Board is of the view that it will allow the Group to invest in, and benefit from, the relatively high growth and high yield energy chemical industry in the PRC in order to enhance the profit contribution ability on the continuing operations of the Group.

INVESTORS' RELATIONS

The Group strongly believes practicing good corporate governance will help it increase transparency of its operation. During the period under review, the Group arranged various press conferences and investors presentations to enhance analysts' and fund managers' understanding of the latest development of the Group. It also participated in different investor roadshows in the first half of the year, including the CLSA China Forum. In addition, the management also met with fund managers and analysts regularly to provide them with up-to-date information of the Group and strengthen investor relations.

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 and disposal of Sino Concept Technology Limited. As at 30 June, 2006, the Group's bank balance and cash in hand was approximately HK\$1,742.91 million (31 December, 2005: approximately HK\$1,696.01 million).

CAPITAL STRUCTURE

As at 30 June, 2006, the Group had a short term loan of approximately HK\$66.79 million (31 December, 2005: Nil).

CHARGE ON ASSETS

The Group did not have any charges on assets as at 30 June, 2006 (31 December, 2005: Nil).

CONTINGENT LIABILITIES

As at 30 June, 2006, neither the Group, nor the Company had any significant contingent liabilities (31 December, 2005: HK\$4,970,000).

ASSETS AND GEARING RATIO

As at 30 June, 2006, total assets of the Group amounted to approximately HK\$2,225.36 million (31 December, 2005: approximately HK\$2,140.22 million) whereas total liabilities amounted to approximately HK\$289.85 million (31 December, 2005: approximately HK\$164.98 million). The gearing ratio (total liabilities over total assets) was approximately 13.0% (31 December, 2005: approximately 7.7%).

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\$59,437,000 (30 June, 2005: HK\$100,378,000).

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES

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

OUTLOOK AND PROSPECT

Although the change in regulatory policy on the pharmaceutical industry in the PRC and industry restructuring are expected to continue for some time yet, the Group believes that the players in the industry are presented with both challenges and opportunities. The intrinsic factors that have been driving growth in demand for medicines in the PRC persist. These factors include the country's growing and aging population, and increase in consumption of medicine per capita. Also, the ever improving living standard, increased government investment in the "Industrial Back Feeding Agriculture Policy" (commencing in 2006, the Government has doubled its investment in "Industrial Back Feeding Agriculture Policy" from RMB20 to RMB40), the accelerated construction of medicine delivery and monitoring networks for rural areas, and continuous urbanization of villages have all been driving growth of the pharmaceutical industry.

The aim of industry regulation and restructuring is to encourage industry standardization and hasten consolidation of the industry. The Group has ample capital and extensive experience in effecting mergers and acquisitions, restructuring, management and in boosting results. The negotiation for M&A and restructuring possibilities will constitute a key driver to the Group's profit growth.

At the same time, the Group will seek to further exploit the potential among its enterprises. It has tremendous advantages in its blockbuster drugs including "Ganlixin", "Tianqingfuxin", "Kaishi" and "Spring". Capitalizing on its products' reputable image among medical practitioners and patients, well-developed market shares and sales channels, the Group will seek to secure more new sales channels. The Group has the support of products with independent intellectual property right and the advanced technologies such as "Kaishi", "Kaifen", "Tianqingganmei" and "Adefovir Dipivoxil". It also operates the largest R&D unit and manufacturing facility for licorice-based hepatitis drug, producing the "Ganlixin", "Tianqingganping" and "Tianqingganmei" series. The Group is confident of delivering outstanding results in the pharmaceutical market laden with both challenges and opportunities.

The Group reported outstanding sales and profit with CAGR at 28% and 34% respectively in the past 5 years. In addition, we have been among the top 50 enterprises in the PRC's pharmaceutical industry in terms of profitability in the past 3 years. The Group was also included among the "Best under a billion in the Asia Pacific region in 2005" by Forbes Asia, named a "Hong Kong Outstanding Enterprises 2005" by the Economic Digest, the "Red Herring Small Cap 100" list of the Red Herring Magazine and was among the "Chinese Outstanding Enterprise Achievement Prize" by Capital Magazine. These awards are testaments to the excellent work of the Group's management team and the Group's impressive results.

