

Management Discussion and Analysis

During the year, all subsidiaries and a jointly-controlled entity adhered to the Group's business strategies and recorded satisfactory growth. For the year ended 31 December, 2004, the Group's turnover rose 27.8% to approximately HK\$1,050.38 million. Operating profit was HK\$265.83 million, representing an increase of 58.7% compared with last year. Profit attributable to shareholders surged by 106.3% to approximately HK\$168.34 million compared with last year. Basic earnings per share were up 105.4% to approximately HK12.63 cents. New products accounted for 24.8% of the Group's total sales. This encouraging performance was supported by the concerted efforts of the Group's principal subsidiaries, along with the impressive earnings growth of Beijing Tide, a jointly-controlled entity acquired by the Group in October 2003. A further source of earnings was Nanjing Chia Tai Tianqing Pharmaceutical Co. Ltd. ("NJCTT"), established in August 2001 and which began operations at the end of last year. As at 31 December, 2004, each of the Group's manufacturing entities was profitable.

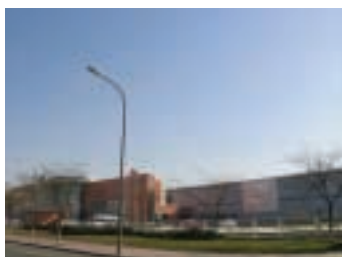
BUSINESS REVIEW

The Group's top-selling products performed well in the year. Blockbuster products with a turnover of over HK\$200 million included the hepatitis medicine – Diammonium Glycyrrhizinate injections and capsules, and the cardio cerebral medicine – Alprostadiol injections. Products with turnover of over HK\$100 million included Moisten eyedrops, Mioclear eyedrops, and the hepatitis medicine – Tianqingfuxin injections and capsules.

The construction of Beijing Tide's new production facility (located in the Beijing Economic Development Zone) was completed during the year. Equipment installation and testing is in progress, along with preparatory work for obtaining GMP certification. It is expected to become fully operational in the second half of 2005. Beijing Tide was recognized as an Advanced Technology Foreign Investment Enterprise in 2004, to which it is entitled to extend the period of a 50% reduction of corporate income tax rate for another three years on expiring of the tax exemption and reduction.

During the year under review, CTF completed construction of and commenced operations at the first phase of its new production facility (located in the Jinan High and New Technology Development Zone). The second phase of construction is in progress and will be operational by late 2005, at which point CTF's major eyedrop manufacturing operations and eyedrop production line will move to the new plant. Its Moisten eyedrops will be produced on the advanced three-in-one production line, from stretch-blow molding, filling and sealing. According to the National Bureau of Statistics of China, CTF was named the Top Ten Manufactories in the Biological and Biochemical Manufacturing of China. CTF was also named Technical Innovation Corporations in Commerce of China by the China General Chamber of Commerce.

The Nanjing research centre of JCTT (established in 2004) has set up trial-production workshop for 11 dosage forms including lyophilization powder injection, soft capsules, transdermal patch and dripping pills. It was awarded the "High and New Technology Enterprise" from the Torch High Technology Industry Development Center, Ministry of Science & Technology, PRC.



Beijing Tide's new plant



CTF's new plant



JCTT trial-production workshop

Cardio cerebral medicines

Beijing Tide, a jointly-controlled entity of the Group, is responsible for the manufacture of cardio cerebral medicines. Riding on the company's exclusive advanced lipo-microsphere target and sustained release technology, the product boasts high therapeutic effectiveness with low side effects. Its popularity is also helped by the Group's widespread sales network for prescription drugs. Alprostadiol injection recorded total sales of HK\$280.19 million in the year, while net profit represented a 52.8% increase compared with the previous year.

Designed to serve complementary market segments, the Spring Injection (by JCTT) and the PVC-free soft bags for intravenous injections (by NJCTT) recorded total sales of approximately HK\$51.87 million, representing an 85.1% increase against the previous year. These products are fast becoming key growth drivers for the Group.



Alprostadiol Injections



Spring Injections

Hepatitis medicines

JCTT is responsible for the development and manufacture of hepatitis medicines. During the year, JCTT's turnover recorded steady growth of 17.1% compared with the previous year, reaching HK\$509.30 million. The Group's hepatitis medicines accounted for 12% market share in the PRC hepatitis drug segment, and contributed 45.0% of its turnover in the year. Sales of blockbuster drug, Diammonium Glycyrrhizinate (which is extracted from Licorice and protects the liver by lowering enzyme levels), reached HK\$301.32 million, 22.6% higher than in the previous year. Sales of Tianqingfuxin, which is used to combat the hepatitis virus and is extracted from a Chinese herb called Sophora alpecuroides L, also reported encouraging turnover of over HK\$142.28 million in just the third year after its market launch. Tianqingfuxin is even more effective when used together with Diammonium Glycyrrhizinate. Launched in 2003, Tianqingshunxin and Lactitol Powder are used to lower bilirubin and to treat hepatopathy comas respectively. Having proved its effectiveness in protecting and healing liver cells and in lowering the enzyme ALT, Ganping, a capsule medicine that dissolves in intestine (launched in May 2004), is extracted from licorice and represents an important new product serving hepatitis patients, with a promising sales performance of HK\$11.70 million. The Group has successfully put together a series of hepatitis medicines that protect the liver by lowering enzyme levels, combating the hepatitis virus, treating hepatopathy comas, and lowering bilirubin.



