



BROAD INTELLIGENCE

International Pharmaceutical
Holdings Limited

(incorporated in the Cayman Islands with limited liability)



Annual Report 2004

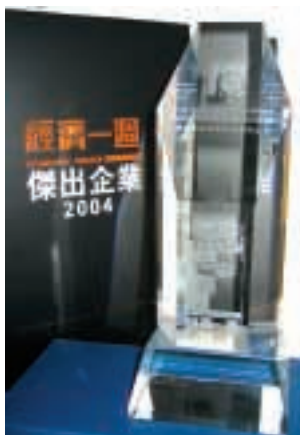


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Chairman's Statement

I am pleased to present to our shareholders the annual report of Broad Intelligence International Pharmaceutical Holdings Limited (the "Company") and its subsidiaries (collectively the "Group") for the year ended 31 December 2004.



AWARDS AND ACHIEVEMENTS

In last November, the Company was pleased to be named as one of the 20 local listed companies with the most outstanding results and corporate governance in a survey conducted by "Economic Digest", an authoritative local economic journal with a long history in Hong Kong.



In May 2004, the Group's products were granted the award of the "2003 Consumers' Choice in Fujian" (2003年福建省用戶滿意產品) by the Fujian Society of Quality Assurance (福建省質量協會). Then in August 2004, the Company was recognised as a "2002-2004 High Growth Industrial Enterprise in Fujian" (2002-2004年度福建省高成長型工業企業) and among the "Top 10 Corporates in the Leading Industries of Fujian" (福建工業主要行業前十強) by Fujian Business Appraisal Centre (福建省企業評價中心) and the Fujian Chamber of Commerce (福建省企業協會). More recently in February 2005, Fujian Fuqing Pharmaceutical Co., Ltd. was accredited as one of the "Top Ten Private Enterprises in Fuqing".

EXPLORING OVERSEAS MARKETS

During the year, the Company made its first step for setting its foothold in overseas markets. In October 2004, it was granted the permits to deal in and to possess substances to which the Antibiotics Ordinance (Chapter 137 of the Laws of Hong Kong), and the permits for the reselling of poisons issued by the Pharmacy and Poisons Board under the Pharmacy and Poisons Ordinance (Chapter 138 of the Laws of Hong Kong). So far, the Company has submitted applications for a number of products, selected with reference to market demand, for reselling in Hong Kong, which are pending for approval.

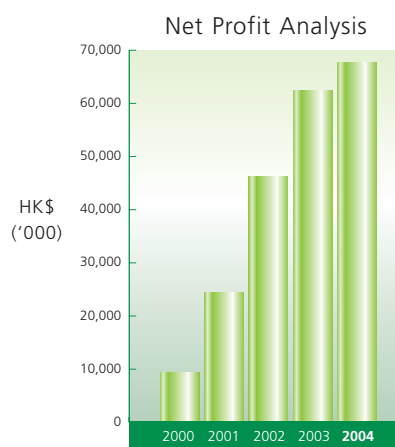
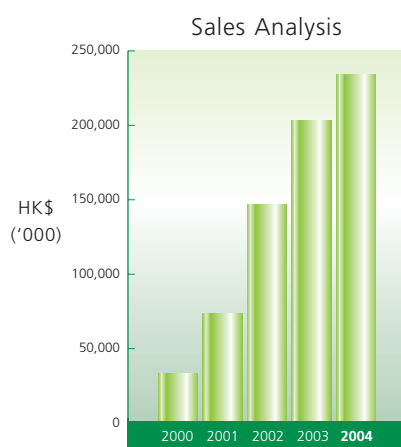
DIVIDENDS

In order to strengthen our competition and obtain our competitive advantage, the group have decided to further development and expansion of our existing production capacity and to identify potential companies for acquisition. So, the Board does not recommend payment of any final dividend for the year ended 31 December 2004 (2003: Nil).



BUSINESS REVIEW

The Group's results for the year were very encouraging, primarily attributable to its various competitive advantages. In line with its brilliant results, the Group's sales and profit recorded remarkable growth. For the year ended 31 December 2004, consolidated turnover of the Group was HK\$234 million, representing a year-on-year growth of 15% from the consolidated turnover of HK\$204 million last year. Profit after tax was HK\$68 million, up 8% from the previous year. Profit margin improved from 40% last year to approximately 40.5%. Sales of large volume parenteral solution was approximately HK\$53 million in 2004 (2003: HK\$20 million). The management of the Company exercised stringent cost control, quality assurance and expenses control, so as to minimize production and management costs and improve flexibility and efficiency. By improving its productivity and product quality and expanding its operation network, the Group has built up a robust foundation for the further development of its business. Its basic earnings per share were HK\$16.9 cents.



OUTLOOK AND PROSPECT

Building on its experience in the manufacturing and sale of pharmaceutical products, extensive marketing network and an elite team of advisors with professional experience and expertise, the Group has identified the following initiatives in the coming year:

Acquiring and maintaining land reserve

In 2004, application has been filed with by the Company with the relevant State-owned Land Bureau regarding the purchase of a parcel of land of approximately 3,890 sq.m. adjacent to the Fuqing Plant. Following the completion of geological survey in February 2004, construction of a six-storey workshop complex has been completed by the end of 2004 with the relevant land use right certificate obtained. Capital expenditures in respect of the purchase of the land and construction were approximately RMB20 million.



Chairman's Statement



In addition, the Group has filed a request to the relevant State-owned Land Planning Bureau of Fuqing Rong Qiao Technical Economic Development District (福清融僑經濟技術開發區國土規劃建設局) in respect of a parcel of land with a site area of approximately 100 Chinese acres in proximity to the Fuqing Plant. It is the intention of the Company to reserve the parcel of land for the construction of a new plant, production lines and facilities should the need arise.

Production lines and scope of production

The Group's production lines are almost working at their maximum capacity. The existing production facilities may not be able to satisfy the potential demand in future. Given that the launch of new pharmaceutical products is key to maintaining its strong competitiveness and performance, the Group plans to upgrade its productivity and production volume by setting up six GMP-certified production lines in the new complex. It is expected that the GMP certificates will be obtained in the first half of 2005, with commercial production launched within the year.

New products of the Group include granules, powders, herbal teas, solutions, syrups, eye drops, ear drops, aerosols and tinctures (for external application). It is expected that 10-20 new products will be submitted for approval by the relevant departments in the year.

NEW PRODUCTS

In early 2005, a subsidiary of the Company acquired 39 pharmaceutical formulae developed by a pharmaceutical manufacturer. These pharmaceuticals include medicine for the treatment of pains caused by influenza and bronchitis; product for the prevention of respiratory infection caused by influenza A virus; brain tonic; product for treatment of infection from haemolytic streptococcus, meningococcus and pneumococcus; dermatological; product for rhinitis and paranasal sinuses; eye tonic; supplements; detoxification products; lipid lowering agent.





The new production complex of the Group produced a wide diversity of products in 2005. In addition to the large and small volume parenteral solutions, there were also new products such as granules, powders, herbal teas, solutions, syrups, eye drops, ear drops, aerosols and tinctures (for external application). In particular, the following products occupy a leading position in the international market:

Product	Form	Medical Application
Anti-diabetes Tea (降糖茶) (Note 1)	Herbal tea	For treatment of diabetes and the lowering of blood sugar and lipid 用於糖尿病、降糖降脂
Olive Granules (橄欖晶沖劑) (Note 2)	Granule	A proprietary Chinese medicine with no side effect. It can strengthen the stomach, reduce stomach gas, help digestion with appetising effect, sobering, stop vomiting, facilitates breathing and diarrhoea caused by infections 沒有副作用之中成藥。健胃下氣、消滯、增進食慾、醒酒止嘔、胸腔痞滿、暑濕腹瀉
Naphazoline Hydrochloride Nasal Drop (鹽酸萘甲唑林滴鼻劑)	Nasal drop	A vasoconstrictive medicine that treats influenza and rhinitis and nasal congestion 血管收縮藥、治療傷風鼻炎、鼻充血
Sulfadiazine Suspension (磺胺嘧啶混懸液)	Suspension	For treatment of infection from haemolytic streptococcus, meningococcus and pneumococcus 用於血性鏈球菌、腦膜炎球菌、肺炎球菌
Glycerin suppositories (甘油栓)	Suppository	For treatment of constipation 用於便秘
Methyl Salicylate Aerosol (水楊酸甲酯氣霧劑)	Aerosol	For emergent treatment of soft tissue damages 用於軟組織損傷的應急治療
Lidocaine and Chlorhexine Acetate Aerosol 利多卡因氯己定氣霧劑	Aerosol	For treatment of cuts, scratches, heat rashes and sunburns 用於割傷、擦傷、熱疹、曬傷等



Note 1: This product, effective in reducing the blood sugar and cholesterol level, is used for the treatment of diabetes. Demonstrating a high degree of efficacy in State-approved clinical tests, the product is, similar to other Chinese drugs, free of toxins and undesirable side effects. Based on the statistics of health organisations in the PRC, there are approximately 100-150 million of diabetic patients. This product, easy to take and carry, has a very strong therapeutic value and a good market potential.

Note 2: This product, developed in response to market demand, is a registered patent product in the PRC. It is the first 100% pure Chinese medical solution developed and produced in China and around the globe with the use of advanced extraction technology. It has a high therapeutic value as a tonic for the liver and for treatment of gastrointestinal diseases, particularly stomach diseases. It is also good for the relief of hangover and is free of undesirable side effects. This product is well received by the market.



Market potential: China, with a population of 1.3 billion, is a densely populated country. Its ongoing social development leads to an increase in work pressure and the pace of life, and people are not taking good care of their diet. The result is an increase in popularity of stomach diseases. At the same time, people are more and more concerned about the toxic side effects of chemical drugs. As a result, there is an increase in acceptance for natural Chinese drugs. This product has been proved to be free of toxic side effects in clinical tests. Based on the statistics of health organisations, there are approximately 300 million patients suffering from stomach diseases and the situation is particularly serious for the middle-aged and the elderly. However, more and more younger generations are also found to suffer from these diseases. Therefore this product has a very huge market and has sound development potential.