Looking ahead, the Group will pursue business on dual tracks. It will continue to focus on specialty treatment areas and develop relevant product series and specialty brands. Its hepatitis medicine and cardio-cerebral medicine lines have been successful, and it has been actively developing analgesic medicines, oncology medicines, and respiratory system and antidiabetic drugs, etc. To accelerate business development, the Group will also continue to launch blockbuster drugs to address market needs, and apply its abundant capital reserves on restructuring and pursuing mergers and acquisitions with potential, thereby create better returns for shareholders. Moreover, to capture the opportunity of world-wide energy crisis, the Group will invest and develop in the energy chemical industry of coal olefin. In view of the current high prices of petroleum, the Group believes that the participation in this industry would become another growth driver for the Group helping it to create long term returns to shareholders.

APPRECIATION

On behalf of the Directors, I would like to express my thanks to our shareholders for their full trust, support and understanding, as well as to all our staff for their contribution and diligence.

RESULTS

The Board announces the unaudited consolidated results of the Group for the six months ended 30 June, 2006 together with the comparative unaudited consolidated results for 2005 as follows:

Condensed Consolidated Income Statement

		For the six months ended 30 June,	
		2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000
	<i>Notes</i>		
CONTINUING OPERATIONS			
REVENUE	2	330,818	363,798
Cost of sales		(68,019)	(72,974)
Gross profit		262,799	290,824
Other income and gains	3	37,053	3,686
Selling and distribution costs		(153,672)	(143,999)
Administrative expenses		(53,320)	(43,548)
Other expenses		(16,526)	(27,654)
Finance costs	4	(409)	(644)
PROFIT BEFORE TAX	5	75,925	78,665
Tax	6	(4,214)	(10,058)
PROFIT FOR THE PERIOD FROM CONTINUING OPERATIONS		71,711	68,607
DISCONTINUED OPERATION	7		
Profit for the period from a discontinued operation		–	100,067
Total profit for the period from a discontinued operation		–	100,067
PROFIT FOR THE PERIOD		71,711	168,674
Attributable to:			
Equity holders of the parent		57,437	103,551
Minority interests		14,274	65,123
		71,711	168,674
DIVIDENDS			
Quarterly	8	45,280	69,433
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	9		
Basic			
– For profit for the period		HK2.54 cents	HK4.81 cents
– For profit from continuing operations		HK2.54 cents	HK2.22 cents

Condensed Consolidated Balance Sheet

		30 June, 2006 (Unaudited) HK\$'000	31 December, 2005 (Audited) HK\$'000
	<i>Notes</i>		
NON-CURRENT ASSETS			
Property, plant and equipment		201,074	198,662
Prepaid land lease payments		7,329	7,438
Goodwill		41,973	41,948
Other intangible assets		8,927	3,802
Available-for-sale equity investment/ Long term investment		34,193	29,820
Deferred tax assets		3,647	3,647
Total non-current assets		297,143	285,317
CURRENT ASSETS			
Inventories		47,361	44,339
Trade receivables	10	107,089	102,013
Prepayments, deposits and other receivables		29,672	11,446
Due from related company		1,190	1,094
Cash and cash equivalents	11	1,742,906	1,696,013
Total current assets		1,928,218	1,854,905
CURRENT LIABILITIES			
Trade and bills payables	12	38,164	20,559
Other payables and accruals		180,013	133,688
Tax payable		4,771	7,146
Bank and other borrowings	13	66,789	–
Amount due to related company		110	1,181
Total current liabilities		289,847	162,574
NET CURRENT ASSETS		1,638,371	1,692,331
TOTAL ASSETS LESS CURRENT LIABILITIES		1,935,514	1,977,648
NON-CURRENT LIABILITIES			
Deferred tax liabilities		2,404	2,404
Total non-current liabilities		2,404	2,404
Net assets		1,933,110	1,975,244
EQUITY			
Equity attributable to equity holders of the parent			
Issued capital	14	56,599	56,599
Reserves		1,782,364	1,762,689
Proposed final dividend		–	33,959
		1,838,963	1,853,247
Minority interests		94,147	121,997
TOTAL EQUITY		1,933,110	1,975,244

