



Broad Intelligence International Pharmaceutical Holdings Limited

博智國際藥業控股有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 1149)

ANNOUNCEMENT

The audited consolidated results of the Broad Intelligence International Pharmaceutical Holdings Limited ("The Company") and together with its subsidiaries ("the Group") for the year ended 31 December 2005 are as follows:

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2005

		2005	2004
	Note	HK\$'000	(restated) HK\$'000
Turnover			
Sales of pharmaceutical products	4	259,832	233,897
Cost of sales		(156,120)	(139,212)
Gross profit		103,712	94,685
Other revenue	4	3,086	1,017
Selling and distribution expenses		(9,723)	(2,407)
General and administrative expenses		(17,871)	(12,103)
Operating profits		79,204	81,192
Finance costs	5	(2)	(116)
Profit before taxation	6	79,202	81,076
Taxation	7	(13,198)	(13,448)
Profit attributable to shareholders	8	66,004	67,628
Dividends	9	—	—
Earnings per share – Basic	10	HK\$16.5 cents	HK\$16.9 cents

BALANCE SHEETS
At 31 December 2005

		2005	The Group 2004 (restated)
	<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
NON-CURRENT ASSETS			
Property, plant and equipment		93,685	51,256
Lease premium for land		3,320	2,821
Intangible asset	11	71,929	11,132
Negative goodwill		–	(753)
		168,934	64,456
CURRENT ASSETS			
Inventories	12	7,461	6,238
Trade receivable	13	70,045	36,220
Prepayments, deposits and other receivable		468	13,321
Cash and bank balances		139,327	180,605
		217,301	236,384
CURRENT LIABILITIES			
Trade payable	14	18,158	9,132
Accruals and other payables		23,707	19,926
Taxation payable		4,117	2,390
		45,982	31,448
NET CURRENT ASSETS		171,319	204,936
NET ASSETS		340,253	269,392
Represented by:			
SHARE CAPITAL		40,000	40,000
RESERVES		300,253	229,392
SHAREHOLDERS' EQUITY		340,253	269,392

Notes:

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 addresses of the registered office and principal place of business of the Company are disclosed in the "Corporate Information" section of the annual report.

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

2. BASIS OF PREPARATION

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance. Details of these changes in accounting policies are set out in Note 3.

3. CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued a number of new and revised HKFRSs that are effective for accounting periods beginning on or after 1 January 2005.

The following sets out information on the significant changes in accounting policies for the current and prior accounting periods reflected in these financial statements.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

(a) Restatement of prior periods and opening balances

The following tables disclose the adjustments that have been made in accordance with the transitional provisions of the respective HKFRSs to each of the line items in the consolidated balance sheet and other significant related disclosure items as previously reported for the year ended 31 December 2004.

Consolidated balance sheet at 31 December 2004

	As at 31 December 2004 (as previously reported) HK\$'000	Retrospective adjustments HKAS 16 (note 3(d)) HK\$'000	As at 31 December 2004 (as restated) HK\$'000	Prospective adjustments HKFRS 3 (note 3(c)) HK\$'000	As at 1 January 2005 (as restated) HK\$'000
Non-current assets					
Property, plant and equipment	53,937	(2,681)	51,256	–	51,256
Lease premium for land	–	2,821	2,821	–	2,821
Intangible asset	11,132	–	11,132	–	11,132
Investment in subsidiaries	–	–	–	–	–
Negative goodwill	(753)	–	(753)	753	–
	<u>64,316</u>	<u>140</u>	<u>64,456</u>	<u>753</u>	<u>65,209</u>
Current assets					
Inventories	6,238	–	6,238	–	6,238
Trade receivable	36,220	–	36,220	–	36,220
Prepayments, deposits and other receivable	13,321	–	13,321	–	13,321
Cash and bank balances	180,605	–	180,605	–	180,605
	<u>236,384</u>	<u>–</u>	<u>236,384</u>	<u>–</u>	<u>236,384</u>
Current liabilities					
Trade payable	9,132	–	9,132	–	9,132
Accruals and other payables	19,926	–	19,926	–	19,926
Taxation payable	2,390	–	2,390	–	2,390
	<u>31,448</u>	<u>–</u>	<u>31,448</u>	<u>–</u>	<u>31,448</u>
Net current assets	<u>204,936</u>	<u>–</u>	<u>204,936</u>	<u>–</u>	<u>204,936</u>
NET ASSETS	<u>269,252</u>	<u>140</u>	<u>269,392</u>	<u>753</u>	<u>270,145</u>
CAPITAL AND RESERVES					
Share capital	40,000	–	40,000	–	40,000
Share premium	27,944	–	27,944	–	27,944
Contributed surplus	9,906	–	9,906	–	9,906
General reserve	16,341	–	16,341	–	16,341
Special reserve	19,608	–	19,608	–	19,608
Retained profits	155,453	140	155,593	753	156,346
	<u>269,252</u>	<u>140</u>	<u>269,392</u>	<u>753</u>	<u>270,145</u>
Shareholders' equity	<u>269,252</u>	<u>140</u>	<u>269,392</u>	<u>753</u>	<u>270,145</u>