ACQUISITIONS

In pursuit of the best value for our shareholders, the Group will continue to identify potential companies for acquisition. The Group will carefully study and analyse the potential contributions from such acquisitions. Currently, the Group is engaged in negotiations in this regard with companies engaged in the sale, distribution and manufacturing of pharmaceutical products. The Group believes that vertical and horizontal expansions enabled by such acquisitions will strengthen its competitiveness with an extensive network covering provinces including Guangxi, Guizhou, Henan and Fujian.

APPRECIATION

I would like to take this opportunity to extend my deepest gratitude to the directors and staff as a whole for their immense contribution, dedication and diligence over the year.

By order of the board

Zhong Houtai

Chairman

11 April 2005



Management Discussion and Analysis

RESULTS

For the year ended 31 December 2004, the Group's consolidated turnover was HK\$234 million, up 15% from HK\$204 million of last year. Profit after tax was HK\$68 million, representing an increase of 8% over last year. Gross profit margin improved from last year's 40% to 40.5%. Basic earnings per share were HK\$16.9 cents.

SALE OF PRODUCTS

In 2004, the Group offered 40 types of products, which were all sold in the PRC and denominated in Renminbi. Customers of the Group mainly comprised licensed pharmaceutical distributors, hospitals and clinics in the PRC. The Group's 4 major products together accounted for 63% of the total turnover.

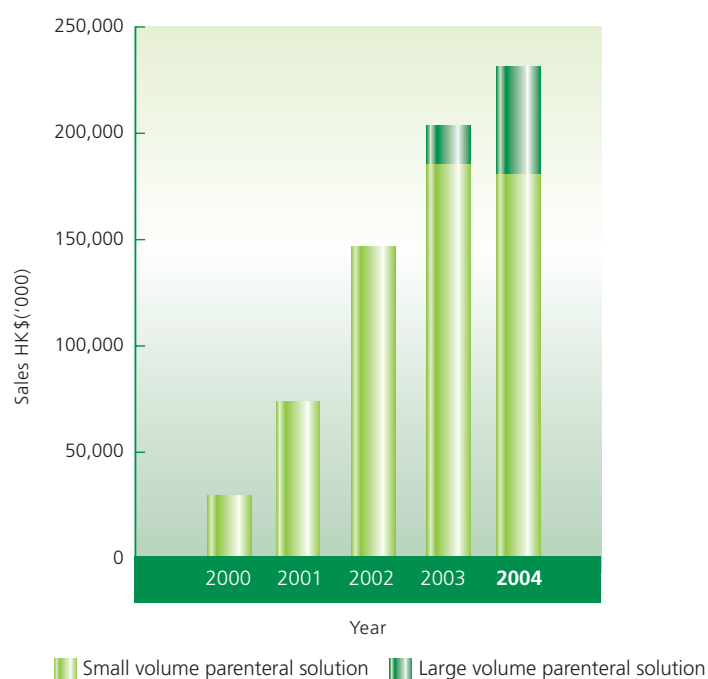
	Major Districts in the PRC									
	For the Year ended 31 December									
	2000		2001		2002		2003		2004	
	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%
Eastern region (Shanghai, Zhejiang province, Jiangxi province and Fujina province)	21,920	66	40,198	54	79,675	55	119,756	59	134,153	57.3
Southwestern Region (Yunan Province, Guizhou Province and Chongqing)	2,302	7	10,770	15	23,450	16	34,223	17	37,084	15.9
Southern Region (Guangdong Province and Guangxi Autonomous Region)	5,768	17	14,808	20	28,055	19	31,533	15	44,094	18.9
Northern Region (Beijing and Henan Province)	1,438	4	5,890	8	9,384	6	12,671	6	14,761	6.3
Central Region (Anhui Province and Hunan Province)	1,810	6	2,012	3	6,179	4	5,337	3	3,805	1.6
Total	33,238	100	73,678	100	146,743	100	203,520	100	233,897	100



	Type of Customers For the Year ended 31 December									
	2000		2001		2002		2003		2004	
	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%
Distributors	29,959	90	66,827	91	134,638	92	178,164	88	185,896	79
Hospitals and Clinics	3,279	10	6,851	9	12,105	8	25,356	12	48,001	21
Total	33,238	100	73,678	100	146,743	100	203,520	100	233,897	100

Presented below is an analysis of the sales of large and small volume parenteral solution over the past few years:

Sales Analysis of Large and Small Volume Parenteral Solution





FINANCIAL INFORMATION

The Group had cash and bank balances totalling HK\$181 million as at 31 December 2004. As the Group had no outstanding bank loan on the same day, the gearing ratio was zero (2003: 0%). The current and quick ratios both improved, from 6.44 and 6.24 respectively in 2003 to 7.52 and 7.32 respectively in 2004. As at 31 December 2004, the debtors turnover period, inventory turnover period and creditors turnover period were 57 days, 10 days and 24 days respectively (2003: 96 days, 11 days and 42 days respectively).

Overall, the Group has a sound financial position to support its future development.

CONTINGENT LIABILITIES

As at 31 December 2004, the Group and the Company did not have any significant contingent liability (2003: Nil).

INTEREST RATE AND CURRENCY EXPOSURE

The Group has no material currency and interest rate exposure.

CHANGES IN THE GROUP'S COMPOSITION

Since listing up to 31 December 2004, the Group did not acquire or sell any subsidiary.

DIVIDENDS

In order to strengthen our competition and obtain our competitive advantage, the group have decided to further development and expansion of our existing production capacity and to identify potential companies for acquisition. So, the Board does not recommend payment of any final dividend for the year ended 31 December 2004 (2003: Nil).

AUDIT COMMITTEE

The audit committee has three members, including the Company's three independent non-executive Directors, namely Mr. Pei Renjiu, Mr. Li Kai Ming and Mr. Cheung Chuen. The duties of the audit committee are to review the Company's annual report and accounts, interim reports and to provide advice and comments thereon to the Board. In addition, the audit committee will consider any significant and unusual items that are, or may need to be reflected in such reports and accounts and must give due consideration to any matter that has been raised by the Company's qualified accountant, compliance officer and auditors. The audit committee is also responsible for reviewing and supervising the financial reporting process and the internal control system of the Group. Four meetings were held during the current financial year to review the unaudited interim financial statements for the 6 months ended 30 June 2004 and the audited financial statements for the year ended 31 December 2004.



EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2004, the Group had a total of 248 employees (2003: 243). The increase in headcount was to cater for operating needs. The Group regularly reviews remuneration and benefits of employees according to the relevant market practice and individual performance of the employees. In addition to basic salary, employees are entitled to other benefits including staff provident fund scheme and discretionary bonus scheme.



BOARD OF DIRECTORS

Executive Directors

Mr. Zhong Houtai, Chairman
Mr. Zhong Houyao
Mr. Chong Hoi Fung
Mr. Sun Daquan
Mr. Chai Chung Wai

Independent Non Executive Directors

Mr. Pei Renjiu
Mr. Li Kai Ming
Mr. Cheung Chuen
(Appointed on 14 September 2004)

COMPANY SECRETARY

Mr. Chai Chung Wai FCCA, CPA, MAcc (PRC)

PRINCIPAL BANKERS

Industrial and Commercial Bank of China
Standard Chartered Bank

AUDITORS

CCIF CPA Limited
37/F, Hennessy Centre
500 Hennessy Road
Causeway Bay
Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Bank of Butterfield International (Cayman) Ltd
Butterfield House
68 Fort Street
P.O. Box 705
George Town
Grand Cayman
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Standard Registrars Limited
G/F, Bank of East Asia Harbour View Centre
56 Gloucester Road
Wan Chai
Hong Kong

REGISTERED OFFICE

PO Box 309GT
Ugland House
South Church Street
George Town
Grand Cayman
Cayman Islands

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit 1903, Allied Kajima Building
138 Gloucester Road
Wan Chai
Hong Kong



DIRECTORS

Executive Directors

Zhong Houtai, aged 48, is the Chairman of the Company. Mr. Zhong is a representative of the tenth provincial people's congress of Fujian. In June 2004, he was named as one of the "Top 100 Outstanding Entrepreneurs in China" by Wu Bangguo, chairman of the Standing Committee of the National People's Congress. Mr. Zhong was appointed as the deputy president of the Association of Sino-foreign Entrepreneurs of the Fujian Province (福建省中外企業家聯誼會) and the Fujian Society of Pharmacy (福清市藥學會) in 2001 and 2002 respectively. In August 2003, he was appointed as the deputy president of the Fujian Association of Pharmaceutical Profession (福建省醫藥行業協會). Mr. Zhong was accredited as New Long March Shock Worker (新長征突擊手) by the Fuzhou Committee of the Communist Youth League of China in 1983 and Model Labour of Fuzhou (福州市勞動模範) by the People's Government of Fuzhou City in 2001. Over the years, Mr. Zhong has participated in healthcare-related business and has accumulated experience in the manufacture and management of pharmaceutical products for more than 6 years. He has been engaged in various sectors including cultivation, food and agriculture. Mr. Zhong founded the Group in 1996. Under the leadership of Mr. Zhong, Fuqing Pharmaceutical became the first enterprise in the Fujian Province passing the national GMP certification in respect of its small volume parenteral solution workshop. Mr. Zhong Houtai is the brother of Mr. Zhong Houyao.