Consolidated Statement of Changes in Equity

For the six months ended 30 June, 2006

	Attributable to equity holders of the parent											
	Issue of share capital HK\$'000	Share premium account HK\$'000	Contributed surplus HK\$'000	Capital reserve HK\$'000	Assets revaluation reserve HK\$'000	Reserve fund HK\$'000	Exchange fluctuation reserve HK\$'000	Retained profits HK\$'000	Proposed final dividend HK\$'000	Total HK\$'000	Minority interests HK\$'000	Total equity HK\$'000
At 1 January, 2005												
Previously reporting balance	34,428	131,481	52,605	28,924	8,072	77,638	(309)	69,674	55,084	457,597	212,964	670,561
Prior year adjustments	-	-	-	-	-	-	632	-	-	632	-	632
As restated	34,428	131,481	52,605	28,924	8,072	77,638	323	69,674	55,084	458,229	212,964	671,193
Exchange reignment	-	-	-	-	-	-	(2,038)	-	-	(2,038)	-	(2,038)
Total income and expense recognized directly in equity	-	-	-	-	-	-	(2,038)	-	-	(2,038)	-	(2,038)
Net profit for the period	-	-	-	-	-	-	-	103,551	-	103,551	65,123	168,674
Total income and expense for the period	-	-	-	-	-	-	(2,038)	103,551	-	101,513	65,123	166,636
Issue of shares	20,666	34,043	-	-	-	-	-	-	-	54,709	-	54,709
Exercise of convertible bonds	1,505	-	-	-	-	-	-	-	-	1,505	-	1,505
Dividend paid to equity shareholders	-	-	(30,186)	-	-	-	-	(39,247)	(55,084)	(124,517)	-	(124,517)
Dividend paid to minority shareholders	-	-	-	-	-	-	-	-	-	-	(101,382)	(101,382)
At 30 June, 2005	56,599	165,524	22,419	28,924	8,072	77,638	(1,715)	133,978	-	491,439	176,705	668,144
Prior year adjustments	-	-	-	-	(1,523)	342	(502)	(472)	-	(2,155)	(1,248)	(3,403)
Opening adjustments	-	-	-	-	-	-	-	(49,685)	-	(49,685)	-	(49,685)
As restated	56,599	165,524	22,419	28,924	6,549	77,980	(2,217)	83,821	-	439,599	175,457	615,056
Exchange reignment	-	-	-	-	-	2,314	10,574	-	-	12,888	-	12,888
Total income and expense recognized directly in equity	-	-	-	-	-	2,314	10,574	-	-	12,888	-	12,888
Net profit for the period	-	-	-	-	-	-	-	1,429,378	-	1,429,378	54,552	1,483,930
Total income and expense for the period	-	-	-	-	-	2,314	10,574	1,429,378	-	1,442,266	54,552	1,496,818
Disposal of a discontinued operation	-	-	-	-	-	-	-	-	-	-	(106,226)	(106,226)
Issue of shares	-	(41,389)	-	-	-	-	-	-	-	(41,389)	-	(41,389)
Exercise of convertible bonds	-	157,711	-	-	-	-	-	-	-	157,711	-	157,711
Dividends paid to minority shareholders	-	-	-	-	-	-	-	-	-	-	(3,285)	(3,285)
Dividend paid to equity shareholders	-	-	-	-	-	-	-	(33,960)	-	(33,960)	-	(33,960)
Special dividend paid to equity shareholders	-	-	-	-	-	-	-	(113,199)	-	(113,199)	-	(113,199)
Proposed final 2005 dividend	-	-	-	-	-	-	-	(33,959)	33,959	-	-	-
Surplus on revaluation of buildings	-	-	-	-	2,219	-	-	-	-	2,219	1,499	3,718
Transfer from/(to) retained earnings	-	-	-	(11,404)	(807)	(12,409)	(2,516)	27,136	-	-	-	-
At 31 December, 2005 and 1 January, 2006	56,599	281,846	22,419	17,520	7,961	67,885	5,841	1,359,217	33,959	1,853,247	121,997	1,975,244
Exchange reignment	-	-	-	-	-	985	2,161	-	-	3,146	-	3,146
Total income and expense recognized directly in equity	-	-	-	-	-	985	2,161	-	-	3,146	-	3,146
Net profit for the period	-	-	-	-	-	-	-	57,437	-	57,437	14,274	71,711
Total income and expense for the period	-	-	-	-	-	985	2,161	57,437	-	60,583	14,274	74,857
Purchase of a new subsidiary	-	-	-	4,372	-	-	-	-	-	4,372	3,034	7,406
Interim 2006 dividend paid to equity shareholders	-	-	-	-	-	-	-	(45,280)	-	(45,280)	-	(45,280)
Final 2005 dividend paid to equity shareholders	-	-	-	-	-	-	-	-	(33,959)	(33,959)	-	(33,959)
Dividend paid to minority shareholders	-	-	-	-	-	-	-	-	-	-	(45,158)	(45,158)
Transfer from/(to) retained earnings	-	-	-	-	-	5,423	-	(5,423)	-	-	-	-
At 30 June, 2006	56,599	281,846	22,419	21,892	7,961	74,293	8,002	1,365,951	-	1,838,963	94,147	1,933,110

