

Report of the Directors

The directors present their report and the audited financial statements of the Company and the Group for the year ended 31 December, 2004.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the subsidiaries are set out in note 18 to the financial statements.

There were no significant changes in the nature of the Group's principal activities during the year.

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December, 2004 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 41 to 88.

The interim dividend of HK\$0.02 per ordinary share and the third quarter dividend of HK\$0.02 per ordinary share totalling HK\$54,102,000 was paid during 2004.

The directors recommend the payment of a final dividend of HK\$0.04 per ordinary share in respect of the year ended 31 December, 2004 to shareholders on the register of members on Friday, 13 May, 2005. This recommendation has been incorporated in the financial statements as an allocation of retained profits within capital and reserves in the balance sheet. The Board also recommended a bonus issue of 1 share for every 2 existing shares in view of the Group's confidence in the performance of its operations in the current financial year.

USE OF PROCEEDS FROM THE COMPANY'S INITIAL PUBLIC OFFERING

The proceeds from the Company's issue of new shares at the time of its listing on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") in September 2000, after deduction of related issuance expenses, amounted to approximately HK\$61,973,000. Application of proceeds up to 31 December, 2004 and comparison with the proposed applications set out in the listing document of the Company dated 30 October, 2003 (the "Listing Document") is set out on page 37 of this report.

SUMMARY OF FINANCIAL INFORMATION

A summary of the published results and assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the audited financial statements and reclassified as appropriate, is set out below. This summary does not form part of the audited financial statements.

	2004 HK\$'000	2003 HK\$'000	2002 HK\$'000	2001 HK\$'000	2000 HK\$'000
RESULTS					
TURNOVER	1,050,383	821,700	692,320	539,910	392,726
Cost of sales	(186,312)	(168,696)	(145,286)	(101,436)	(83,222)
Gross profit	864,071	653,004	547,034	438,474	309,504
Other revenue and gains	10,347	9,318	3,932	5,092	2,314
Selling and distribution costs	(411,393)	(338,446)	(309,437)	(237,601)	(163,740)
Administrative expenses	(158,124)	(116,215)	(84,257)	(78,610)	(54,987)
Other operating expenses	(39,073)	(40,191)	(20,562)	(7,793)	(5,400)
PROFIT FROM OPERATING ACTIVITIES	265,828	167,470	136,710	119,562	87,691
Finance costs	(1,348)	(1,380)	(1,124)	(1,913)	(2,483)
Share of profit of:					
A jointly-controlled entity	54,985	7,411	–	–	–
Amortisation of goodwill on acquisition of a jointly controlled entity	(4,462)	(267)	–	–	–
PROFIT BEFORE TAX	315,003	173,234	135,586	117,649	85,208
Tax	(29,940)	(23,299)	(17,175)	(8,184)	(6,767)
PROFIT BEFORE MINORITY INTERESTS	285,063	149,935	118,411	109,465	78,441
Minority interests	(116,726)	(68,320)	(61,042)	(47,730)	(33,428)
NET PROFIT ATTRIBUTABLE TO SHAREHOLDERS	168,337	81,615	57,369	61,735	45,013
ASSETS, LIABILITIES AND MINORITY INTERESTS					
TOTAL ASSETS	918,283	736,003	593,986	433,129	377,232
TOTAL LIABILITIES (exclude convertible bonds)	(204,822)	(161,669)	(124,653)	(91,800)	(98,609)
MINORITY INTERESTS	(212,964)	(156,348)	(129,725)	(96,790)	(68,819)
CONVERTIBLE BONDS	(42,900)	(78,000)	(46,800)	–	–
NET ASSETS	457,597	339,986	292,808	244,539	209,804

Report of the Directors

FIXED ASSETS

Details of movements in the fixed assets of the Company and the Group during the year are set out in note 14 to the financial statements.

SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the Company's share capital and share options during the year, together with the reasons therefor, are set out in notes 30 and 31 to the financial statements.

CONVERTIBLE BONDS

Details of the convertible bonds of the Company are set out in note 33 to the financial statements.

