中國製藥集團有限公司
China Pharmaceutical
Group Limited

ANNUAL REPORT 2005

Stock Code：1093

CONTENTS

BOARD OF DIRECTORS
Executive Directors:
CAI Dong Chen *(Chairman)*
WEI Fu Min
YUE Jin
JI Jian Ming
YAO Shi An
FENG Zhen Ying
CHAK Kin Man

Non-executive Director:
LEE Ka Sze, Carmelo

Independent Non-executive Directors:
HUO Zhen Xing
QI Mou Jia
GUO Shi Chang
CHAN Siu Keung, Leonard

SOLICITORS
Woo, Kwan, Lee & Lo
27th Floor, Jardine House
1 Connaught Place
Hong Kong

AUDITORS
Deloitte Touche Tohmatsu
Certified Public Accountants
26th Floor, Wing On Centre
111 Connaught Road Central
Hong Kong

AUTHORISED REPRESENTATIVES
WEI Fu Min
CHAK Kin Man

COMPANY SECRETARY
LEE Ka Sze, Carmelo

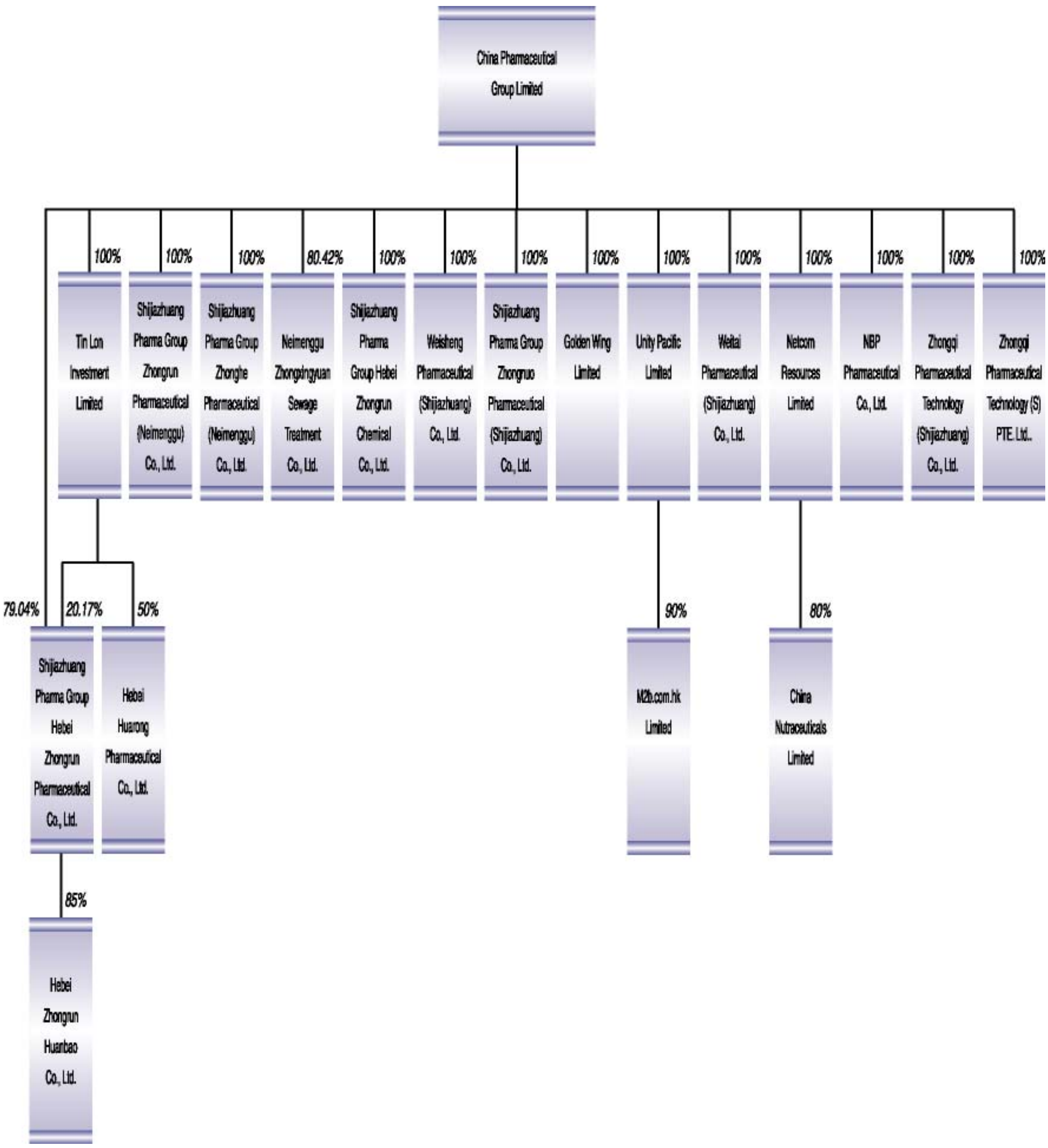
REGISTERED OFFICE
Room 3805
38th Floor
Central Plaza
18 Harbour Road
Wanchai
Hong Kong

SHARE REGISTRAR AND TRANSFER OFFICE
Secretaries Limited
26th Floor
Tesbury Centre
Queen's Road East
Hong Kong

PRINCIPAL BANKERS
China Construction Bank, Shijiazhuang Branch
China Minsheng Banking Corporation Limited, Shijiazhuang Branch
CITIC Ka Wah Bank Limited
The Hong Kong and Shanghai Banking Corporation Limited
The Industrial and Commercial Bank of China, Shijiazhuang Branch

STOCK EXCHANGE
The Stock Exchange of Hong Kong Limited

STOCK CODE
1093


China Pharmaceutical Group Limited
100%
Tin Lon Investment Limited
100%
Shijiazhuang Pharma Group Zhongrun Pharmaceutical (Neimenggu) Co., Ltd.
100%
Shijiazhuang Pharma Group Zhonghe Pharmaceutical (Neimenggu) Co., Ltd.
80.42%
Neimenggu Zhongshengyuan Sewage Treatment Co., Ltd.
100%
Shijiazhuang Pharma Group Hebei Zhongrun Chemical Co., Ltd.
100%
Weisheng Pharmaceutical (Shijiazhuang) Co., Ltd.
100%
Shijiazhuang Pharma Group Zhongnuo Pharmaceutical (Shijiazhuang) Co., Ltd.
100%
Golden Wing Limited
100%
Unity Pacific Limited
100%
Weitai Pharmaceutical (Shijiazhuang) Co., Ltd.
100%
Netcom Resources Limited
100%
NBP Pharmaceutical Co., Ltd.
100%
Zhongqi Pharmaceutical Technology (Shijiazhuang) Co., Ltd.
100%
Zhongqi Pharmaceutical Technology (S) PTE Ltd..
79.04%
20.17%
50%
Shijiazhuang Pharma Group Hebei Zhongrun Pharmaceutical Co., Ltd.
Hebei Huarong Pharmaceutical Co., Ltd.
90%
M2b.com.hk Limited
80%
China Nutraceuticals Limited
85%
Hebei Zhongrun Huanbao Co., Ltd.

On behalf of the Board of Directors, I am pleased to present the annual report of the Company for the year ended December 31, 2005.

RESULTS

In 2005, the Group's turnover and net profit amounted to HK$3,192.1 million and HK$156.5 million, representing an increase of 30% and a decrease of 36% over 2004, respectively.

The Board of Directors does not recommend the payment of a final dividend for the year ended December 31, 2005.

BUSINESS REVIEW AND OUTLOOK

Vitamin C Series

The total output of this series for the year amounted to 28,655 tonnes, an increase of 56% over last year. Following the significant expansion of the production capacity in the PRC, price of vitamin C had been continuously under pressure. The average price of vitamin C decreased from US$3.61 per kg at the beginning of the year to US$2.94 per kg at the end of the year. The average price for the whole year was US$3.24 per kg, a decrease of 24% as compared with US$4.26 per kg in the previous year. The gross profit margin of the entire series decreased from 41.8% in the previous year to 25.6% in the current year.

In view of the existing production capacity in the PRC, it is expected that the weak price will last some time. The Group will continue to expand its customer base and strengthen the business relations with its existing customers. We will also increase the proportion of our downstream products according to market demand in order to improve profitability of this series.

Penicillin Series

The total output of this series for the year amounted to 7,279 tonnes, an increase of 60% over last year. Owing to the intense market competition and the excessive production capacity, prices remained low. The average prices of penicillin industrial salt and amoxicillin for the year were US$9.27 and US$21.26 per kg respectively. The gross profit margin of the entire series decreased from 15.9% in the previous year to 6.9% in the current year.

Market consolidation still persists. However, the gradual increase in the utilization rate of the Group's production lines in Inner Mongolia will help improve the performance of this series.

Cephalosporin Series

The total output of this series for the year amounted to 1,438 tonnes, an increase of 66% over last year. Demand for 7-ACA was strong in the current year and the price went up correspondingly. The average price of 7-ACA for the year was US$92.82 per kg, an increase of 9% as compared with US$85.13 per kg in the previous year. The gross profit margin of the entire series increased from 17.8% in the previous year to 24.4% in the current year.

Since the production capacity of 7-ACA in the PRC has increased significantly in the current year, excessive supply starts to develop. It is expected that product prices will be increasingly under pressure. At the beginning of 2006, the price of 7-ACA has declined to approximately US$83 per kg.

Finished Drugs

Despite of the fierce market competition, this business unit still recorded a growth rate of 17% in the current year. Revenue increased to HK$1,110 million with a gross profit margin of 24.2%. While the sales revenue was increasing, distribution costs also increased substantially, thereby bringing down the operating profit of this business unit to HK$63 million in the current year, a decrease of 7% over last year.

Market competition is expected to remain fierce. The Group will continue to implement effective sales strategies so as to strive for business growth.

Patent Drug

The clinical trials of the patent drug, butylphthalide, in the PRC have been finished. The drug was launched to the market in the second half of the year and market response was desirable initially. As market build-up work is still in its early stage, this business unit is not expected to contribute considerable profit in the short term.

FINANCIAL REVIEW

Liquidity and Financial Position

In 2005, the Group's operating activities generated a net cash inflow of HK$186,908,000. Capital expenditure reached HK$539,000,000, which was financed by internal resources and bank loans. At December 31, 2005, the Group's current ratio was 1.10, a slight improvement as compared with 0.95 at the end of previous year. Debtor turnover period (ratio of the total of trade receivables and bills receivable balance to sales, inclusive of value added tax for sales in the PRC) decreased to 51 days as compared with 59 days in the previous year. As affected by the unfavourable market conditions, inventory turnover period (ratio of inventories balance to cost of goods sold) increased to 110 days as compared with 91 days in the previous year.

At December 31, 2005, the Group had total borrowings of HK$1,491,038,000 (comprising bank loans of HK$1,435,550,000 and loans from ultimate holding company of HK$55,488,000). The maturity profile of the total borrowings spreads over a period of four years with HK$344,804,000 repayable within one year and HK$1,146,234,000 between one to four years. Net gearing ratio was 41%, which was calculated on the basis of the Group's total borrowings net of bank balances and cash of HK$475,134,000 over equity at the balance sheet date.

45% of the Group's borrowings is denominated in Hong Kong dollars and the remaining 55% in Renminbi. The Group's revenues are either in Renminbi or in US dollars. Our exposure to foreign exchange rate fluctuations is limited as the exchange rates between these currencies are relatively stable.

Pledge of Assets

At December 31, 2005, bank balances of HK$2,428,000 and bills receivable of HK$3,828,000 were pledged to banks to secure banking facilities granted to the Group.

Contingent Liabilities

As disclosed in the Company's press announcement dated February 22, 2005, the Company and one of its subsidiary are named as, among others, defendants in certain antitrust complaints filed in the United States of America (''United States''). These antitrust complaints alleged that certain manufacturers of vitamin C in the PRC have since at least December 2001 conspired to control prices and volume of exports of vitamin C to the United States and elsewhere in the world and that as such have been in violation of the antitrust laws in the United States. It is alleged in the antitrust complaints that the purchasers of vitamin C in the United States paid more for vitamin C than they would have paid in the absence of the alleged conspiracy and, therefore, suffered losses. The plaintiffs (purportedly as representatives of classes of similar plaintiffs) seek treble unspecified damages and other relief. Subsequent to the above-mentioned press announcement, there were some other complaints with the same nature as the above-mentioned antitrust complaints filed in the United States. Up to the date of this report, three of the antitrust complaints have been served on the Company and the subsidiary.

The directors of the Company are of the view that the allegations in the antitrust complaints are without merits and, the directors of the Company intend to contest to the claims set out in the antitrust complaints vigorously. The Group has appointed legal advisors to advise them in the legal proceedings and the outcome of the antitrust complaints cannot be estimated with certainty at this stage.

EMPLOYEES

At the balance sheet date, the Group had about 12,098 employees and the majority of them are employed in the PRC. The Group offers competitive remuneration packages, discretionary share options and bonuses to staff based on the performance of the Group and the individual employee.

ACKNOWLEDGEMENT

On behalf of the Board of Directors, I would like to take this opportunity to express our sincere thanks to our shareholders for their support and to our staff for their commitment and diligence during the year.