(b) Estimated effect of changes in accounting policies on the current period

The following tables provide estimates of the extent to which each of the line items in the consolidated income statement and balance sheet and other significant related disclosure items for the year ended 31 December 2005 is higher or lower than it would have been had the previous policies still been applied in the year, where it is practicable to make such estimates.

(i) Effect on the consolidated financial statements

Estimated effect on the consolidated income statement for the year ended 31 December 2005:

	Estimated effect of new policy (increase/(decrease) in profit for the year)		
	HKFRS3	HKAS16	Total
	(note 3(c)) <i>HKS'000</i>	(note 3(d)) <i>HKS'000</i>	<i>HKS'000</i>
Turnover	—	—	—
Cost of sales	—	—	—
Gross profit	—	—	—
Other revenue	(161)	—	(161)
Selling and distribution expenses	—	—	—
General and administrative expenses	—	789	789
Operating profits	(161)	789	628
Finance cost	—	—	—
Profit before taxation	(161)	789	628
Taxation	—	—	—
Profit attributable to shareholders	(161)	789	628
Dividends	—	—	—
	<u>(161)</u>	<u>789</u>	<u>628</u>
Earnings per share – Basic	<u>(0.04) cents</u>	<u>0.20 cents</u>	<u>0.16 cents</u>
Other significant disclosure items:			
Release of negative goodwill	(161)	—	(161)
Depreciation	—	77	77
Reversal of revaluation	—	712	712

Estimated effect on the consolidated balance sheet at 31 December 2005:

	Estimated effect of new policy (increase/(decrease) in net assets)			
	HKFRS3 (note 3(c)) HK\$'000	HKAS16 (note 3(d)) HK\$'000	HKAS 17 (note 3(d)) HK\$'000	Total HK\$'000
Non-current assets				
Property, plant and equipment	–	719	(3,178)	(2,459)
Lease premium for land	–	–	3,320	3,320
Intangible asset	–	–	–	–
Investment in subsidiaries	–	–	–	–
Negative goodwill	592	–	–	592
	<u>592</u>	<u>719</u>	<u>142</u>	<u>1,453</u>
Current assets				
Inventories	–	–	–	–
Trade receivable	–	–	–	–
Prepayments, deposits and other receivable	–	–	–	–
Cash and bank balances	–	–	–	–
	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>
Current liabilities				
Trade payable	–	–	–	–
Accruals and other payables	–	–	–	–
Taxation payable	–	–	–	–
	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>
Net current assets	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>
NET ASSETS	<u>592</u>	<u>719</u>	<u>142</u>	<u>1,453</u>
CAPITAL AND RESERVES				
Share capital	–	–	–	–
Share premium	–	–	–	–
Contributed surplus	–	–	–	–
General reserve	–	–	–	–
Special reserve	–	–	–	–
Exchange reserve	–	7	2	9
Retained profits	592	712	140	1,444
	<u>592</u>	<u>712</u>	<u>140</u>	<u>1,444</u>
Shareholders' equity	<u>592</u>	<u>719</u>	<u>142</u>	<u>1,453</u>

(c) **Amortisation of negative goodwill (HKFRS 3, Business combinations)**

In prior periods, negative goodwill which arose on or after 1 January 2001 was amortised over the weighted average useful life of the depreciable/amortisable non-monetary assets acquired, except to the extent it related to identified expected future losses as at the date of acquisition. In such cases it was recognised in the income statement as those expected losses were incurred.

With effect from 1 January 2005, in order to comply with HKFRS 3, if the fair value of the net assets acquired in a business combination exceeds the consideration paid (i.e. an amount arises which would have been known as negative goodwill under the previous accounting policy), the excess is recognised immediately in profit or loss as it arises.