Mr. Zhong Houyao, aged 51, is a Director and the general manager of the Company. Mr. Zhong was qualified as a senior engineer by the Fujian Province Title Reform Leadership Committee (福建省職稱改革領導小組) in 2000. Mr. Zhong graduated from Fujian Normal University in 1982, majoring in chemistry. He taught in Fujian Qiaoxing Light Industry School from 1982 to 1991 and was the leader of the Scientific Research Team and the head of the Food Industry Division there. During his service in the institute, Mr. Zhong coordinated the study on various topics including "alcohol extraction from cane juice" and "food preservation". From 1992 to 1993, Mr. Zhong studied food chemistry in Australia. Currently, Mr. Zhong is an executive of the Fujian Association of Pharmaceutical Profession (福建省醫藥行業協會). He joined the Group in 1996 and was one of the founders of the Group. Mr. Zhong Houyao is the brother of Mr. Zhong Houtai.

Chong Hoi Fung, aged 34, is a Director of the Company. He graduated from Xiamen University in 1993 and obtained a bachelor degree in economics. Mr. Chong has accumulated 8 years of experience in finance and management in the PRC. He once worked as a deputy general manager of a real estate company in Fujian, the PRC for four years. He also held a senior position in another property development company in the PRC for 2 years. Mr. Chong joined the Group in April 2003.



Directors, Senior Management and Staff

Sun Daquan, aged 65, is a Director of the Company. He graduated from Shanghai First Medical School (上海第一醫學院) in 1962, majoring in pharmacy. From 1979 to 1983, Mr. Sun held various senior positions in Industrial Chemistry Bureau of Xiamen City, Fujian. From 1983 to 1995, he was the deputy general manager of Pharmaceutical Company of Fujian (福建省醫藥總公司), presently known as Drug Administration of Fujian Province. In 1996, he became the chief commissioner of 福建省醫藥管理局 (Pharmacy Authority of Fujian). He was qualified as an engineer in pharmacy by the People's Government of Xiamen City in 1981. Mr. Sun joined the Group in April 2003.

Chai Chung Wai, aged 38, is a Director, financial controller and company secretary of the Company. Mr. Chai got a master's degree in PRC Accounting in December 2003, and he is studying for a master's degree in business administration. Mr. Chai has accumulated about 14 years' working experience related to audit, accounting and finance. Mr. Chai was a group accounting manager of a Hong Kong listed company for more than 2 years. He is a fellow member of The Association of Chartered Certified Accountants and an associate of the Hong Kong Institute of Certified Public Accountants (CPA). Mr. Chai joined the Group in April 2003.

Independent Non-executive Directors

Pei Renjiu, aged 39, graduated from Bangfu Academy of Medical Sciences (蚌阜醫學院) in 1990, majoring in pharmacology. Mr. Pei has been granted various awards. In 1997, one of Mr. Pei's theses was accredited with a first honours award by the chief logistic department of the People's Liberation Army (中國人民解放軍總後勤部) and in 1994 and 1995, two of Mr. Pei's theses were accredited with a third honours award by the logistic department of the Nanjing military region of the People's Liberation Army (中國人民解放軍南京軍區後勤部). He has been engaged in the field of pharmacy for more than 10 years. Mr. Pei was qualified as the deputy officer in pharmacy by the Healthcare department of the Nanjing military region of the Advanced Expertise Duties Examination Committee (南京軍區衛生系列高級專業技術職務評審委員會) in 1998. Mr. Pei was appointed as independent non-executive Director in April 2003.

Li Kai Ming, aged 61, graduated from Jimei Light Industrial School in 1962, majoring in industry planning statistics. Mr. Li was the chief of Financial Bureau of Fuqing from 1996 to 2002 and was appointed as visiting professor at China Management Institute (中國管理學院) in 2003. Mr. Li was also a researcher at World Economic Research Centre (世界經濟研究中心) in 2002. Mr. Li was qualified as an economist by the Fuzhou City Title Reform Leadership Committee (福州市職稱改革領導小組) in 1992. One of his essays was awarded "First Class Award for Excellent Management Essay in the PRC" (首屆中國優秀領導管理藝術徵文一等獎) in 2000 and his another essay was awarded "Award for International Excellent Essay" (國際優秀論文獎) in 2001. Mr. Li was appointed as independent non-executive Director in July 2003.

Mr. Cheung Chuen, aged 31, graduated from the accounting department of Hong Kong Shue Yan College in 1999 and obtained the master's degree in accounting from Hong Kong Polytechnic University



in 2004. Mr. Cheung is currently a member of the American Institute of Certified Public Accountants and the Hong Kong Institute of Certified Public Accountants. He has more than five years' experience in accounting and auditing and is currently qualified to practise as a certified public accountant in the US and Hong Kong.

SENIOR MANAGEMENT

Guo Wenjing, aged 61, is a deputy general manager of the Group responsible for production and equipment. He graduated from the East China University of Science and Technology in 1968, majoring in chemical pharmacy. In 1997, he became the director of a medical industrial research centre in Fuzhou. Mr. Guo served as an executive of the third committee of the Society of Industrial Chemistry of Fujian (福建省化工學會), a managing executive of the third committee of Fujian Research Institute of Modern Economics and Management (福建省技術經濟與管理現代化研究會), an executive on the tenth committee of Fujian Branch of the PRC Pharmaceutical Society (中國藥學會福建分會) and a managing executive of the fifth committee of Pharmaceutical Society of Fuzhou City (福州市藥學會). Mr. Guo was also appointed as a member in the second committee of Board of Medical Products of Fujian Province (福建省藥品審評委員會) for 3 years from 1992, a member of Fujian Province Board of Technician in Medical Profession (福建省工程技術人員醫藥專業高級職務評審委員會) from December 1998 to December 1999 and a member of the second technical committee of Fujian Province Administration of Medicine (福建省醫藥管理局第二屆技術委員會) for 3 years from 1994. In 2001, Mr. Guo was appointed as a member of the Committee of Experts of Investment Decision Expert Consultants of Fujian Industrial and Business Sector (福建省工商領域投資決策諮詢專家庫專家委員會). He has been granted provincial outstanding new product class 2 award (福建省優秀新產品二等獎) by the Fujian Province Outstanding Products Awards Committee (福建省優秀新產品獎評審委員會) in 1993. From 1987 to 1995, he was accredited several awards for his essays and he qualified as a licensed pharmacist in 1995. Mr. Guo joined the Group in April 2003.

Lin Xinlong, aged 58, is a deputy general manager of the Group, responsible for the finance and administration divisions. He graduated from the Shanghai First Medical School (上海第一醫學院) in 1970, majoring in medicine. Mr. Lin was an executive of the fifth committee of Medical Society of Fuzhou City (福州市醫學會). He is currently a managing member of the Magazine of Chinese Common Medical Science (中國普通醫藥雜誌). His thesis in relation to cancer has been awarded the Second Class Award of the Outstanding Academy Essay (優秀學術論文評選二等獎) by Scientific Technology Association of Fuqing City (福清市科學技術協會) in 2001. He has been accredited as "2002 International Talents of Century Creator" by IVB Network Conference. Mr. Lin joined the Group in January 2000.

Ye Wenren, aged 44, is a deputy general manager of the Group, responsible for the marketing division. Mr. Ye graduated from the People's Liberation Army Military Medical College of Fuzhou



Directors, Senior Management and Staff

Military Area (中國人民解放軍福州軍區軍醫學校) in 1982, majoring in pharmacy. Mr. Ye was an executive of the fifth committee of Pharmacy Society of Quanzhou City (泉州市藥學會). Mr. Ye was qualified as chief pharmacist by the Fujian Branch of the PRC Pharmaceutical Society (中國藥學會福建分會) in 1994. Mr. Ye joined the Group in January 2000.

Jin Shushan, aged 64, is the chief engineer of the Group. He was qualified as a chief pharmacist by the Healthcare Department of People's Liberation Army Fujian Military Region of Medium Expertise Duties Examination Committee (中國人民解放軍福建省軍區衛生系列中級專業技術職務評審委員會) in 1987. He graduated from Jinzhou School of Medicine (錦州醫學院) in 1962, majoring in pharmacy. Upon graduation, he joined the Hospital of Division 73301 of the People's Liberation Army (中國人民解放軍七三三零一部隊醫院) and became the supervisor of its department of medical equipment in 1985. In 1988, he was assigned to the military pharmaceutical division (籌建部隊藥廠). Mr. Jin has been engaged in the field of medicine for more than 39 years. He joined the Group in December 1996.

Huang Jinshu, aged 31, is the production manager of the Group and a qualified pharmacist. He graduated from Fuzhou Wenjiao Vocational College (福州文教職業學校) in 1992, majoring in pharmacy. Mr. Huang continued his studies in Beijing Intelligence Development Correspondence School (北京智力開發函授學院) from 1993 to 1994, majoring in pharmacy. He joined the Group in December 1996.

Lin Aiping, aged 36, is the quality assurance manager of the Group and responsible for the central laboratory of the Group. She graduated from Fujian Medical University in 1995, majoring in pharmacy. Before joining the Group in January 2000, she had worked in a quality management role in the pharmaceutical industry for more than 12 years.

Xu Bokuan, aged 41, is the manager of the research and development department of the Group. Mr. Xu graduated from Zhejiang Medical University (浙江醫科大學) in 1985, majoring in pharmacy. He was qualified as a chief pharmacist by Shaoxing Title Reform Leadership Committee Bureau (紹興職稱改革領導小組辦工室) in 1993. He worked in Xinchang Medicine Examination Institute in Zhejiang (浙江省新昌縣藥檢所) from 1985 to 1992 and was once the vice-president there. From 1992 to 1999, he worked as the supervisor of the new drug development department of a pharmaceutical company in Hainan. Mr. Xu has about 18 years of experience in the pharmaceutical industry. Mr. Xu joined the Group in January 2003.