By order of the Board
CAI DONG CHEN
Chairman

Hong Kong, April 11, 2006

Corporate Governance Practices

The Company is committed to ensuring a high standard of corporate governance. The Board believes that good corporate governance practices are increasingly important for maintaining and promoting the confidence of shareholders. The Board will review its corporate governance practices from time to time to ensure they reflect the latest development and meet the expectations of the shareholders.

The Company has complied with the code provisions in the Code on Corporate Governance Practices (the ''Code'') contained in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange (the ''Listing Rules'') during the year ended December 31, 2005 with certain deviations from code provision A.2.1 as set out in this report.

Board of Directors

The Board currently comprises seven executive directors, one non-executive director and four independent non-executive directors. One of the independent non-executive directors has the appropriate professional accounting experience and expertise. The biographies of the directors are set out on pages 11 to 13 of the annual report.

The Board is responsible for establishing strategic direction, setting objectives and business plans and monitoring performance. The management of the subsidiaries of the Company is responsible for the day-to-day management and operation of their respective individual business units.

The Board meets regularly to review the financial and operating performance of the Group and approve business plans. Four regular board meetings were held at approximately quarterly interval in 2005 and the individual attendance of each director at the board meetings during 2005 is set out below:

Directors	**Attendance**	
Executive Directors:		
Mr. Cai Dong Chen *(Chairman)*	4	
Mr. Ding Er Gang	3	*(resigned during the year, attendance rate was 100% in 2005)*
Mr. Wei Fu Min	3	
Mr. Yue Jin	4	
Mr. Ji Jian Ming	3	*(appointed during the year, attendance rate was 75% in 2005)*
Mr. Yao Shi An	4	*(appointed during the year, attendance rate was 100% in 2005)*
Mr. Chak Kin Man	1	*(appointed during the year, attendance rate was 100% in 2005)*
Non-Executive Director:		
Mr. Lee Ka Sze, Carmelo	4	
Independent Non-Executive Directors:		
Mr. Huo Zhen Xing	4	
Mr. Qi Mou Jia	2	
Mr. Guo Shi Chang	2	
Mr. Chan Siu Keung, Leonard	4	

Chairman and Managing Director

Code provision A.2.1 of the Code stipulates that the roles of chairman and managing director should be separate and should not be performed by the same individual. Prior to December 1, 2005, Mr. Cai Dong Chen was the Chairman of the Board and Mr. Ding Er Gang was the managing director of the Company with their roles segregated. Since the resignation of Mr. Ding as executive director and managing director of the Company on December 1, 2005, Mr. Cai has assumed both roles as the chairman and managing director of the Company. The Company believes that vesting both roles in Mr. Cai will allow for more effective planning and execution of business strategies. As all major decisions are made in consultation with members of the Board, the Company believes that there is adequate balance of power and authority in place.

Non-Executive Directors

Each of the non-executive director and independent non-executive directors has entered into a service contract with the Company on December 31, 2004 for a term of two years subject to the requirement that one-third of all the directors shall retire from office by rotation at each annual general meeting pursuant to the Articles of Association of the Company.

Remuneration of Directors

The Remuneration Committee of the Company is responsible for reviewing the remuneration policies, approving the salary, bonus and other benefits of executive directors and recommending to the Board remuneration of non-executive directors. The committee currently comprises three members, namely Mr. Chan Siu Keung, Leonard (Chairman), Mr. Lee Ka Sze, Carmelo and Mr. Huo Zhen Xing.

In 2005, no formal meeting was held but written consent was obtained from all members of the committee for fixing the discretionary bonus payable to an executive director upon his resignation and the emolument of a newly appointed executive director. A meeting was held with full attendance in January 2006 and a written resolution was signed by all members in March 2006 to fix the 2005 discretionary bonus and the 2006 emoluments of the executive directors. In making recommendations to the Board, the Committee based on its review of the operating results of the Group, individual performance and comparable market statistics.

Nomination of Directors

The Board has not established a nomination committee. According to the Articles of Association of the Company, the Board has the power from time to time and at any time to appoint any person as a director either to fill a casual vacancy or as an addition to the Board. The Board reviews the structure, size and composition of the Board from time to time and makes recommendation on the appointment of directors.

During 2005, the Board has reviewed the need to appoint new directors in light of the business development of the Group and the resignation of a director. Nomination was made by members of the Board based on the need of the Company and the expertise and experience of individual candidate. Two meetings were held in 2005, which were attended by Mr. Cai Dong Chen, Mr. Ding Er Gang and Mr. Wei Fu Min, to consider and approve the appointment of three new executive directors.

Directors' Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the ''Model Code'') set out in Appendix 10 of the Listing Rules. Having made specific enquiry, all directors have complied with the required standard set out in the Model Code throughout the year of 2005.

Audit Committee

The Audit Committee of the Company is responsible for providing an independent review of the effectiveness of the financial reporting process and internal control system of the Group. The committee currently comprises three members, namely Mr. Chan Siu Keung, Leonard (Chairman), Mr. Lee Ka Sze, Carmelo and Mr. Huo Zhen Xing.

The committee held four meetings in 2005 and recorded full attendance for all meetings. At the meetings, the committee considered the fees charged by the auditors, reviewed the quarterly, half-yearly and annual financial statements, reviewed the auditors' management letter and management response and reviewed the annual budget of the Group.

Based on the review and discussion at the meetings, the committee recommended to the Board to approve the quarterly, half-yearly and annual results of the Group and to adopt the measures to improve the internal control system as suggested by the auditors in the management letters.

Auditors' Remuneration

During the year, the auditors of the Company charged HK$1,600,000 for audit services and HK$952,000 for non-audit services. The non-audit services consist of review of quarterly and half-yearly financial statements and certain agreed-upon procedures.

Financial Reporting

The Board acknowledges its responsibility for preparing the financial statements of the Company and the Group. The reporting responsibilities of the auditors are set out in the auditors' report on pages 16 to 17 of the annual report.

Shareholder Communication

The objective of shareholder communication is to provide our shareholders with detailed information about the Company so that they can exercise their rights as shareholders in an informed manner.

The Company uses a range of communication tools to ensure its shareholders are kept well informed of key business imperatives. These include general meetings, interim and annual reports, announcements and circulars. Procedure for voting by poll has been included in the circulars of the Company accompanying notices convening general meetings and has been read out by the chairman at the general meetings held in 2005.

At the 2005 annual general meeting, a separate resolution was proposed by the chairman in respect of each separate issue, including re-election of directors. The respective chairman of the Board, Audit Committee and Remuneration Committee attended the 2005 annual general meeting to answer questions raised by shareholders.

The directors submit their annual report together with the audited financial statements for the year ended December 31, 2005.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. Details of the activities of its subsidiaries and jointly controlled entity are set out in notes 40 and 23 to the financial statements, respectively.

MAJOR CUSTOMERS AND SUPPLIERS

The aggregate sales and purchases attributable to the Group's five largest customers and suppliers were less than 30% of the Group's total sales and purchases for the year, respectively.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended December 31, 2005 are set out in the consolidated income statement on page 18 of the annual report.

The directors do not recommend the payment of a dividend and propose that the profit for the year be retained.

DISTRIBUTABLE RESERVES OF THE COMPANY

The Company's reserves available for distribution to shareholders as at December 31, 2005 comprised the retained profits of HK$187,898,000 (2004: HK$174,282,000).

PROPERTY, PLANT AND EQUIPMENT

During the year, the Group continued to expand and upgrade its production facilities for bulk drug products and finished drug products. Details of these and other movements during the year in the property, plant and equipment of the Group are set out in note 16 to the financial statements.

SHARE CAPITAL AND SHARE OPTIONS

Details of movements during the year in the share capital and share options of the Company are set out in notes 32 and 33 to the financial statements, respectively.

DIRECTORS

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

Executive directors:

Cai Dong Chen, Chairman	
Wei Fu Min	
Yue Jin	
Feng Zhen Ying	
Ji Jian Ming	(appointed on February 28, 2005)
Yao Shi An	(appointed on February 28, 2005)
Chak Kin Man	(appointed on December 1, 2005)
Ding Er Gang	(resigned on December 1, 2005)

DIRECTORS – continued

Non-executive director:

Lee Ka Sze, Carmelo

Independent non-executive directors:

Huo Zhen Xing
Qi Mou Jia
Guo Shi Chang
Chan Siu Keung, Leonard

In accordance with Article 92 of the Company's Article of Association, Mr. Chak Kin Man retires at the forthcoming annual general meeting and being eligible, offers himself for re-election.

In accordance with Article 101 of the Company's Articles of Association, Messrs. Yue Jin, Feng Zhen Ying, Huo Zhen Xing and Guo Shi Chang retire at the forthcoming annual general meeting by rotation and, being eligible, offer themselves for re-election.

DIRECTORS' SERVICE CONTRACTS

Each of the non-executive director and independent non-executive directors of the Company has entered into a service contract with the Company on December 31, 2004 for a term of two years.

Other than as disclosed above, no directors proposed for re-election at the forthcoming annual general meeting has a service contract which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

CAI Dong Chen

Mr. Cai, aged 52, is the Chairman of the Company and was appointed as an executive director of the Company in 1998. He is also the Chairman of Shijiazhuang Pharmaceutical Group Company Limited (''SPG''), the Company's ultimate holding company. Mr. Cai graduated from Hebei Pharmaceutical Finance College in the People's Republic of China (the ''PRC'') and joined SPG in 1972. Mr. Cai has over thirty years of technical and management experience in the pharmaceutical industry.

WEI Fu Min

Mr. Wei, aged 59, was appointed as an executive director of the Company in 1994. He graduated from Tianjin Industrial College in the PRC and has over thirty years of technical and management experience in the pharmaceutical industry.

YUE Jin

Mr. Yue, aged 42, was appointed as an executive director of the Company in 2001. He graduated from Hebei University in the PRC and has over twenty years of technical and management experience in the pharmaceutical industry.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT – continued

JI Jian Ming

Mr. Ji, aged 43, was appointed as an executive director of the Company in 2005. He graduated from Hebei University in the PRC and has more than twenty years of technical and management experience in the pharmaceutical industry.

YAO Shi An

Mr. Yao, aged 56, was appointed as an executive director of the Company in 2005. He graduated from Beijing Technology and Business University in the PRC and has over thirty years of technical and management experience in the pharmaceutical industry.

FENG Zhen Ying

Mr. Feng, aged 50, was appointed as an executive director of the Company in 2003. He graduated from Hebei Chemical College in the PRC and has over twenty years of technical and management experience in the pharmaceutical industry.

CHAK Kin Man

Mr. Chak, aged 40, joined the Company in 1999 as financial controller and was appointed as an executive director of the Company in 2005. He is a certified public accountant of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants. He graduated from the University of Hong Kong and has over sixteen years of experience in auditing and financial management.

LEE Ka Sze, Carmelo

Mr. Lee, aged 45, was appointed as an independent non-executive director of the Company in 1996 and re-designated as a non-executive director in 2004. He is a solicitor by profession and is a partner of a law firm in Hong Kong.

HUO Zhen Xing

Mr. Huo, aged 70, was appointed as an independent non-executive director of the Company in 1994. He was the former head of Industrial and Commercial Bank of China, Hebei Province branch and Shijiazhuang sub-branch.

QI Mou Jia

Mr. Qi, aged 73, was appointed as an independent non-executive director of the Company in 1996. He was the former director of the State Drug Administration of China (the ''SDA'', now known as the State Food and Drug Administration of China). He was the deputy chairman and chairman of the SDA in 1978 and 1982-1994 respectively.

GUO Shi Chang

Mr. Guo, aged 64, was appointed as an independent non-executive director of the Company in 2004. He was the Vice Governor of Hebei Provincial People's Government, the PRC from 1993 to 2002.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT – continued

CHAN Siu Keung, Leonard

Mr. Chan, aged 48, was appointed as an independent non-executive director of the Company in 2004. He is a qualified accountant and a member of the Institute of Chartered Accountants of Ontario. He holds a Master of Business Administration degree from York University, Ontario, Canada and has extensive experience in finance and investment.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Woo, Kwan, Lee & Lo, a firm of solicitors of which Mr. Lee Ka Sze, Carmelo is a partner, rendered professional services to the Group for which it received normal remuneration.

Other than as disclosed above, no contracts of significance to which the Company, its holding company, or any of its fellow subsidiaries or subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

DIRECTORS' INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at December 31, 2005, the interests of the directors and their associates in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the ''SFO'')), as recorded in the register maintained 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 (the ''Model Code'') contained in the Rules Governing the Listing of Securities on the Stock Exchange (the ''Listing Rules''), were as follows:

Long positions:

Name of director	Capacity	Number of issued ordinary shares held	Percentage of the issued share capital of the Company
Mr. Cai Dong Chen	Beneficial owner	2,000,000	0.13%
Mr. Chak Kin Man	Beneficial owner	4,000	0.00026%

Other than as disclosed above, none of the directors nor their associates had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Other than as disclosed in note 33 to the financial statements, at no time during the year was the Company, its holding company, or any of its fellow subsidiaries or subsidiaries, a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDER

As at December 31, 2005, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that the following shareholder had notified the Company of relevant interests in the issued share capital of the Company.

