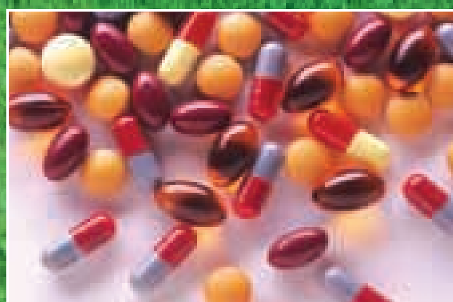
BROAD INTELLIGENCE
International Pharmaceutical Holdings Limited

(incorporated in the Cayman Islands with limited liability)



Stock Code : 1149

Annual Report 2005

Contents

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 2005.

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、熱痱、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 of 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.

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

20 April 2006

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		2002		2003		2004		**2005**	
	HK$'000	%	HK$'000	%	HK$'000	%	HK$'000	%	**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 andGuangxi 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	73,678	100	146,743	100	203,520	100	233,897	100	**259,832**	**100**

Type of Customers
For the Year ended 31 December

	2001		2002		2003		2004		**2005**	
	HK$'000	%	HK$'000	%	HK$'000	%	HK$'000	%	**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	73,678	100	146,743	100	203,520	100	233,897	100	**259,832**	**100**

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.

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

COMPANY SECRETARY

Mr. Chai Chung Wai FCCA, CPA, ACA, 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

Butterfield Bank (Cayman) Limited
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
28/F, Three Pacific Place
1 Queen's Road East
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 49, 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 Fujian Province (福建省中外企業家聯誼會) and the Fuqian 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 Pioneer (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 production management for more than 6 years. He had also been engaged in various sectors including cultivation, food and agriculture before he founded the Group in 1996. Under the leadership of Mr. Zhong, Fuqing Pharmaceutical became the first enterprise in 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 52, is a Director and the general manager of the Company. Mr. Zhong was qualified as a senior engineer by the Fujian Province Title Reform 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 35, is a Director of the Company. He graduated from Xiamen University in 1993 and obtained a bachelor degree in economics. Mr. Chong has 8 years of experience in finance and management in the PRC. He had worked as a deputy general manager of a real estate company in Fujian, the PRC for four years. He had also held a senior position in another property development company in the PRC for 2 years. Mr. Chong joined the Group in April 2003.

Sun Daquan, aged 66, 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 Food and Drug Administration of Fujian (福建省醫藥管理局). 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 39, is a Director, financial controller and company secretary of the Company. Mr. Chai obtained a master's degree in PRC Accounting, and he is studying for a master's degree in business administration. Mr. Chai has about 16 years' working experience related to audit, accounting and finance. He is a fellow member of The Association of Chartered Certified Accountants, an associate of the Hong Kong Institute of Certified Public Accountants (CPA) and a member of Institute of Chartered Accountants of England and Wales. Mr. Chai joined the Group in April 2003.

Independent Non-executive Directors

Pei Renjiu, aged 40, 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 zone 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 a deputy chief pharmacist by the Examination Board of Senior Technical Staff of Healthcare Professionals of the Nanjing military zone (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 62, 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 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 32, graduated from the accounting department of Hong Kong Shue Yan College in 1999 and obtained a 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 six 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 62, is a deputy general manager of the Group responsible for production and equipment management. He graduated from 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 had also been 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 three 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 three 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 59, is a deputy general manager of the Group, responsible for the finance and administration divisions. He graduated from 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 45, 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 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 65, is the chief engineer of the Group. He was qualified as a chief pharmacist by the Examination Board of Middle Technical Staff of Healthcare Professionals of People's Liberation Army Fujian Military Zone (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 commissioned to establish military pharmaceutical production facilities (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 32, 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 37, 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.

Yu Xiangbin, aged 40, is the production manager of the technical department of the Group. He graduated from the 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 zone (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 zone (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 32, 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 55, 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 was 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. 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 76, graduated from 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 70, 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 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 40, graduated from 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 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 also 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 65, 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 43, graduated from 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 52, 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. He 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 three years and 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 two 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 2005.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The activities of its subsidiaries are set out in Note 17 to the financial statements.

RESULTS

The Group's results for the year ended 31 December 2005 are set out in the consolidated income statement on page 36 of this Annual Report.

DIVIDENDS

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.

The Board does not recommend payment of any final dividend for the year ended 31 December 2005 (2004: 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 14 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 24 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:

	2005	2004
	%	%
Percentage of purchases:		
From the largest supplier	21	17
From the five largest suppliers	66	70
Percentage of turnover:		
From the largest customer	5	5
From the five largest customers	21	24

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

Pursuant to the Company's Articles of Association, Mr. Sun Daquan and Mr. Pei Renjiu shall 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 2005 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	2005 Salary
Mr. Zhong Houtai	HK$539,000
Mr. Zhong Houyao	HK$60,000
Mr. Chong Hoi Fung	HK$60,000
Mr. Sun Daquan	HK$60,000
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 12 to 17 of this Annual Report.

DISCLOSURE OF INTERESTS

Directors' Interest in Share Capital

As at 31 December 2005, the interests of the directors in the shares of the Company or any of its associated corporations (within the meaning of the Securities (Disclosure of Interests) Ordinance ("SDI")) as recorded in the register maintained by the Company pursuant to Section 29 of the SDI 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 SDI.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Apart from the details as disclosed under the section headed "Directors' Interests in 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 ended 31 December 2005.