Diammonium Glycyrrhizinate
Injections and Capsules



Tianqingfuxin Glucose
Injections and Capsules



Carnet Injections

Management Discussion and Analysis

The Group continues to develop improved drug formulations for many leading hepatitis medicines, with a specific focus on the treatment of liver fibrosis, alcohol liver, fatty liver and hepatic tumor. From this base, JCTT is well-placed to further strengthen its leading position in the hepatitis therapeutic arena.

Ophthalmic medicines



Moisten Eyedrops

Mioclear Eyedrops

Red Mioclear Eyedrops

CTF is responsible for the development and manufacture of ophthalmic medicines. During the year, CTF saw continued growth in turnover which reached HK\$484.16 million, up 27.9% compared with last year. The Group's ophthalmic medicines contributed 38.7% of the Group's turnover, and enjoyed a 20% share in the national ophthalmic drug segment. Both CTF's top-selling products – Moisten eyedrops (anti-bacteria and anti-inflammation, for keratitis and conjunctivitis) and Mioclear eyedrops (for eye fatigue) – continued to excel in the market, benefiting from proprietary technology that utilises hyaluronic acid ("HA"), and from a comprehensive sales network. "Moisten" and "Mioclear" have become well-regarded brands within the industry. Moisten eyedrops recorded sales of HK\$135.95 million, up 17.6% over the previous year. Sales of Mioclear eyedrops, meanwhile, grew 20.2% to reach HK\$120.28 million. Red Mioclear, a new eyedrop for relieving severe eye fatigue, has received an overwhelming market response since its launch in January 2003. Sales in 2004 grew 51.9% to HK\$68.51 million, and it is expected to become another product with sales exceeding HK\$100 million.

The Group's eyedrop products serve a vast array of therapeutic purposes, including anti-bacteria and anti-inflammation treatments, treatment of conjunctivitis caused by fungus, traumatic and viruses, treatment of eye fatigue and glaucoma. The "Mioclear" brand is used for a series of products for treatment of eye fatigue. More new "Mioclear" brand eyedrop products will soon be available in the market to differentiate market segments. In this way, the Group is able to widen its product range, expand its market share, and strengthen its leading position in the ophthalmic medicine market.

During the year, IVIZ Sodium Hyaluronate Injection (cataract extraction) recorded sales growth of 10.6%.

In April 2004, the Group successfully launched Collyium Eye Wash, the first eye wash product appeared in the domestic market. Collyium received satisfactory sales performance and overwhelming response from urban dwellers, especially females. During the year, its sales amounted to HK\$7.81 million. The Group's slogan for this product is "Setting the Trend – Unveiling a New Concept in Eyecare", signifying its evolution from a manufacturer of ophthalmic medicines and medicines for ophthalmic diseases to a provider of ophthalmic medicines and eyecare products.



Collyium Eye Wash

Osteoarthritis medicines

CTF is responsible for the development and manufacture of osteoarthritis medicines. Its principal products, Sofast injections, are used to treat adhesive capsulitis. The main ingredient, HA, promotes viscosupplementation (supplementing the natural protective and lubricating properties of the synovial fluid). With an established market presence, Sofast injections were well-received by medical practitioners and patients, and enjoyed high levels of public endorsement. During the year, sales of Sofast injections increased by 34.1% to over HK\$68.77 million.



Sofast Injections

RESEARCH & DEVELOPMENT

Adhering to its R&D principle, the Group has placed special emphasis on new product development, and the strength of its product pipeline is an important factor in retaining sustainable long-term growth and profitability. 2004 was an excellent year for the Group in terms of product development. For the year ended 31 December 2004, the Group received a total of 28 approvals for the production of new drugs from the SFDA. A total of 57 cases were under clinical trials or completed clinical research. If efficacy reaches expected levels after clinical trials, the Group will file for production approval. Upon approval, these products will become drivers of the Group's sustainable development. During the year, the Group had made significant progress in R&D as in the followings:

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

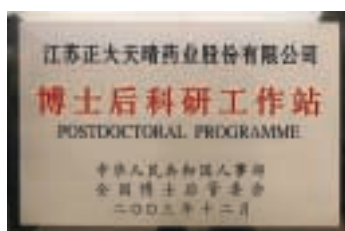
One cardio cerebral product has received SFDA approval for clinical research. A total of 70 patent applications for inventions were filed with the State Intellectual Property Office, of which 24 patents were announced by the State Intellectual Property Office.

Beijing Tide

Product R&D proceeded smoothly. During the year, Beijing Tide improved the formulations of its target and sustained release drug delivery platform and successfully developed a new product, Kaifen – an analgesia injection. This product is proved to have better therapeutic effects to alleviate pain with less side effects. Beijing Tide received its production approval in October 2004, and the product is expected to be available on the market in the first half of 2005. This new product is expected to generate promising returns.