The new policy in respect of negative goodwill has been applied prospectively in accordance with the transitional arrangement under HKFRS 3. As a result, comparative amounts have not been restated, the carrying amount of negative goodwill as at 1 January 2005 has been derecognised, with a corresponding adjustment to the opening balance of retained profits.

(d) **Leasehold land and buildings (HKAS 16, Property, plant and equipment and HKAS 17, Leases)**

In prior years, leasehold land and buildings held for own use were stated at revaluated amounts less accumulated depreciation and accumulated impairment losses.

With effect from 1 January 2005, in order to comply with HKAS 17, the Group has adopted a new policy for leasehold land and buildings held for own use. Under the new policy, the leasehold interest in the land held for own use is accounted for as being held under an operating lease where the fair value of the interest in any buildings situated on the leasehold land could be measured separately from the fair value of the leasehold interest in the land at the time the lease was first entered into by the Group, or taken over from the previous lessee, or at the date of construction of those buildings, if later. In case the two elements cannot be allocated reliably, the entire lease is classified as a finance lease and carried at cost less accumulated depreciation and impairment losses.

Any buildings held for own use which are situated on such land leases continue to be presented as part of property, plant and equipment. However, as from 1 January 2005 the buildings are also stated at cost less accumulated depreciation, rather than at fair value, to be consistent with the new policy required to be adopted for the land element.

All the above new accounting policies relating to leases have been adopted retrospectively. The adjustments for each financial statement line item affected for 31 December 2004 and 2005 are set out above.

(e) Standards, Interpretations and amendments to published standards effective on or after 1 December 2005 or later periods

At the date of authorisation of the financial statements, the Group has not early adopted the following standards and interpretations which have been issued but not yet effective. The Directors anticipate that the adoption of these standards or interpretations or amendments in future periods will have no material impact on the financial statements of the Company and the Group.

HKAS 1 (Amendment)	Presentation of Financial Statements: Capital Disclosures ¹
HKAS 19 (Amendment)	Employee Benefits – Actuarial Gains and Losses, Group Plans and Disclosures ²
HKAS 21 (Amendment)	The Effect of Changes in Foreign Exchange Rate – 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 and HKFRS 4 (Amendment)	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
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 1 January 2007

² Effective for annual periods beginning on or after 1 January 2006

³ Effective for annual periods beginning on or after 1 December 2005

⁴ Effective for annual periods beginning on or after 1 March 2006

In addition, the Hong Kong Companies (Amendment) Ordinance 2005 came into effect on 1 December 2005 and would be first applicable to the Group's financial statements for the period beginning 1 January 2006.

4. 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:

	2005 HK\$'000	2004 HK\$'000
Turnover		
Sales of pharmaceutical products	259,832	233,897
Other revenue		
Exchange gain	1,681	–
Interest income	693	856
Release of negative goodwill	–	161
Reversal of revaluation	712	–
	3,086	1,017
Total revenue	262,918	234,914

5. FINANCE COSTS

	2005 HK\$'000	2004 HK\$'000
Interests on bank loan	–	–
Bank charges	2	116
	<u>2</u>	<u>116</u>

6. PROFIT BEFORE TAXATION

The profit before taxation are stated after charging the following:

	2005 HK\$'000	2004 (restated) HK\$'000
Amortisation of intangible assets	5,328	–
Amortisation of lease premium for land	183	62
Auditors' remuneration	590	480
Cost of inventory	156,120	139,212
Depreciation	6,382	3,015
Less: Amount included in research and development cost	–	(82)
	<u>6,382</u>	<u>2,933</u>
Directors' remuneration		
– Fees	105	160
– Other emoluments	1,397	2,489
Research and development costs	121	530
Staff costs (including directors' remuneration)		
Salaries and allowance	4,957	5,586
Contributions to retirement scheme	737	680
	<u>5,694</u>	<u>6,266</u>
Less: Amount included in research and development cost	–	(229)
	<u>5,694</u>	<u>6,037</u>

7. TAXATION

	2005 HK\$'000	2004 HK\$'000
PRC enterprise income tax	<u>13,198</u>	<u>13,448</u>

(i) No provision for Hong Kong profits tax has been made as the Group had no assessable profits for the year (2004: Nil).

(ii) The Group did not have any significant unprovided deferred taxation at 31 December 2005 (2004: Nil).