Name of substantial shareholder	Capacity	Number of ordinary shares of the Company held	Percentage of issued share capital
SPG	Beneficial owner and controlled corporation	783,316,161 *(Note)*	50.93%
Templeton Investment Counsel, LLC	Investment manager	77,078,246	5.01%

Note: In respect of the 783,316,161 shares, 773,436,399 shares are held by SPG and 9,879,762 shares are held by China Charmaine Pharmaceutical Company Limited, a wholly-owned subsidiary of SPG.

Other than as disclosed above, the Company has not been notified of any other relevant interests or short positions in the issued share capital of the Company or any other interests representing 5% or more of the issued share capital of the Company as at December 31, 2005.

CONNECTED TRANSACTIONS

Details of the discloseable connected transactions during the year are set out in note 28 to the financial statements. Pursuant to Rule 14A.38 of the Listing Rules, the board of directors engaged the auditors of the Company to perform certain agreed upon procedures in respect of the continuing connected transactions of the Group. The auditors have reported their factual findings on these procedures to the board of directors. The independent non-executive directors have reviewed the continuing connected transactions and the report of the auditors and have confirmed that the transactions have been entered into by the Group:

(i) in the ordinary and usual course of the Group's business;

(ii) either on normal commercial terms or on terms no less favourable than terms available to or from independent third parties; and

(iii) in accordance with the relevant agreements governing such transactions on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

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

DISCLOSURE UNDER RULE 13.18 OF THE LISTING RULES

Pursuant to two bank loan agreements, it will be an event of default under each of the loan agreements if SPG owns less than 40% of the issued share capital of the Company. The outstanding principal of the two bank loans at December 31, 2005 was amounted to HK$670,000,000 and the last instalment repayment is due in April 2009.

Save as disclosed above, there are no other events which are required to be disclosed by the Company under Rule 13.18 of the Listing Rules.

APPOINTMENT OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received, from each of the independent non-executive directors, an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all of the independent non-executive directors are independent.

EMOLUMENT POLICY

The emoluments of the directors of the Company are decided by the Remuneration Committee, having regard to the Company's operating results, individual performance and comparable market statistics.

The Company has adopted a share option scheme as an incentive to directors and eligible employees, details of the scheme are set out in note 33 to the financial statements.

SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained a sufficient public float of not less than 25% of the Company's issued shares as required under the Listing Rules throughout the year ended December 31, 2005.

POST BALANCE SHEET EVENT

Details of significant event occurring after the balance sheet date are set out in note 41 to the financial statements.

AUDITORS

A resolution will be submitted to the annual general meeting of the Company to re-appoint Messrs. Deloitte Touche Tohmatsu as auditors of the Company.

On behalf of the Board
Cai Dong Chen
CHAIRMAN

Hong Kong, April 11, 2006

Deloitte.
德勤

TO THE SHAREHOLDERS OF CHINA PHARMACEUTICAL GROUP LIMITED
(incorporated in Hong Kong with limited liability)

We have audited the financial statements of China Pharmaceutical Group Limited (the ''Company'') and its subsidiaries (collectively referred to as the ''Group'') from pages 18 to 64 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

Respective responsibilities of directors and auditors

The Companies Ordinance requires the directors to prepare financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion solely to you, as a body, in accordance with section 141 of the Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Basis of opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group as at December 31, 2005 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong, April 11, 2006

Consolidated Income Statement

For the year ended December 31, 2005

	NOTES	**2005**	2004
		HK$'000	*HK$'000*
			(Restated)
Revenue	8	**3,192,065**	2,450,649
Cost of sales		**(2,498,501)**	(1,819,804)
Gross profit		**693,564**	630,845
Other income		**21,157**	14,677
Distribution costs		**(182,723)**	(131,453)
Administrative expenses		**(293,231)**	(230,004)
Other expenses		**(20,537)**	(10,948)
Share of results of a jointly controlled entity		**(1,099)**	3,419
Finance costs	9	**(68,139)**	(27,959)
Profit before tax	10	**148,992**	248,577
Income tax	11	**7,301**	(3,185)
Profit for the year		**156,293**	245,392
Attributable to:			
Equity holders of the Company		**156,518**	245,011
Minority interests		**(225)**	381
		156,293	245,392
Dividend	14	**–**	–
Earnings per share	15		
Basic		**HK10.18 cents**	HK15.93 cents
Diluted		**N/A**	N/A

Consolidated Balance Sheet

At December 31, 2005

	NOTES	2005 HK$'000	2004 HK$'000 (Restated)
Non-current assets			
Property, plant and equipment	16	**3,176,949**	2,908,317
Prepaid lease payments	17	**154,612**	101,450
Intangible assets	20	**61,233**	69,950
Goodwill	21	**55,764**	55,764
Interest in a jointly controlled entity	23	**24,086**	24,654
Loan receivable	24	–	655
Pledged bank deposits	25	**2,428**	9,416
Deposits paid for acquisition of property, plant and equipment		–	47,305
		3,475,072	3,217,511
Current assets			
Inventories	26	**756,053**	452,855
Trade and other receivables	27	**512,987**	413,629
Bills receivable		**118,281**	90,331
Prepaid lease payments	17	**4,474**	2,837
Loan receivable	24	**670**	795
Tax recoverable		**8,096**	–
Trade receivables due from related companies	28	**14,393**	3,854
Amount due from a jointly controlled entity	28	**17,047**	16,806
Pledged bank deposits	25	–	7,282
Bank balances and cash		**472,706**	501,346
		1,904,707	1,489,735
Current liabilities			
Trade and other payables	29	**974,756**	861,340
Bills payable		**403,876**	388,040
Amounts due to related companies	28	**4,146**	58,423
Trade payable due to a jointly controlled entity	28	**3,107**	4,414
Tax liabilities		**7,328**	3,892
Bank loans – due within one year	30	**344,804**	249,813
		1,738,017	1,565,922
Net current assets (liabilities)		**166,690**	(76,187)
Total assets less current liabilities		**3,641,762**	3,141,324

At December 31, 2005

	NOTES	2005 HK$'000	2004 HK$'000 (Restated)
Non-current liabilities			
Loans from ultimate holding company	31	**55,488**	54,818
Bank loans – due after one year	30	**1,090,746**	817,409
		1,146,234	872,227
		2,495,528	2,269,097
Capital and reserves			
Share capital	32	**153,812**	153,812
Reserves		**2,331,020**	2,105,227
Equity attributable to equity holders of the Company		**2,484,832**	2,259,039
Minority interests		**10,696**	10,058
		2,495,528	2,269,097

The financial statements from pages 18 to 64 were approved and authorised for issue by the Board of Directors on April 11, 2006 and are signed on its behalf by:

Cai Dong Chen
Director

Wei Fu Min
Director

BALANCE SHEET

At December 31, 2005

	NOTES	2005 HK$'000	2004 HK$'000
Non-current assets			
Property, plant and equipment	16	**1,115**	1,708
Investments in subsidiaries	18	**1,202,052**	1,161,737
		1,203,167	1,163,445
Current assets			
Other receivables		**6,592**	5,629
Amounts due from subsidiaries	19	**908,243**	925,128
Bank balances and cash		**24,393**	99,803
		939,228	1,030,560
Current liabilities			
Other payables		**13,654**	11,700
Amount due to ultimate holding company	28	**–**	54,141
Amount due to a subsidiary	19	**304**	8,323
Bank loans – due within one year	30	**96,000**	185,020
		109,958	259,184
Net current assets		**829,270**	771,376
Total assets less current liabilities		**2,032,437**	1,934,821
Non-current liability			
Bank loans – due after one year	30	**574,000**	490,000
		1,458,437	1,444,821
Capital and reserves			
Share capital	32	**153,812**	153,812
Reserves	34	**1,304,625**	1,291,009
		1,458,437	1,444,821

Cai Dong Chen
Director

Wei Fu Min
Director

For the year ended December 31, 2005

	Attributable to equity holders of the Company									
	Share capital *HK$'000*	Share premium *HK$'000*	Capital contribution *HK$'000*	Goodwill reserve *HK$'000*	Translation reserve *HK$'000*	Non-distributable reserves *HK$'000* *(Note)*	Retained profits *HK$'000*	Total *HK$'000*	Minority interests *HK$'000*	Total *HK$'000*
At January 1, 2004	153,812	1,116,727	–	(167,254)	2,692	194,110	821,610	2,121,697	–	2,121,697
Effects of changes in accounting policies (see note 3)	–	–	–	–	–	–	–	–	8,272	8,272
At January 1, 2004 as restated	153,812	1,116,727	–	(167,254)	2,692	194,110	821,610	2,121,697	8,272	2,129,969
Profit for the year	–	–	–	–	–	–	245,011	245,011	381	245,392
Share of non-distributable reserves of a jointly controlled entity	–	–	–	–	–	865	(865)	–	–	–
Transfers	–	–	–	–	–	81,359	(81,359)	–	–	–
Capital contributions by minority shareholders of a subsidiary	–	–	–	–	–	–	–	–	1,966	1,966
Dividends paid to minority shareholders of a subsidiary	–	–	–	–	–	–	–	–	(561)	(561)
Dividends paid	–	–	–	–	–	–	(107,669)	(107,669)	–	(107,669)
At December 31, 2004	153,812	1,116,727	–	(167,254)	2,692	276,334	876,728	2,259,039	10,058	2,269,097
Effects of changes in accounting policies (see note 3)	–	–	1,362	–	–	–	(515)	847	–	847
At January 1, 2005 as restated	153,812	1,116,727	1,362	(167,254)	2,692	276,334	876,213	2,259,886	10,058	2,269,944
Exchange differences arising on translation of foreign operations recognised directly in equity	–	–	–	–	68,428	–	–	68,428	218	68,646
Profit for the year	–	–	–	–	–	–	156,518	156,518	(225)	156,293
Total recognised income and expense for the year	–	–	–	–	68,428	–	156,518	224,946	(7)	224,939
Transfers	–	–	–	–	–	79,190	(79,190)	–	–	–
Capital contributions by minority shareholders of a subsidiary	–	–	–	–	–	–	–	–	1,331	1,331
Dividends paid to minority shareholders of a subsidiary	–	–	–	–	–	–	–	–	(686)	(686)
At December 31, 2005	153,812	1,116,727	1,362	(167,254)	71,120	355,524	953,541	2,484,832	10,696	2,495,528
Attributed to:										
The Company and its subsidiaries	153,812	1,116,727	1,362	(160,130)	70,481	349,031	949,449	2,480,732	10,696	2,491,428
A jointly controlled entity	–	–	–	(7,124)	639	6,493	4,092	4,100	–	4,100
	153,812	1,116,727	1,362	(167,254)	71,120	355,524	953,541	2,484,832	10,696	2,495,528

Note: The non-distributable reserves represent statutory reserves appropriated from the profit after tax of the Company's subsidiaries and jointly controlled entity in the People's Republic of China (the ''PRC'') under the laws and regulations of the PRC.

For the year ended December 31, 2005

	2005	2004
	HK$'000	*HK$'000*
		(Restated)
OPERATING ACTIVITIES		
Profit before tax	**148,992**	248,577
Adjustments for:		
Interest income	**(2,687)**	(2,454)
Share of results of a jointly controlled entity	**1,099**	(3,419)
Finance costs	**68,139**	27,959
Amortisation of intangible assets	**16,585**	12,405
Amortisation of goodwill	**–**	3,183
Depreciation of property, plant and equipment	**245,456**	162,621
Amortisation of prepaid lease payments	**4,474**	5,615
Loss on disposal of property, plant and equipment	**15,780**	5,553
Operating cash flows before movements in working capital	**497,838**	460,040
Increase in inventories	**(303,198)**	(161,001)
(Increase) decrease in trade and other receivables	**(99,358)**	24,943
(Increase) decrease in bills receivable	**(27,950)**	1,146
Increase in trade receivables due from related companies	**(10,539)**	(1,325)
Increase in amount due from a jointly controlled entity	**(241)**	(4,677)
Increase in trade and other payables	**113,416**	103,313
Increase in bills payable	**15,836**	88,695
Decrease in amounts due to related companies	**(136)**	(21,829)
(Decrease) increase in trade payable due to a jointly controlled entity	**(1,307)**	4,254
Cash generated from operations	**184,361**	493,559
PRC Enterprise Income Tax refunds	**10,859**	10,482
PRC Enterprise Income Tax paid	**(8,312)**	(26,944)
NET CASH FROM OPERATING ACTIVITIES	**186,908**	477,097
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	**(421,168)**	(1,074,921)
Prepayment of land leases	**(57,005)**	(6,946)
Purchase of technical know-how	**(6,521)**	(9,760)
Decrease in pledged bank deposits	**14,270**	61,734
Proceeds from disposal of property, plant and equipment	**7,987**	6,483
Interest received	**2,687**	2,454
Repayment of loan receivable	**780**	795
Deposits paid for acquisition of property, plant and equipment	**–**	(47,305)
Purchase of utility rights	**–**	(12,164)
NET CASH USED IN INVESTING ACTIVITIES	**(458,970)**	(1,079,630)

	2005	2004
	HK$'000	*HK$'000*
		(Restated)
FINANCING ACTIVITIES		
Bank loans raised	**1,252,440**	959,620
Capital contributed by minority shareholders of a subsidiary	**1,331**	1,966
Repayment of bank loans	**(893,119)**	(198,747)
Dividends paid to minority shareholders	**(686)**	(561)
Dividends paid	**(54,141)**	(53,528)
Repayment of loans from ultimate holding company	–	(46,772)
Interest paid	**(74,862)**	(31,298)
NET CASH FROM FINANCING ACTIVITIES	**230,963**	630,680
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	**(41,099)**	28,147
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	**501,346**	473,199
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	**12,459**	–
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR, represented by bank balances and cash	**472,706**	501,346

1. GENERAL

The Company is a public limited company incorporated in Hong Kong and its shares are listed on The Stock Exchange of Hong Kong Limited (the ''Stock Exchange'').

