BROAD INTELLIGENCE

International Pharmaceutical Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1149)

ANNUAL REPORT 2006

Contents

Chairman's Statement

I am pleased to present to our shareholders the annual report of Broad Intelligence International Pharmaceutical Holdings Limited (the "Company") and its subsidiaries (collectively the "Group") for the year ended 31 December 2006.

BUSINESS REVIEW

The Group had continued to introduce high quality products to the market. In 2006, we launched 11 healthcare pharmaceuticals (2005: 5) with turnover of approximately HK$56 million, accounted for 16% of the total turnover of the Group. In 2006, we launched 62 parenteral solution products (2005: 55) with turnover of approximately HK$286 million, up 20% as compared to HK$239 million in 2005.

PRODUCTS

The Group currently holds permits for over 100 pharmaceutical products. We anticipate that there will be 3 to 4 permits of pharmaceutical products granted to us each year.

TARGET CUSTOMERS

Healthcare products are popular nowadays. Therefore, the Group will launch new products to meet the demand in this market. Points-of-sales of the Group's healthcare products include drug stores and supermarkets. While customers who are sick may take them for curing need, those who do not have any illness may also take them for healthcare purpose. By extending its existing market with the healthcare products, the Group will move forward to a new horizon in terms of product sales.

RESULTS

Building on the Group's great efforts and solid foundation, the Group recorded a consolidated turnover of approximately HK$342 million for the year ended 31 December 2006, representing an increase of 32% when compared with HK$260 million of last year. Profit after tax was approximately HK$84 million, representing an increase of 27% over last year. Gross profit margin was approximately 40% (2005: 40%). Sales of healthcare products was approximately HK$56 million, accounted for approximately 16% of the Group's total turnover. Sales of parenteral solution products for 2006 was approximately HK$286 million, representing an increase of 20% compared to HK$239 million of last year.

DIVIDENDS AND DIVIDEND POLICY

To reward our shareholders for their support to the Group over the years, the board of directors proposed a dividend at a payout ratio of 20% to be paid out of the 2006 after tax profit.

OUTLOOK AND PROSPECT

Sales of Pharmaceuticals

Healthcare pharmaceutical products

Sales of healthcare pharmaceutical products in the first half of 2006 was approximately HK$22 million and amounted to HK$56 million for the full year. It showed that the products of the Group were well received by the market, and we anticipate that our sales will keep growing steadily in the future. The production lines of the Group are capable to meet the demand for the coming few years.

Tenders of pharmaceutical rights

In 2007, Guangdong, Fujian and Guizhou have introduced unified tenders of pharmaceutical distribution rights at provincial level. The Group enjoyed fruitful results in pharmaceutical tenders in these provinces. It obtained distribution rights for approximately 80, 70 and 30 pharmaceutical products in Fujian, Guizhou and Guangdong respectively. The Group expects a record-breaking year of 2007 in terms of parenteral solution products sales.

Expansion of Production Facilities

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 construction of raw materials production facilities, which will be used for the extraction of pure Chinese herbal essence for the Group's side effect-free, worldwide exclusive proprietary products "護肝胃酒靈 (Olive Granules)" and Anti-diabetes Tea. Construction of the production facility is expected to be completed in early 2008 and to commence operation in mid 2008.

While the Group is still using glass bottles for large volume parenteral solution, it is becoming more popular in the market to use containers made of plastic materials. The Group is thus considering a shift to using plastic containers. It is contemplating of setting up a new production line for manufacture of plastic packaging materials supplying to the Group in 2008 to 2009 so as to ensure the quality control and cost saving. It may also consider to sell packaging materials to external customers.

Expansion into Overseas Markets

In November 2006, permits of 2 parenteral solutions of the Group had been duly granted by the Health Department of Hong Kong upon submission to strict review and approval procedures. Other applications for sales of products in Hong Kong 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. I would also like to thank all our shareholders and investors for their support to the Group.