Reconciliation between tax expense and accounting profit at applicable tax rates:

	2005 HK\$'000	2004 (restated) HK\$'000
Profit before taxation for the year	<u>79,202</u>	<u>81,076</u>
Notional tax on profit before tax, calculated at the rates, applicable to profits in the countries concerned	11,784	12,038
Tax effect of non-deductible expenses	–	14
Tax effect of non-taxable income	(85)	–
Tax effect of unrecognised tax losses	675	869
Release of negative goodwill	–	(24)
Temporary difference	824	551
	<u>13,198</u>	<u>13,448</u>
Taxation	<u>13,198</u>	<u>13,448</u>

8. PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The consolidated profit attributable to shareholders included a loss of approximately HK\$3,852,000 (2004: a loss of HK\$4,963,000) dealt with in the financial statements of the Company.

9. DIVIDENDS

No dividend was paid or proposed by the Company during the year (2004: Nil).

10. EARNINGS PER SHARE

The calculation of basic earnings per share for the year is based on the consolidated profit attributable to shareholders of HK\$66,004,000 (2004 (restated): HK\$67,628,000) and the weighted-average number of 400,000,000 (2004: 400,000,000) 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 (2004: Nil).

11. INTANGIBLE ASSET

	The Group	
	2005	2004
	HK\$'000	HK\$'000
Patents		
Cost		
At beginning of the year	11,132	–
Exchange adjustments	214	–
Additions during the year	65,962	11,132
	<u>77,308</u>	<u>11,132</u>
At end of the year		
	<u>77,308</u>	<u>11,132</u>
Accumulated amortisation		
At beginning of the year	–	–
Exchange adjustments	51	–
Provided during the year	5,328	–
	<u>5,379</u>	<u>–</u>
At end of the year		
	<u>5,379</u>	<u>–</u>
Net book value		
At end of the year	<u>71,929</u>	<u>11,132</u>

12. INVENTORIES

	The Group	
	2005	2004
	HK\$'000	HK\$'000
Raw material	4,870	3,443
Finished goods	2,591	2,795
	<u>7,461</u>	<u>6,238</u>
Total	<u>7,461</u>	<u>6,238</u>

13. 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	
	2005	2004
	HK\$'000	HK\$'000
0 to 30 days	35,923	18,293
31 to 60 days	34,122	17,927
61 to 90 days	–	–
91 to 180 days	–	–
	<u>70,045</u>	<u>36,220</u>

14. TRADE PAYABLE

The ageing analysis of accounts payable is as follows:

	The Group 2005 HK\$'000	2004 HK\$'000
0 to 30 days	<u>18,158</u>	<u>9,132</u>

CHAIRMAN'S STATEMENT

Business Review

Thanks to the concerted efforts of all the staff of the Group, the 15 new production lines in our new production complex were granted GMP certification by the National Food and Drug Administration in March 2005. The Group is one of the pharmaceutical manufacturers with the most diversified production technologies (various production lines) in the PRC. The new production lines enabled the Group to respond readily to the market demand and pave the way for the future development of the Group going forward from 2006 to 2008.

The 15 new GMP production lines are for products of different forms, namely pill, capsule, granule, powder, herbal tea, edible solution (口服溶液劑), syrup, suspension, nasal drop, eye drop, ear drop, tincture, solution, suppository and aerosol.

Certain new production lines in the production complex started trial production in June 2005 and subsequently commenced mass production in September, resulting in a significant increase in the Group's production capacity and output.

Products

The Group has permits for over 100 pharmaceutical products. Three new products including Olive Granules (橄欖晶沖劑) have obtained national patents, while patents for other products are being applied for. The new products are in various forms, including pill, capsule, granule, powder, herbal tea, edible solution (口服溶液劑), syrup, suspension, nasal drop, eye drop, ear drop, tincture, solution, suppository and aerosol. Some of our key new products enjoy a leading position in the international market, which include:

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.

In response to market demand, the Group produced and sold new products which have higher gross margins. The Company strengthened its control over costs, quality and expenses with the aim of reducing and managing production costs and expenses as well as improving operational flexibility and efficiency. Building on its solid foundation of improving productivity and quality and expanding business network, the Group will attain further business growth in its business.