SHARE OPTION SCHEME

The share option scheme is effective for a term of ten years from 3 November 2003. No option has been granted or agreed to be granted since the adoption of the share option scheme.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2005, persons interested in 5% or more of the issued share capital of the Company as recorded in the register required to be kept by the Company pursuant to Section 16(1) of the Securities (Disclosure Of Interest) Ordinance 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, as at 31 December 2005, the Company is not aware of any person having interests or short positions in the shares or underlying shares of the Company which were required to be recorded in the register kept by the Company under Part XV of 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 ended 31 December 2005.

CONNECTED AND RELATED PARTY TRANSACTIONS

During the year ended 31 December 2005, 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 2005 was approximately HK$737,000 (2004: HK$680,000). The Group has made adequate provision in the financial statements in respect of the benefit schemes. In addition, the Group also provides housing and food allowance to this staff.

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 ON CORPORATE GOVERNANCE PRACTICES

The Code on Corporate Governance Practices ("Code of Practices") contained in Appendix 14 to the Listing Rules came into effect on 1 January 2005. After a thorough study, the Company adopted the Code of Practices as its code of conduct for corporate governance, the particulars of which are set out in section "Corporate Governance Report" in pages 26 to 33 of this Annual Report.

INDEPENDENT NON EXECUTIVE DIRECTOR

The Group has appointed Mr. Cheung Chuen as the third non-executive director on 14 September 2004 pursuant to Rules 3.10(1) and 3.10(2) of the Listing Rules. 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. Particulars of the independent non-executive directors are set out in the 2005 Annual Report of the Company.

AUDIT COMMITTEE

The Annual Report of the Group for the year ended 31 December 2005 has been reviewed by the Audit Committee. Details on the composition and terms of reference of the Audit Committee are set out in the "Corporate Governance Report" on pages 26 to 33.

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.

AUDITORS

CCIF CPA Limited 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

20 April 2006

CORPORATE GOVERNANCE PRACTICES

The Group is committed to achieving high standards of corporate governance to safeguard the interests of all shareholders and to enhance corporate value and accountability. Throughout the year ended 31 December 2005, the Group has applied the principles and complied with most of the code provisions and recommended best practices prescribed in the recently promulgated Code on Corporate Governance Practices ("CG Code") set out in the Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), and was in force prior to 1 January 2005. This report describes its corporate governance practices, explains the applications of the principles of the CG Code and deviations, if any.

BOARD OF DIRECTORS

The Composition of the Board of Directors

The Board of Directors of the Company comprises eight Directors, of whom 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 are Independent Non Executive Directors, namely Mr. Cheung Chuen, Mr. Pei Renjiu, Mr. Li Kai Ming. The composition of the Board of Directors is well balanced with each Director having sound knowledge, experience and/or expertise relevant to the business of the Group. Each of Directors' respective biographical details is set out in the "Biographical Details of Directors and Senior Management" of this annual report. The Directors are aware of their collective and individual responsibilities to the Shareholders and have exercised their duties with care, skill and diligence, contributing to the successful performance of the Group for the year under review. Besides, to the best knowledge of the Company, there is no financial, business, family or other material/ relevant relationship between the Directors and each of Directors also does not have any direct or indirect material relationship with the Group.

According to the code provision A2.1 of the CG Code, the roles of the chairman and the chief executive officer should be segregated. However, the Company has no chief executive officer currently. Mr. Zhong Houtai is the chairman and executive Director of the Company responsible for the Group's operations in the PRC. The responsibility of that of a chief executive officer is currently taken up by the chairman of the Company. If the Company can identify a suitable person with capable leadership, knowledge on medicines and relevant skills and experiences for the post from within the Group or outside, the Company may consider appointing a chief executive officer. Owing to the business nature and scope of the Company, a suitable person shall have profound understanding and experiences on medicines, therefore there is no definite timetable for the appointment of chief executive officer.

Functions of the Board of Directors

The Board of Directors has separate functions and duties from the managements. The functions and duties of the Board include convening the Shareholders' general meetings; making decisions on the Company's operational plans, financial accounts and profit distribution scheme; formulating merger, separation, dissolution proposals and significant acquisition or sale proposals; and implementing the resolutions passed at the Shareholders' general meetings. The management is accountable to the Board of Directors and responsible for the day-to-day operations of the Group. Its main functions and duties include production and operation management, organization and implementation of the annual operational plans and investment proposals approved by the Board of Directors, and implementation of the resolutions passed by the Board of Directors.

According to the code requirement of the CG Code, the Company should arrange appropriate insurance cover in respect of legal action against its Directors. However, no insurance coverage has been purchased for any of the Directors as the Board does not foresee any contingent liabilities against the Group.

Directors' Appointment, Re-election and Removal

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.

According to the code provision A4.1 of the CG Code, independent non-executive directors should be appointed for a specific term of service. However, independent non-executive Directors of the Company are not appointed for a specific term as required under the Code, but they are subject to retirement in rotation at the annual general meeting of the Company according to the bye-laws of the Company.

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)).

According to the provisions of the articles of association of the Company (the "Articles"), any Director appointed by the Board either to fill a casual vacancy or as an addition to the Board shall hold office until the next following annual general meeting of the Company and shall then be eligible for re-election. Furthermore, at each annual general meeting one-third of the Directors for the time being (or, if their number is not a multiple of three (3), the number nearest to but not greater than one-third) shall retire from office by rotation provided that notwithstanding anything herein, the Chairman of the Board and/or the Managing Director of the Company shall not, whilst holding such office, be subject to retirement by rotation or be taken into account in determining the number of directors to retire in each year. For these deviations, the Board of Directors has proposed to amend the Articles at the forthcoming annual general meeting in order to comply with the CG Code.