*Condensed Consolidated Cash Flow Statement*

	For the six months ended 30 June,	
	2006 Unaudited HK\$'000	2005 Unaudited HK\$'000
NET CASH INFLOW FROM OPERATING ACTIVITIES	52,707	91,375
NET CASH INFLOW/(OUTFLOW) FROM INVESTING ACTIVITIES	25,580	(39,262)
NET CASH (OUTFLOW) FROM FINANCING ACTIVITIES	(32,343)	(116,537)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	45,944	(64,424)
Cash and cash equivalents at beginning of year	1,696,013	344,929
Classified as part of Disposal Group held for sale	–	(32,354)
Effect of foreign exchange rate changes, net	949	(1,574)
CASH AND CASH EQUIVALENTS AT END OF PERIOD	1,742,906	246,577
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	202,896	123,212
Time deposits with original maturity of less than three months when acquired	1,540,010	123,365
	1,742,906	246,577

NOTES

1. BASIS OF PREPARATION

This condensed consolidated financial information has been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants.

This condensed consolidated financial information should be read in conjunction with the 2005 annual financial statements.

The accounting policies and methods of computation used in the preparation of this condensed consolidated financial information are consistent with those used in the annual financial statements for the year ended 31 December, 2005.

Potential impact arising from recently issued accounting standards

The following new standards and interpretations have been issued but not effective. The Company is still not in the position to reasonably estimate the impact that may arise from the application of these standards and interpretations.

HKAS 1 (Amendment)	Capital Disclosures ^a
HKFRS 7	Financial Instruments: Disclosures ^a
HK (IFRIC) – INT 7	Applying the Restatements Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies ^b
HK (IFRIC) – INT 8	Scope of HKFRS 2 ^c
HK (IFRIC) – INT 9	Reassessment of Embedded Derivatives ^d

^a Effective for annual periods beginning on or after 1 January, 2007

^b Effective for annual periods beginning on or after 1 March, 2006

^c Effective for annual periods beginning on or after 1 May, 2006

^d Effective for annual periods beginning on or after 1 June, 2006

2. REVENUE

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

Segment Information

Business segments

The following tables present revenue, profit and certain asset, liability and expenditure information for the Group's business segments for the six months ended 30 June, 2006 and 2005.