Target Customers

Patients of hospitals and clinics used to be the end users of the Company's products. Today, the sales network of the Company's new products has been extended to drug stores and supermarkets. Most of our new products are healthcare products or healthy food with general therapeutic effect, which are good for both patients and non-patients. Healthcare products are popular nowadays and the Group will launch new products targeting this market. By extending its existing market with the new products, the Group will move forward to a new horizon in terms of product sales.

Promotion in Japan

I made a trip to Tokyo from 6 to 10 December 2005, during which period I met with more than ten institutional investors, namely 東亞キャピタル, Mitsubishi UFJ Trust, 富國生命投資, 極東証券, 新光投信, 三井住友投資信託, 富士投信投資信託, 東海東京証券, 新輝國際 and 藍澤証券.

At the friendly meetings, our history and profile, new products and future plans were introduced to the institutional investors, enabling them a thorough understanding of our Company.

These potential investors expressed immense interest in our key promotional products, such as Olive Granules, Tongren Anti-diabetes Tea and 鹽酸金剛烷胺糖漿, indicating huge market demand and potential in Japan for such products.

In addition to these institutional investors, I also took the opportunity to meet a group of over 30 individual investors and participants in the medical and health care industry and answer their enquiries on an occasion. Further in-depth discussions with some of them took place after the meeting.

The visit provided the Company an opportunity to introduce its key promotional products in the coming year and to understand the potential demand in and general conditions of the Japan market. It also offered a good chance for individual and institutional investors of Japan to understand our Company and future development. After the visit, we are more determined to export our products to Japan and will explore potential distributors and distribution channels in Japan for our products shortly.

Results

Building on our great efforts and solid foundation, the Group recorded a consolidated turnover of approximately HK\$260 million for the year 31 December 2005, representing an increase of 11% when compared with the HK\$234 million of last year. Profit after tax was approximately HK\$66 million representing a decrease of 2% over last year. Gross profit margin was approximately 40% (2004: 41%). Sales of the new production complex was approximately HK\$20 million for the first three months of trial production commenced in the second half of 2005 (2004: nil). Sales of large volume parenteral solution for 2005 was approximately HK\$61 million (2004: HK\$54 million).

Dividends and Dividend Policy

To cater for the expectation and interest of our shareholders, the Directors are considering to reward shareholders with a certain part of the Company's profits after tax from 2006 by balancing the shareholders' interests and future development needs of the Company.

Outlook and Prospect

The Group will focus on the diversification of its product lines. Launch of the new production lines is expected to provide a new drive for the Group's growth, and enable the Group to further increase its sales and strengthen the competitiveness of its products. In response to the unfavourable market conditions, the Group will actively explore the PRC and overseas markets by introducing more new products in various forms. It is expected that sales will continue to grow. Through enhanced corporate management, the Group's products will see improvement in terms of both technology and results performance. The Group's main focus includes:

1. The Group introduced more new pharmaceutical products, the mass production of some of them commenced in the second half of 2005. 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. Production of other pharmaceuticals will commence in the coming year.
2. To keep monitoring trends in the pharmaceutical market to make timely adjustments on sales strategies, preparing for the launch of new products and actively seeking breakthrough in the sales of new products.
3. To continue strict internal management to enhance quality and efficiency. Through various examinations and quality control, the internal management is to be strengthened. Research and development will be speeded up in response to market demand. Internal audit is to be strengthened with stringent control over various expenses to manage relevant risks.
4. To actively seek opportunities of joint venture and cooperation, so as to further explore the prospects of globalization.

With our experience in the manufacture and sale of pharmaceutical products, our marketing network, and our experienced and professional consultant team, the Group will implement the following development strategies:

Acquisition and Expansion of Production Facilities

In order to bring maximum returns and revenue to shareholders, the Group is in the process of negotiating with two pharmaceutical companies for acquisition. The Group believes that, through horizontal and vertical acquisitions, the Group will become stronger and more competitive. The Group has acquired a parcel of land with an area of more than 26,000 square meters (40 mous) adjacent to its existing production facilities for the development of new production facilities, which will be used for the extraction of pure Chinese herbal essence for the Group's proprietary products “護肝胃酒靈 (Olive Granules)” and Anti-diabetes Tea.

Expansion into Overseas Markets

To meet market demands, the Group has applied for the sales of several products in Hong Kong. The applications are being processed.