Board meetings and Board Practices

The Board of Directors holds meetings on a regular basis. If necessary, the Board of Directors will convene additional meetings. The Company Secretary is responsible for distributing detailed documents to Directors prior to the meetings of the Board of Directors to ensure that the Directors are able to make informed decisions regarding the matters discussed in the meetings. The Company Secretary is also responsible for ensuring the procedures of the Board meetings are observed and providing to the Board of Directors opinions on matters in relation to the compliance with the procedures of the Board meetings. In addition, to facilitate the decision-making process, the Directors are free to have access to the management for enquiries and to obtain further information, when required. The Directors can also seek independent professional advice, in appropriate circumstances, at the Company's expense in discharging their duties to the Company.

During the year ended 31 December 2005, the Company held 6 Board meetings, within which 4 are regular Board meetings, and the Directors' attendance records for the meetings held are set out below.

Directors' Attendance at Board Meetings

	Number of Board meeting attended/ Number of Board meeting held
Executive Directors	
Mr. Zhong Houtai (Chairman)	4/6
Mr. Zhong Houyao	4/6
Mr. Chong Hoi Fung	1/6
Mr. Sun Daquan	4/6
Mr. Chai Chung Wai	4/6
Independent non-Executive Directors	
Mr. Cheung Chuen	4/6
Mr. Pei Renjiu	4/6
Mr. Li Kai Ming	4/6

Independent non-executive Directors

In compliance of Rule 3.10(1) of the Listing Rules, there are three independent non-executive Directors representing over one-third of the Board of Directors. Amongst them, Mr. Cheung Chuen, who is currently a member of the American Institute of Certified Public Accountants and the Hong Kong Institute of Certified Public Accountants and has more than six years' experience in accounting and auditing, has the appropriate professional qualifications required under Rule 3.10(2). In addition, Mr. Chai Chung Wai, an executive Director, is a qualified accountant responsible for oversight of the Group's financial reporting procedures, in compliance of Rule 3.24.

The independent non-executive Directors have participated in Board meetings as well as its various Board committees, and have given their opinions on the decision-making on significant matters by making use of their professional knowledge and experience. They have conscientiously examined the connected transactions and capital dealings with connected parties to ensure fairness and impartiality, expressing their independent opinions and performing their duties independently. The Board considered that all non-executive Directors to be independent in character and judgement. None of the independent non-executive Directors have relationships or circumstances that are likely to effect their professional judgement and the independent non-executive Directors have made active contribution to protecting the interests of the Company as a whole and the legal rights of all of shareholders of the Company, as well as promoting the healthy development of the Company.

Three independent non-executive Directors separately submitted their confirmation letters on their independence, confirming that they had strictly observed the requirements for independence as set out in rule 3.13 of the Listing Rules during the year under review. Independent non-executive Directors are independent persons of the Company.

DIRECTORS' SECURITIES TRANSACTIONS

The Board has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules ("Model Code") as the code for securities transactions by Directors. During the accounting period covered by this annual report, the Company had complied with the Model Code. After making inquiry of the Directors, the Company confirmed that the Directors had complied with the provisions of the Model Code.

BOARD COMMITTEES

Audit Committee

The Company has established an audit committee on 3 November 2003 with written terms of reference in compliance with the CG Code. 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. Mr. Cheung Chuen is the chairman of the committee. 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. Besides, the audit committee will make recommendations to the Board on matters regarding the appointment of external auditors and auditing fee etc. Every year, the audit committee meets with external auditors of the Company to discuss the annual audit plan. 4 meetings were held during the current financial year including to review the audited financial statements for the year ended 31 December 2005. The attendance records for the audit committee meetings are set out below:

	Number of audit committee meeting attended/ Number of audit committee meeting held
Members of the audit committee	
Mr. Cheung Chuen	4/4
Mr. Pei Renjiu	4/4
Mr. Li Kai Ming	4/4

Nomination Committee

According to the CG Code, the Company shall set up a nomination committee with a majority of the members thereof being independent non-executive directors. However, the Company did not establish a nomination committee.

The process and criteria adopted by the Board to select and recommend candidates for directorship are based on assessment of their professional qualifications and experience. The Board is responsible for determining the independence of each Director and conducting formal assessment of the effectiveness of the Board as a whole and the contribution of each Director to the effectiveness of the Board. During the year, no Director has been newly appointed.

Remuneration Committee

The Company established a remuneration committee on 5 August 2005. The remuneration committee is led by Mr. Li Kai Ming, an independent non-executive director. Member of the remuneration committee includes Mr. Pei Renjiu and Mr. Cheung Chuen, also an independent non-executive director. The remuneration committee has adopted a defined terms of reference in consistence with the CG Code and it is available from the Company Secretary at any time.

The duties of the remuneration committee includes making recommendations with respect to the remuneration of the executive Directors for approval by the Board, reviewing and recommending salaries, bonuses, merit plans, reward and recognition strategies, including the appropriation of funds for incentive awards for Directors, and administering and making determinations with regard to the Company's share option scheme.

The remuneration committee meets at least once a year. During the financial year ended 31 December 2005, the remuneration committee has held its first meeting on 5 August 2005 to define its terms of reference, to review the existing remuneration packages of each Directors and senior managements of the Company, and to recommend to the Board the salaries and bonuses of the executive Directors. The attendance record of individual committee members is set out as below:

	Number of remuneration committee meeting attended/Number of remuneration committee meeting held
Members of the remuneration committee	
Mr. Li Kai Ming	1/1
Mr. Cheung Chuen	1/1
Mr. Pei Renjiu	1/1

Remuneration package for executive Directors

Each of these executive Directors is entitled to the respective basic salary which is reviewed annually. 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.