The Company's parent and ultimate holding company is Shijiazhuang Pharmaceutical Group Company Limited (''SPG''), a state-owned enterprise incorporated in the People's Republic of China (the ''PRC''). SPG, together with the companies under its control, other than the Company and its subsidiaries (collectively referred to as the ''Group''), will hereinafter be referred to as the ''SPG Group''. The addresses of the registered office and principal place of business of the Company are disclosed in the ''Corporate Information'' section to the annual report.

The Company acts as an investment holding company and its subsidiaries are principally engaged in the manufacture and sale of pharmaceutical products.

The financial statements are presented in Hong Kong dollars (''HKD''), which is the same as the functional currency of the Company.

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/CHANGES IN ACCOUNTING POLICIES

In the current year, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards (''HKFRS(s)''), Hong Kong Accounting Standards (''HKAS(s)'') and Interpretations (hereinafter collectively referred to as the ''new HKFRSs'') issued by the Hong Kong Institute of Certified Public Accountants that are effective for accounting periods beginning on or after January 1, 2005. The application of the new HKFRSs has resulted in a change in the presentation of the consolidated income statement, consolidated balance sheet and consolidated statement of changes in equity. In particular, the presentation of minority interests and share of tax of the jointly controlled entity have been changed. The changes in presentation have been applied retrospectively. The application of the new HKFRSs has resulted in changes to the Group's accounting policies in the following areas that have an effect on how the results for the current or prior accounting years are prepared and presented:

Business Combinations

In the current year, the Group has applied HKFRS 3 ''Business Combinations'' which is effective for business combinations for which the agreement date is on or after January 1, 2005 and goodwill previously recognised and brought forward as at January 1, 2005. The principal effects of the application of transitional provisions of HKFRS 3 to the Group are summarised below:

Goodwill

In previous years, goodwill arising on acquisitions prior to January 1, 2001 was held in goodwill reserve, and goodwill arising on acquisitions after January 1, 2001 was capitalised and amortised over its estimated useful life. The Group has applied the relevant transitional provisions in HKFRS 3. Goodwill previously recognised in goodwill reserve of HK$167,254,000 as at January 1, 2005 continues to be held in goodwill reserve and will be transferred to the retained profits of the Group at the time when the business to which the goodwill relates is disposed of or when a cash-generating unit (''CGU'') to which the goodwill relates becomes impaired. With respect to goodwill previously capitalised on the balance sheet, the Group on January 1, 2005 eliminated

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/CHANGES IN ACCOUNTING POLICIES – continued

Goodwill – continued

the carrying amount of the related accumulated amortisation of HK$7,897,000 with a corresponding decrease in the cost of goodwill (see note 21). The Group has discontinued amortising such goodwill from January 1, 2005 onwards and such goodwill will be tested for impairment at least annually. Goodwill arising on acquisitions after January 1, 2005 is measured at cost less accumulated impairment loss (if any) after initial recognition. As a result of this change in accounting policy, no amortisation of goodwill has been charged in the current year. Comparative figures for 2004 have not been restated (see note 3 for financial impact).

In the current year, the Group has also applied HKAS 21 ''The Effects of Changes in Foreign Exchange Rates'' which requires goodwill to be treated as assets and liabilities of the foreign operation and translated at closing rate at each balance sheet date. Previously, goodwill arising on acquisitions of foreign operations was reported at the historical rate at each balance sheet date. In accordance with the relevant transitional provisions in HKAS 21, goodwill arising on acquisitions prior to January 1, 2005 is treated as a non-monetary foreign currency item. Therefore, no prior period adjustment has been made.

Owner-occupied Leasehold Interest in Land

In previous years, owner-occupied leasehold land and buildings were included in property, plant and equipment and measured using the cost model. In the current year, the Group has applied HKAS 17 ''Leases''. Under HKAS 17, the land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification, unless the lease payments cannot be allocated reliably between the land and buildings elements, in which case, the entire lease is generally treated as a finance lease. To the extent that the allocation of the lease payments between the land and buildings elements can be made reliably, the leasehold interests in land are reclassified to prepaid lease payments under operating leases, which are carried at cost and amortised over the lease term on a straight-line basis. This change in accounting policy has been applied retrospectively (see note 3 for financial impact).

Share-based Payments

In the current year, the Group has applied HKFRS 2 ''Share-based Payment'' which requires an expense to be recognised where the Group buys goods or obtains services in exchange for shares or rights over shares (''equity-settled transactions''), or in exchange for other assets equivalent in value to a given number of shares or rights over shares (''cash-settled transactions''). The principal impact of HKFRS 2 on the Group is in relation to the expensing of the fair value of share options granted to directors and employees of the Company, determined at the date of grant of the share options, over the vesting period. Prior to the application of HKFRS 2, the Group did not recognise the financial effect of these share options until they were exercised. As no option has been granted or agreed to be granted under the Company's share option scheme since its adoption, the adoption of HKFRS 2 has had no effect on the results of the Group.

Financial Instruments

In the current year, the Group has applied HKAS 32 ''Financial Instruments: Disclosure and Presentation'' and HKAS 39 ''Financial Instruments: Recognition and Measurement''. HKAS 32 requires retrospective application and the adoption of HKAS 32 has had no material impact on how the financial instruments of the Group are presented for the current or prior accounting periods. HKAS 39, which is effective for annual periods beginning on or after January 1, 2005, generally does not permit the recognition, derecognition or measurement of financial assets and liabilities on a retrospective basis. The principal effects resulting from the implementation of HKAS 39 are summarised below:

2. **APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/CHANGES IN ACCOUNTING POLICIES – continued**

Financial Instruments – continued

From January 1, 2005 onwards, the Group has classified and measured its financial assets and financial liabilities in accordance with the requirements of HKAS 39. Financial assets under HKAS 39 are classified as ''financial assets at fair value through profit or loss'', ''available-for-sale financial assets'', ''loans and receivables'' or ''held-to-maturity financial assets''. Financial liabilities are generally classified as ''financial liabilities at fair value through profit or loss'' or ''other financial liabilities''. Financial liabilities at fair value through profit or loss are measured at fair value, with changes in fair value being recognised in profit or loss directly. Other financial liabilities are carried at amortised cost using the effective interest method after initial recognition.

Prior to the application of HKAS 39, an interest-free non-current loan from ultimate holding company was stated at the nominal amount. HKAS 39 requires all financial assets and financial liabilities to be measured at fair value on initial recognition. Such interest-free loan is measured at amortised cost determined using the effective interest method at subsequent balance sheet dates. The Group has applied the relevant transitional provisions in HKAS 39. As a result of this change in the accounting policy, the carrying amount of the loan as at January 1, 2005 has been decreased by HK$847,000 in order to state the loan at amortised cost in accordance with HKAS 39. The Group's retained profits as at January 1, 2005 has been decreased by HK$515,000. Capital contribution as at January 1, 2005 has been increased by HK$1,362,000, which represents the deemed contribution from ultimate holding company made on the recognition of the loan. Profit for the year has been decreased by HK$278,000 due to the recognition of imputed interest expense (see note 3 for financial impact).

Interest in a jointly controlled entity

In previous years, interests in jointly controlled entities were accounted for using the equity method. HKAS 31 ''Interests in Jointly Controlled Entities'' allows entities to use either proportionate consolidation or the equity method to account for its interests in jointly controlled entities. Upon the application of HKAS 31, the Group has elected to account for its interest in a jointly controlled entity using the equity method as used in previous years and the adoption of the standard has had no effect on the Group.

3. **SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES**

The effects of the changes in the accounting policies described in note 2 on the results are as follows:

	Effect of adopting	**2005**	2004
		HK$'000	*HK$'000*
Non-amortisation of goodwill (included in administrative expenses)	HKFRS 3	**3,183**	–
Imputed interest expense on non-current interest-free loan from ultimate holding company (included in finance costs)	HKAS 39	**(278)**	–
Share of results of a jointly controlled entity	HKAS 1	**–**	(589)
Income tax	HKAS 1	**–**	589
Increase in profit for the year		**2,905**	–

3. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES – continued

The cumulative effects of the changes in accounting policies on December 31, 2004 and January 1, 2005 are summarised below:

	At December 31, 2004 (Originally stated)	HKAS 1 and HKAS 27 Adjustment	HKAS 17 Adjustment	At December 31, 2004 (Restated)	HKAS 39 Adjustments	At January 1, 2005 (Restated)
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Balance sheet items affected:						
Property, plant and equipment	3,012,604	–	(104,287)	2,908,317	–	2,908,317
Prepaid lease payments	–	–	104,287	104,287	–	104,287
Interest-free portion of loan from ultimate holding company	(8,045)	–	–	(8,045)	847	(7,198)
Total effects on assets and liabilities	3,004,559	–	–	3,004,559	847	3,005,406
Retained profits	(876,728)	–	–	(876,728)	515	(876,213)
Capital contribution	–	–	–	–	(1,362)	(1,362)
Minority interests	–	(10,058)	–	(10,058)	–	(10,058)
Total effects on equity	(876,728)	(10,058)	–	(886,786)	(847)	(887,633)
Minority interests	(10,058)	10,058	–	–	–	–

As a result of the application of HKAS 1 ''Presentation of Financial Statements'' and HKAS 27 ''Consolidated and Separate Financial Statements'', minority interests amounting to HK$8,272,000 as at January 1, 2004 is presented within equity.

4. POTENTIAL IMPACT ARISING ON THE NEW ACCOUNTING STANDARDS NOT YET EFFECTIVE

The Group has not early applied the following new standards and interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these standards or interpretations will have no material impact on the financial statements of the Group.

HKAS 1 (Amendment)	Capital disclosures [1]
HKAS 19 (Amendment)	Actuarial gains and losses, group plans and disclosures [2]
HKAS 21 (Amendment)	The effects of changes in foreign exchanges rates – Net investment in a foreign operation [2]
HKAS 39 (Amendment)	Cash flow hedge accounting of forecast intragroup transactions [2]
HKAS 39 (Amendment)	The fair value option [2]
HKAS 39 & HKFRS 4 (Amendments)	Financial guarantee contracts [2]
HKFRS 6	Exploration for and evaluation of mineral resources [2]
HKFRS 7	Financial instruments: Disclosures [1]
HK(IFRIC) – INT 4	Determining whether an arrangement contains a lease [2]

4. POTENTIAL IMPACT ARISING ON THE NEW ACCOUNTING STANDARDS NOT YET EFFECTIVE – continued

HK(IFRIC) – INT 5	Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds [2]
HK(IFRIC) – INT 6	Liabilities arising from participating in a specific market – waste electrical and electronic equipment [3]
HK(IFRIC) – INT 7	Applying the restatement approach under HKAS 29 ''Financial Reporting in Hyperinflationary Economies'' [4]

[1] Effective for annual periods beginning on or after January 1, 2007.
[2] Effective for annual periods beginning on or after January 1, 2006.
[3] Effective for annual periods beginning on or after December 1, 2005.
[4] Effective for annual periods beginning on or after March 1, 2006.

5. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis except for financial instruments, which are measured at fair values, as explained in the accounting policies set out below.

The consolidated financial statements have been prepared in accordance with HKFRSs. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange (the ''Listing Rules'') and by the Companies Ordinance.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

Goodwill

Goodwill represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of the relevant subsidiary at the date of acquisition. Such goodwill is carried at cost less any accumulated impairment losses.

5. SIGNIFICANT ACCOUNTING POLICIES – continued

Goodwill – continued

For the purposes of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant CGUs, or groups of CGUs, that are expected to benefit from the synergies of the acquisition. A CGU to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a financial year, the CGU to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the CGU is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in the income statement. An impairment loss for goodwill is not reversed in subsequent periods.

On subsequent disposal of a subsidiary, the attributable amount of goodwill capitalised is included in the determination of the amount of profit or loss on disposal.

Investments in subsidiaries

Investments in subsidiaries are included in the Company's balance sheet at cost less any identified impairment losses.

Financial instruments

Financial assets and financial liabilities are recognised on the balance sheet when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

(i) Financial assets

The Group's financial assets are classified into loans and receivables. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. The accounting policies adopted in respect of the relevant category of financial assets to the Group are set out below.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including loan receivable, trade and other receivables, bills receivable, trade receivables due from related companies, amount due from a jointly controlled entity and bank balances) are carried

5. SIGNIFICANT ACCOUNTING POLICIES – continued

Financial instruments – continued

(i) Financial assets – continued

Loans and receivables – continued

at amortised cost using the effective interest method, less any identified impairment losses. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

(ii) Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. The accounting policies adopted in respect of financial liabilities and equity instruments relevant to the Group are set out below.