RULE 13.18 OF THE LISTING RULES

As at 31 December, 2004, there were covenants in certain agreements of the Group relating to specific performance obligations of the Company's controlling shareholders. The following information is hereby disclosed pursuant to Rule 13.18 of Chapter 13 of the Listing Rules:

The Company has issued the one per cent. convertible bonds due 2006 in the aggregate principal account of US\$6 million to Jian Kang Ltd. and one per cent. convertible bonds due 2006 in the aggregate principal account of US\$4 million to Super Demand Investments Limited on 22 October, 2002 and 31 March, 2003 respectively. Pursuant to the convertible bonds instrument, if Mr. Tse Ping together with any family trust the beneficiaries of which include Mr. Tse Ping and/or his spouse and/ or his children shall cease to hold (directly or indirectly) at least 30% of the Equity Share Capital or Mr. Tse Ping ceases to be the single largest shareholder of the Company except where such cessation occurs as a result of the issue or transfer of shares to a long term investor which carries on a similar business to that currently conducted by the Company and its Subsidiaries, a default premium will be charged which is equal to 13 per cent. per annum compounded annually calculated from the date of the instrument to the date of payment on the outstanding principal amount of bonds.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of association or the laws of the Cayman Islands, being the jurisdiction in which the Company was established, which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year.

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 32 to the financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

At 31 December, 2004, the Company's reserves, including share premium account, available for cash distribution/or distribution in specie, calculated in accordance with the provisions of the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, and after taking into account for the proposed final dividend of HK\$55,084,000 (2003: HK\$33,200,000), amounted to HK\$125,512,000 (2003: HK\$126,038,000). Under the laws of the Cayman Islands, a company may make distribution to its members out of the share premium account under certain circumstances.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for less than 30% of the total sales for the year. Purchases from the Group's five largest suppliers accounted for less than 30% of the total purchases for the year.

None of the directors of the Company or any of their associates or any shareholders (which, to the best knowledge of the directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers or five largest suppliers.

DIRECTORS

The directors of the Company during the year and up to the date of this report were:

Executive directors:

Mr. Tse Ping	
Mr. Tao Huiqi	
Mr. Wang Jinyu	
Mr. He Huiyu	(appointed on 13 January, 2005)
Ms. Cheng Cheung Ling	(appointed on 13 January, 2005)
Ms. Zhao Yanping	(appointed on 13 January, 2005)
Mr. Tse Hsin	(appointed on 7 April, 2005)

Non-executive director:

Ms. Josephine Price

Independent non-executive directors:

Ms. Zheng Qun, Grace	
Mr. Hu Xi Ming	(resigned on 13 January, 2005)
Mr. Li Dakui	(appointed on 27 September, 2004)
Ms. Li Jun	(appointed on 13 January, 2005)

In accordance with article 86(3) of the Company's articles of association, Mr. He Huiyu, Ms. Cheng Cheung Ling, Ms. Zhao Yanping, Mr. Tse Hsin, Mr. Li Dakui and Ms. Li Jun will retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting. The independent non-executive directors are not appointed for specific terms.

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DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 31 to 36 of the annual report.

DIRECTORS' SERVICE CONTRACTS

Each of the executive directors has entered into a service contract with the Company for a term of three years from their respective dates of appointment which will continue thereafter until terminated by not less than three months' notice in writing served by either party on the other without payment of compensation.

Apart from the foregoing, no director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in note 37 to the financial statements, no director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year.

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

At 31 December, 2004, the interests and short positions of each director and chief executive of the share capital, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("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, 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			Percentage of the Company's issued share capital
			Directly beneficial owned	Through controlled corporations	Total	
Mr. Tse Ping	(1)	Beneficial owner	12,000,000	690,325,939	702,325,939	51%
Mr. Wang Jinyu	(2)	Beneficial owner	–	35,520,000	35,520,000	2.58%
Mr. Tao Huiqi		Beneficial owner	1,600,000	–	1,600,000	0.12%

Notes:

- (1) Mr. Tse Ping held these shares through Remarkable Industries Limited and Validated Profits Limited. The entire issued share capital in of these companies is owned by Mr. Tse Ping.
- (2) Mr. Wang Jinyu held these shares through Discover Profits Limited, the entire issued share capital of which is owned by Mr. Wang Jinyu.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES (Cont'd)

Long position in underlying shares

Pursuant to the share option scheme (the "Scheme") adopted by the Company on 19 September, 2000 and having accounted for the share subdivision effective on 28 April, 2004, certain Directors, being Mr. Tse Ping, Mr. Tao Huiqi and Mr. Wang Jinyu, were granted options on 2 January, 2001 to subscribe for 30,000,000 shares, 4,000,000 shares and 4,000,000 shares of the Company, respectively, at a subscription price of HK\$0.185 per share exercisable during the period from 3 January, 2003 to 1 January, 2007 (both days inclusive). As at 31 December, 2004 (after the share subdivision became effective on 28 April, 2004), 18,000,000 shares, 2,400,000 shares and 2,400,000 shares remained issuable upon the exercise in full of all the respective share options of Mr. Tse Ping, Mr. Tao Huiqi and Mr. Wang Jinyu granted under the Scheme which were yet to be exercised.

Save as disclosed above, none of the directors and chief executive of the Company had registered an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded 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.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

So far as the Directors are aware, as at 31 December, 2004, each of the following persons, not being a Director or a chief executive of the Company, had an interest and/or short position in the Company's shares and/or underlying shares as recorded in the register of interests 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	Approximate percentage of issued share capital of the Company
Validated Profits Limited	(1)	Beneficial owner	461,054,899	33.48%
Remarkable Industries Limited	(1)	Beneficial owner	229,271,040	16.65%
Conspicuous Group Limited	(2)	Beneficial owner	234,154,061	17%
Chia Tai Development Investment Company Limited	(3)	Interest of a controlled corporation	234,154,061	17%
Mr. Dhanin Chearavanont	(4)	Interest of a controlled corporation	234,154,061	17%

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES (Cont'd)

Long position in shares and/or underlying shares (Cont'd)

Name	Notes	Capacity/Nature of Interest	Number of shares and/or underlying shares of the Company	Approximate percentage of issued share capital of the Company
Jian Kang Ltd.	(5)	Beneficial owner	109,473,684	7.95%
Aria Investment Partners, L.P.	(6)	Interest of a controlled corporation	109,473,684	7.95%
CLSA Private Equity Management Limited	(7)	Investment manager	109,473,684	7.95%
CLSA Funds Limited	(8)	Interest of a controlled corporation	109,473,684	7.95%
CLSA B.V.	(9)	Interest of a controlled corporation	109,473,684	7.95%
Calyon Capital Markets Asia BV	(10)	Interest of a controlled corporation	109,473,684	7.95%
Calyon Capital Markets International SASU	(11)	Interest of a controlled corporation	109,473,684	7.95%
Calyon S.A.	(12)	Interest of a controlled corporation	109,473,684	7.95%
Credit Agricole S.A.	(13)	Interest of a controlled corporation	109,473,684	7.95%
SAS Rue La Boetie	(14)	Interest of a controlled corporation	109,473,684	7.95%

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) Conspicuous Group Limited ("Conspicuous") beneficially owned 234,154,061 shares.
- (3) Chia Tai Development Investment Company Limited ("CT Development") has declared an interest in 234,154,061 shares in which Conspicuous has declared an interest in note (2), by virtue of its shareholding in Conspicuous.
- (4) Mr. Dhanin Chearavanont has declared an interest in 234,154,061 shares in which CT Development has declared an interest in note (3), by virtue of his shareholding in CT Development.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES (Cont'd)

Long position in shares and/or underlying shares (Cont'd)

Notes: (Cont'd)