Six months ended 30 June, 2006	Continuing operations				Discontinued operation		
	Modernised medicines and chemical medicines	Investment	Others	Eliminations	Biopharmaceutical medicines		Consolidated
	HKS'000	HKS'000	HKS'000	HKS'000	Total HKS'000	HKS'000	
Segment revenue:							
Sales to external customers	324,272	-	834	-	325,106	-	325,106
Dividend income	-	5,712	-	-	5,712	-	5,712
	324,272	5,712	834	-	330,818	-	330,818
Segment results	57,466	(16,176)	(1,899)	-	39,391	-	39,391
Interest and dividend income and unallocated gains					37,053	-	37,053
Unallocated expenses					(110)	-	(110)
Finance costs					(409)	-	(409)
Profit before tax					75,925	-	75,925
Tax					(4,214)	-	(4,214)
Profit for the period					71,711	-	71,711
Assets and liabilities							
Segment assets	577,657	1,631,211	12,846	-	2,221,714	-	2,221,714
Other unallocated assets					3,647	-	3,647
Total assets					2,225,361	-	2,225,361
Segment liabilities	243,793	21,307	2,107	-	267,207	-	267,207
Other unallocated liabilities					2,404	-	2,404
Total liabilities					269,611	-	269,611
Other segment information:							
Depreciation and amortisation	10,102	655	364	-	11,121	-	11,121
Capital expenditure	15,253	1,540	4	-	16,797	-	16,797
Other non-cash expenses	66	-	-	-	66	-	66

Six months ended 30 June, 2005	Continuing operations					Discontinued operation	
	Modernised medicines and chemical medicines	Investment	Others	Eliminations	Total	Biopharmaceutical medicines	Consolidated
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:							
Sales to external customers	354,398	-	1,880	-	356,278	301,545	657,823
Dividend income	-	7,520	-	-	7,520	-	7,520
	<u>354,398</u>	<u>7,520</u>	<u>1,880</u>	<u>-</u>	<u>363,798</u>	<u>301,545</u>	<u>665,343</u>
Segment results	<u>87,947</u>	<u>(11,881)</u>	<u>(443)</u>	<u>-</u>	<u>75,623</u>	<u>113,355</u>	<u>188,978</u>
Interest and dividend income and unallocated gains					3,686	3,765	7,451
Unallocated expenses					-	-	-
Finance costs					(644)	(753)	(1,397)
Profit before tax					<u>78,665</u>	<u>116,367</u>	<u>195,032</u>
Tax					(10,058)	(16,300)	(26,358)
Profit for the period					<u>68,607</u>	<u>100,067</u>	<u>168,674</u>
Assets and liabilities							
Segment assets	574,307	200,262	3,202	-	777,771	328,681	1,106,452
Other unallocated assets					7,964	-	7,964
Total assets					<u>785,735</u>	<u>328,681</u>	<u>1,114,416</u>
Segment liabilities	253,333	35,291	2,227	-	290,851	152,894	443,745
Other unallocated liabilities					2,527	-	2,527
Total liabilities					<u>293,378</u>	<u>152,894</u>	<u>446,272</u>
Other segment information:							
Depreciation and amortisation	7,897	586	154	-	8,637	5,102	13,739
Capital expenditure	13,421	-	-	-	13,421	37,752	51,173
Other non-cash expenses	204	-	-	-	204	4,216	4,420



3. OTHER REVENUE AND GAINS

	For the six months ended 30 June,	
	2006 HK\$'000 (Unaudited)	2005 HK\$'000 (Unaudited)
Continuing operations		
Bank interest income	36,595	2,432
Government grant	–	613
Sale of scrap materials	2	60
Gain on disposal of fixed assets	106	202
Others	350	379
	37,053	3,686
Discontinued operation		
Bank interest income	–	681
Sale of scrap materials	–	57
Others	–	3,027
	–	3,765
Total	37,053	7,451

4. FINANCE COSTS

	For the six months ended 30 June,	
	2006 HK\$'000 (Unaudited)	2005 HK\$'000 (Unaudited)
Interest on bank loans wholly repayable within one year	409	1,277
Interest on debt component of convertible bonds	–	120
Total interest	409	1,397
Attributable to continuing operations reported in the consolidated income statement	409	644
Attributable to a discontinued operation	–	753
	409	1,397