Yu Xiangbin, aged 39, is the manager of the technical department (production) of the Group. He graduated from People's Liberation Army Second Military Medical University (中國人民解放軍第二軍醫大學) with a master's degree in medicine in 1994. His essay was accredited with the Outstanding Essay Second Honours Award (優秀論文二等獎) by the medical department of Fuzhou Central Hospital of the Nanjing military region (南京軍區福州總醫院醫務部) in 1997 and his thesis was accredited with Fourth Honours Award by the logistic unit of the People's Liberation Army of the Nanjing military region (中國人民解放軍南京軍區聯勤部) in 1999. Mr. Yu joined the Group in January 2000.

Chen Lunbin, aged 31, is the finance manager of the Group. Mr. Chen graduated from Fuzhou University in 1994, majoring in financial accounting. He joined the Group in December 1996.



Huang Chenglan, aged 54, is the equipment manager of the Group. He graduated from Fuzhou Second Technical College (福州市第二技工學校) in 1970, majoring in mechanical engineering. He has been a technician in a mechanics factory from 1971 to 1990 and a facility administrator and equipment maintenance officer in a packing company from 1993 to 1995. Mr. Huang joined the Group in December 1996.

ADVISORY BOARD

The Directors consider that the advisory board is critical to the product development of the Group. Members of the advisory board are experts in the medicine profession with substantial experience in various fields such as virology and pharmacy. Meeting of the board is held twice per year. In addition, the advisory board will also call extra meetings when necessary. During different stages of the research and development, members of the board will supervise staff of the Group and advise on the manufacturing and research and development progress. Upon request by management of the Group, the member of the board will visit the Group's customers and give professional advice in respect of the nature and effects of the Group's products to the end users such as hospitals and clinics. Details of members of the advisory board are summarized as follows:

Hou Yunde, aged 75, graduated from the Medical School of Tongji University (同濟大學醫科學院) in 1955 and obtained his doctoral degree from Academy of Medical Sciences of the Soviet Union in 1962. Mr. Hou, a molecular pathologist, is a fellow researcher at the Chinese Academy of Engineering and a researcher at the Chinese Centre for Disease Control and Prevention Institute for Viral Disease Control and Prevention (中國疾病預防控制中心病毒病預防控制所). He became a fellow of the Chinese Academy of Engineering in 1994 and then became its deputy director president in 1996. Mr. Hou has been engaged in the research in virology for 40 years and has made achievements in the research on interferon and the structure and function of virogene of vaccinia. He has published over 250 essays in his career so far, and has received several awards for his achievements.

Ma Yonghua, aged 69, graduated from Nanjing Medical University in 1959, majoring in medicine. Mr. Ma obtained his doctor degree of philosophy in pharmaceutical sciences from Toyama Medical and Pharmaceutical University in 1988. Mr. Ma previously held various positions in medical associations in the PRC. He was appointed as the 會長 (president) of the first executive committee of Natural Medical Society of Nanjing (南京自然醫學會) and managing executive of the fourth executive committee of the Society for the Integration of Chinese and Western Medical Science of Jiangsu Province (江蘇省中西醫結合學會). Mr. Ma was the deputy supervising member of the second committee of Society of Elderly Medical Profession (老年醫學專業委員會). Mr. Ma was prized for his contributions to the integration of the Chinese and Western medical science, scientific technology advancement and Dictionary of Chinese Pharmacy (中醫方劑大辭典).

Wang Faping, aged 39, graduated from the Pharmacy College of Nanjing (南京藥學院) in 1986, majoring in pharmacology. He furthered his studies at the University of Toronto, Canada from 2000 to 2001. Mr. Wang is currently engaged in the research and development of medicines. Mr. Wang was



Directors, Senior Management and Staff

awarded the finest in the profession (專業技術拔尖人材) by the Drug Administration of Shandong Province in 1996. Mr. Wang was qualified as a senior engineer in pharmacy by the Board of Medical Profession of Shandong Province (山東省醫藥工程技術職務高級評審委員會) in 1997. He was further qualified as a deputy pharmacist by the Board of Medical Profession of Shandong Province (山東省醫藥專業職務高級評審委員會) in 1998.

Huang Ziqiang, aged 64, graduated from Fujian Medical College (福建醫學院) in 1963, majoring in medicine, and remained as a tutor at the pharmacology department after his graduation. From 1985 to 1992, Mr. Huang was a supervisor of the pharmacology research centre (藥理教研室) at the college. From 1989 to 1992, Mr. Huang was also the deputy supervisor of Fundamental Medical Department of the college. From 1992 to 2001, he became the supervisor of Fundamental Medical Department of the college and he was promoted to be an instructor for doctoral students there in 1998. In addition to the several awards that Mr. Huang received in his career, he has published about 100 pieces of essays and several textbooks and medical manuals.

Xu Rongqing, aged 42, graduated from the Shanghai Medical University with a master's degree in pharmacy in 1988. Mr. Xu was appointed as a researcher in medical science research centre of Fujian Province (福建省醫學科學研究所) in 2001 and has conducted different research projects which are related to public health issues and has published a number of academic writings and technology research results. Mr. Xu was awarded the "Award for Advancement in Medical Science in Fujian Province" (一九九四年度省醫藥衛生科技進步一等獎) by the Health Department of Fujian Province in 1995 and Third Honours Award by Fujian Province Award for Advancement in scientific technology committee (福建省科學技術進步獎評審委員會辦公室) for his contributions to advance scientific technology in 1995. Mr. Xu's essay was also awarded the "Brilliant thesis award" (優秀學術論文) by Fujian division of the Society of Pharmacy of the PRC (中國藥學會福建分會) in 1997.

Ding Jian, aged 51, graduated from Hyushi University, Japan in 1991, with a doctoral degree in medicine. Mr. Ding qualified as a researcher by Shanghai Institute of Masteria Medica of the Chinese Academy of Sciences (中國科學院上海藥物研究所) in 1995. Mr. Ding was appointed as a member of the second committee of National Professional Committee of New Drugs Research and Development (國家新藥研究方開發專家委員會) in 1998 for 3 years. He was also appointed as the leader of the Expert Team of Marine Biotechnology in Resource & Environmental Technology of the National 863 Program (國家八六三計劃計資源環境技術領域海洋生物技術主題專家組) by the Ministry of Science and Technology of the People's Republic of China from July 2002 to July 2004 and a member of the Ninth Expert Evaluation Committee of Department of Life Science of the National Natural Science Foundation of China by the National Natural Science Foundation of China for 2 years from 2002. He has been principally engaged in the research and development of anti-tumor drugs and has published several academic writings.



The Directors present their report together with the audited financial statements of the Company and the Group for the year ended 31 December 2004.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The activities of its subsidiaries are set out in Note 14 to the financial statements.

RESULTS

The Group's results for the year ended 31 December 2004 are set out in the consolidated income statement on page 28 of this Annual Report.

DIVIDENDS

In order to strengthen our competition and obtain our competitive advantage, the group have decided to further development and expansion of our existing production capacity and to identify potential companies for acquisition. So, the Board does not recommend payment of any final dividend for the year ended 31 December 2004 (2003: Nil).

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Company and the Group during the year are set out in Note 12 to the financial statements.

SHARE OPTIONS

The Company has conditionally adopted the Share Option Scheme, the principal terms of which are set out in the paragraph headed "Share Option Scheme" in Appendix 4 to the prospectus issued by the Company on 11 November 2003.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's bye-laws, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

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



RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in Note 21 to the financial statements and in the consolidated statement of changes in equity.

MAJOR CUSTOMERS AND SUPPLIERS

The percentages of the Group's purchases and turnover attributable to major suppliers and customers are as follows:

	2004 %	2003 %
Percentage of purchases:		
From the largest supplier	17	25
From the five largest suppliers	70	76
Percentage of turnover:		
From the largest customer	5	7
From the five largest customers	24	28

DIRECTORS

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

Executive Directors

Mr. Zhong Houtai, Chairman
Mr. Zhong Houyao
Mr. Chong Hoi Fung
Mr. Sun Daquan
Mr. Chai Chung Wai

Independent Non Executive Directors

Mr. Pei Renjiu
Mr. Li Kai Ming
Mr. Cheung Chuen (appointed on 14 September 2004)

Pursuant to the Company's Articles of Association, Mr. Zhong Houyao, Mr. Chong Hoi Fung and Mr. Cheung Chuen will retire from office as directors at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.



DIRECTORS' SERVICE CONTRACT

Each of the executive Directors has entered into a service contract with the Company for an initial fixed term of 3 years commencing from 24 November 2003, and will continue thereafter until terminated by not less than 3 months' notice in writing served by either party on the other, which notice shall not expire until after the fixed term. Each of these executive Directors is entitled to the respective basic salary set out below (subject to an annual increment after the first anniversary of the commencement date of the respective service contracts at the discretion of the Directors of not more than 10% of the annual salary immediately prior to such increase). In addition, for the financial year ending 31 December 2003 and each of the financial years thereafter during the initial term, each of the executive Directors is also entitled to a discretionary bonus provided that the aggregate amount of the bonuses payable to all the executive Directors in respect of any financial year of the Company shall not exceed 5% of the audited net profit of the Company (or as the case may be, combined or, consolidated audited net profit of the Company and its subsidiaries (if any)) (after taxation but before extraordinary and exceptional items and payment of such bonuses) in respect of that financial year of the Company. An executive Director shall not vote on any resolution of the Directors regarding the amount of the discretionary bonus payable to him. The current basic annual salaries of the executive Directors are as follows:

Name	2004 Salary
Mr. Zhong Houtai	HK\$694,891
Mr. Zhong Houyao	HK\$488,189
Mr. Chong Hoi Fung	HK\$335,000
Mr. Sun Daquan	HK\$280,000
Mr. Chai Chung Wai	HK\$650,000

Save as aforesaid, none of the Directors has or is proposed to have a service contract with the Company or any of its subsidiaries (other than contracts expiring or determinable by the Company within one year without the payment of compensation (other than statutory compensation)).

The independent non-executive directors are not appointed for a specific term, but are subject to retirement by rotation and re-election at the annual general meeting in accordance with the bye-laws of the Company.