- (5) Jian Kang Ltd. beneficially owned 49,109,684 shares and 60,364,000 underlying shares.
- (6) 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 49,109,684 shares and 60,364,000 underlying shares in which Jian Kang Ltd. has declared an interest for the purpose of the SFO.
- (7) CLSA Private Equity Management Limited is the investment manager of Aria Investment Partners, L.P.
- (8) CLSA Funds Limited 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 49,109,684 shares and 60,364,000 underlying shares in which CLSA Private Equity Management Limited has declared an interest for the purpose of the SFO as mentioned in Note 7 above.
- (9) 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 49,109,684 shares and 60,364,000 underlying shares in which CLSA Private Equity Management Limited has declared an interest for the purpose of the SFO as mentioned in Notes 7 and 8 above.
- (10) 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 49,109,684 shares and 60,364,000 underlying shares in which CLSA Private Equity Management Limited has declared an interest for the purpose of the SFO as mentioned in Notes 7, 8 and 9 above.
- (11) Calyon Capital Markets International SASU is beneficially interested in the entire issued share capital of Calyon Capital Markets Asia BV and is deemed or taken to be interested in the 49,109,684 shares and 60,364,000 underlying shares in which CLSA Private Equity Management Limited has declared an interest for the purpose of the SFO as mentioned in Notes 7, 8, 9, 10 above.
- (12) Calyon S.A. is beneficially interested in the entire issued share capital of Calyon Capital Markets International SASU and is deemed or taken to be interested in the 49,109,684 shares and 60,364,000 underlying shares in which CLSA Private Equity Management Limited has declared an interest for the purpose of the SFO as mentioned in Notes 7, 8, 9, 10 and 11 above.
- (13) 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 49,109,684 shares and 60,364,000 underlying shares in which CLSA Private Equity Management Limited has declared an interest for the purpose of the SFO as mentioned in Notes 7, 8, 9, 10, 11 and 12 above.
- (14) 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 the 49,109,684 shares and 60,364,000 underlying shares in which CLSA Private Equity Management Limited has declared an interest for the purpose of the SFO as mentioned in Notes 7, 8, 9, 10, 11, 12 and 13 above.

Save as disclosed above, as at 31 December, 2004, no person, other than the directors and chief executive of the Company, whose interests are set out in the section "Directors' and chief executives' interests and short positions in shares, underlying shares and debentures" above, had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded in the register pursuant to Section 336 of the SFO.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

Save as disclosed under the heading "Directors' and Chief Executives' interests and short positions in share, underlying shares and debentures" above and in the "Share option scheme" below, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any directors or their respective spouse or minor children, or were any such rights exercised by them; or was the Company, or any of its subsidiaries or fellow subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

SHARE OPTION SCHEME

In connection with the approval of the listing on the Main Board of the Stock Exchange of, and permission to deal on the Main Board of the Stock Exchange in, the Shares of the Company in issue and any Shares which may fall to be issued upon the exercise of options which have granted under the Old Share Option Scheme (as defined in the Listing Document) or the Existing Share Option Scheme (as defined in the Listing Document) or any option which may, prior to the termination of the Existing Share Option Scheme, be granted thereunder or under the proposed share option scheme of the Company (the "Proposed Share Option Scheme"), the Proposed Share Option Scheme be approved and adopted and the board of directors of the Company be authorized to do all such acts and to enter into all such transactions, arrangements and agreements as may be necessary or expedient in order to give full effect to the Proposed Share Option Scheme including, but without limitation:

- (1) to administer the Proposed Share Option Scheme under which options may be granted to Participants (as defined in the Proposed Share Option Scheme) to subscribe for Shares;
- (2) to modify and/or amend the Proposed Share Option Scheme from time to time provided that such modification and/or amendment is effected in accordance with the provisions of the Proposed Share Option Scheme relating to modification and/or amendment;
- (3) to make application at the appropriate time or times to the Stock Exchange, and any other stock exchanges upon which the issued Shares may for the time being be listed, for listing of and permission to deal in any Shares which may hereafter from time to time be issued and allotted pursuant to the exercise of any options granted under the Proposed Share Option Scheme; and
- (4) to consent, if it so deems fit and expedient, to such conditions, modifications and/or variations as may be required or imposed by the relevant authorities in relation to the Proposed Share Option Scheme, and accordingly that the Existing Share Option Scheme be terminated with effect from the approval and the adoption of the Proposed Share Option Scheme as aforesaid becoming unconditional (without prejudice to the rights and benefits of and attached to any such options as may have been granted under the Existing Share Option Scheme which are outstanding).

