

CHAIRMAN'S STATEMENT

DEAR SHAREHOLDERS,

**ON BEHALF OF THE BOARD OF
DIRECTORS (THE "BOARD"), I AM
PLEASED TO REPORT A PROFITABLE
YEAR ENDED 31 DECEMBER, 2005
FOR THE GROUP.**



Mr. Tse Ping *Chairman*

RESULTS

The Group had a solid year ended 31 December, 2005, with earnings and dividend reaching record highs. Though on 26 September, 2005 the Group disposed one of its subsidiaries, Sino Concept Technology Limited (whose sole asset is its 55% equity interests in Shandong Chia Tai Freda Pharmaceutical Co. Ltd. and Shandong Chia Tai Freda New Packaging Resources Co. Ltd. respectively) at a consideration of USD200 million, the Group has still achieved notable growth. Revenue from continuing operations amounted to approximately HK\$756.07 million compared with the previous year (fig.1.2), profit attributable to the Group amounted to approximately HK\$1,532.93 million, and profit attributable to the Group from continuing operations (before fair value adjustment*) increased by 28.1% to approximately HK\$108.96 million compared with the previous year. Basic earnings per share is HK69.39 cents, rose by 723.1% as compared with last year. Basic earnings per share from continuing operations (before fair value adjustment) is HK 4.93 cents, rose by 15.7% as compared with last year. Sales of new products amounted to 11.4% of the Group's total turnover. Return on shareholders' fund increased from 25.2% to 77.6%. Cash and cash equivalents at the balance sheet date were approximately HK\$1,696.01 million (fig.1.6).

DIVIDEND

The board of Directors (the "Board") has recommended the payment of a final dividend of HK1.5 cents per share, subject to the approval of shareholders at the Annual General Meeting to be held on 5 June, 2006. The final dividend, together with the first quarter dividend of HK2 cents per share (HK1.33 cents after consideration of bonus share issue), the interim dividend of HK1.5 cents per share, the third quarter dividend of HK1.5 cents per share and a special dividend of HK5 cents per share already paid, the total dividend paid for the year 2005 amounted to HK11.5 cents per share (HK10.83 cents after consideration of bonus share issue) (2004: the total dividend paid was HK8 cents per share, HK5.33 cents after consideration of bonus share issue). The Register of Members of the Company will be closed from Tuesday, 30 May, 2006 to Monday, 5 June, 2006, both days inclusive, during which period no transfer of share of the Company will be effected. In order to qualify for the final 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 Monday, 29 May, 2006.

* FAIR VALUE ADJUSTMENT

On the first year adoption of HKAS 39 for accounting the Company's convertible bonds, a fair value adjustment of HK\$66,315,000 to the embedded derivative of the convertible bonds of the Company were expensed in the income statement in the current year. The fair value adjustment was one-off and non-cash in nature as the convertible bonds were fully converted into the Company's shares in April 2005. The net asset value of the Group is no change.

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CORPORATE AWARDS



Forbes Award

Since the Company's listing on the Stock Exchange in Hong Kong in September 2000, the Group, by being aggressive but prudent and adopting appropriate policies, has achieved very impressive growth in an environment faced with challenges and opportunities. During the past five years, the Group's CAGR of sales is 28% and the CAGR of net asset is 55%. Due to its stellar performance over the past years, the Group has drawn a lot of attention and brought back home many awards. On 29 September 2005, the Company made Forbes Asia's Annual "Best 200 under a Billion" list within the Asia Pacific region. In addition, the Company was awarded "Hong Kong Outstanding Enterprises 2005" by Economic Digest and "Red Herring Small Cap 100" by Red Herring Magazine. These awards are milestones in the Company's history. The awards are recognition of not only the Group's excellent past financial performance and business development, but also acknowledgments that the Group has the best operation and management practice. It is an indication that the Group is recognized as

one of the best companies within the Asia Pacific region and the world. It also means that the management team of the Group is of the elite class in Asia Pacific region and the world.

INDUSTRY OVERVIEW

The Chinese pharmaceutical industry continued to see steady growth in 2005. Demands from hospitals and pharmaceutical retailers were huge and import and export trading of medicines also reported satisfactory growth and performance.