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



DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 13 to 18 of this Annual Report.

DIRECTORS' INTERESTS IN THE SHARE CAPITAL

As at 31 December 2004, the interests of the directors in the shares of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("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 pursuant to the Model Code for Securities Transactions by Directors of Listed Companies ("Model Code"), were as follows:

Director	No. of shares Held (Corporate interest (Note))	Percentage of Interest
Zhong Houtai	211,720,000	52.93

Notes:

1. The shares are registered under the name of Elite Achieve Limited.
2. The entire issued share capital of Elite Achieve Limited is legally and beneficially owned by Mr. Zhong Houtai.
3. Under the SFO, Mr. Zhong Houtai is deemed to be interested in all the shares registered in the name of Elite Achieve Limited.

Save as disclosed above, none of the directors or their associates had any personal, family, corporate or other interests in the equity or debt securities of the Company or any of its associated corporations as defined in the SFO.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Apart from the details as disclosed under the section headed "Directors' Interests in the Share Capital" above, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the directors, or their respective spouse or children under 18 years of age, to acquire such rights in any other body corporate.



DIRECTORS' INTERESTS IN CONTRACTS

No director had a beneficial interest, either direct or indirect, in any significant contract to which the Company, its holding company or any of its subsidiaries was a party at the balance sheet date or at any time during the year.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS IN SHARES

As at 31 December 2004, the interests or short positions of Substantial Shareholders and Other Persons of the Company, in the issued share capital of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO, or as otherwise notified to the Company, were as follows:

Shareholder	Number of shares	Percentage hold
Elite Achieve Limited	211,720,000	52.93% (Note 1)
Zhong Houtai	211,720,000	52.93% (Note 1)

Note 1: The entire issued share capital of Elite Achieve Limited is legally and beneficially owned by Mr. Zhong Houtai.

Save as disclosed above, no interests or short positions in the shares or underlying shares of the Company were recorded in the register required to be kept under section 336 of the SFO.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or is existing during the year.

CONNECTED AND RELATED PARTY TRANSACTIONS

During the year, the Group had no transactions with related or connected parties.

RETIREMENT SCHEME

The Group provides retirement benefits to its staff. The retirement contributions paid by the Group are based on certain percentage of the relevant portion of the payroll of all qualifying employees in accordance with the relevant regulations in the PRC and are charged to the income statement as incurred. The contribution paid for the year ended 31 December 2004 was approximately HK\$680,000 (2003: HK\$554,000). The Group has made adequate provision in the financial statements in respect of the benefit schemes.



In Hong Kong, the Group has set up a retirement scheme in accordance with the mandatory provident fund requirements prescribed by the Mandatory Provident Fund Schemes Ordinance, Chapter 485 of the Laws of Hong Kong. All Hong Kong based employees and the Group are required to contribute 5% of their respective monthly wages (up to a maximum contribution of HK\$1,000 by each of the employee and the Group) on a monthly basis to the fund.

COMPLIANCE WITH CODE OF BEST PRACTICE

In the opinion of the directors, the Company has complied with the Code of Best Practice (the "Code") as set out in Appendix 14 of the Listing Rules of The Stock Exchange of Hong Kong Limited throughout the accounting year covered by the Annual Report, except that independent non-executive directors are not appointed for a specific term as required by paragraph 7 of the Code, but are subject to retirement by rotation at the annual general meeting of the Company in accordance with the bye-laws of the Company.

INDEPENDENT NON EXECUTIVE DIRECTOR

The Group has appointed Mr. Cheung Chuen as the third non-executive director on 14 September 2004. Mr. Cheung has the professional accounting qualification and he has fulfilled the requirement as set out in Appendix 16-34 of the Listing Rules of The Stock Exchange of Hong Kong Limited.

The Board considered that all non-executive directors to be independent in character and judgement. None of the non-executive directors have relationships or circumstances that are likely to effect their professional judgement and each non-executive director has provided confirmation of his independence to the Group.

AUDIT COMMITTEE

The audit committee has three members, including the Company's three independent non-executive Directors, namely Mr. Pei Renjiu, Mr. Li Kai Ming and Mr. Cheung Chuen. The duties of the audit committee are to review the Company's annual report and accounts, interim reports and to provide advice and comments thereon to the Board. In addition, the audit committee will consider any significant and unusual items that are, or may need to be reflected in such reports and accounts and must give due consideration to any matter that has been raised by the Company's qualified accountant, compliance officer and auditors. The audit committee is also responsible for reviewing and supervising the financial reporting process and the internal control system of the Group. Four meetings were held during the current financial year to review the unaudited interim financial statements for the 6 months ended 30 June 2004 and the audited financial statements for the year ended 31 December 2004.



PUBLIC FLOAT

As at the date of this report, the Company has maintained the prescribed public float under the Listing Rules, based on the information that is publicly available to the Company and within the knowledge of the Company's directors.

MODEL CODE

During the accounting period covered by this Annual Report, the Company had complied with the Model Code as set out in Appendix 10 of the Listing Rules. After making inquiry of the directors, the Company confirmed that the directors of the Company had complied with the provisions of the Model Code.

SUBSEQUENT EVENTS

Material events which arose subsequent to the balance sheet date of the Group are set out in Note 25 to the financial statements.

AUDITORS

CCIF CPA Limited (formerly known as Charles Chan, Ip & Fung CPA Ltd.) retired and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

On behalf of the Board

Zhong Houtai

Chairman

11 April 2005



CCIF

CCIF CPA LIMITED

37/F Hennessy Centre
500 Hennessy Road
Causeway Bay, Hong Kong

**AUDITORS' REPORT TO THE SHAREHOLDERS OF
BROAD INTELLIGENCE INTERNATIONAL PHARMACEUTICAL HOLDINGS LIMITED
(INCORPORATED IN THE CAYMAN ISLANDS WITH LIMITED LIABILITY)**

We have audited the financial statements on pages 28 to 55 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Company's directors are responsible for the preparation of 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, 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 Statements of Auditing Standards 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 judgments 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 31 December 2004 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

CCIF CPA Limited

Certified Public Accountants

Hong Kong

11 April 2005

Chan Wai Dune, Charles

Practising Certificate Number P00712



Consolidated Income Statement For the year ended 31 December 2004

	Note	2004 HK\$'000	2003 HK\$'000
Turnover			
Sales of pharmaceutical products	3	233,897	203,520
Cost of sales		(139,212)	(121,998)
Gross profit		94,685	81,522
Other revenue	3	1,017	667
Selling and distribution expenses		(2,407)	(2,117)
General and administrative expenses		(12,098)	(11,616)
Operating profits		81,197	68,456
Finance costs	4	(116)	(342)
Profit before taxation	5	81,081	68,114
Taxation	6	(13,448)	(5,679)
Profit attributable to shareholders	7	67,633	62,435
Dividends	8	–	–
Earnings per share – Basic	9	HK\$16.9 cents	HK\$19.2 cents

The notes on pages 32 to 55 form an integral part of these financial statements.



		The Group		The Company	
		2004	2003	2004	2003
	Note	HK\$'000	HK\$'000	HK\$'000	HK\$'000
NON-CURRENT ASSETS					
Property, plant and equipment	12	53,937	35,396	338	413
Intangible asset	13	11,132	–	–	–
Investment in subsidiaries	14	–	–	192,337	189,430
Negative goodwill	15	(753)	(914)	–	–
		64,316	34,482	192,675	189,843
CURRENT ASSETS					
Inventories	16	6,238	6,135	–	–
Trade receivable	17	36,220	53,582	–	–
Prepayments, deposits and other receivable		13,321	3,443	476	3,164
Cash and bank balances		180,605	134,708	2,241	7,601
		236,384	197,868	2,717	10,765
CURRENT LIABILITIES					
Trade payable	18	9,132	14,632	–	–
Accruals and other payables		19,926	14,032	487	497
Bank overdraft, unsecured		–	243	–	243
Taxation payable		2,390	1,824	–	–
		31,448	30,731	487	740
NET CURRENT ASSETS		204,936	167,137	2,230	10,025
NET ASSETS		269,252	201,619	194,905	199,868
Represented by:					
SHARE CAPITAL	19	40,000	40,000	40,000	40,000
RESERVES	21	229,252	161,619	154,905	159,868
SHAREHOLDERS' EQUITY		269,252	201,619	194,905	199,868

Approved and authorised for issue by the board of directors on 11 April 2005.

On behalf of the board

Zhong Houtai
Director

Chai Chung Wai
Director

The notes on pages 32 to 55 form an integral part of these financial statements.



Consolidated Statement of Changes in Equity For the year ended 31 December 2004

	Share capital HK\$'000	Share premium HK\$'000	Statutory reserve HK\$'000	General reserve HK\$'000	Contributed surplus HK\$'000	Special reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
As at 1 January 2003	78	19,730	9,030	9,029	–	–	33,573	71,440
Issue of shares by the Company at nil paid and credited as fully paid on reorganisation	200	–	–	–	133,865	–	–	134,065
Effect of the reorganisation	(78)	(19,730)	–	–	(133,865)	19,608	–	(134,065)
Issue of shares at premium	8,400	69,793	–	–	–	–	–	78,193
Share issuance expenses	–	(10,449)	–	–	–	–	–	(10,449)
Capitalisation of share premium	31,400	(31,400)	–	–	–	–	–	–
Profit attributable to shareholders	–	–	–	–	–	–	62,435	62,435
Transfer to reserve	–	–	876	3,502	–	–	(4,378)	–
As at 31 December 2003 and 1 January 2004	40,000	27,944	9,906	12,531	–	19,608	91,630	201,619
Profit attributable to shareholders	–	–	–	–	–	–	67,633	67,633
Transfer to reserve	–	–	–	3,810	–	–	(3,810)	–
As at 31 December 2004	40,000	27,944	9,906	16,341	–	19,608	155,453	269,252

The notes on pages 32 to 55 form an integral part of these financial statements.