CTF

Received a total of 11 approvals for its new drug production from SFDA. A further 25 cases were under clinical trials or completed clinical research, amongst which 16 were ophthalmic products. 3 patent applications for inventions were filed with the State Intellectual Property Office, and 2 bottling design patents were received.



Postdoctoral Programme



R & D Laboratory



Kaifen Injections

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CTF plans to establish a Good Laboratory Practices (“GLP”) testing centre in its new plant (Phase 3) in Jinan in 2005. The centre will further strengthen the Group’s capabilities in the development of patented products.

JCTT

Received a total of 12 approvals for its new drug production from SFDA. A further 24 cases were under clinical trials or completed clinical research, among which 12 hepatitis medicines were filed. A total of 10 patent applications for inventions were filed with the State Intellectual Property Office. 2 patent approvals were granted by the State Intellectual Property Office and 2 bottling design patents were received.

JCTT’s National Hi-Tech Research Development Program (863 Program), an innovative research base for modernised Chinese medicines, has completed its clinical research of magnesium iso-glycyrrhizinate injection and multi-functional hepatocyte protector into modernised Chinese hepatitis medicines. Its work is expected to be another “blockbuster drug” to the Group. In addition, JCTT’s post-doctoral research workshop has begun full operation. Besides working on hepatitis medicines, the workshop also conducts research in modernised Chinese medicines, biopharmaceutical products and chemical medicines used to treat cardio cerebral diseases, respiratory diseases, cancer and endocrine system.

NJCTT

Received 4 approvals for its new drug production from SFDA, and another 7 cases were under clinical trials or completed clinical research.

Others

The Group cooperated with the Hong Kong Polytechnic University for a research project in connection with applying genetic engineering biotechnology to hepatitis medicine. This project is making satisfactory progress.

CORPORATE GOVERNANCE

The Group continues to emphasize high levels of corporate governance. The Group was invited to participate in the 37th International General Meeting of the Pacific Basin Economic Council (Roundtable meeting on “Harnessing Corporate Governance for Business Growth in China”), held in Beijing in June 2004, and shared its corporate governance experiences. The Group has improved transparency through the voluntary disclosure of quarterly results since its listing on the Main Board in 2003, and through timely communication with investors and the media. In 2004, the Group participated in 23 rounds of analyst meetings and 2 investor forums organised for institutional investors, hosted 5 media briefings, 3 investor luncheons and an investor plant visit. The Group also strives to improve shareholder returns through a consistent dividend policy. From the second quarter of 2004, it has commenced a quarterly dividend payment policy. To better monitor its financial management and acquisition decisions, the Group has formed an Investment Monitoring Committee in November 2004 and formulated a set of investment guidelines and procedures that will serve to enhance investment returns and monitor investment progress. The Committee, composed of senior management with pharmaceutical, R&D and financial backgrounds, ensures that capital is deployed for generating optimal investment returns.

CAPITAL STRUCTURE

On 28 April, 2004, each of the then existing issued and unissued shares of the Company of HK\$0.10 each has been subdivided into 4 subdivided shares. Immediately following completion of the subdivision, the authorised share capital of the Company was HK\$100,000,000 comprising 4,000,000,000 subdivided shares of HK\$0.025 each, of which 1,328,000,000 subdivided shares were in issue and fully paid or credited as fully paid. On 24 November, 2004, 49,109,684 new ordinary shares have been issued upon the exercise of the conversion rights of convertible bonds held by Jian Kang Ltd.

LIQUIDITY AND FINANCIAL RESOURCES

The Group's liquidity remains strong. During the year, the Group's primary source of funds was cash derived from operating activities. As at 31 December, 2004, the Group's bank balance and cash in hand was approximately HK\$276.21 million (2003: approximately HK\$288.85 million).

CAPITAL COMMITMENT

The Group's capital expenditure commitments amounted to approximately HK\$50.80 million as at 31 December, 2004 (2003: approximately HK\$64.18 million). The Group has adequate financial resources to fund its capital expenditure commitment from existing cash resources and cash flows generated from its operations.

CHARGE ON ASSETS

The Group did not have any charges on assets as at 31 December, 2004 (2003: Nil).

CONTINGENT LIABILITIES

As at the balance sheet date, neither the Group, nor the Company had any significant contingent liabilities (2003: nil).

ASSETS AND GEARING RATIO

As at 31 December, 2004, total assets of the Group amounted to approximately HK\$918.28 million (2003: approximately HK\$736.00 million) whereas total liabilities amounted to approximately HK\$247.72 million (2003: approximately HK\$239.67 million). The gearing ratio (total liabilities over total assets) was approximately 27.0% (2003: approximately 32.6%).

EMPLOYEE AND REMUNERATION POLICIES

As at 31 December, 2004, the Group had about 3,008 (2003: 2,629) employees. 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 year were HK\$145,746,000 (2003: HK\$105,541,000).

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.