5. PROFIT BEFORE TAX FROM CONTINUING OPERATIONS

Profit before tax was determined after charging the following:

	For the six months ended 30 June,	
	2006	2005
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Depreciation	10,232	7,808
Amortization of prepaid land lease payments	200	119
Amortization of intangible assets	689	257
Amortization of goodwill	–	453
Staff cost	59,437	59,398

6. TAX

	For the six months ended 30 June,	
	2006	2005
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Provision for the period		
Mainland China income tax	1,549	6,690
Tax attributable to a jointly-controlled entity	2,665	3,368
Total tax charge for the period	4,214	10,058

No Hong Kong profits tax has been provided for the six months ended 30 June, 2006 as there was no assessable profit arising in or derived from Hong Kong during the period (2005: 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. The Group's principal operating subsidiaries and a jointly-controlled entity are qualified as "High and New Technology Enterprise" and "Advanced Technology Enterprises".

As of 30 June, 2006, JCTT and Beijing Tide are subject to an income tax rate of 15% and 12% respectively (2005: 15% and 12%).

7. DISCONTINUED OPERATION

	For the six months ended	
	30 June,	
	2006	2005
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Profit for the period from a discontinued operation	–	100,067
	–	100,067

On 2 July, 2005, the Company entered into the Sale and Purchase Agreement with Bausch & Lomb Incorporated in relation to the disposal of the Company's entire equity interests in Sino Concept Technology Limited, the sole assets of which are the 55% equity interests in the registered capital of each of Shandong Chia Tai Freda Pharmaceutical Co., Ltd. and Shandong Chia Tai Freda New Packaging Resources Co., Ltd. (hereinafter referred to as the "Sino Concept group") at a consideration of US\$200,000,000 (equivalent to approximately HK\$1,560 million). The Sino Concept group was principally engaged in the research, development, production and sale in Mainland China of a series of biopharmaceutical products for the medical treatment of ophthalmic conditions and osteoarthritis and for external use to treat skin diseases and is a separate business segment that is part of the Mainland China operation of the Group. The disposal of the Sino Concept group was completed on 26 September, 2005.

The results of the Sino Concept group is presented below:

	For the six months ended	
	30 June,	
	2006	2005
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Revenue	–	305,310
Expenses	–	(188,190)
Finance costs	–	(753)
Profit from a discontinued operation	–	116,367
Profit before tax from a discontinued operation	–	116,367
Tax related to pre-tax profit	–	(16,300)
Profit for the period from a discontinued operation	–	100,067

8. DIVIDENDS

The Board has declared a second quarter dividend of HK1 cent per ordinary share for the three months ended 30 June, 2006 (2005: HK1.5 cents). The dividend will be paid to shareholders on Monday, 16 October, 2006 whose names appear on the Register of Members of the Company on Friday, 6 October, 2006.

The Register of Members of the Company will be closed from Wednesday, 4 October, 2006 to Friday, 6 October, 2006, both days inclusive, during which period no transfer of share of the Company will be effected. In order to qualify for the second quarter dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's branch share registrar, Tengis Limited, 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong by 4:00 p.m. on Tuesday, 3 October, 2006.

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

The calculation of basic earnings per share is based on the net profit attributable to shareholders for the period of HK\$57,437,000 (2005: HK\$103,551,000), and the weighted average number of 2,263,968,736 (2005: 2,153,374,762) ordinary shares in issue during the period.

The calculation of basic earnings per share is based on:

	For the six months ended 30 June,	
	2006 HK\$'000 (Unaudited)	2005 HK\$'000 (Unaudited)
Earnings		
Net profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation:		
From continuing operations	57,437	47,700
From a discontinued operation	–	55,851
	57,437	103,551
Attributable to:		
Continuing operations	57,437	47,700
Discontinued operation	–	55,851
	57,437	103,551
	Number of shares as at 30 June,	
	2006 (Unaudited)	2005 (Unaudited)
Shares		
Weighted average number of ordinary shares in issue during the period used in the basic earnings per share calculation	2,263,968,736	2,153,374,762