Consolidated Cash Flow Statement For the year ended 31 December 2004



	2004 HK\$'000	2003 HK\$'000
Cash flows from operating activities		
Profit before taxation	81,081	68,114
Adjustment for:		
Interest income	(856)	(237)
Interest expenses	–	342
Depreciation	3,073	1,959
Deficit on revaluation of land and buildings	–	758
Release of negative goodwill	(161)	(161)
Operating profit before working capital changes	83,137	70,775
Increase in inventories	(103)	(3,023)
Decrease/(increase) in trade receivable	17,362	(18,004)
Increase in prepayments, deposits and other receivable	(9,878)	(3,224)
(Decrease)/increase in trade payable	(5,500)	3,593
Increase in accruals and other payables	5,894	4,000
Decrease in amounts due to directors	–	(187)
Cash generated from operation	90,912	53,930
PRC enterprise income tax paid	(12,882)	(7,797)
Net cash from operating activities	78,030	46,133
Investing activities		
Proceeds from issue of shares	–	78,193
Share issuance expenses	–	(10,449)
Purchase of property, plant and equipment	(21,614)	(1,176)
Purchase of intangible asset	(11,132)	–
Interest received	856	237
Net cash (used in)/generated from investing activities	(31,890)	66,805
Financing activities		
Repayment of short-term bank loans	–	(7,424)
New short-term bank loans	–	1,226
Interest paid	–	(342)
Net cash used in financing activities	–	(6,540)
Increase in cash and cash equivalents	46,140	106,398
Cash and cash equivalents at beginning of the year	134,465	28,067
Cash and cash equivalents at end of the year	180,605	134,465
Analysis of the balances of cash and cash equivalents		
Cash and bank balances	180,605	134,708
Bank overdraft	–	(243)
	180,605	134,465

The notes on pages 32 to 55 form an integral part of these financial statements.



1. GENERAL

The Company was incorporated in the Cayman Islands on 16 April 2003 as an exempted company with limited liability under the Companies Law (2002 Revision) of the Cayman Islands and its shares have been listed on The Stock Exchange of Hong Kong Limited with effect from 24 November 2003.

The principal activities of the Group are manufacture, sale, research and development of pharmaceutical products and investment holding.

2. PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted are as follows:

(a) Basis of Preparation

The financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong. The financial statements have been prepared under the historical cost convention as modified for revaluation of certain property, plant and equipment.

In 2004, the Hong Kong Institute of Certified Public Accountants issued a number of new and revised Hong Kong Financial Reporting Standards ("new HKFRSs") which are effective for accounting periods beginning on or after 1 January 2005. The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31 December 2004.

The Group has commenced an assessment of the potential impact of these new HKFRSs but is not yet in a position to determine whether these HKFRSs would have a significant impact on its results of operations and financial position.

(b) Basis of Consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31 December each year.

The results of subsidiaries acquired or disposal 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.

All significant intercompany transactions and balances within the Group are eliminated on consolidation.



2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(c) Goodwill

Goodwill represents the excess of the cost of acquisition over the Group's interest in fair value of the identifiable assets and liabilities of a subsidiary at the date of acquisition.

Goodwill arising on acquisition is capitalised and amortised on a straight-line basis over its useful economic life.

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

(d) Negative Goodwill

Negative goodwill represents the excess of the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary at the date of acquisition over the cost of acquisition.

Negative goodwill is presented as deduction from assets and will be released to income based on an analysis of the circumstances from which the balance resulted.

To the extent that the negative goodwill is attributable to losses or expenses anticipated at the date of acquisition, it is released to income in the period in which those losses or expenses arise. The remaining negative goodwill is recognised as income on a straight-line basis over the remaining average useful life of the identifiable acquired depreciable assets. To the extent that such negative goodwill exceeds the aggregate fair value of the acquired identifiable non-monetary assets, it is recognised as income immediately.

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

(e) Subsidiaries

A subsidiary is a company in which the Company, directly or indirectly, controls more than half of its voting power or issued share capital or controls the composition of its board of directors. A subsidiary is considered to be controlled if the Company has the power, directly or indirectly, to govern the financial and operating policies, so as to obtain benefits from their activities.

Investments in subsidiaries are included in the Company's balance sheet at cost less any identified impairment loss. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable during the year.



2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(f) Revenue Recognition

Revenue from sales of goods is recognised when the customer has accepted the goods and related risks and rewards of ownership.

Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

(g) 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.

All other borrowing costs are charged to consolidated income statement in the year in which they are incurred.

(h) Income Tax

Income tax comprises current and deferred tax. Income tax is recognised in the income statement or in equity if it relates to items that are recognised in the same or a different period, directly in equity.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Tax rates enacted or substantively enacted by the balance sheet date are used to determine deferred tax.

Deferred tax liabilities are provided in full on all taxable temporary differences while deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.



2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(i) Property, Plant and Equipment

Property, plant and equipment are stated at cost or valuation less accumulated depreciation and accumulated impairment losses, if any.

Land and buildings are stated in the balance sheet at their revalued amount, being the fair value at the date of revaluation less any subsequent accumulated depreciation and any subsequent impairment losses. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the balance sheet date.

Any surplus arising on revaluation of land and buildings is credited to the revaluation reserve, except to the extent that it reverses a revaluation deficit of the same asset previously recognised as an expense, in which case the surplus is credited to the income statement to the extent of the deficit previously charged. A decrease in net carrying amount arising on revaluation of an asset is dealt with as an expense to the extent that it exceeds the balance, if any, on the revaluation reserve relating to a previous revaluation of that asset. On the subsequent sale or retirement of a revalued asset, the attributable revaluation surplus is transferred to retained profits.

Depreciation of property, plant and equipment is calculated to write off their cost or valuation less residual value over their estimated useful lives on a straight-line basis. The principal annual rates are as follows:

Leasehold land	Over the term of the lease, from 27 to 32 years
Buildings	Over the shorter of the term of the lease or 20 years
Leasehold improvement	Over the shorter of the term of the lease or 20 years
Furniture, fixtures and equipment	20%
Motor vehicles	10%
Machinery	10%

Major costs incurred in restoring property, plant and equipment to their normal working condition are charged to the consolidated income statement. Improvements are capitalised and depreciated over their expected useful lives.

The gain or loss on disposal of a property, plant and equipment is the difference between the net sales proceeds and the carrying amount of the relevant asset and is recognised in the consolidated income statement.



2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(j) Property Under Development

Property in the course of construction is carried at cost, less any identified impairment loss. Depreciation of this property commences when the property is ready for its intended use.

(k) Intangible Asset

(i) *Research and Development Costs*

All research costs are charged to the consolidated income statement as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the projects are clearly defined; the expenditure is separately identified and can be measured reliably; there is reasonable certainty that the projects are technically feasible; and the products have commercial value. Product development expenditure which does not meet these criteria is expensed when incurred.

Product development costs are stated at cost less accumulated amortisation and accumulated impairment losses.

Product development costs are amortised using the straight-line basis over the commercial lives of the underlying products not exceeding five years, starting from the time when the product is available for commercial production.

(ii) *Patents*

Purchased patents are stated at cost less accumulated amortisation and any identified impairment losses. Patents are amortised on a straight-line basis over their estimated useful lives of five to ten years.

(l) Impairment

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment losses are recognised in the consolidated income statement except where the asset is carried at valuation and the impairment loss does not exceed the revaluation surplus for that same asset, in which case it is treated as a revaluation decrease.



2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(l) Impairment (Continued)

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, unless the asset is carried at revalued amount, in which case the impairment loss is treated as revaluation increase.

(m) Operating Leases

Leases when substantially all the rewards and risks of ownership of assets remain with the leasing company are classified as operating leases. Rental payable and receivable under operating leases are accounted for in the consolidated income statement on a straight-line basis over the period of the respective leases.

(n) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted-average method and comprises direct materials and, where appropriate, direct labour costs and those overhead that have been incurred in bringing the inventories to their present location and condition. Net realisable value is the estimated selling price in the ordinary course of business, less further costs expected to be incurred to completion and disposal. Provision is made for obsolete, slow-moving or defective items where appropriate.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of write-down of inventories, arising from an increase in net realisable value, is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.



2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(o) Provision and Contingencies

A provision is recognised when there is a present obligation, legal or constructive, as a result of past event and it is probable (i.e. more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made on the amount of the obligation. Provisions are reviewed regularly and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

Contingent liabilities are not recognised in the consolidated financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is not recognised in the consolidated financial statements but disclosed when an inflow of economic benefits is probable.

(p) Staff Retirement Benefits

Costs of staff retirement benefits are recognised as an expense in the period in which they are incurred.

(q) Foreign Currency Translation

Individual companies within the Group maintain their books and records in the primary currencies of their respective operations ("functional currencies"). Transactions in other currencies during the year are translated into the respective functional currencies at the applicable rates of exchange prevailing at the time of the transactions. Monetary assets and liabilities denominated in other currencies are translated into the respective functional currencies at the applicable rates of exchange in effect at the balance sheet date. Exchange gains or losses are dealt with in the income statements of individual companies.

The Group prepares consolidated financial statements in Hong Kong Dollar. On consolidation, the financial statements of Group companies with functional currencies other than Hong Kong Dollar are translated into Hong Kong Dollar at the rate of exchange in effect at the balance sheet date. Exchange differences arising from such translations are dealt with as movements of cumulative translation adjustment. There were no material cumulative translation adjustments during the year.

(r) Related Parties

Two parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence.



3. TURNOVER AND OTHER REVENUE

Turnover represents the invoiced value of goods sold after deducting goods returned, trade discount and sale tax.