In order to attract, retain and motivate executives and key employees serving any member of the Group or other persons contributing to the Group, 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 and in note 23 to the financial statements on page 66 of this annual report. Such incentive schemes enable the eligible persons to obtain an ownership interest in company and thus will motivate them to optimize their contributions to the Group. The Group also provides retirement benefits to its employees. 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. 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 each of the employee and the Group) on a monthly basis to the fund. In addition, the Group provides housing allowances and meal allowances to its employees.

ACCOUNTABILITY AND AUDITED

Directors' Responsibility for the Financial Statements

The Board is responsible for the preparation of the financial statements. In preparing the financial statements, the generally accepted accounting standards in Hong Kong have been adopted, appropriate accounting policies have been used and applied consistently, and reasonable and prudent judgements and estimates have been made.

Having made appropriate enquiries, the Board is not aware of any material uncertainties relating to events or conditions which may cast significant doubt over the Group's ability to continue as a going concern. Accordingly, the Board has continued to adopt the going concern basis in preparing the financial statements.

Internal controls

The Board through the audit committee is responsible for maintaining proper internal controls within the Company.

The internal control systems are designed to provide reasonable assurance of the Company's assets, safeguarding them against unauthorized use or disposition by making sure transactions are executed in accordance with management's authorization and that the accounting records are reliable for the preparation of financial information used for the business and publication. The Company has adopted proper procedures with duly assigned levels of authority in areas of financial, operational and compliance controls and risk management to ensure the Company's assets and resources are safeguarded.

The Board has reviewed the effectiveness of the Group's material internal controls. The Board is satisfied that, based on information furnished to it and on its own observations, the present internal controls of the Group are satisfactory.

Audits' Remuneration

During the year ended 31 December 2005, the fees paid/payable to the CCIF CPA Limited (the "CCIF"), the auditors of the Company, in respect of audit and non-audit services provided by the CCIF to the Group were as follows:

	2005
	HK$'000
Audit services	480,000
Non-audit services	
Taxation advisory services	–
Review on 2005 interim results	90,000
Other advisory services	–
Total:	570,000

The audit committee reviews each year a letter from the auditors of the Company confirming their independence and objectivity. The audit committee has held meetings with CCIF to discuss the scope of their audit.

COMMUNICATION WITH SHAREHOLDERS

The Board of Directors recognizes the importance of maintaining clear, timely and effective communication with shareholders of the Company and investors. The Company is dedicated to providing quality and timely disclosure of information to enhance transparency. Information on the Group's business activities and financial performance is disseminated through the distribution of press releases, press conferences, announcements, and interim and annual reports. The Company apprizes its annual general meeting as an important channel for having face-to-face dialogue with shareholders of the Company. At the meeting, the Directors and key executives of the Group will answer and explain to shareholders issues relating to the Group's business strategies and financial results.

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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 36 to 73 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 Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and 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 2005 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

CCIF CPA Limited
Certified Public Accountants

Kwok Cheuk Yuen
Practising Certificate Number P02412

Hong Kong
20 April 2006

Consolidated Income Statement For the year ended 31 December 2005

	Note	2005 HK$'000	2004 (restated) HK$'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

The notes on pages 40 to 73 form an integral part of these financial statements.

	Note	The Group 2005 HK$'000	The Group 2004 (restated) HK$'000	The Company 2005 HK$'000	The Company 2004 HK$'000
NON-CURRENT ASSETS					
Property, plant and equipment	14	**93,685**	51,256	**254**	338
Lease premium for land	15	**3,320**	2,821	**–**	–
Intangible asset	16	**71,929**	11,132	**–**	–
Investment in subsidiaries	17	**–**	–	**190,445**	192,337
Negative goodwill	18	**–**	(753)	**–**	–
		168,934	64,456	**190,699**	192,675
CURRENT ASSETS					
Inventories	19	**7,461**	6,238	**–**	–
Trade receivable	20	**70,045**	36,220	**–**	–
Prepayments, deposits and other receivable		**468**	13,321	**456**	476
Cash and bank balances		**139,327**	180,605	**500**	2,241
		217,301	236,384	**956**	2,717
CURRENT LIABILITIES					
Trade payable	21	**18,158**	9,132	**–**	–
Accruals and other payables		**23,707**	19,926	**602**	487
Taxation payable		**4,117**	2,390	**–**	–
		45,982	31,448	**602**	487
NET CURRENT ASSETS		**171,319**	204,936	**354**	2,230
NET ASSETS		**340,253**	269,392	**191,053**	194,905
Represented by:					
SHARE CAPITAL	22	**40,000**	40,000	**40,000**	40,000
RESERVES	24	**300,253**	229,392	**151,053**	154,905
SHAREHOLDERS' EQUITY		**340,253**	269,392	**191,053**	194,905

Approved and authorised for issue by the board of directors on 20 April 2006.

On behalf of the board

Zhong Houtai
Director

Chai Chung Wai
Director

The notes on pages 40 to 73 form an integral part of these financial statements.