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, 2006 <i>HK\$'000</i> (Unaudited)	31 December, 2005 <i>HK\$'000</i> (Audited)
Current to 90 days	101,280	94,947
91 days to 180 days	3,776	5,266
Over 180 days	2,033	1,800
	107,089	102,013

11. CASH AND CASH EQUIVALENTS

	30 June, 2006 <i>HK\$'000</i> (Unaudited)	31 December, 2005 <i>HK\$'000</i> (Audited)
Cash and bank balances	202,896	223,532
Time deposits	1,540,010	1,472,481
	1,742,906	1,696,013

12. 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, 2006 <i>HK\$'000</i> (Unaudited)	31 December, 2005 <i>HK\$'000</i> (Audited)
Current to 90 days	34,527	18,944
91 days to 180 days	1,099	790
Over 180 days	2,538	825
	38,164	20,559

13. BANK AND OTHER BORROWINGS

	30 June, 2006 HK\$'000 (Unaudited)	31 December, 2005 HK\$'000 (Audited)
Interest-bearing bank loans repayable within one year:		
– secured	–	–
– unsecured	66,789	–
	66,789	–

14. SHARE CAPITAL

	30 June, 2006 HK\$'000 (Unaudited)	31 December, 2005 HK\$'000 (Audited)
Authorised:		
4,000,000,000 ordinary shares of HK\$0.025 each (2005: 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 (2005: 2,263,968,736 ordinary shares of HK\$0.025 each)	56,599	56,599

15. RELATED PARTY TRANSACTION

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

	For six months ended 30 June,	
	2006	2005
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Sales of products to:		
– a Chinese joint venture partner of a subsidiary (note a)	–	951
– a related party with a common shareholder of a subsidiary (note a)	–	14
– 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
– a fellow subsidiary with a common shareholder of a subsidiary's Chinese joint venture partner (note b)	795	–
Purchase of raw materials from a related company with common shareholder of a subsidiary (note c)	–	14,353
Purchase of raw materials from:		
– a Chinese joint venture partner of a subsidiary (note c)	2,463	1,738
– a company indirectly owned by a director (note c)	–	5
Operating lease rentals payable to:		
– a fellow subsidiary of a subsidiary's Chinese joint venture partner (note d)	–	–
– a Chinese joint venture partner of a subsidiary (note d)	289	279
– a company beneficially owned by a director (note d)	350	342
Research and development expenses to a fellow subsidiary of a subsidiary's Chinese joint venture partner (note e)	–	1,408

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

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

As at 30 June, 2006, 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

Name of director	Notes	Capacity/Nature of Interest	Number of shares held, capacity and nature of interest			Total	Percentage of the Company's issued share capital
			Directly beneficial owned	Through controlled corporations	Through spouse		
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. Tao Huiqi		Beneficial owner	6,000,000	-	-	6,000,000	0.27
Mr. Tse Hsin		Beneficial owner	25,800,000	-	-	25,800,000	1.14
Ms. Zhao Yanping		Beneficial owner	636,000	-	-	636,000	0.03
Mr. Zhang Baowen		Beneficial owner	1,200,000	-	-	1,200,000	0.05

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.

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.) ("JCTT")	Beneficial owner	173,250	0.18%
Mr. Zhang Baowen	JCTT	Beneficial owner	173,250	0.18%
	南京正大天晴製藥有限公司 (Nanjing Chia Tai Tianqing Pharmaceutical Co., Ltd.)	Beneficial owner	39,592	0.78%
	連雲港正大天壹醫藥有限公司 (Lianyungang Tianyi Medicine Co., Ltd.)	Beneficial owner	18,624	1.92%

Save as disclosed above, as at 30 June, 2006, 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, 2006, 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
The Goldman Sachs Group, Inc.	(2)	Interest of a controlled corporation	215,828,000	9.53
Conspicuous Group Limited	–	Beneficial owner	142,431,091	6.29
Chia Tai Development Investment Company Limited	(3)	Interest of a controlled corporation	142,431,091	6.29
Mr. Dhanin Chearavanont	(4)	Interest of a controlled corporation	142,431,091	6.29