Financial liabilities

Financial liabilities including trade and other payables, bills payable, amounts due to related companies, trade payable due to a jointly controlled entity, bank loans and loans from ultimate holding company are subsequently measured at amortised cost, using the effective interest rate method.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Property, plant and equipment

Property, plant and equipment, other than construction in progress, are stated at cost less subsequent accumulated depreciation and accumulated impairment loss.

Construction in progress is stated at cost which includes all development expenditure and other direct costs attributable to such projects including borrowing costs capitalised in accordance with the Group's accounting policy. Construction in progress is not depreciated until completion of construction and the asset is put into use. The cost of completed construction works is transferred to the appropriate category of assets.

Depreciation is provided to write off the cost of items of property, plant and equipment, other than construction in progress, over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method.

5. SIGNIFICANT ACCOUNTING POLICIES – continued

Property, plant and equipment – continued

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the year in which the item is derecognised.

Jointly controlled entity

Joint venture arrangement that involves the establishment of a separate entity in which venturers have joint control over the economic activity of the entity is referred to as a jointly controlled entity.

The results and assets and liabilities of the jointly controlled entity are incorporated in the consolidated financial statements using the equity method of accounting. Under the equity method, investment in a jointly controlled entity is carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the profit or loss and of changes in equity of the jointly controlled entity, less any identified impairment loss. When the Group's share of losses of a jointly controlled entity equals or exceeds its interest in that jointly controlled entity, the Group discontinues recognising its share of further losses.

When a group entity transacts with a jointly controlled entity of the Group, unrealised profits or losses are eliminated to the extent of the Group's interest in the jointly controlled entity, except to the extent that unrealised losses provide evidence of an impairment of the asset transferred, in which case, the full amount of losses is recognised.

Intangible assets

On initial recognition, intangible assets acquired are recognised at cost. After initial recognition, intangible assets with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment loss. Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives.

Gains or losses arising from derecognition of an intangible asset are measured at the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the income statement when the asset is derecognised.

Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development expenditure is recognised only if it is anticipated that the development costs incurred on a clearly-defined project will be recovered through future commercial activity. The resultant asset is amortised on a straight-line basis over its useful life, and carried at cost less subsequent accumulated amortisation and any accumulated impairment loss.

Where no internally-generated intangible asset can be recognised, development expenditure is charged to profit or loss in the period in which it is incurred.

5. SIGNIFICANT ACCOUNTING POLICIES – continued

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method.

Impairment losses, other than goodwill

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantially enacted by the balance sheet date.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

5. SIGNIFICANT ACCOUNTING POLICIES – continued

Share-based payment transactions

Equity-settled share-based payment transactions

Share options granted to employees of the Company and its subsidiaries

The fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (the ''share option reserve'').

At the time when the share options are exercised, the amount previously recognised in share option reserve will be transferred to share premium. When the share options are forfeited or are still not exercised at the expiry date, the amount previously recognised in share option reserve will be transferred to retained profits.

Share options granted to consultants

Share options issued in exchange for services are measured at the fair values of the services received. The fair values of the services received are recognised as expenses immediately, unless the services qualify for recognition as assets. Corresponding adjustment will be made to the share option reserve.

Revenue recognition

Revenue represents the fair value of the amounts received and receivable for goods sold and services rendered by the Group to outside customers, and is stated net of value-added tax and sales returns.

Sales of goods are recognised when goods are delivered and title has passed.

Service income is recognised when services are rendered.

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (''foreign currencies'') are recorded in its functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

5. SIGNIFICANT ACCOUNTING POLICIES – continued

Foreign currencies – continued

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise, except for exchange differences arising on a monetary item that forms part of the Group's net investment in a foreign operation, in which case, such exchange differences are recognised in equity in the consolidated financial statements.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Company (i.e. HKD) at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised as a separate component of equity (the ''translation reserve''). Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation on or after January 1, 2005 are treated as assets and liabilities of that foreign operation and translated at the rate of exchange prevailing at the balance sheet date. Exchange differences arising are recognised in the translation reserve.

Operating leases

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Retirement benefit costs

Payments to the Mandatory Provident Fund Scheme and state-managed retirement benefits scheme are charged as an expense as they fall due.

6. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the Group's accounting policies described in note 5, management makes various estimates based on past experiences, expectations of the future and other information. The key sources of estimation uncertainty that may significantly affect on the amounts recognised in the financial statements are disclosed below:

6. KEY SOURCES OF ESTIMATION UNCERTAINTY – continued

Impairment of trade debts

The provisioning policy for bad and doubtful debts of the Group is based on the evaluation of collectability and aged analysis of accounts and on management's judgement. A considerable amount of judgement is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each customer. If the financial conditions of customers of the Group are to deteriorate, resulting in an impairment of their ability to make payments, additional impairment may be required. As at December 31, 2005, the carrying value of trade receivables net of allowances was HK$379,192,000.

Allowances for inventories

The management of the Group reviews the inventories listing on a product-by-product basis at each balance sheet date, and makes allowance for obsolete and slow-moving inventory items identified that are no longer suitable for use in production. The management estimates the net realisable value for such finished goods and work-in progress based primarily on the latest invoice prices and current market conditions. If the conditions of inventories are to deteriorate, resulting in an allowance of recoverable amounts, additional allowances may be required. As at December 31, 2005, the carrying value of inventories was stated at cost and approximately HK$756,053,000.

Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the CGUs to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the CGU and a suitable discount rate in order to calculate the present value. Where the actual cash flows are less than expected, impairment loss may arise. At the balance sheet date, the directors assessed the need to provide impairment loss on the goodwill and the carrying amount of the goodwill was sustained by the result.

7. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include trade receivables, bills receivable, cash and cash equivalents, trade payables, bills payable and bank loans. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at December 31, 2005 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet. In order to minimise the credit risk, the management has implemented internal control procedures for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The credit risk on liquid funds is limited because the counterparties are banks with good reputation.

7. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES – continued

Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding through an adequate amount of committed credit facilities. The Group aims at maintaining the flexibility in funding by arranging banking facilities and other external financing. Therefore, the risk is considered minimal.

Foreign exchange risk

The Group mainly operates in the PRC with most of the transactions denominated and settled in Renminbi (''RMB''). Though several subsidiaries of the Company have foreign currency sales, mainly in United States Dollars and Euro Dollars, which expose the Group to foreign currency risk, the directors consider that the risk is minimal to the Group at current stage. The Group currently does not have a foreign currency hedging policy. However, the management will monitor foreign exchange exposure closely and consider the usage of hedging instruments when the need arises.

Interest rate risk

The Group's fair value interest rate risk relates primarily to fixed-rate bank loans (see note 30 for details of these loans), which are raised from the banks in the PRC. In relation to these fixed-rate loans, the Group aims to keep loans at rates that are comparable to those in the market. In order to achieve this result, the Group negotiated with the banks and entered into various revolving loans such that the interest rate associated with the loans is more or less variable. In this regard, the directors of the Company consider that the Group's fair value interest rate risk is minimised.

8. REVENUE AND SEGMENT INFORMATION

Revenue represents the net amounts received and receivable for goods sold and services rendered by the Group to outside customers, and is stated net of value-added tax and sales returns during the year.

In accordance with the Group's internal financial reporting, the Group has determined that business segments are its primary reporting format and geographical segments are its secondary reporting format.

Business segments

The Group reports its primary segment information by products which are bulk drugs, including penicillin series, cephalosporin series and vitamin C series, finished drugs and others. Segment information about these products is presented below:

8. REVENUE AND SEGMENT INFORMATION – continued

For the year ended December 31, 2005:

	Bulk Drugs						
	Penicillin series	**Cephalosporin series**	**Vitamin C series**	**Finished Drugs**	**Others**	**Eliminations**	**Consolidated**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
REVENUE							
External sales	525,091	855,131	692,507	1,109,971	9,365	–	3,192,065
Inter-segment sales	219,615	137,039	–	–	–	(356,654)	–
TOTAL REVENUE	744,706	992,170	692,507	1,109,971	9,365	(356,654)	3,192,065

Inter-segment sales are charged at prevailing market rates.

SEGMENT RESULTS	(9,220)	117,849	87,840	63,131	(21,728)		237,872
Unallocated corporate expenses							(19,642)
							218,230
Share of results of a jointly controlled entity					(1,099)		(1,099)
Finance costs							(68,139)
Profit before tax							148,992
Income tax							7,301
Profit for the year							156,293

8. REVENUE AND SEGMENT INFORMATION – continued

The following is an analysis of the carrying amount of segment assets and segment liabilities, analysed by products:

At December 31, 2005:

	Bulk Drugs					
	Penicillin series	**Cephalosporin series**	**Vitamin C series**	**Finished Drugs**	**Others**	**Consolidated**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
ASSETS						
Segment assets	1,676,073	1,161,005	1,314,016	919,060	242,235	5,312,389
Interest in a jointly controlled entity					24,086	24,086
Unallocated corporate assets						43,304
Consolidated total assets						5,379,779
LIABILITIES						
Segment liabilities	339,974	194,934	251,026	536,860	46,331	1,369,125
Unallocated corporate liabilities						1,515,126
Consolidated total liabilities						2,884,251

For the year ended December 31, 2005:

	Bulk Drugs						
	Penicillin series	**Cephalosporin series**	**Vitamin C series**	**Finished Drugs**	**Others**	**Unallocated corporate**	**Consolidated**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
OTHER INFORMATION							
Capital additions	292,576	23,469	78,621	37,424	106,907	3	539,000
Depreciation and amortisation	82,215	90,086	64,235	20,037	9,346	596	266,515

8. REVENUE AND SEGMENT INFORMATION – continued

For the year ended December 31, 2004:

	Bulk Drugs						
	Penicillin series	**Cephalosporin series**	**Vitamin C series**	**Finished Drugs**	**Others**	**Eliminations**	**Consolidated**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000* (Restated)
REVENUE							
External sales	360,782	504,670	626,124	947,785	11,288	–	2,450,649
Inter-segment sales	184,779	90,872	–	–	–	(275,651)	–
TOTAL REVENUE	545,561	595,542	626,124	947,785	11,288	(275,651)	2,450,649

Inter-segment sales are charged at prevailing market rates.

SEGMENT RESULTS	5,307	34,625	189,694	67,965	(4,326)		293,265
Unallocated corporate expenses							(20,148)
							273,117
Share of results of a jointly controlled entity					3,419		3,419
Finance costs							(27,959)
Profit before tax							248,577
Income tax							(3,185)
Profit for the year							245,392

8. REVENUE AND SEGMENT INFORMATION – continued

The following is an analysis of the carrying amount of segment assets and segment liabilities, analysed by products:

At December 31, 2004:

	Bulk Drugs					
	Penicillin series	Cephalosporin series	Vitamin C series	Finished Drugs	Others	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
ASSETS						
Segment assets	1,347,706	991,293	1,241,475	806,552	188,427	4,575,453
Interest in a jointly controlled entity					24,654	24,654
Unallocated corporate assets						107,139
Consolidated total assets						4,707,246
LIABILITIES						
Segment liabilities	249,335	238,228	280,761	511,793	24,970	1,305,087
Unallocated corporate liabilities						1,133,062
Consolidated total liabilities						2,438,149

For the year ended December 31, 2004:

	Bulk Drugs						
	Penicillin series	Cephalosporin series	Vitamin C series	Finished Drugs	Others	Unallocated corporate	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
OTHER INFORMATION							
Capital additions	660,978	230,017	426,620	85,929	72,062	30	1,475,636
Depreciation and amortisation	48,617	67,811	42,377	22,804	1,570	645	183,824

8. REVENUE AND SEGMENT INFORMATION – continued

Geographical segments

The Group's operations are located in the PRC, and the following table provides an analysis of the Group's sales by geographical market:

	Revenue	
	2005	2004
	HK$'000	*HK$'000*
The PRC	**2,325,016**	1,793,805
Asia other than the PRC	**408,984**	268,898
Europe	**252,810**	188,396
America	**175,927**	171,874
Others	**29,328**	27,676
	3,192,065	2,450,649

Analysis of carrying amounts of segment assets, and additions to property, plant and equipment and intangible assets are not presented as over 90% of the amounts involved are located in the PRC.

9. FINANCE COSTS

	2005	2004
	HK$'000	*HK$'000*
Interest on:		
– bank loans wholly repayable within five years	**53,326**	13,937
– loan from ultimate holding company wholly repayable within five years (note 28)	**1,651**	3,283
– bills receivable discounted without recourse	**14,705**	12,714
Bank loan arrangement fees	**5,180**	1,364
Imputed interest expense on non-current interest-free loan from ultimate holding company (note 31)	**278**	–
Total borrowing costs	**75,140**	31,298
Less: interest capitalised in construction in progress	**(7,001)**	(3,339)
	68,139	27,959

Borrowing costs capitalised during the year arose on the general borrowing pool and are calculated by applying a capitalisation rate of 4.5% (2004: 2.6%) to expenditure on qualifying assets.