Consolidated Statement of Changes in Equity For the year ended 31 December 2005

	Share capital HK$'000	Share premium HK$'000	Statutory reserve HK$'000	General reserve HK$'000	Special reserve HK$'000	Exchange reserve HK$'000	Retained profits HK$'000	Total HK$'000
As at 1 January 2004, as previously reported	40,000	27,944	9,906	12,531	19,608	–	91,630	201,619
Restatement under HKAS 17	–	–	–	–	–	–	145	145
As at 1 January 2004 (restated)	40,000	27,944	9,906	12,531	19,608	–	91,775	201,764
Profit attributable to shareholders, as previously reported	–	–	–	–	–	–	67,633	67,633
Restatement under HKAS 17	–	–	–	–	–	–	(5)	(5)
Profit attributable to shareholders (restated)	–	–	–	–	–	–	67,628	67,628
Transfer to reserve	–	–	–	3,810	–	–	(3,810)	–
As at 31 December 2004 (restated)	40,000	27,944	9,906	16,341	19,608	–	155,593	269,392
Adjustment arising from derecognition of negative goodwill	–	–	–	–	–	–	753	753
As at 1 January 2005 (restated)	40,000	27,944	9,906	16,341	19,608	–	156,346	270,145
Profit attributable to shareholders	–	–	–	–	–	–	66,004	66,004
Transfer to reserve	–	–	–	3,776	–	–	(3,776)	–
Exchange differences arising from combination	–	–	–	–	–	4,104	–	4,104
As at 31 December 2005	**40,000**	**27,944**	**9,906**	**20,117**	**19,608**	**4,104**	**218,574**	**340,253**

The notes on pages 40 to 73 form an integral part of these financial statements.

Consolidated Cash Flow Statement For the year ended 31 December 2005

	2005	2004 (restated)
	HK$'000	HK$'000
Cash flows from operating activities		
Profit before taxation	**79,202**	81,076
Adjustment for:		
Interest income	**(693)**	(856)
Amortisation of lease premium for land	**183**	62
Amortisation of intangible assets	**5,328**	–
Depreciation	**6,382**	3,015
Release of negative goodwill	**–**	(161)
Reversal of revaluation on lease premium for land	**(712)**	–
Operating profit before working capital changes	**89,690**	83,136
Increase in inventories	**(1,223)**	(103)
(Increase)/decrease in trade receivable	**(33,825)**	17,362
Decrease/(increase) in prepayments, deposits and other receivable	**12,853**	(9,878)
Increase/(decrease) in trade payable	**9,026**	(5,500)
Increase in accruals and other payables	**3,781**	5,894
Cash generated from operation	**80,302**	90,911
PRC enterprise income tax paid	**(11,533)**	(12,882)
Net cash from operating activities	**68,769**	78,029
Investing activities		
Purchase of property, plant and equipment	**(47,174)**	(20,570)
Addition to lease premium for land	**(630)**	(1,043)
Purchase of intangible asset	**(65,962)**	(11,132)
Interest received	**693**	856
Net cash used in investing activities	**(113,073)**	(31,889)
(Decrease)/increase in cash and cash equivalents	**(44,304)**	46,140
Cash and cash equivalents at beginning of the year	**180,605**	134,465
Effect of foreign exchange rate changes, net	**3,026**	–
Cash and cash equivalents at end of the year	**139,327**	180,605
Analysis of the balances of cash and cash equivalents		
Cash and bank balances	**139,327**	180,605

The notes on pages 40 to 73 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 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. PRINCIPAL ACCOUNTING POLICIES

(a) Statement of compliance

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. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. A summary of the significant accounting policies adopted by the Group is set out below.

The HKICPA has issued a number of new and revised HKFRSs that are effective or available for early adoption for accounting periods beginning on or after 1 January 2005. Information on the changes in accounting policies resulting from initial application of these new and revised HKFRSs for the current and prior accounting periods reflected in these financial statements is provided in note 3.

(b) Basis of preparation

The measurement basis used in the preparation of the financial statements is historical cost except as otherwise set out in the accounting policies below.

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(b) Basis of preparation (Continued)

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

(c) 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.

(d) Goodwill

Goodwill represents the excess of the cost of a business combination over the Group's interest in fair value of the identifiable acquiree's assets, liabilities and contingent liabilities.

Goodwill is stated at cost less accumulated impairment losses. Goodwill is allocated to cash generating units and is tested annually for impairment.

Any excess of the Group's interest in the fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of a business combination is recognised immediately in income statement.

On disposal of a cash generating unit, any attributable amount of purchased goodwill is included in the calculation of profit or loss on disposal.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(e) Subsidiaries

A subsidiary is a company in which the Company, directly or indirectly, holds more than half of the issued share capital or controls more than half the voting power or controls the composition of the board of directors. Subsidiaries are 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.

An investment in a controlled subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases.

Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

In the Company's balance sheet, an investment in a subsidiary is stated at cost less impairment losses, if any, unless the investment is classified as held for sale.

(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.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(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.

(i) Property, Plant and Equipment

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

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

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 arising from the retirement or 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) Leased assets

(i) *Classification of assets leased to the group*

Assets that are held by Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases, with the following exceptions;

– property held under operating leases that would otherwise meet the definition of an investment property is classified as an investment property, is accounted for as if held under a finance lease; and

– land held for own use under an operating lease, the fair value of which cannot be measured separately from the fair value of a building situated thereon at the inception of the lease, is accounted for as being held under a finance lease, unless the building is also clearly held under an operating lease. For these purposes, the inception of the lease is the time that the lease was first entered into by the Group, or taken over from the previous lessee, or at the date of construction of those building, if later.

(ii) *Assets acquired under finance leases*

Where the Group acquires the use of assets under finance leases, the amounts representing the fair value of the leased asset, or, if lower, the present value of the minimum lease payments, of such assets are included in fixed assets and the corresponding liabilities, net of finance charges, are recorded as obligations under finance leases. Depreciation is provided at rates which write off the cost or valuation of the assets over the term of the relevant lease or, where it is likely the Company or Group will obtain ownership of the asset, the life of the asset. Impairment losses are accounted for in accordance with the accounting policy as set out in note 2(m). Finance charges implicit in the lease payments are charged to profit or loss over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period. Contingent rentals are written off as an expense of the accounting period in which they are incurred.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(k) Leased assets (Continued)

(iii) Operating lease charges

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

The cost of acquiring land held under an operating lease is amortised on a straight-line basis over the period of the lease term except where the property is classified as an investment property.

