

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, 2005.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the subsidiaries are set out in note 19 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, 2005 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 50 to 129.

The addition payment for 2004 final dividend of HK\$5,288,000 due to the conversion of convertible bonds in 2005, together with the first quarter dividend of HK\$0.02 per ordinary share (HK\$0.0133 per ordinary share after consideration of bonus share issue), the interim dividend of HK\$0.015 per ordinary share, the third quarter dividend of HK\$0.015 per ordinary share and the special dividend of HK\$0.05 per ordinary share totalling HK\$216,592,000 was paid during 2005.

The directors recommend the payment of a final dividend of HK\$0.015 per ordinary share in respect of the year ended 31 December, 2005 to shareholders on the register of members on Monday, 5 June, 2006. This recommendation has been incorporated in the financial statements as an allocation of retained profits within equity section of the balance sheet.

REPORT OF THE DIRECTORS

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.

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i> (Restated)	2003 <i>HK\$'000</i> (Restated)	2002 <i>HK\$'000</i> (Restated)	2001 <i>HK\$'000</i> (Restated)
RESULTS					
REVENUE	756,073	664,296	456,089	342,610	284,930
Cost of sales	(139,418)	(133,163)	(105,872)	(73,201)	(68,670)
Gross profit	616,655	531,133	350,217	269,409	216,260
Other income and gains	28,599	7,063	8,154	3,389	4,590
Selling and distribution costs	(310,609)	(253,390)	(176,167)	(152,372)	(118,559)
Administrative expenses	(110,866)	(101,885)	(79,396)	(53,550)	(41,026)
Other operating expenses	(42,224)	(33,382)	(18,593)	(13,349)	(7,073)
Finance costs	(2,729)	(1,050)	(843)	(418)	(1,559)
PROFIT BEFORE TAX AND BEFORE FAIR VALUE ADJUSTMENT FOR DERIVATIVE FINANCIAL INSTRUMENT	178,826	148,489	83,372	53,109	52,633
Fair value adjustment for derivative financial instrument	(66,315)	–	–	–	–
PROFIT BEFORE TAX AND AFTER FAIR VALUE ADJUSTMENT FOR DERIVATIVE FINANCIAL INSTRUMENT	112,511	148,489	83,372	53,109	52,633
Tax	(18,311)	(15,407)	(11,625)	(9,540)	(2,222)
PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS	94,200	133,082	71,747	43,569	50,411
DISCONTINUED OPERATION					
Profit for the year from a discontinued operation	152,213	152,129	78,209	74,842	59,054
Gain on disposal of subsidiaries	1,406,191	–	–	–	–
Total profit for the year from a discontinued operation	1,558,404	152,129	78,209	74,842	59,054
PROFIT FOR THE YEAR	1,652,604	285,211	149,956	118,411	109,465
Attributable to:					
Equity holders of the parent	1,532,929	168,485	81,636	57,369	61,735
Minority interests	119,675	116,726	68,320	61,042	47,730
	1,652,604	285,211	149,956	118,411	109,465
TOTAL ASSETS	2,140,222	950,535	787,244	593,986	433,129
TOTAL LIABILITIES (exclude convertible bonds)	(164,978)	(239,845)	(215,531)	(124,653)	(91,800)
CONVERTIBLE BONDS	–	(42,900)	(78,000)	(46,800)	–
NET ASSETS	1,975,244	667,790	493,713	422,533	341,329
MINORITY INTERESTS	(121,997)	(211,716)	(156,348)	(129,725)	(96,790)

REPORT OF THE DIRECTORS

PROPERTIES, PLANT AND EQUIPMENT

Details of movements in the properties, plant and equipment, and investment properties of the Company and the Group during the year are set out in note 15 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 28 to the financial statements.

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, 2005, 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\$33,959,000 (2004: HK\$55,084,000), amounted to HK\$1,589,790,000 (2004: HK\$125,512,000). 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.