OUTSTANDING SHARE OPTIONS

As at 31 December 2004, options to subscribe for an aggregate of 72,000,000 shares (which include the options granted to Mr. Tse Ping, Mr. Tao Huiqi and Mr. Wang Jinyu, as disclosed above) of the Company granted were outstanding. Details are as follows:

Number of share options	Number of employees	Subscription price per share HK\$	Option period
72,000,000	13	0.185	3 January, 2003 to 1 January, 2007

Generally, the options may be exercised in different tranches within the option period.

CONNECTED TRANSACTIONS

During the year, the Group had related party transactions, as further detailed below and in note 37 to the financial statements, which also constituted connected transactions under the Listing Rules.

Below are the connected transactions conducted by the Group in accordance with the conditional waiver from strict compliance with the relevant continuing connected transactions requirements under the Listing Rules:–

- (i) Sales of products from Shandong Chia Tai Freda Pharmaceutical Co., Ltd. ("CTF") to Shandong Biochemical Pharmaceutical Co. ("Shandong Biochemical") which holds a 30% equity interest in each of CTF and Shandong Chia Tai Freda New Packaging Resources Co., Ltd. ("CTFP").
- (ii) The leasing of a property situated at No.264 Shanda Road, Jinan, Shandong Province, the PRC of approximately 11,800 sq.m. by CTF from Shandong Research Institute, a fellow subsidiary of Shandong Biochemical, which holds 30% equity interest in each of CTF and CTFP.
- (iii) Certain technological cooperation agreements and technology transfer agreements between CTF and Shandong Research Institute, under which Shandong Research Institute is responsible for research and development of pharmaceutical products and will transfer the benefit of the research results to CTF in return for the payment research expense by CTF.
- (iv) Purchases of raw materials by Jiangsu Chia Tai-Tianqing Pharmaceutical Co., Ltd. ("JCTT") from Jiangsu State Agribusiness Commercial Commodities Limited, a wholly-owned subsidiary of Jiangsu State Agribusiness Group Corporation Limited, which holds a 33.5% equity interest in JCTT.

The independent non-executive Directors have reviewed the terms and transactions and conformed to the Board of Directors that, in their opinion, the transactions, and the arrangements governing those transactions, are entered into by the relevant members of the Group in the ordinary and usual course of business and on normal commercial terms, and were fair and reasonable so far as the shareholders of the Company are concerned and in the interests of the shareholders of the Company as a whole.

DIRECTORS' INTERESTS IN A COMPETING BUSINESS

During the year and up to the date of this report, the following director is considered to have interests in a business which competes or is likely to compete, either directly or indirectly, with the businesses of the Group, as defined in the Listing Rules, as set out below.

Mr. Tse Ping owns controlling interests or investment interests in Xian C.P. Pharmaceutical Co., Ltd. ("CT Xian"), Ankang Chia Tai Pharmaceutical Co., Ltd. ("CT Ankang"), Hainan Tigerlily Pharmaceutical Co., Ltd. ("HTPC"), ABH Nature's Products Inc. ("ABH") and Jiangsu Chia Tai Fenghai Pharmaceutical Company Limited ("CT Fenghai").

CT Xian is a medicine producing enterprise principally engaged in the production and distribution of anti-cancer medicines, gastrointestinal medicines, gynaecological medicines and dermatitis medicine for psoriasis. CT Ankang is principally engaged in the production and distribution of a medicine reducing blood-fat level, gynaecomastia medicines, medicines for treating cardiovascular disease and other chemical medicines. CT Ankang acquired a PRC pharmaceutical company which has one product for the treatment of cardiovascular namely, Puerain injections which may compete with an existing product namely, Spring (Puerain glucose injections) produced by the Group. HTPC is a trading company engaged in the import and export of medicines, including vitamins, anti-biotics and gastro medicines from Europe, the United States, Korea and other countries. ABH is principally engaged in the re-processing of natural medicines and vitamins in the United States. CT Fenghai is principally engaged in the production and distribution of raw material and preparation of antibiotics and synthetic drugs.