10. PROFIT BEFORE TAX

	2005	2004
	HK$'000	*HK$'000*
		(Restated)
Profit before tax has been arrived at after charging (crediting):		
Employee benefits expenses including those of directors	**229,034**	189,938
Contribution to retirement benefits schemes including those of directors	**41,222**	36,470
Total employee benefits expenses including those of directors	**270,256**	226,408
Amortisation (included in administrative expenses) of:		
– intangible assets	**16,585**	12,405
– goodwill	**–**	3,183
Depreciation of property, plant and equipment	**245,456**	162,621
Amortisation of prepaid lease payments	**4,474**	5,615
Total depreciation and amortisation	**266,515**	183,824
Auditors' remuneration	**1,600**	1,480
Cost of inventories recognised as an expense	**2,498,501**	1,819,804
Loss on disposal of property, plant and equipment	**15,780**	5,553
Research and development expenses	**6,217**	4,501
Share of tax of a jointly controlled entity (included in share of results of a jointly controlled entity)	**–**	589
Interest income	**(2,687)**	(2,454)

11. INCOME TAX

	2005	2004
	HK$'000	*HK$'000*
		(Restated)
The tax (credit) charge comprises:		
PRC Enterprise Income Tax		
– current year	**19,335**	36,711
– overprovision in prior years	**(3,813)**	(11,393)
– tax credits/refunds	**(22,823)**	(22,133)
	(7,301)	3,185

No Hong Kong Profits Tax is payable by the Company nor its Hong Kong subsidiaries since they either had no assessable profits or incurred tax losses for both years.

11. INCOME TAX – continued

Taxation arising in other jurisdictions is calculated at the rate prevailing in the relevant jurisdictions.

Pursuant to the relevant laws and regulations in the PRC, certain PRC subsidiaries of the Company are entitled to exemption and relief from PRC income tax starting from their first profit-making years.

In addition, pursuant to approvals granted by the relevant tax authorities, certain of the Company's subsidiaries were granted tax credits/refunds which were mainly derived from the following activities:

a) Two subsidiaries of the Company were entitled to tax refunds on the basis that such subsidiaries have, instead of making distributions to its foreign shareholders, re-invested certain distributable reserves as capital contributions to two PRC subsidiaries set up in previous years.

b) Tax credits resulted from the purchase of plant and equipment manufactured in the PRC by certain subsidiaries of the Company. The tax credits are calculated with reference to 40% of the cost of the qualifying plant and equipment approved by the relevant tax authority. Such credits can be used to offset against current and future tax charges of the subsidiaries, subject to certain conditions as specified in each approval document from the relevant tax authorities.

The income tax for both years represents income tax provision which has taken into account of the above-mentioned tax incentives.

The tax (credit) charge for the year can be reconciled to the profit before tax per the consolidated income statement as follows:

	2005	2004
	HK$'000	*HK$'000*
		(Restated)
Profit before tax	**148,992**	248,577
Tax at the domestic income tax rate of 27% (2004: 27%)	**40,228**	67,116
Tax effect of income not taxable for tax purpose	**(2,006)**	(394)
Tax effect of expenses not deductible for tax purpose	**25,839**	13,632
Tax effect of share results of a jointly controlled entity	**297**	(923)
Tax effect of tax losses not recognised	**11,368**	23
Utilisation of tax losses previously not recognised	**(23)**	–
Effect of tax exemption and relief granted to PRC subsidiaries	**(56,410)**	(29,117)
Effect of different tax rates of subsidiaries operating in other jurisdiction	**42**	(13,626)
Tax credits/refunds granted to PRC subsidiaries	**(22,823)**	(22,133)
Overprovision in respect of prior years	**(3,813)**	(11,393)
Tax (credit) charge for the year	**(7,301)**	3,185

At the balance sheet date, the Group had unused tax losses of HK$51,376,000 (2004: HK$69,000) available for offset against future profits. No deferred tax asset has been recognised in respect of such losses due to the unpredictability of future profit streams. The unrecognised tax losses will expire in 2010.

There was no other significant unprovided deferred taxation for the year or at the balance sheet date.

12. DIRECTORS' EMOLUMENTS

The emoluments paid or payable to each of the 13 (2004: 11) directors were as follows:

2005

	Cai Dong Chen	Ding Er Gang	Wei Fu Min	Yue Jin	Ji Jian Ming	Yao Shi An	Feng Zhen Ying	Chak Kin Man	Lee Ka Sze, Carmelo	Huo Zhen Xing	Qi Mou Jia	Guo Shi Chang	Chan Siu Keung, Leonard	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Fees	60	55	60	60	50	50	60	5	240	60	60	60	120	940
Other emoluments:														
Salaries and other benefits	2,715	1,760	2,027	173	172	122	206	87	–	–	–	–	–	7,262
Contribution to retirement benefits schemes	217	145	172	7	6	5	7	8	–	–	–	–	–	567
Performance related incentive payments	600	1,000	450	207	133	158	253	25	–	–	–	–	–	2,826
Total emoluments	3,592	2,960	2,709	447	361	335	526	125	240	60	60	60	120	11,595

2004

	Cai Dong Chen	Ding Er Gang	Wei Fu Min	Yue Jin	Feng Zhen Ying	Qu Ji Guang	Lee Ka Sze, Carmelo	Huo Zhen Xing	Qi Mou Jia	Guo Shi Chang	Chan Siu Keung, Leonard	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Fees	60	60	60	60	60	–	240	60	60	60	60	780
Other emoluments:												
Salaries and other benefits	2,385	1,753	1,848	228	183	500	–	–	–	–	–	6,897
Contribution to retirement benefits schemes	89	67	72	10	5	–	–	–	–	–	–	243
Performance related incentive payments	720	550	550	155	178	–	–	–	–	–	–	2,153
Total emoluments	3,254	2,430	2,530	453	426	500	240	60	60	60	60	10,073

No directors waived any emoluments in the years ended December 31, 2005 and 2004.

13. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, four (2004: four) were directors of the Company during the whole year of 2005 whose emoluments are included in note 12 above. The emoluments of the remaining individual who was appointed as an executive director of the Company during the year were as follows:

	2005	2004
	HK\$'000	*HK\$'000*
Director's fee	**5**	–
Salaries and other benefits	**820**	689
Contributions to retirement benefits scheme	**74**	34
Performance related incentive payments	**300**	200
	1,199	923

14. DIVIDEND

No dividend was proposed by the directors for the years ended December 31, 2005 and 2004.

An amount of HK\$107,669,000 was paid in 2004 in respect of the final dividend of HK7.0 cents per share for the year ended December 31, 2003.

15. EARNINGS PER SHARE

The calculation of the basic earnings per share attributable to the equity holders of the Company for the year ended December 31, 2005 is based on the profit for the year of HK\$156,518,000 (2004: HK\$245,011,000) and the 1,538,124,661 shares (2004: 1,538,124,661 shares) in issue during the year.

No diluted earnings per share is presented for the years ended December 31, 2005 and 2004 as there was no potential ordinary shares in issue during both years.

16. PROPERTY, PLANT AND EQUIPMENT

	Buildings in the PRC HK$'000	Plant and machinery HK$'000	Furniture, fixtures and office equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
THE GROUP						
COST						
At January 1, 2004	350,889	1,414,128	4,311	11,233	359,820	2,140,381
Additions	6,937	63,326	6,476	3,199	1,366,828	1,446,766
Transfers	148,849	735,766	10	–	(884,625)	–
Disposals	(4,410)	(15,000)	(18)	(2,641)	–	(22,069)
At December 31, 2004	502,265	2,198,220	10,779	11,791	842,023	3,565,078
Exchange adjustments	11,535	50,485	163	248	19,335	81,766
Additions	5,292	31,603	1,561	7,075	429,943	475,474
Transfers	322,330	866,447	932	–	(1,189,709)	–
Disposals	(955)	(38,107)	(1,770)	(3,304)	–	(44,136)
At December 31, 2005	840,467	3,108,648	11,665	15,810	101,592	4,078,182
DEPRECIATION						
At January 1, 2004	49,800	446,327	1,109	6,937	–	504,173
Provided for the year	19,587	139,766	1,396	1,872	–	162,621
Eliminated on disposals	(489)	(8,625)	(13)	(906)	–	(10,033)
At December 31, 2004	68,898	577,468	2,492	7,903	–	656,761
Exchange adjustments	2,135	16,601	62	204	–	19,002
Provided for the year	32,208	208,461	2,191	2,596	–	245,456
Eliminated on disposals	(842)	(17,077)	(419)	(1,648)	–	(19,986)
At December 31, 2005	102,399	785,453	4,326	9,055	–	901,233
CARRYING VALUES						
At December 31, 2005	738,068	2,323,195	7,339	6,755	101,592	3,176,949
At December 31, 2004	433,367	1,620,752	8,287	3,888	842,023	2,908,317

At December 31, 2005, borrowing cost of HK$7,001,000 (2004: HK$3,339,000) was capitalised and included in construction in progress.

Certain buildings erected on the lands of the Group in the PRC were not granted formal title of their ownership. At December 31, 2005, the net book value of buildings in the PRC for which the Group had not been granted formal title amounted to HK$483,425,000 (2004: HK$186,846,000). In the opinion of directors, the absence of formal title does not impair the value of the relevant buildings. The directors also believe that formal title to these buildings will be granted to the Group in due course.

16. PROPERTY, PLANT AND EQUIPMENT – continued

	Furniture, fixtures and office equipment *HK$'000*	Motor vehicles *HK$'000*	Total *HK$'000*
THE COMPANY			
COST			
At January 1, 2004	2,192	1,005	3,197
Additions	30	–	30
At December 31, 2004	2,222	1,005	3,227
Additions	3	–	3
At December 31, 2005	2,225	1,005	3,230
DEPRECIATION			
At January 1, 2004	221	653	874
Provided for the year	444	201	645
At December 31, 2004	665	854	1,519
Provided for the year	445	151	596
At December 31, 2005	1,110	1,005	2,115
CARRYING VALUES			
At December 31, 2005	1,115	–	1,115
At December 31, 2004	1,557	151	1,708

The above items of property, plant and equipment, other than construction in progress, are depreciated on a straight-line basis at the following rates per annum:

Buildings in the PRC	3.3% – 5%
Plant and machinery	5% – 10%
Furniture, fixtures and office equipment	20%
Motor vehicles	20%

17. PREPAID LEASE PAYMENTS

The Group's prepaid lease payments of HK$159,086,000 (2004: HK$104,287,000) represent leasehold land in the PRC held under medium-term lease. An amount of HK$4,474,000 (2004: HK$2,837,000) is classified under current assets for reporting purpose.

18. INVESTMENTS IN SUBSIDIARIES

	2005	2004
	HK$'000	*HK$'000*
Unlisted investment, at cost	**1,202,052**	1,161,737

Particulars of the Company's subsidiaries as at December 31, 2005 are set out in note 40.

19. AMOUNTS DUE FROM SUBSIDIARIES/AMOUNT DUE TO A SUBSIDIARY

The amounts are unsecured, interest-free and repayable on demand. The directors consider that the carrying amount of the balances approximates their fair value.

20. INTANGIBLE ASSETS

	Technical know-how	**Development costs**	**Utility rights**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
THE GROUP				
COST				
At January 1, 2004	55,299	20,906	56,659	132,864
Additions	9,760	–	12,164	21,924
At December 31, 2004	65,059	20,906	68,823	154,788
Exchange adjustments	1,494	480	1,581	3,555
Additions	6,521	–	–	6,521
At December 31, 2005	73,074	21,386	70,404	164,864
AMORTISATION				
At January 1, 2004	41,026	8,007	23,400	72,433
Charge for the year	5,290	842	6,273	12,405
At December 31, 2004	46,316	8,849	29,673	84,838
Exchange adjustments	855	553	800	2,208
Charge for the year	7,127	2,536	6,922	16,585
At December 31, 2005	54,298	11,938	37,395	103,631
CARRYING VALUES				
At December 31, 2005	18,776	9,448	33,009	61,233
At December 31, 2004	18,743	12,057	39,150	69,950

20. INTANGIBLE ASSETS – continued

Included in development costs, an amount of HK$3,682,000 (2004: HK$3,600,000) was internally generated while all other intangible assets of the Group were acquired from independent third parties.

The above intangible assets have definite useful lives and are amortised on a straight-line basis over the following periods:

Technical know-how	5 to 10 years
Development costs	3 to 5 years from date of commencement of commercial operation
Utility rights	10 years

Utility rights represent up-front non-refundable payment to secure the rights to use electricity in the PRC over 10 years.

21. GOODWILL

	HK$'000
COST	
At January 1, 2004 and 2005	63,661
Elimination of accumulated amortisation upon the application of HKFRS 3 (note 2)	(7,897)
At December 31, 2005	55,764
AMORTISATION	
At January 1, 2004	4,714
Charge for the year	3,183
At January 1, 2005	7,897
Elimination of accumulated amortisation upon the application of HKFRS 3 (note 2)	(7,897)
At December 31, 2005	–
CARRYING VALUES	
At December 31, 2005	55,764
At December 31, 2004	55,764

Particulars regarding impairment testing on goodwill are disclosed in note 22.

Until December 31, 2004, goodwill had been amortised on a straight-line basis over its estimated useful life of 20 years.

22. IMPAIRMENT TESTING ON GOODWILL

For the purpose of impairment testing, the Group's goodwill as set out in note 21 has been allocated to a CGU, representing the business segment of finished drugs of the Group.