Turnover and other revenue consisted of:

	2004 HK\$'000	2003 HK\$'000
Turnover		
Sales of pharmaceutical products	233,897	203,520
Other revenue		
Exchange gain	–	269
Interest income	856	237
Release of negative goodwill	161	161
	1,017	667
Total revenue	234,914	204,187

4. FINANCE COSTS

	2004 HK\$'000	2003 HK\$'000
Interests on bank loan	–	342
Bank charges	116	–
	116	342



5. PROFIT BEFORE TAXATION

The profit before taxation are stated after charging the following:

	2004 HK\$'000	2003 HK\$'000
Cost of inventory	139,212	121,998
Directors' remuneration		
– Fees	160	10
– Other emoluments	2,489	2,783
Auditors' remuneration	480	480
Research and development costs	530	242
Depreciation	3,073	1,959
Less: Amount included in research and development cost	(82)	(26)
	2,991	1,933
Staff costs (including directors' remuneration)		
Salaries and allowance	5,586	5,408
Contributions to retirement scheme	680	554
	6,266	5,962
Less: Amount included in research and development cost	(229)	(216)
	6,037	5,746
Deficit on revaluation of land and building	–	758



6. TAXATION

	2004 HK\$'000	2003 HK\$'000
PRC enterprise income tax	13,448	5,679

- (i) Fujian Fuqing Pharmaceutical Co., Ltd. ("Fuqing Pharmaceutical"), which was formerly a PRC domestic enterprise, was subject to PRC enterprise income tax at a rate applicable to the company on the assessable profits for the year. With effect from 16 November 1999, Fuqing Pharmaceutical was changed from a domestic enterprise to a wholly-foreign owned enterprise and is exempted from PRC enterprise income tax for two years starting from the first year of profitable operations after offsetting prior year losses, followed by a 50% reduction for the next three years. The 50% tax reduction was expired on 31 December 2003.
- (ii) No provision for Hong Kong profits tax has been made as the Group had no assessable profits for the year (2003: Nil).
- (iii) The Group did not have any significant unprovided deferred taxation at 31 December 2004 (2003: Nil).

The reconciliation between the Group's profit for the year and the amount which is calculated based on the concessionary tax rate of 15% (2003: 7.5%) in PRC is as follows:

	2004 HK\$'000	2003 HK\$'000
Profit before taxation for the year	81,081	68,114
Tax calculated at the tax rate of 15% (2003: 7.5%)	12,162	5,108
Expenses not deductible for taxation purposes	759	384
Release of negative goodwill	(24)	(12)
Temporary difference	551	199
Taxation	13,448	5,679

7. PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The consolidated profit attributable to shareholders included a loss of approximately HK\$4,963,000 (2003: a loss of HK\$1,941,000) dealt with in the financial statements of the Company.



8. DIVIDENDS

No dividend was paid or proposed by the Company during the year (2003: Nil).

9. EARNINGS PER SHARE

The calculation of basic earnings per share for the year is based on the consolidated profit attributable to shareholders of HK\$67,633,000 (2003: HK\$62,435,000) and the weighted-average number of 400,000,000 (2003: 325,666,000) ordinary shares in issue during the year.

Diluted earnings per share is not presented as there were no dilutive potential ordinary shares during the year (2003: Nil).

10. STAFF RETIREMENT BENEFITS

The Group has arranged its Hong Kong employees to join the Mandatory Provident Fund Scheme (the "MPF Scheme"), a defined contribution scheme managed by an independent trustee. Under the MPF Scheme, each of the Group (the employer) and its employees makes monthly contributions to the scheme at 5% of the employees' earnings as defined under the Mandatory Provident Fund legislation. The contributions from each of the employer and employees are subject to a cap of HK\$1,000 per month and thereafter contributions are voluntary.

The employees of the Group's subsidiary in PRC are members of a state-sponsored retirement plan operated by the local government in PRC and this subsidiary make mandatory contributions to the state-sponsored retirement plan to fund the employees retirement benefits. The retirement contributions paid by the PRC subsidiary are based on certain percentage of the relevant portion of the payroll of all qualifying employees in accordance with the relevant regulations in PRC and are charged to the consolidated income statement as incurred. The Group discharges its retirement obligations upon payment of the retirement contributions to the state-sponsored retirement plan operated by the local government in PRC.

The contributions paid for the year were approximately HK\$680,000 (2003: HK\$554,000). As at 31 December 2004, there were no material forfeitures available to offset the Group's future contributions (2003: Nil).



11. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

- (i) The aggregate amounts of emoluments payable to directors of the Group during the year are as follows:

	2004 HK\$'000	2003 HK\$'000
Fees	160	10
Other emoluments	2,489	2,783
	2,649	2,793

The emoluments of the above directors fall within the following bands:

	Number of individuals	
	2004	2003
Emolument		
Nil to HK\$1,000,000	8	6
HK\$2,000,001 to HK\$2,500,000	—	1

No directors waived any emoluments in the year ended 31 December 2004 (2003: Nil).

Directors' fees disclosed above were paid to independent non-executive directors.



11. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS (Continued)

- (ii) Details of the emoluments paid to the five highest paid individuals (including directors and other employees) are as follows:

	2004	2003
	HK\$'000	HK\$'000
Basic salaries and allowances	2,448	618
Bonuses	–	2,350
Contributions to retirement scheme	41	46
	2,489	3,014
	2004	2003
Number of directors	5	3
Number of employees	–	2
	5	5

The emoluments of the five highest paid individuals (2003: four) for the year are below HK\$1,000,000 while no highest paid individual (2003: one) for the year ended 31 December 2004 is within the band from HK\$2,000,001 to HK\$2,500,000.



12. PROPERTY, PLANT AND EQUIPMENT

The Group

	Land and buildings HK\$'000	Leasehold improvement HK\$'000	Plant and machinery HK\$'000	Office and other equipment HK\$'000	Motor vehicles HK\$'000	Property under development HK\$'000	Total HK\$'000
Cost or valuation							
At 1 January 2004	17,190	281	20,132	516	902	–	39,021
Additions	1,044	8	441	142	390	19,589	21,614
Transfer	19,340	–	–	–	–	(19,340)	–
At 31 December 2004	37,574	289	20,573	658	1,292	249	60,635
Comprising:							
At cost	20,384	289	20,573	658	1,292	249	43,445
At valuation 2003	17,190	–	–	–	–	–	17,190
	37,574	289	20,573	658	1,292	249	60,635
Accumulated depreciation							
At 1 January 2004	268	–	2,871	202	284	–	3,625
Provision for the year	995	58	1,842	83	95	–	3,073
At 31 December 2004	1,263	58	4,713	285	379	–	6,698
Net book value							
At 31 December 2004	36,311	231	15,860	373	913	249	53,937
At 31 December 2003	16,922	281	17,261	314	618	–	35,396



12. PROPERTY, PLANT AND EQUIPMENT (Continued)

The Company

	Leasehold improvement HK\$'000	Office and other equipment HK\$'000	Total HK\$'000
Cost			
At 1 January 2004	281	132	413
Additions	8	2	10
At 31 December 2004	289	134	423
Accumulated depreciation			
At 1 January 2004	—	—	—
Provision for the year	58	27	85
At 31 December 2004	58	27	85
Net book value			
At 31 December 2004	231	107	338
At 31 December 2003	281	132	413

The land and buildings are situated in PRC and held under medium term lease.

Certain leasehold land and buildings of the Group were valued at 31 August 2003 by Sallmanns (Far East) Limited, an independent valuer, on an open market value basis.

If leasehold land and buildings had not been revalued, they would have been included in these financial statements at historical cost less accumulated depreciation of approximately HK\$16,757,000 (2003: HK\$17,680,000).



13. INTANGIBLE ASSET

		The Group	
		2004	2003
		HK\$'000	HK\$'000
Patents			
Cost			
At beginning of the year		–	–
Additions during the year		11,132	–
At end of the year		11,132	–
Accumulated amortisation			
Provided during the year		–	–
Net book value			
At end of the year		11,132	–

14. INVESTMENT IN SUBSIDIARIES

		The Company	
		2004	2003
		HK\$'000	HK\$'000
Unlisted shares, at cost		134,065	134,065
Due from subsidiaries		58,272	55,365
		192,337	189,430

Amounts due from subsidiaries are unsecured, non-interest bearing and not repayable until the subsidiaries are financially capable to do so.



14. INVESTMENT IN SUBSIDIARIES (Continued)

Details of subsidiaries as at 31 December 2004 are as follows:

Name	Country of incorporation/ operation	Class of share held	Issued capital	Proportion of nominal value of issued/ registered capital held by the Company		Principal activities
				Directly	Indirectly	
Long Master International Limited	British Virgin Islands/ Hong Kong	Ordinary	US\$10,000	100%	–	Investment holding
Fujian Fuqing Pharmaceutical Company Limited ("Fuqing Pharmaceutical")	PRC/PRC	Ordinary	RMB21,000,000	–	100%	Manufacture, sale, research and development of pharmaceutical products

- * Fuqing Pharmaceutical was incorporated in PRC on 30 December 1996 as a domestic enterprise with a registered capital of RMB8,000,000. Effective from 16 November 1999, Fuqing Pharmaceutical was changed from a domestic enterprise to a wholly-foreign owned enterprise and its registered capital was increased to RMB21,000,000. Fuqing Pharmaceutical has an operating period from 30 December 1996 to 30 October 2022.



15. NEGATIVE GOODWILL

	The Group	
	2004	2003
	HK\$'000	HK\$'000
Gross amount		
At beginning and at end of the year	1,612	1,612
Released to income		
At beginning of the year	698	537
Released for the year	161	161
At end of the year	859	698
Carrying amount		
At end of the year	753	914

16. INVENTORIES

	The Group	
	2004	2003
	HK\$'000	HK\$'000
Raw material	3,443	4,043
Finished goods	2,795	2,092
Total	6,238	6,135

At 31 December 2004, none of the inventories are stated at net realisable value (2003: Nil).