Notes:

- (1) Each of Validated Profits Limited and Remarkable Industries Limited is an investment holding company wholly-owned by Mr. Tse Ping who is a Director.
- (2) The 215,828,000 shares were held by Goldman Sachs (Asia) Finance. Based on the disclosure of interests filing received by the Company, Goldman Sachs (Asia) Finance is a controlled corporation of Goldman Sachs (Asia) Finance Holdings L.L.C., which in turn is a controlled corporation of Goldman Sachs & Co., which in turn is a controlled corporation of The Goldman Sachs Group, Inc., all of which are deemed under the SFO to be interested in the same shares.
- (3) Chia Tai Development Investment Company Limited ("CT Development") has declared an interest in the same 142,431,091 shares in which Conspicuous Group Limited has declared an interest, by virtue of its shareholding in Conspicuous Group Limited.
- (4) Mr. Dhanin Chearavanont has declared an interest in the same 142,431,091 shares in which CT Development has declared an interest for the purpose of the SFO as mentioned in Note (3) above, by virtue of his shareholding in CT Development.

Save as disclosed above, as at 30 June, 2006, 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

Pursuant to the Corporate Governance Report which was incorporated in the Company's 2005 Annual Report, it was noted that the Company had complied with all the Code Provisions set out in the Code on Corporate Governance Practices (the "CG Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") except with a deviation from Code Provision A.2.1.

In the opinion of the Directors, the Company continued to comply with all the Code Provisions set out in the CG Code of the Listing Rules throughout the six months ended 30 June, 2006, with the exception of the following deviations:-

1. Code Provision A.2.1 – The Code Provision stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Mr. Tse Ping is the Chairman and Chief Executive Officer of the Company. The board of Directors (the "Board") considers that Mr. Tse Ping's substantial experience in the pharmaceutical business and management will enhance the Company's decision making and operational efficiency. To help achieve a better balance of power and authority, the Chairman discusses important issues and decisions relating to the Group's business with other Executive Directors.
2. Code Provision E.1.2 – The Code Provision provides that the Chairman of the Board should attend the annual general meeting of the Company. Due to unexpected business commitment, Mr. Tse Ping, the Chairman of the Board, was unable to attend the annual general meeting of the Company held on 5 June, 2006. Mr. Tse Hsin, an Executive Director, was elected in accordance with the Company's Articles of Association to act as the chairman of the annual general meeting and together with other Directors present at the meeting, answered questions at the annual general meeting.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of conduct regarding securities transactions by Directors as set out in Appendix 10 of the Listing Rules (the "Model Code"). Having made specific enquiry of all Directors, it was confirmed that 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.

INDEPENDENT NON-EXECUTIVE DIRECTORS, AUDIT COMMITTEE AND REVIEW OF RESULTS

The Group has complied with Rules 3.10(1) and 3.10(2) of the Listing Rules relating to appointment of a sufficient number of the independent non-executive directors (“INEDs”) and at least an INED with appropriate professional qualifications, or accounting or related financial management expertise. The Company has appointed three INEDs including one with financial management expertise, details of their biographies were set out in the 2005 Annual Report of the Company.

The Audit Committee is comprised of three INEDs. It has reviewed with management the accounting principles and practices adopted by the Group and discussed internal control and financial reporting matters including the review of the unaudited financial statements of the Company for the six months ended 30 June, 2006.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

For the period from 1 January, 2006 to 30 June, 2006, 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 eight executive directors, namely Mr. Tse Ping, Mr. Tao Huiqi, Mr. Wang Jinyu, Mr. He Huiyu, Ms. Cheng Cheung Ling, Ms. Zhao Yanping, Mr. Tse Hsin and Mr. Zhang Baowen, and three independent non-executive directors, namely Mr. Lu Zhengfei, Mr. Li Dakui and Ms. Li Jun.

By Order of the Board

Sino Biopharmaceutical Limited

Tse Ping

Chairman

PRC, 12 September, 2006