During the year ended December 31, 2005, management of the Group determines that there is no impairment of the above-mentioned CGU containing the goodwill. The basis of the recoverable amount of the CGU and its major underlying assumptions are summarised below:

The recoverable amount of this unit has been determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets approved by management covering a 5-year period, and a discount rate of 4.13%, with zero growth. Another key assumption for the value in use calculations is the budgeted gross margin, which is determined based on the unit's past performance and management's expectations for the market development. Management believes that any reasonably possible change in any of these assumptions would not cause the aggregate carrying amount of the CGU to exceed its aggregate recoverable amount.

23. INTEREST IN A JOINTLY CONTROLLED ENTITY

	THE GROUP	
	2005	2004
	HK$'000	*HK$'000*
Share of net assets	**24,086**	24,654

At December 31, 2005, the Group held 50% of the registered capital of Hebei Huarong Pharmaceutical Co., Ltd. (''Huarong'') which is a sino-foreign equity joint venture company established in the PRC to manufacture and sell vitamin B12 products.

The summarised financial information in respect of the Group's jointly controlled entity which is accounted for using the equity method is set out below:

	2005	2004
	HK$'000	*HK$'000*
Current assets	**66,494**	90,259
Non-current assets	**111,546**	65,954
Current liabilities	**(106,882)**	(77,752)
Non-current liabilities	**(24,913)**	(31,081)
Income	**16,041**	22,419
Expenses	**18,240**	15,581

24. LOAN RECEIVABLE

The loan is unsecured, carries at an interest rate of 6.435% (2004: 6.435%) per annum and is repayable as follows:

	THE GROUP	
	2005	2004
	HK$'000	*HK$'000*
Within one year	**670**	795
Between one to two years	**–**	655
	670	1,450
Less: Amount receivable within one year shown under current assets	**(670)**	(795)
Amount receivable after one year	**–**	655

The directors consider that the carrying amount of the Group's loan receivable approximates its fair value.

25. PLEDGED BANK DEPOSITS

At December 31, 2005, pledged bank deposits classified under non-current assets of HK$2,428,000 (2004: HK$9,416,000) were pledged to banks to secure banking facilities granted to the Group for the acquisition of property, plant and equipment.

At December 31, 2004, pledged bank deposits classified under current assets of HK$7,282,000 were pledged to banks to secure banking facilities granted to the Group.

The directors consider that the carrying amount of the Group's pledged bank deposits approximates to its fair value.

26. INVENTORIES

	THE GROUP	
	2005	2004
	HK$'000	*HK$'000*
Raw materials	**82,754**	84,049
Work in progress	**199,186**	175,030
Finished goods	**474,113**	193,776
	756,053	452,855

At the balance sheet date, all inventories are stated at cost.

27. TRADE AND OTHER RECEIVABLES

The Group allows a credit period from 30 days to 90 days to its trade customers. The following is an aged analysis of trade receivables net of allowances at the balance sheet date:

	THE GROUP	
	2005	2004
	HK$'000	*HK$'000*
0 to 90 days	**353,927**	334,482
91 to 180 days	**24,436**	20,719
181 to 365 days	**829**	1,952
	379,192	357,153
Other receivables	**133,795**	56,476
	512,987	413,629

The directors consider that the carrying amount of the Group's trade and other receivables approximates their fair value.

28. CONNECTED AND RELATED PARTY DISCLOSURES

During the year, the Group had significant transactions and balances with related parties, some of which are also deemed to be connected parties pursuant to the Listing Rules. The significant transactions with these companies during the year, and balances with them at the balance sheet date, are as follows:

(I) CONNECTED PARTIES

Name of company	Nature of transactions/ balances	THE GROUP **2005** ***HK$'000***	2004 *HK$'000*
The SPG Group	Sale of finished goods (note a)	**–**	2,467
	Sale of steam (note a)	**4,897**	–
	Purchase of raw materials (note a)	**158,948**	44,338
	Rental expenses (note b)	**3,350**	1,835
	Service charges relating to administrative, selling, utility, energy, community, land use rights and other supporting services and facilities (note c)	**–**	1,349

28. CONNECTED AND RELATED PARTY DISCLOSURES – continued

(I) CONNECTED PARTIES – continued

Name of company	Nature of transactions/ balances	THE GROUP 2005 HK$'000	THE GROUP 2004 HK$'000
	Processing services charges (note d)	–	24,131
	Interest expenses on loans from ultimate holding company (note e)	**1,651**	3,283
	Purchase of property, plant and equipment from the SPG Group (note f)	–	5,376
	Bank guarantee (note g)	–	150,000
	Balance due from (to) the SPG Group at December 31		
	– trade receivables (note h)	**14,393**	3,854
	– other payables (note h)	**(4,146)**	(4,282)
	– dividend payable	–	(54,141)
	– long-term loans (note e)	**(55,488)**	(54,818)

		THE COMPANY 2005 HK$'000	THE COMPANY 2004 HK$'000
SPG	Balance due to SPG at December 31		
	– dividend payable	–	(54,141)

(II) RELATED PARTIES, OTHER THAN CONNECTED PARTIES

Name of company	Nature of transactions/ balances	THE GROUP 2005 HK$'000	THE GROUP 2004 HK$'000
Ouyi Pharmaceutical Co., Ltd. (''Ouyi''), an associate of SPG (note k)	Sales of raw materials (note a)	**503**	–
	Sales of finished goods (note a)	**5,301**	2,239
	Purchase of finished goods (note a)	**23,437**	92
	Rental expenses (note b)	**1,085**	477

28. CONNECTED AND RELATED PARTY DISCLOSURES – continued

(II) RELATED PARTIES, OTHER THAN CONNECTED PARTIES – continued

Name of company	Nature of transactions/ balances	THE GROUP 2005 HK$'000	2004 HK$'000
	Service charges relating to administrative, selling, utility, energy, community, land use rights and other supporting services and facilities (note c)	**502**	1,589
	Income from provision of technology consultancy services (note i)	**19**	45
	Income from leasing of property, plant and equipment (note i)	**183**	–
	Service charges relating to a construction project (note i)	**–**	748
Huarong, a jointly controlled entity of the Group	Sales of finished goods (note a)	**3,259**	371
	Purchase of raw materials (note a)	**33,039**	29,719
	Income from provision of technology consultancy services (note i)	**461**	216
	Provision of utility services by the Group (note j)	**7,339**	2,307
	Balance due from (to) Huarong at December 31		
	– dividend receivable	**6,122**	6,122
	– other receivables (note h)	**10,925**	10,684
	– trade payables (note h)	**(3,107)**	(4,414)

(III) OTHER STATE-OWNED ENTITIES IN THE PRC

The Group operates in an economic regime currently predominated by entities directly or indirectly owned by the PRC government through its government authorities, agencies, affiliations and other organisations (''state-owned entities''). Transactions with other state-owned entities include but are not limited to the followings:

- lending and deposit taking;
- taking and placing of inter-bank balances;
- purchase, sale and leases of property and other assets; and
- rendering and receiving of utilities and other services.

28. CONNECTED AND RELATED PARTY DISCLOSURES – continued

(III) OTHER STATE-OWNED ENTITIES IN THE PRC – continued

These transactions are conducted in the ordinary course of the Group's business on terms similar to those that would have been entered into with non-state-owned entities. The Group has also established its pricing strategy and approval processes for major products and services, such as loans, deposits and commission income. Such pricing strategy and approval processes do not depend on whether the customers are state-owned entities or not. Having due regard to the substance of the relationship, the directors of the Company are of the opinion that none of these transactions are material related party transactions that require separate disclosure.

(IV) COMPENSATION OF KEY MANAGEMENT PERSONNEL

The remuneration of directors as key management of the Group during the year was as follows:

	2005	2004
	HK$'000	*HK$'000*
Short-term benefits	**10,088**	9,050
Post-employment benefits	**567**	243
	10,655	9,293

The above remuneration is determined by the remuneration committee having regard to the performance of individuals and market trends.

Notes:

(a) The transactions were carried out with reference to the market prices.

(b) Rental expenses were paid in accordance with the tenancy agreements entered into between the Group and the SPG Group.

(c) Pursuant to the services agreements entered into between the Group and the SPG Group, the service fees paid by the Group to the SPG Group for all composite services, other than the provision of utilities, were based on actual costs incurred by the SPG Group. For the provision of utilities, the service fees paid were based on the actual costs of the utilities incurred by the Group plus 2% as the handling charge.

(d) For the year ended December 31, 2004, pursuant to the services agreement entered into between the Group and the SPG Group, the Group paid processing services fee to the SPG Group based on the actual costs incurred on the services provided by the SPG Group.

(e) Details of the loans are set out in note 31.

(f) For the year ended December 31, 2004, the Group entered into an agreement with Shijiazhuang Municipal Second Pharmaceutical Factory, an associate of SPG for the acquisition of property and land for the purpose of manufacture of pharmaceutical preparation products and bulk pharmaceutical products for a consideration of HK$5,376,000.

28. CONNECTED AND RELATED PARTY DISCLOSURES – continued

(g) For the year ended December 31, 2004, a guarantee was given by SPG to a bank to secure a bank loan granted to the Company and the guarantee was released upon the full repayment of the loan during the year of 2005.

(h) At the balance sheet date, the amount was aged within one year. The directors consider that the carrying amount of the balance approximates its fair value.

(i) The transactions were based on terms agreed by both parties.

(j) The transactions were based on the actual cost of utilities incurred by the Group.

(k) Ouyi was a former associate company of SPG and the relationship ceased on July 31, 2005. Only the transactions with Ouyi prior to July 31, 2005 were considered as related party transactions.

29. TRADE AND OTHER PAYABLES

The following is an aged analysis of trade payables at the balance sheet date:

	THE GROUP	
	2005	2004
	HK$'000	*HK$'000*
0 to 90 days	**383,495**	313,984
91 to 180 days	**69,611**	42,197
181 to 365 days	**26,432**	18,727
More than 365 days	**19,395**	18,358
	498,933	393,266
Other payables	**475,823**	468,074
	974,756	861,340

The directors consider that the carrying amount of the Group's trade and other payables approximates their fair value.

30. BANK LOANS

	THE GROUP		THE COMPANY	
	2005	2004	**2005**	2004
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Bank loans	**1,435,550**	1,067,222	**670,000**	675,020
Analysed as:				
Secured	–	25,020	–	25,020
Unsecured	**1,435,550**	1,042,202	**670,000**	650,000
	1,435,550	1,067,222	**670,000**	675,020

The bank loans are repayable as follows:

On demand or within one year	**344,804**	249,813	**96,000**	185,020
More than one year, but not exceeding two years	**758,746**	487,409	**242,000**	160,000
More than two years, but not more than five years	**332,000**	330,000	**332,000**	330,000
	1,435,550	1,067,222	**670,000**	675,020
Less: Amount due within one year shown under current liabilities	**(344,804)**	(249,813)	**(96,000)**	(185,020)
	1,090,746	817,409	**574,000**	490,000

The fair value of the above bank loans at the balance sheet date are as follows:

	THE GROUP		THE COMPANY	
	2005	2004	**2005**	2004
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Fixed-rate RMB bank loans	**765,550**	392,202	–	–
Floating-rate HKD bank loans	**670,000**	675,020	**670,000**	675,020
	1,435,550	1,067,222	**670,000**	675,020

The interest rates of the Group's fixed-rate RMB bank loans and floating-rate HKD bank loans are 4.8% to 5.8% and 1.0% to 5.2%, respectively.

At the balance sheet date, the Group and the Company had undrawn loan facilities of HK$80,000,000 (2004: Nil) in respect of floating-rate HKD bank loans expiring in April 2006.

31. LOANS FROM ULTIMATE HOLDING COMPANY

The loans are unsecured and are analysed as follows:

	THE GROUP	
	2005	2004
	HK\$'000	*HK\$'000*
Loans from SPG:		
– interest bearing at the rate of 3.78% per annum	**47,847**	46,773
– interest-free	**7,641**	8,045
	55,488	54,818

The directors consider that the carrying amount of loans from ultimate holding company approximates their fair value.

At December 31, 2005, the fair value of the interest-free portion of loans from SPG of HK\$7,641,000 was determined based on the present value of the estimated future cash outflows discounted using the effective interest rate of 3.78%.

Since SPG agrees not to demand repayment of the above loans within twelve months from the balance sheet date, the loans are classified as non-current liabilities.

32. SHARE CAPITAL

	Number of shares	**Share capital**
		HK\$'000
Ordinary shares of HK\$0.10 each		
Authorised:		
At December 31, 2004 and 2005	3,000,000,000	300,000
Issued and fully paid:		
At December 31, 2004 and 2005	1,538,124,661	153,812

33. SHARE OPTIONS

The Company's share option scheme (the ''Scheme'') was adopted on July 6, 2004 for the purpose of providing incentive to directors (or any persons proposed to be appointed as such, whether executive or non-executive) and employees (whether full-time or part-time) of each member of the Group; eligible business consultants, professionals and other advisers who have rendered service or will render service to the Group as determined by the board of directors.