(l) Intangible Asset

(i) Research and Development Costs

Expenditure on research activities is recognised as an expense in the period in which it is incurred. Expenditure on development activities is capitalised if the product or process is technically and commercially feasible and the company has sufficient resources and the intention to complete development. The expenditure capitalised includes the costs of materials, direct labour and an appropriate proportion of overheads. Capitalised development costs are stated at cost less accumulated amortisation and impairment losses. Other development expenditure is recognised as an expense in the period in which it is 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 (where the estimated useful life is other than indefinite) and any identified impairment losses. Patents are amortised on a straight-line basis over their estimated useful lives of five to ten years.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(m) Impairment

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased:

– property, plant and equipment
– intangible assets; and
– investments in subsidiaries

If any such indication exists, the asset's recoverable amount is estimated. In addition, intangible assets that are not yet available for use, the recoverable amount is estimated annually whether or not there is any indication of impairment

Calculation of recoverable amount

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

Recognition of impairment losses

An impairment loss is recognised in profit or loss whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(n) 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.

(o) 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.

(p) 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.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(q) Employee benefits

(i) Short term employee benefits and contributions to defined contribution retirement plans

Salaries, annual bonuses, paid annual leave, contributions to defined contribution plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) Share based payments

The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in a capital reserve within equity. The fair value is measured at grant date using the binomial lattice model, taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the share options, the total estimated fair value of the share options is spread over the vesting period, taking into account the probability that the options will vest.

During the vesting period, the number of share options that is expected to vest is reviewed. Any adjustment to the cumulative fair value recognised in prior years is charged/credited to the profit or loss for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the capital reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of share options that vest (with a corresponding adjustment to the capital reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the company's shares. The equity amount is recognised in the capital reserve until either the option is exercised (when it is transferred to the share premium account) or the option expires (when it is released directly to retained profits).

(iii) Termination benefits

Termination benefits are recognised when, and only when, the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(r) 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.

(s) Related Parties

For the purposes of these financial statements, parties are considered to be related to the Company if the Company has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals (being members of key management personnel, significant shareholders and/or their close family members) or other entities and include entities which are under the significant influence of related parties of the Company where those parties are individuals, and post-employment benefit plans which are for the benefit of employees of the Company or of any entity that is a related party of the Company.

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 accounting policies of the Group after the adoption of these new and revised HKFRSs have been summarised in note 2. 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.

3. CHANGES IN ACCOUNTING POLICIES (Continued)

(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$'000	Prostrospective adjustments HKFRS 3 (note 3(c)) HK$'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	–
	64,316	140	64,456	753	65,209
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
	236,384	–	236,384	–	236,384
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
	31,448	–	31,448	–	31,448
Net current assets	204,936	–	204,936	–	204,936
NET ASSETS	269,252	140	269,392	753	270,145
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
Shareholders' equity	269,252	140	269,392	753	270,145

3. CHANGES IN ACCOUNTING POLICIES (Continued)

(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 (note3 (c))	**HKAS16 (note3 (d))**	**Total**
	HKS'000	HKS'000	HKS'000
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	–	–	–
	(161)	789	628
Earnings per share – Basic	(0.04) cents	0.20 cents	0.16 cents
Other significant disclosure items:			
Release of negative goodwill	(161)	–	(161)
Depreciation	–	77	77
Reversal of revaluation	–	712	712

3. CHANGES IN ACCOUNTING POLICIES (Continued)

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

(i) Effect on the consolidated financial statements (Continued)

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

	Estimated effect of new policy (increase/(decrease) in net assets)			
	HKFRS3 (note3 (c))	**HKAS16 (note3 (d))**	**HKAS 17 (note3 (d))**	**Total**
	HK$'000	HK$'000	HK$'000	HK$'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
	592	719	142	1,453
Current assets				
Inventories	–	–	–	–
Trade receivable	–	–	–	–
Prepayments, deposits and other receivable	–	–	–	–
Cash and bank balances	–	–	–	–
	–	–	–	–
Current liabilities				
Trade payable	–	–	–	–
Accruals and other payables	–	–	–	–
Taxation payable	–	–	–	–
	–	–	–	–
Net current assets	–	–	–	–
NET ASSETS	592	719	142	1,453
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
Shareholders' equity	592	719	142	1,453

3. CHANGES IN ACCOUNTING POLICIES (Continued)

(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. Further details of these new policies are set out in note 2(d).

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.

Further details of the new policy are set out in note 2(i) and 2(k). 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 in notes 3(a) and 3(b).

3. CHANGES IN ACCOUNTING POLICIES (Continued)

(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

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
	2	116

6. PROFIT BEFORE TAXATION

The profit before taxation are stated after charging the following:

	2005	2004 (restated)
	HK$'000	HK$'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)
	6,382	2,933
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
	5,694	6,266
Less: Amount included in research and development cost	**–**	(229)
	5,694	6,037

7. TAXATION

	2005 HK$'000	2004 HK$'000
PRC enterprise income tax	**13,198**	13,448

(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	**79,202**	81,076
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
Taxation	**13,198**	13,448

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. 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$737,000 (2004: HK$680,000). As at 31 December 2005, there were no material forfeitures available to offset the Group's future contributions (2004: Nil).