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DIRECTORS

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

Executive directors:

Mr. Tse Ping	
Mr. Wang Jinyu	
Mr. Tao Huiqi	
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)
Mr. Zhang Baowen	(appointed on 11 April, 2006)

Non-executive director:

Ms. Josephine Price

Independent non-executive directors:

Mr. Lu Zhengfei	(appointed on 22 November, 2005)
Ms. Zheng Qun, Grace	(resigned on 22 November, 2005)
Mr. Li Dakui	
Ms. Li Jun	(appointed on 13 January, 2005)
Mr. Hu Ximing	(resigned on 13 January, 2005)

In accordance with article 87 of the Company's articles of association, Mr. Tse Ping, Mr. Tao Huiqi, Mr. Wang Jinyu, Ms. Josephine Price, Mr. Lu Zhengfei and Mr. Zhang Baowen shall hold office until the forthcoming Annual General Meeting and shall then be eligible for re-election. Save for Ms. Josephine Price, such retiring Directors have offered themselves for re-election at the forthcoming annual general meeting.

Each of the independent non-executive directors are appointed for a term of two years subject to retirement by rotation and re-election at the annual general meeting of the Company, in accordance with the Company's articles of association.

The Company has received from each of independent non-executive director an annual confirmation of independence pursuant to the new independence guidelines under the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules") and that the Company considers such directors to be independent.

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 41 to 46 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 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.

REPORT OF THE DIRECTORS

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, 2005, the interests and short positions of each director and chief executive of the Company in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong ("SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange 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	Number of shares held, capacity and nature of interest				Total	Percentage of the Company's issued share capital
		Capacity/ Nature of interest	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. Wang Jinyu	(3)	Beneficial owner	3,600,000	53,280,000	–	56,880,000	2.51%
Mr. Tao Huiqi		Beneficial owner	6,000,000	–	–	6,000,000	0.27%
Mr. Tse Hsin		Beneficial owner	25,800,000	–	–	25,800,000	1.14%
Ms. Zhao Yanping		Beneficial owner	636,000	–	–	636,000	0.03%

Notes:

- (1) Mr. Tse Ping held 1,035,488,908 shares through Remarkable Industries Limited and Validated Profits Limited. The entire issued share capital in each of these companies is owned by Mr. Tse Ping.
- (2) Ms. Cheng Cheung Ling is the spouse of Mr. Tse Ping and is therefore deemed to be interested in the same shares in which Mr. Tse Ping has an interest.
- (3) Mr. Wang Jinyu held 53,280,000 shares through Discover Profits Limited, the entire issued share capital of which is owned by Mr. Wang Jinyu.

REPORT OF THE DIRECTORS

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES (Cont'd)**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	Jiangsu Chia Tai-Tianqing Pharmaceutical Co., Ltd. (江蘇正大天晴藥業股份有限公司)	Beneficial owner	173,250	0.18%

Saved as disclosed above, as at 31 December, 2005, none of the Directors and chief executives of the Company had any interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporation (within the meaning of the SFO) as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

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

As at 31 December, 2005, the following persons (not being a Director or chief executive of the Company) had the following interests and/or short positions in the shares and/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

Name	Notes	Capacity/Nature of Interest	Number of Underlying shares of the Company	Approximate 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	162,000,000	7.16%
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%

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PERSONS WHO HAVE AN INTEREST OR SHORT POSITION WHICH IS DISCLOSEABLE UNDER THE SECURITIES AND FUTURES ORDINANCE AND SUBSTANTIAL SHAREHOLDERS (Cont'd)

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 162,000,000 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 31 December, 2005, no person (not being a Director or chief executive of the Company) had an interest and/or short position in the shares and/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.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Saved 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 Scheme be and is hereby approved and adopted and the board of directors of the Company be and is hereby 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 Scheme including, but without limitation:

- (1) to administer the Scheme under which options may be granted to Participants (as defined in the Scheme) to subscribe for Shares;
- (2) to modify and/or amend the Scheme from time to time provided that such modification and/or amendment is effected in accordance with the provisions of the 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 Scheme; and

REPORT OF THE DIRECTORS

SHARE OPTION SCHEME (Cont'd)

- (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 Scheme.

CONNECTED TRANSACTIONS

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

- (i) 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 ("Jiangsu Agribusiness"), 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.