33. SHARE OPTIONS – continued

The maximum number of shares which may be issued upon exercise of all options to be granted under the Scheme shall not in aggregate exceed 10% of the shares of the Company in issue at the date of approval of the Scheme (ie 153,812,466 shares, representing 10% of the issued share capital of the Company as at the date of the annual report). The maximum entitlement for any one participant is that the total number of shares issued or to be issued upon exercise of the options granted to each participant in any twelve-month period shall not exceed 1% of the total number of shares in issue.

Any grant of options to a participant who is a director, chief executive or substantial shareholder (all within the meaning as ascribed under the Listing Rules) of the Company or their respective associates must be approved by the independent non-executive directors (excluding the independent non-executive director who is the grantee). Where the granting of options to a participant who is an independent non-executive director or a substantial shareholder would result in the shares of the Company issued and to be issued upon exercise of all options already granted and to be granted to such participant in the twelve-month period up to and including the date of such grant exceed 0.1% of the total number of shares in issue or have an aggregate value, based on the closing price of the shares at the date of each grant, in excess of HK$5,000,000, such proposed grant must be approved by the shareholders of the Company in general meeting.

Options granted have to be taken up within a period of 30 days from the date of offer upon payment of HK$1. The subscription price is determined by the board of directors and shall be at least the highest of (i) the closing price of the shares as stated in the Stock Exchange's daily quotations sheet on the offer date; (ii) and the average closing price of the shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the offer date; and (iii) the nominal value of a share. Options granted are exercisable for a period to be notified by the board of directors to each grantee and such period shall expire not later than 10 years from the date of grant of options.

No option has been granted or agreed to be granted under the Scheme since its adoption.

34. RESERVES

	Share premium	Retained profits	Total
	HK$'000	*HK$'000*	*HK$'000*
THE COMPANY			
At January 1, 2004	1,116,727	214,222	1,330,949
Profit for the year	–	67,729	67,729
Dividends paid	–	(107,669)	(107,669)
At December 31, 2004	1,116,727	174,282	1,291,009
Profit for the year	–	13,616	13,616
At December 31, 2005	1,116,727	187,898	1,304,625

The Company's reserves available for distribution to shareholders as at December 31, 2005 represent its retained profits of HK$187,898,000 (2004: HK$174,282,000).

35. OPERATING LEASE COMMITMENTS

	THE GROUP	
	2005	2004
	HK$'000	*HK$'000*
Minimum lease payments paid under operating leases during the year in respect of land and buildings	**6,835**	2,855

At the balance sheet date, the Group and the Company had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	THE GROUP		THE COMPANY	
	2005	2004	**2005**	2004
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Within one year	**8,400**	4,085	**770**	1,291
In the second to fifth year inclusive	**10,264**	4,123	**–**	473
Over five years	**339**	1,104	**–**	–
	19,003	9,312	**770**	1,764

Operating lease payments represent rentals payable by the Group or certain of its office and factory properties. Leases are negotiated and rentals are fixed for an average term of three years.

36. CAPITAL COMMITMENTS

At the balance sheet date, the Group had the following capital commitments:

	2005	2004
	HK$'000	*HK$'000*
Capital expenditure contracted for but not provided in the financial statements in respect of acquisition of		
– property, plant and equipment	**7,867**	339,758
– intangible assets	**3,568**	–
	11,435	339,758
Capital expenditure authorised but not contracted for in respect of acquisition of property, plant and equipment	**40,450**	–

At December 31, 2004, the Company also had capital commitments in respect of capital investment in its subsidiaries of HK$88,835,000.

37. CONTINGENT LIABILITIES

(i) As disclosed in the press announcement of the Company dated February 22, 2005, the Company and one of its subsidiaries are named as, among others, defendants in antitrust complaints filed in The United States of America (the ''United States''). These antitrust complaints have alleged that certain manufacturers of vitamin C in the PRC have since at least December 2001 conspired to control prices and volumes of exports of vitamin C to the United States and elsewhere in the world and that as such have been in violation of the antitrust laws of the United States. It is alleged in the antitrust complaints that the purchasers of vitamin C in the United States paid more for vitamin C than they would have paid in the absence of the alleged conspiracy and, therefore, suffered losses. The plaintiffs (purportedly as representatives of classes of similar plaintiffs) seek treble unspecified damages and other relief. Subsequent to the above-mentioned press announcement, there were some other complaints with the same nature as the antitrust complaints filed in the United States. Up to the date of this report, three of the antitrust complaints have been served on the Company and the subsidiary.

The directors of Company are of the view that the allegations in the antitrust complaints are without merit and, the directors of the Company intend to contest the claims set out in the antitrust complaints vigorously. The Group has appointed legal advisors to advise them in the legal proceedings and the outcome of the antitrust complaints cannot be estimated with certainty at this stage.

(ii) At December 31, 2004, the Company had given a corporate guarantee of HK$25,820,000 to banks to secure general banking facilities granted to certain subsidiaries of the Company.

38. PLEDGE OF ASSETS

At December 31, 2005, the Group's bills receivable of HK$3,828,000 was pledged to a bank to secure banking facilities granted to a subsidiary of the Company. Such pledge was subsequently released upon the repayment of the loan facilities in January 2006. Details of the other pledge of assets are set out in note 25.

At December 31, 2004, the Company pledged all the equity interests of its wholly-owned subsidiary, Weisheng Pharmaceutical (Shijiazhuang) Co., Ltd. to a bank to secure a bank loan granted to the Company and the pledge was released during the year as a result of full repayment of the bank loan.

39. EMPLOYEE RETIREMENT BENEFITS SCHEMES

The Group operates a Mandatory Provident Fund Scheme for all qualifying employees in Hong Kong. The assets of the scheme are held separately from those of the Group, in funds under the control of trustees. Contributions to the scheme are made based on a certain percentage of the employees' relevant payroll costs.

The employees of the subsidiaries in the PRC are members of a state-managed retirement benefit scheme operated by the PRC government. The relevant subsidiaries are required to make contributions to the retirement benefit scheme based on certain percentage of payroll costs to fund the benefits. The only obligation of the Group with respect to the retirement benefit scheme is to make the specified contributions. During the year, the contributions made by the PRC subsidiaries of the Company relating to the arrangement were HK$40,016,000 (2004: HK$36,153,000).

40. PARTICULARS OF SUBSIDIARIES

Particulars of the Company's subsidiaries at December 31, 2005 are as follows:

Name of subsidiary	Place of incorporation/ registration and operations	Kind of legal status	Nominal value of issued and fully paid share capital/ registered capital	Percentage of nominal value of issued share capital/registered capital held by the Company Directly %	Indirectly %	Principal activity
China Nutraceuticals Limited	Hong Kong	Limited liability company	HK$1,000	–	80	Inactive
Golden Wing Limited	Hong Kong	Limited liability company	HK$3	100	–	Inactive
Shijiazhuang Pharma Group Hebei Zhongrun Pharmaceutical Co., Ltd.	PRC	Limited liability cooperative joint venture enterprise	RMB463,490,300	99.21	–	Manufacture and sale of pharmaceutical products
M2b.com.hk Limited	British Virgin Islands	Limited liability company	US$2,500,000	–	90	Inactive
NBP Pharmaceutical Co., Ltd.	PRC	Foreign investment enterprises with limited liability	RMB120,000,000	100	–	Manufacture and sale of pharmaceutical products
Netcom Resources Limited	British Virgin Islands	Limited liability company	US$1,000	100	–	Investment holding
Shijiazhuang Pharma Group Zhongrun Pharmaceutical (Neimenggu) Co., Ltd.	PRC	Foreign investment enterprises with limited liability	HK$130,000,000	100	–	Manufacture and sales of pharmaceutical products
Shijiazhuang Pharma Group Zhonghe Pharmaceutical (Neimenggu) Co., Ltd.	PRC	Foreign investment enterprises with limited liability	RMB135,000,000	100	–	Manufacture and sales of pharmaceutical products
Tin Lon Investment Limited	Hong Kong	Limited liability company	HK$2	100	–	Investment holding
Unity Pacific Limited	British Virgin Islands	Limited liability company	US$1	100	–	Investment holding
Weisheng Pharmaceutical (Shijiazhuang) Co., Ltd.	PRC	Foreign investment enterprises with limited liability	US$20,169,000	100	–	Manufacture and sale of pharmaceutical products

40. PARTICULARS OF SUBSIDIARIES – continued

Name of subsidiary	Place of incorporation/ registration and operations	Kind of legal status	Nominal value of issued and fully paid share capital/ registered capital	Percentage of nominal value of issued share capital/registered capital held by the Company Directly %	Indirectly %	Principal activity
Weitai Pharmaceutical (Shijiazhuang) Co., Ltd.	PRC	Foreign investment enterprises with limited liability	RMB59,400,000	100	–	Manufacture and sale of pharmaceutical products
Shijiazhuang Pharma Group Zhongnuo Pharmaceutical (Shijiazhuang) Co., Ltd.	PRC	Foreign investment enterprises with limited liability	RMB216,000,000	100	–	Manufacture and sale of pharmaceutical products
Zhongqi Pharmaceutical Technology (Shijiazhuang) Co., Ltd.	PRC	Foreign investment enterprises with limited liability	RMB18,440,000	100	–	Provision of pharmaceutical research and development services
Zhongqi Pharmaceutical Technology(S) PTE. Ltd.	Singapore	Private company limited by shares	S$2	100	–	Inactive
Shijiazhuang Pharma Group Hebei Zhongrun Chemical Co., Ltd.	PRC	Foreign investment enterprises with limited liability	RMB50,000,000	100	–	Manufacture and sale of pharmaceutical products
Shijiazhuang Pharma. Group Hebei Zhongrun Huanbao Co., Ltd.	PRC	Foreign investment enterprises with limited liability	RMB50,000,000	–	85	Sewage treatment
Neimenggu Zhongxingyuan Sewage Treatment Co., Ltd.	PRC	Foreign investment enterprises with limited liability	RMB18,000,000	80.42	–	Sewage treatment

None of the subsidiaries had any debt securities outstanding at the end of the year or at any time during the year.

41. POST BALANCE SHEET EVENT

Subsequent to December 31, 2005, the Company was informed that the Department of Commerce, Government of India has initiated anti-dumping investigation concerning imports of Penicillin-G originating in or exported from the PRC. Two subsidiaries of the Company were informed to provide information for the investigation so as to determine the existence, degree and effect of alleged dumping of the above-mentioned product. Based on the results of investigation, the relevant authority in India would recommend the amount of anti-dumping duty, which if levied would be adequate to remove the injury to the domestic industry. The Group has appointed legal advisors to advise them in the investigation and the directors of the Company are of the view that the outcome of the investigation cannot be estimated with certainty at this stage.

RESULTS

	Year ended December 31,				
	2001	2002	2003	2004	**2005**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	***HK$'000***
	(Restated)	(Restated)	(Restated)	(Restated)	
Revenue	1,168,244	1,625,130	2,478,426	2,450,649	**3,192,065**
Cost of sales	(835,525)	(1,121,850)	(1,553,466)	(1,819,804)	**(2,498,501)**
Gross profit	329,719	503,280	924,960	630,845	**693,564**
Other income	10,468	14,197	9,522	14,677	**21,157**
Distribution costs	(25,694)	(42,545)	(94,529)	(131,453)	**(182,723)**
Administrative expenses	(101,173)	(123,295)	(200,193)	(230,004)	**(293,231)**
Other expenses	(9,377)	(10,879)	(21,471)	(10,948)	**(20,537)**
Major overhaul expenses	–	(28,591)	–	–	**–**
Allowance for doubtful debts	(9,600)	(14,276)	–	–	**–**
Gain on disposal of subsidiaries	4,051	–	–	–	**–**
Share of results of a jointly controlled entity	4,397	6,938	6,548	3,419	**(1,099)**
Impairment loss recognised in respect of property, plant and equipment	(3,543)	–	–	–	**–**
Impairment loss recognised in respect of goodwill of an associate	(2,032)	–	–	–	**–**
Finance costs	(27,102)	(26,682)	(25,361)	(27,959)	**(68,139)**
Profit before tax	170,114	278,147	599,476	248,577	**148,992**
Income tax	(28,529)	(48,572)	(93,916)	(3,185)	**7,301**
Profit for the year	141,585	229,575	505,560	245,392	**156,293**
Attributable to:					
Equity holders of the Company	140,006	228,142	504,169	245,011	**156,518**
Minority interests	1,579	1,433	1,391	381	**(225)**
	141,585	229,575	505,560	245,392	**156,293**
	HK cents	HK cents	HK cents	HK cents	**HK cents**
Earnings per share					
Basic	11.29	16.62	33.27	15.93	**10.18**
Diluted	11.10	16.35	32.83	N/A	**N/A**

ASSETS AND LIABILITIES

	At December 31,				
	2001	2002	2003	2004	**2005**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	***HK$'000***
Total assets	2,209,932	2,948,797	3,361,624	4,707,246	**5,379,779**
Total liabilities	(878,698)	(1,145,851)	(1,231,655)	(2,438,149)	**(2,884,251)**
	1,331,234	1,802,946	2,129,969	2,269,097	**2,495,528**
Equity attributable to equity holders of the Company	1,321,642	1,793,137	2,121,697	2,259,039	**2,484,832**
Minority interests	9,592	9,809	8,272	10,058	**10,696**
	1,331,234	1,802,946	2,129,969	2,269,097	**2,495,528**