MANAGEMENT DISCUSSION AND ANALYSIS

Results

For the year ended 31 December 2005, the Group's consolidated turnover was HK\$260 million, up 11% from HK\$234 million of last year. Profit after tax was HK\$66 million, representing a decrease of 2% over last year. Gross profit margin was approximately 40% (2004: 41%). The new production facilities commencement of trial production in the second half of 2005, generating a sales of approximately HK\$20 million (2004: Nil) in merely three months. Total sales of large volume parenteral solution amounted to approximately HK\$61 million (2004: HK\$54 million). Basic earnings per share were HK\$16.5 cents.

Sale of Products

As at 31 December 2005, the Group offered 60 types of products in different forms, 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.

	Major Districts in the PRC For the Year ended 31 December									
	2001 HK\$'000	%	2002 HK\$'000	%	2003 HK\$'000	%	2004 HK\$'000	%	2005 HK\$'000	%
Eastern region (Shanghai, Zhejiang province, Jiangxi province and Fujian province)	40,198	54	79,675	55	119,756	59	134,153	57	158,081	61
Southwestern Region (Yunnan Province, Guizhou Province and Chongqing)	10,770	15	23,450	16	34,223	17	37,084	16	33,646	13
Southern Region (Guangdong Province and Guangxi Autonomous Region)	14,808	20	28,055	19	31,533	15	44,094	19	49,159	19
Northern Region (Beijing and Henan Province)	5,890	8	9,384	6	12,671	6	14,761	6	14,340	5
Central Region (Anhui Province and Hunan Province)	2,012	3	6,179	4	5,337	3	3,805	2	4,606	2
Total	<u>73,678</u>	<u>100</u>	<u>146,743</u>	<u>100</u>	<u>203,520</u>	<u>100</u>	<u>233,897</u>	<u>100</u>	<u>259,832</u>	<u>100</u>

	Type of Customers For the Year ended 31 December									
	2001 HK\$'000	%	2002 HK\$'000	%	2003 HK\$'000	%	2004 HK\$'000	%	2005 HK\$'000	%
Distributors	66,827	91	134,638	92	178,164	88	185,896	79	197,246	76
Hospitals and Clinics	6,851	9	12,105	8	25,356	12	48,001	21	62,586	24
Total	<u>73,678</u>	<u>100</u>	<u>146,743</u>	<u>100</u>	<u>203,520</u>	<u>100</u>	<u>233,897</u>	<u>100</u>	<u>259,832</u>	<u>100</u>

Financial Information

The Group had cash and bank balances totalling HK\$139 million as at 31 December 2005. As the Group had no outstanding bank loan on the same day, the gearing ratio was zero (2004: 0%). The current and quick ratios are 4.73 and 4.56 respectively in 2005 (2004: 7.52 and 7.32). As at 31 December 2005, the debtors turnover, inventory turnover and creditors turnover were 98 days, 10 days and 42 days respectively (2004: 57 days, 10 days and 24 days respectively).

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

Capital Expenditure

During the year ended 31 December 2005, the Group acquired new plant equipment and facilities totalling HK\$47 million, which was financed by internal resources.

Contingent Liabilities

As at 31 December 2005, the Group and the Company did not have any significant contingent liability (2004: 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 2005, the Group did not acquire or sell any subsidiary.

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 year ended 31 December 2005 and the audited financial statements for the year ended 31 December 2005.

Employees and Remuneration Policy

As at 31 December 2005, the Group had a total of 260 employees (2004: 248). The Group regularly reviews the 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.

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.

PUBLICATION OF ANNUAL RESULTS ON THE WEBSITE OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")

The 2005 Annual Report containing all the information required by paragraphs 45(1) to 45(3) of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange will be published on the website of the Stock Exchange in the due course.

CODE OF BEST PRACTICE AND CORPORATE GOVERNANCE

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.

MODEL CODE

During the accounting period covered by this Annual Report, the Company had complied with the Model Code for Securities Transactions by Directors 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 for Securities Transactions by Directors.

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.

DIRECTORS

As this date of announcement, the Board of Directors of the Company comprises of eight directors, of which five are Executive Directors, namely Mr. Zhong Houtai, Chairman, Mr. Zhong Houyao, Mr. Chong Hoi Fung, Mr. Sun Daquan, Mr. Chai Chung Wai and three Independent Non Executive Directors, namely Mr. Cheung Chuen, Mr. Pei Renjiu, Mr. Li Kai Ming.

By Order of the Board
Zhong Houtai
Chairman

20 April 2006

"Please also refer to the published version of this announcement in The Standard"