2005 was the year of standardization for the pharmaceutical industry. On the policy front:

More in-depth drug pricing reforms took place. In 2005, the National Development and Reform Commission ("NDRC") revised the national-priced medicines catalogue to expand its scope; From 1 August, 2005 onwards, NDRC handed over the pricing right of non-prescription medicine to the provincial office; From 1 December, 2005 onwards, the ban on medicine online trading was lifted; Progress was made in the management of pharmaceutical categorization – from 1 January, 2006 onwards, Category-nine medicines have been barred from pharmaceutical retailers, while Category-eleven medicines could only be purchased with prescription; The 2005 pharmacopoeia was launched on 1 July, 2005; The "Direct Sale Regulations" became effective on 1 December, 2005; "Provisions for Health Food Registration" was effective in 2005; Commencing from 2006, the nation has stepped up implementation of the "Industrial Back Feeding Agriculture Policy". This helps to speed up the establishment of medicine delivery and monitoring networks for rural areas; The third-tier end markets (village and town hospitals, public health hospitals, public health centers, public health clinics, private clinics) are taking shape; NDRC has stated its intention to implement a clear pricing system for medicines commencing 2006; Outsourcing production will become the new market trend.

The Chinese pharmaceutical market is still undergoing restructuring, the impact of which is reflected in the differences in profitability of different players. Companies with own prominent brands, technology and resources are set to grow with the industry. Players able to replicate products quickly and innovate are also more prone to grow. It is also apparent that pharmaceutical companies are changing from replicating medicines to innovation formulae. Chinese modernized medicines become more popular, and those companies with mastered and patented technology would experience the fastest growth. The industry is also seeing an adjustment in weight among its different segments – Chinese medicine and biological medicine are developing much quicker than chemical medicine, and the proprietary medicines will also gain a larger portion.

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In 2005, despite the global pharmaceutical entities faced the challenges from cost saving control, the restrictions of policies and rules, and the safety assurance of products; the longevity of human beings, increase in wealth, product innovations and the new progress of the existing products will drive the growth in the pharmaceutical industry and is expected to grow at 7% each year in the following years. Proprietary medicines will continue to steer market development but at a slower pace, whereas non-patented medicines will gain a bigger market share.

The intrinsic factors causing the growth in demand for medicines in the PRC are: a growing population, aging, and the increase in consumption of medicine per capita. The pharmaceutical industry is at the peak of merging and restructuring, and the trend is expected to continue and hasten. The restructuring will boost the industry's total assets, but the industry has first to bring scattered markets together. The next few years will see Chinese pharmaceutical enterprises merging and restructuring favoring the stronger players, and the gap between them and the weaker players will continue to widen.

THE GROUP'S POSITION IN THE PRC PHARMACEUTICAL MARKET

According to the "National Pharmaceutical Economic Statistics Network", JCTT, Beijing Tide, and Chia Tai Qingchunbao ranked amongst the top fifty enterprises in the industry in terms of profitability in 2005. The average profit of the pharmaceutical industry in the PRC was 8.4% in 2005.

The Group's principal profit contributors were JCTT, Beijing Tide and CTQ.

OUTLOOK AND PROSPECT

Players in the PRC pharmaceutical industry are presented with both challenges and opportunities in the face of changing policy. The pharmaceutical economy is still on the path of steady growth. The continuous development of the national economy, improving living standard, growing population, increasing urbanization of rural areas and the accelerating penetration of the village medical system together are driving the development of the industry, presenting to it huge business opportunities.

The Group will continue to develop medicines for treating hepatitis and cardio-cerebral diseases, its two existing markets, and at the same time, strive to expand the markets for oncology medicines, analgesic medicines, respiratory system drugs and anti-diabetic drugs. With a sound operating profit base; a quality management team; an extensive sales network spanning over 30 provinces, cities and autonomous regions; various patented products; a strong sense of intellectual property rights protection; strong product development capabilities; experience in effecting fast entry of product into market, shrewd market judgment; superb quality products with proven therapeutic effects; reasonable pricing; well-established corporate and product image among medical practitioners and patients; and GMP-certified production facilities and blockbuster drugs addressing continual market needs, the Group is set to capture every business opportunity and benefit from the booming market. Our target is to achieve the highest cost effectiveness and thereby ensure our business will deliver outstanding results and we will continue to lead the pharmaceutical market in the PRC.

Being recognized by and working in close collaboration with other industry players, and with abundant cash reserves, the Group has attracted a number of business propositions from various domestic and overseas pharmaceutical enterprises. The Group plans to accelerate business development and create a new driver of profit growth in the years to come through mergers, acquisitions and restructuring.

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APPRECIATION

On behalf of the Directors, I would like to extend my gratitude to our shareholders for their full trust, support and understanding, and to all our staff for their contribution, diligence and creativity that helped the Group to achieve such outstanding performance.



Tse Ping
Chairman

11 April, 2006