During the year, Chia Tai Pharmaceutical (Lianyungang) Company Limited, a wholly-owned subsidiary of the Company, had entered into the new joint venture contract and new articles of association of Lianyungang Tianyi Medicine Co., Ltd. with Lianyungang Runzi Consultation Centre and Jiangsu Juxin Investment Management Corporation Limited, 51% owned by Jiangsu Agribusiness.

Beijing Chia Tai Green Continent Pharmaceutical Co., Ltd. ("CTGC"), a 75% subsidiary of the Company, had also entered into the new joint venture contract and new articles of association of Jiangsu Qingjiang Pharmaceutical Co., Ltd. ("Jiangsu Qingjiang") with Jiangsu Agribusiness, Huaian Hongda Investment Consulting Centre and Jiangsu Juxin Investment Management Company Limited whereby CTGC would contribute to the registered capital of Jiangsu Qingjiang through the injection of certain pharmaceutical technologies.

During the year, the Group had entered into the following agreements, which would constitute continuing connected transactions under the the Listing Rules for a term of three years from 1 January, 2006 to 31 December, 2008:–

- (i) Provision of technology development services for certain pharmaceutical products by CTGC, a 75% subsidiary of the Company to Xian C.P. Pharmaceutical Co., Ltd., a company held as to 60% (indirect) by Mr. Tse Ping, Chairman of the Company.
- (ii) Provision of technology development services for certain pharmaceutical products by CTGC to Jiangsu Chia Tai Fenghai Pharmaceutical Co., Ltd., a company held as to 51% (indirect) by Mr. Tse Ping, Chairman of the Company.

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RULE 13.18 OF THE LISTING RULES

As at 31 December, 2005, 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 amount of US\$6 million to Jian Kang Ltd. and one per cent. convertible bonds due 2006 in the aggregate principal amount 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.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the directors, at least 25% of the Company's total issued share capital was held by the public throughout the year ended 31 December, 2005.

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") and ABH Nature's Products Inc. ("ABH"), Jiangsu Chia Tai Fenghai Pharmaceutical Co., Ltd. ("CTFH") and Yancheng Suhai Pharmaceutical Co., Ltd. ("YSPC").

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. CTFH is principally engaged in the production and distribution of synthetic raw material and medicines. YSPC is principally engaged in the production and distribution of antibiotics and raw materials.

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

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.

Mr. Tse Ping has also executed a new deed of non-competition undertaking in favour of the Company on 9 September, 2003 which will become 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 or the management shareholders of the Company (as defined in the Listing Rules) 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 39 to the financial statements.

EMOLUMENT POLICY

Including the Directors, the Group had around 2,546 employees as at 31 December, 2005. 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.

In order to properly reflect the public accountability and time and effort spent on the Board and various committees and meetings, the determination of emoluments of the directors of the Company had taken into consideration of their expertise and job specifications.

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CODE ON CORPORATE GOVERNANCE PRACTICES

In the opinion of the directors, the Company has complied with the Code Provisions set out in the Code on Corporate Governance as set out in Appendix 14 of the Listing Rules for the year ended 31 December, 2005, except for the following deviations from Code Provision A.2.1 and that Code Provision B.1 is complied in the second half of the year:–

1. Code Provision A.2.1 – The Code Provisions stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Mr. Tse Ping's the chairman and chief executive officer of the Company. 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 B.1 – The Company has established a remuneration committee on 6 October, 2005 with specific terms of reference in compliance with this Code Provision.

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

The Group has complied with Rules 3.10(1) and 3.10(2) of the Listing Rules relating to appointment of a sufficient number of the independent non-executive directors ("INEDs") and at least an INED with appropriate professional qualifications, or accounting or related financial management expertise. The Company has appointed three INEDs including one with financial management expertise, details of their biographies were set out on pages 42 to 43 of the annual report.

AUDIT COMMITTEE

The Company has established an audit committee (the "Committee") with written terms of reference in accordance with the requirement of the Code on Corporate Governance Practices. 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 three members comprising the three INEDs, Mr. Lu Zhengfei, Mr. Li Dakui and Ms. Li Jun.

The Group's financial statements for the year ended 31 December, 2005 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.

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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
11 April, 2006