12. DIRECTORS' REMUNERATION

Dir ectors' r emuneration disclosed pursuant to section 161 of the Hong Kong Companies Or dinance is as follows:

	For the year ended 31 December 2005				
	Directors' fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Bonuses HK$'000	Retirement scheme contributions HK$'000	Total HK$'000
Executive directors					
Zhong Houtai	–	539	25	21	585
Chai Chung Wai	–	650	–	12	662
Zhong Houyao	–	63	–	1	64
Chong Hoi Fung	–	60	–	–	60
Sun Daquan	–	60	–	–	60
Independent non-executive directors					
Pei Renjiu	30	–	–	–	30
Li Kai Ming	30	–	–	–	30
Cheung Chuen	45	–	–	–	45
	105	1,372	25	34	1,536

	For the year ended 31 December 2004				
	Directors' fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Bonuses HK$'000	Retirement scheme contributions HK$'000	Total HK$'000
Executive directors					
Zhong Houtai	–	695	24	21	740
Chai Chung Wai	–	650	–	12	662
Zhong Houyao	–	488	17	7	512
Chong Hoi Fung	–	335	–	–	335
Sun Daquan	–	280	–	–	280
Independent non-executive directors					
Pei Renjiu	58	–	–	–	58
Li Kai Ming	57	–	–	–	57
Cheung Chuen	45	–	–	–	45
	160	2,448	41	40	2,689

13. INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, all (2004: All) are directors whose emoluments are disclosed in note 12.

14. PROPERTY, PLANT AND EQUIPMENT

The Group

	Buildings	Leasehold improvement	Plant and machinery	Office and other equipment	Motor vehicles	Property under development	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Cost or valuation							
At 1 January 2004 (restated)	15,723	281	20,132	516	902	–	37,554
Additions	–	8	441	142	390	19,589	20,570
Transfer	19,340	–	–	–	–	(19,340)	–
Restatement under HKAS 17	–	–	–	–	–	(249)	(249)
At 31 December 2004 and 1 January 2005 (restated)	35,063	289	20,573	658	1,292	–	57,875
Exchange adjustments	708	–	395	10	25	–	1,138
Less: Restatement under HKAS 16	3,452	–	–	–	–	–	3,452
Additions	19,794	–	26,224	1,156	–	–	47,174
Transfer	–	–	–	–	–	–	–
At 31 December 2005	59,017	289	47,192	1,824	1,317	–	109,639
Accumulated depreciation							
At 1 January 2004 (restated)	247	–	2,871	202	284	–	3,604
Charge for the year	937	58	1,842	83	95	–	3,015
At 31 December 2004 and 1 January 2005 (restated)	1,184	58	4,713	285	379	–	6,619
Exchange adjustments	72	–	126	6	9	–	213
Less: Restatement under HKAS 16	2,740	–	–	–	–	–	2,740
Charge for the year	2,336	58	3,748	123	117	–	6,382
At 31 December 2005	6,332	116	8,587	414	505	–	15,954
Net book value							
At 31 December 2005	52,685	173	38,605	1,410	812	–	93,685
At 31 December 2004 (restated)	33,879	231	15,860	373	913	–	51,256

14. 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 and 31 December 2005	289	134	423
Accumulated depreciation			
At 1 January 2004	–	–	–
Provision for the year	58	27	85
At 31 December 2004 and 1 January 2005	58	27	85
Provision for the year	57	27	84
At 31 December 2005	115	54	169
Net book value			
At 31 December 2005	174	80	254
At 31 December 2004	231	107	338

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

15. LEASE PREMIUM FOR LAND

	2005 HK$'000	2004 (restated) HK$'000
Beginning of the year	**2,821**	1,591
Exchange adjustments	**52**	-
Additions	**630**	1,043
Restatement under HKAS 17	**–**	249
Amortisation pr epaid lease payment	**(183)**	(62)
End of the year	**3,320**	2,821

All the leasehold land is held under medium-term lease and situated in the PRC.

16. INTANGIBLE ASSET

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

17. INVESTMENT IN SUBSIDIARIES

	The Company	
	2005	2004
	HK$'000	HK$'000
Unlisted shares, at cost	**134,065**	134,065
Due from subsidiaries	**56,380**	58,272
	190,445	192,337

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

Details of subsidiaries as at 31 December 2005 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.

18. NEGATIVE GOODWILL

	The Group	
	2005	2004
	HK$'000	HK$'000
Gross amount		
At beginning of the year	**1,612**	1,612
Derecognised during the year	**(1,612)**	–
At end of the year	**–**	1,612
Released to income		
At beginning of the year	**859**	698
Released for the year	**–**	161
Derecognised during the year	**(859)**	–
At end of the year	**–**	859
Carrying amount		
At end of the year	**–**	753

19. INVENTORIES

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

20. 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
	70,045	36,220

21. TRADE PAYABLE

The ageing analysis of accounts payable is as follows:

	The Group	
	2005	2004
	HK$'000	HK$'000
0 to 30 days	**18,158**	9,132

22. SHARE CAPITAL

The Company

	Number of shares		Amount	
	2005	2004	**2005**	2004
Ordinary shares of HK$0.1 each	**'000**	'000	**HK$'000**	HK$'000
Authorised	**2,000,000**	2,000,000	**200,000**	200,000
Issued and fully paid	**400,000**	400,000	**40,000**	40,000

23. 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.

23. 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.