There is no law or regulation or agreement which prohibits or restricts the entry of the above enterprises into any business which may compete directly or indirectly with the Group.

Mr. Tse Ping has signed a deed of non-competition undertaking in favour of the Company dated 19 September, 2000 ("2000 Deed of Undertaking") under which he has undertaken that, for so long as Mr. Tse Ping, together with his associates, shall remain beneficially interested, directly or indirectly, in shares with at least 30% of the voting rights of the Company, neither Mr. Tse Ping nor any of the companies or other entities in which more than 50% of the issued shares or equity of other nature carrying voting rights are directly or indirectly owned by Mr. Tse Ping or regarding which companies or entities Mr. Tse Ping is entitled to control the board of directors or management body of similar nature ("Mr. Tse Ping's Companies") (excluding for this purpose the Group) will:

- (a) within the areas of Hong Kong, Shandong Province and Jiangsu Province of the PRC, carry on, become engaged or otherwise become interested (save through Mr. Tse Ping's interest in the Company), directly or indirectly, in any business activities involving the business of the Company; and
- (b) in the PRC, other than within the areas of Hong Kong, Shandong Province and Jiangsu Province of the PRC (save through Mr. Tse Ping's interest in the Company), become engaged or otherwise become interested, directly or indirectly, in or otherwise commence any business activities involving the business of the Company, if to do so will result in competition or likely to compete with any part of the business of the Company already carried on by the Group in such territory at the time Mr. Tse Ping and/or Mr. Tse Ping's Companies (excluding for this purpose the Group) propose to invest in such business activities.

DIRECTORS' INTERESTS IN A COMPETING BUSINESS (Cont'd)

Mr. Tse Ping has also executed a new deed of non-competition undertaking in favour of the Company on 9 September, 2003 which became effective upon the commencement of trading in shares of the Company on the Main Board of the Stock Exchange, details of which are set out in the Listing Document. The 2000 Deed of Undertaking would terminate upon the aforesaid deed of non-competition undertaking becoming effective.

Save as disclosed above, none of the directors of the Company had an interest in a business which competes or may compete with the business of the Group.

POST BALANCE SHEET EVENTS

Details of the significant post balance sheet events of the Group are set out in note 38 to the financial statements.

EMOLUMENT POLICY

Including the Directors, the Group had around 3,008 employees as at 31 December, 2004. The Group remunerates its employees based on their performance, experience and prevailing market rate. Other employee benefits include insurance and medical coverage, subsidized training programmes as well as share option scheme.

The determination of emoluments of the directors of the Company had taken into consideration of their expertise and job specifications.

CORPORATE GOVERNANCE

The Company has complied throughout the year ended 31 December, 2004 with the Code of Best Practice as set out in Appendix 14 of the Listing Rules.

The Company has adopted a code of conduct regarding securities transactions by Directors on terms no less exacting than the required standard set out in the Model Code. 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.

Each of the Independent Non-Executive Directors has confirmed his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all of the independent non-executive directors are independent.

Report of the Directors

AUDIT COMMITTEE

The Company has established an audit committee (the "Committee") with written terms of reference in accordance with the requirement of the Code of Best Practice. The primary duties of the Committee are to review the Company's annual report and accounts, half-yearly reports and quarterly reports and to provide advice and comments thereon to the board of directors. The Committee will also be responsible for reviewing the financial reporting process and internal control system of the Group. The Committee has two members comprising the three independent non-executive directors, Ms. Zheng Qun, Grace, Mr. Li Dakui and Ms. Li Jun.

The Group's financial statements for the year ended 31 December, 2004 have been reviewed by the Committee, who were of the opinion that such statements complied with the applicable accounting standards, the Stock Exchange and legal requirements, and that adequate disclosures had been made. The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed internal control and financial reporting matters.

SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained a sufficient public float throughout the year ended 31 December, 2004.

AUDITORS

Ernst & Young retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD



Tse Ping
Chairman

Hong Kong, 30 March, 2005