17. TRADE RECEIVABLE

The Group normally grants credit terms of 60 to 90 days to its customers.

The ageing analysis of trade receivable is as follows:

	The Group	
	2004 HK\$'000	2003 HK\$'000
0 to 30 days	18,293	27,462
31 to 60 days	17,927	24,672
61 to 90 days	–	878
91 to 180 days	–	570
	36,220	53,582

18. TRADE PAYABLE

The ageing analysis of accounts payable is as follows:

	The Group	
	2004 HK\$'000	2003 HK\$'000
0 to 30 days	9,132	14,632

19. SHARE CAPITAL

The Company

	Number of shares		Amount	
	2004 '000	2003 '000	2004 HK\$'000	2003 HK\$'000
Ordinary shares of HK\$0.1 each				
Authorised	2,000,000	2,000,000	200,000	200,000
Issued and fully paid	400,000	400,000	40,000	40,000



20. SHARE OPTION SCHEME

The Company's share option scheme (the "Share Option Scheme") was adopted pursuant to a resolution passed on 3 November 2003. The purpose of the Share Option Scheme is to enable the Company to grant options to selected participants as incentives and/or rewards for their contribution and support to the Company. Under the Share Option Scheme, the Board of Directors of the Company may grant options to the following eligible participants:

- (i) any employee (whether full time or part time, including any executive director but excluding any non-executive director) of the Company, any of its subsidiaries and any entity ("Invested Entity") in which any member of the Group holds any equity interest;
- (ii) any non-executive director (including independent non-executive director) of the Company, any of its subsidiaries and any Invested Entity;
- (iii) any supplier of goods or services to any member of the Group or any Invested Entity;
- (iv) any customer of any member of the Group or any Invested Entity;
- (v) any person or entity that provides research, development or other technological support to the Group or any Invested Entity;
- (vi) any shareholder of any member of the Group or any Invested Entity or any holder of any securities issued or proposed to be issued by any member of the Group or any Invested Entity; and
- (vii) any adviser (professional or otherwise) or consultant to any area of business or business development of any member of the Group or any Invested Entity.

The maximum number of shares in respect of which options may be granted under the Share Option Scheme must not in aggregate exceed 30% of the shares of the Company in issue from time to time. The number of shares in respect of which options may be granted to any participant is not permitted to exceed 1% of the shares of the Company in issue during the twelve-month period before the date of grant, without prior approval from the Company's shareholders.

HK\$1 per option is payable on the acceptance of an option offer. Options may be exercised in accordance with the terms of the Share Option Scheme and expiring in accordance with the terms of the Share Option Scheme or the expiry of the tenth anniversary of the Share Option Scheme, whichever is the earlier.



20. SHARE OPTION SCHEME (Continued)

The exercise price is determined by the Board of Directors, and shall not be less than the highest of (i) the official closing price of the Company's shares as stated in the daily quotations sheet of the Stock Exchange on the date of grant; (ii) the average official closing price of the Company's shares as stated in the daily quotations sheet of the Stock Exchange for the five business days immediately preceding the date of grant; and (iii) the nominal value of a Company's share.

The Share Option Scheme will remain in force for a period of 10 years commencing on 3 November 2003.

No option had been granted or agreed to be granted under the Share Option Scheme from the date of adoption of the scheme.

21. RESERVES

The Group

	Share premium	Statutory reserve (note a)	General reserve	Contributed surplus (note b)	Special reserve (note c)	Retained profits	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
As at 1 January 2003	19,730	9,030	9,029	–	–	33,573	71,362
Issue of shares by the Company at nil paid and credited as fully paid on reorganisation	–	–	–	133,865	–	–	133,865
Effect of the reorganisation	(19,730)	–	–	(133,865)	19,608	–	(133,987)
Issue of shares at premium	69,793	–	–	–	–	–	69,793
Share issuance expenses	(10,449)	–	–	–	–	–	(10,449)
Capitalisation of share premium	(31,400)	–	–	–	–	–	(31,400)
Profit attributable to shareholders	–	–	–	–	–	62,435	62,435
Transfer to reserve	–	876	3,502	–	–	(4,378)	–
As at 31 December 2003 and 1 January 2004	27,944	9,906	12,531	–	19,608	91,630	161,619
Profit attributable to shareholders	–	–	–	–	–	67,633	67,633
Transfer to reserve	–	–	3,810	–	–	(3,810)	–
As at 31 December 2004	27,944	9,906	16,341	–	19,608	155,453	229,252



21. RESERVES (Continued)

The Company

	Share premium	Statutory reserve (note a)	General reserve	Contributed surplus (note b)	Special (Accumulated reserve losses) (note c)	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
As at 1 January 2003	-	-	-	-	-	-
Issue of shares by the Company at nil paid and credited as fully paid on reorganisation	-	-	-	133,865	-	133,865
Issue of shares at premium	69,793	-	-	-	-	69,793
Share issuance expenses	(10,449)	-	-	-	-	(10,449)
Capitalisation of share premium	(31,400)	-	-	-	-	(31,400)
Loss attributable to shareholders	-	-	-	-	(1,941)	(1,941)
As at 31 December 2003 and 1 January 2004	27,944	-	-	133,865	-	159,868
Loss attributable to shareholders	-	-	-	-	(4,963)	(4,963)
As at 31 December 2004	27,944	-	-	133,865	-	154,905

Notes:

- (a) Fuqing Pharmaceutical, a wholly-foreign owned enterprise in The People's Republic of China, is required to appropriate at least 10% of after-tax profit (after offsetting prior year losses) to a statutory reserve until the balance of the reserve reaches 50% of its share capital and thereafter any further appropriation is optional. The statutory reserve can be utilised to offset prior year losses, or for the issuance of bonus shares on the condition that the statutory reserve shall be maintained at a minimum of 25% of the share capital after such issuance.

The balance of the statutory reserve has reached 50% of the share capital of Fuqing Pharmaceutical and the board of directors has determined that no further appropriation is necessary unless there is an increase in share capital of Fuqing Pharmaceutical.

- (b) The contributed surplus represents the difference between the nominal value of the ordinary shares issued by the Company and the net asset value of subsidiaries acquired through an exchange of shares pursuant to the group reorganisation prior to listing of the Company's shares in 2003.
- (c) The special reserve of the Group represents the differences between the nominal value and premium of the shares of the acquired subsidiaries and the nominal value of the Company's shares issued for the acquisition at the time of the reorganisation.



21. RESERVES (Continued)

Under the Companies Law (revised) of the Cayman Islands, share premium and contributed surplus are distributable to shareholders, subject to the condition that the Company cannot declare or pay a dividend, or make a distribution out of share premium, capital redemption reserve and contributed surplus if (i) it is, or would after the payment be, unable to pay its liabilities as they become due, or (ii) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its share capital account.

As at 31 December 2004, the Company's reserves available for distribution to shareholders amounted to approximately HK\$154,905,000 (2003: HK\$159,868,000) computed in accordance with the Companies Law (Revised) of the Cayman Islands and the Company's articles of association. This includes the Company's share premium of HK\$27,944,000 (2003: HK\$27,944,000) and contributed surplus of HK\$133,865,000 (2003: HK\$133,865,000), less accumulated losses of HK\$4,963,000 (2003: HK\$1,941,000), which is available for distribution provided that immediately following the date on which the dividend is proposed, the Company will be able to pay its debts as they fall due in the ordinary course of business.

22. SEGMENT REPORTING

More than 95% of the operating profits and assets are attributable to the Group's operations, manufacturing and sales of pharmaceutical products in the PRC. Accordingly, no analysis by geographical and business segment is provided.

23. COMMITMENTS

(a) Capital commitments

	2004 HK\$'000	2003 HK\$'000
Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided in the financial statements	5,267	—
Authorised but not contracted for – acquisition of property, plant and equipment	11,320	—
	16,587	—



23. COMMITMENTS (Continued)

(b) Operating lease commitments

As at 31 December 2004, the Group had commitments for future minimum lease payments in respect of land and buildings under non-cancellable operating leases which fall due as follows:

	2004 HK\$'000	2003 HK\$'000
Within one year	440	120
Over one year but within five years	12	–
	452	120

24. ULTIMATE HOLDING COMPANY

The directors regard Elite Achieve Limited, a company incorporated in the British Virgin Islands, as being the ultimate holding company.

25. POST BALANCE SHEET EVENT

On 27 February 2005, Fuqing Pharmaceutical, a subsidiary of the Company, entered into an agreement with an independent third party for the purchase of the formulae, medical approval number and the right of future development of thirty-nine pharmaceutical products for a consideration of RMB43,600,000. As at 31 December 2004, a deposit of RMB8,600,000 was paid.



Financial Summary

RESULTS

	For the year ended 31 December				
	2004 HK\$'000	2003 HK\$'000	2002 HK\$'000	2001 HK\$'000	2000 HK\$'000
Turnover	233,897	203,520	146,743	73,678	33,238
Profit before taxation	81,081	68,114	50,182	26,535	9,458
Taxation	(13,448)	(5,679)	(3,941)	(2,123)	–
Net profit for the year	67,633	62,435	46,241	24,412	9,458

ASSETS AND LIABILITIES

	At 31 December				
	2004 HK\$'000	2003 HK\$'000	2002 HK\$'000	2001 HK\$'000	2000 HK\$'000
Total assets	300,700	232,350	102,838	63,624	47,946
Total liabilities	(31,448)	(30,731)	(31,398)	(18,793)	(17,752)
Shareholders' funds	269,252	201,619	71,440	44,831	30,194

Notes:

1. The results for each of the three years ended 31 December 2002 were extracted from the prospectus of the Company dated 11 November 2003 and re-translated into Hong Kong Dollars.
2. Assets and liabilities of the Group as at 31 December 2002, 2001 and 2000 were extracted from the prospectus of the Company dated 11 November 2003 and re-translated into Hong Kong Dollars.