24. RESERVES

The Group

	Share premium	Statutory reserve (note a)	General reserve	Special reserve (note c)	Exchange reserve	Retained profits	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
As at 1 January 2004, as previously reported	27,944	9,906	12,531	19,608	–	91,630	161,619
Restatement under HKAS 17	–	–	–	–	–	145	145
As at 1 January 2004 (restated)	27,944	9,906	12,531	19,608	–	91,775	161,764
Profit attributable to shareholders, as previously reported	–	–	–	–	–	67,633	67,633
Restatement under HKAS 17	–	–	–	–	–	(5)	(5)
Profit attributable to shareholders (restated)	–	–	–	–	–	67,628	67,628
Transfer to reserve	–	–	3,810	–	–	(3,810)	–
As at 31 December 2004 (restated)	27,944	9,906	16,341	19,608	–	155,593	229,392
Adjustment arising from derecognition of negative goodwill	–	–	–	–	–	753	753
As at 1 January 2005 (restated)	27,944	9,906	16,341	19,608	–	156,346	230,145
Profit attributable to shareholders	–	–	–	–	–	66,004	66,004
Transfer to reserve	–	–	3,776	–	–	(3,776)	–
Exchange differences arising from combination	–	–	–	–	4,104	–	4,104
As at 31 December 2005	27,944	9,906	20,117	19,608	4,104	218,574	300,253

24. RESERVES (Continued)

The Company

	Share premium	Contributed surplus (note b)	(Accumulated losses)	Total
	HK$'000	HK$'000	HK$'000	HK$'000
As at 1 January 2004	27,944	133,865	(1,941)	159,868
Loss attributable to shareholders	–	–	(4,963)	(4,963)
As at 31 December 2004 and 1 January 2005	27,944	133,865	(6,904)	154,905
Loss attributable to shareholders	–	–	(3,852)	(3,852)
As at 31 December 2005	27,944	133,865	(10,756)	151,053

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.

24. 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 2005, the Company's reserves available for distribution to shareholders amounted to approximately HK$151,053,000 (2004: HK$154,905,000) 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 (2004: HK$27,944,000) and contributed surplus of HK$133,865,000 (2004: HK$133,865,000), less accumulated losses of HK$10,756,000 (2004: HK$6,904,000), 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.

25. 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.

26. FINANCIAL INSTRUMENTS

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

Currency risk

The Group is exposed to foreign currency risk primarily through sales and purchases that are denominated in a currency other than the functional currency of the operations to which they relate. The currencies giving rise to this risk are primarily Renminbi (RMB). The Group has not used any forward contracts, currency borrowings or other means to hedge its foreign currency exposure. Hong Kong Dollars against RMB were relatively stable during the year and as a result, the Group considers it has no material foreign risk.

26. FINANCIAL INSTRUMENTS (Continued)

Interest rate risk

The Group does not have substantial interest-bearing assets and liabilities. The Group's income and operating cash flows are substantially independent of changes in market interest rates.

Credit risk

The Group has no significant concentrations of credit risk. The carrying amount of bank and cash balances and trade and other receivables represent the Group's maximum exposure to credit risk in relation to financial assets. The Group has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

Liquidity risk

The Group's policy is to maintain sufficient cash and cash equivalents to meet its commitments over the next year in accordance with its strategic plan.

27. COMMITMENTS

(a) Capital commitments

	2005	2004
	HK$'000	HK$'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

27. COMMITMENTS (Continued)

(b) Operating lease commitments

As at 31 December 2005, 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:

	2005	2004
	HK$'000	HK$'000
Within one year	**7**	440
Over one year but within five years	**–**	12
	7	452

28. MATERIAL RELATED PARTY TRANSACTIONS

In addition to the transactions and balances disclosed elsewhere in these financial statements, the group entered into the following material related party transactions.

Key management personnel remuneration

Key management personnel are executive directors of the Company. Remuneration for key management personnel is disclosed in note 12:

29. COMPARATIVE FIGURES

Certain comparative figures have been adjusted or re-classified as a result of the changes in accounting policies. Further details are disclosed in note 3.

30. ULTIMATE HOLDING COMPANY

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

31. ACCOUNTING ESTIMATES AND JUDGEMENTS

In the process of applying the entity's accounting policies which are described in note 2 to the financial statements, management has made the following judgements that have significant effect on the amount recognised in the financial statements. The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are also discussed below.

Useful lives of property, plant and equipment

The Group's management determines the estimated useful lives for its property, plant and equipment This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions.

Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expense. These estimates are based on the current market condition and the historical experience of manufacturing and selling products of similar nature. It could change significantly as a result of changes in customer taste and competitor actions in response to severe industry cycles. Management will reassess the estimates by the balance sheet date.

Allowances for bad and doubtful debts

The policy for allowance of bad and doubtful debts of the Group is based on the evaluation of collectability and ageing analysis of accounts and on management's judgement. A considerable amount of judgement is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each customer. If the financial conditions of customers of the Group were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

Financial Summary

RESULTS

	For the year ended 31 December				
	2005	2004 (restated)	2003	2002	2001
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Turnover	**259,832**	233,897	203,520	146,743	73,678
Profit before taxation	**79,202**	81,076	68,114	50,182	26,535
Taxation	**(13,198)**	(13,448)	(5,679)	(3,941)	(2,123)
Net profit for the year	**66,004**	67,628	62,435	46,241	24,412

ASSETS AND LIABILITIES

	At 31 December				
	2005	2004 (restated)	2003	2002	2001
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Total assets	**386,235**	300,840	232,350	102,838	63,624
Total liabilities	**(45,982)**	(31,448)	(30,731)	(31,398)	(18,793)
Shareholders' funds	**340,253**	269,392	201,619	71,440	44,831

Notes:

1. The results for each of the two 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 and 2001 were extracted from the prospectus of the Company dated 11 November 2003 and re-translated into Hong Kong Dollars.