By order of the board
Zhong Houtai
Chairman

Hong Kong, 23 April 2007

RESULTS

For the year ended 31 December 2006, the Group's consolidated turnover was HK$342 million, up 32% from HK$260 million of last year. Profit after tax was HK$84 million, representing an increase of 27% over last year. Gross profit margin was approximately 40% (2005: 40%). The healthcare products generated a sales of approximately HK$56 million, accounted for 16% of the Group's total sales. Sales of parenteral solution amounted to approximately HK$286 million, up about 20% as compared to HK$239 million in 2005. Basic earnings per share of the Group for 2006 were HK$20.98 cents (2005: HK$16.5 cents).

SALE OF PRODUCTS

As at 31 December 2006, the Group offered 73 types of products in different package, 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

	2002		2003		2004		2005		**2006**	
	HK$'000	%	*HK$'000*	%	*HK$'000*	%	*HK$'000*	%	***HK$'000***	**%**
Eastern region (Shanghai, Zhejiang Province, Jiangxi Province and Fujian Province)	79,675	55	119,756	59	134,153	57	158,081	61	**225,172**	**66**
Southwestern Region (Yunnan Province, Guizhou Province and Chongqing)	23,450	16	34,223	17	37,084	16	33,646	13	**47,694**	**14**
Southern Region (Guangdong Province and Guangxi Autonomous Region)	28,055	19	31,533	15	44,094	19	49,159	19	**57,379**	**16**
Northern Region (Beijing and Henan Province)	9,384	6	12,671	6	14,761	6	14,340	5	**5,665**	**2**
Central Region (Anhui Province and Hunan Province)	6,179	4	5,337	3	3,805	2	4,606	2	**6,322**	**2**
Total	146,743	100	203,520	100	233,897	100	259,832	100	**342,232**	**100**

Type of Customers
For the Year ended 31 December

	2002		2003		2004		2005		**2006**	
	HK$'000	%	*HK$'000*	%	*HK$'000*	%	*HK$'000*	%	***HK$'000***	**%**
Distributors	134,638	92	178,164	88	185,896	79	197,246	76	**234,941**	**69**
Hospitals and Clinics	12,105	8	25,356	12	48,001	21	62,586	24	**107,291**	**31**
Total	146,743	100	203,520	100	233,897	100	259,832	100	**342,232**	**100**

FINANCIAL INFORMATION

The Group had cash and bank balances totalling HK$156 million as at 31 December 2006. As the Group had no outstanding bank loan, the gearing ratio was zero (2005: zero). The current and quick ratios in 2006 were 4.63 and 4.43 respectively (2005: 4.73 and 4.56). As at 31 December 2006, the debtors turnover, inventory turnover and creditors turnover were 79 days, 12 days and 42 days respectively (2005: 98 days, 17 days and 42 days respectively). Overall, the Group has a sound financial position to support its future development.

CAPITAL EXPENDITURE

During the year ended 31 December 2006, the Group acquired new plant equipment and facilities totalling HK$59 million, which was financed by internal cash resources.

CONTINGENT LIABILITIES

As at 31 December 2006, the Group and the Company did not have any significant contingent liability (2005: Nil).

INTEREST RATE AND CURRENCY EXPOSURE

The Group has no material currency and interest rate exposure.

CHANGES IN THE ORGANISATION OF THE GROUP

Since its listing and up to 31 December 2006, the Group did not acquire or dispose of 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 the year ended 31 December 2006 and the audited financial statements for the year ended 31 December 2006.

EMPLOYEES AND REMUNERATION POLICY

During the year, the Group's labour force in respect of packaging was reduced due to the introduction of equipments upgrade and a change in employment terms . As at 31 December 2006, the Group had a total of 127 employees (December 2005: 260). 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.

Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. Zhong Houtai, Chairman
Mr. Zhong Houyao
Mr. Chong Hoi Fung
Mr. Sun Daquan
Mr. Chai Chung Wai (resigned on 14 March 2007)

Independent Non Executive Directors

Mr. Pei Renjiu
Mr. Li Kai Ming
Mr. Cheung Chuen

COMPANY SECRETARY

Mr. Chow Chi Wa ACIS, ACS, CPA, FCCA, MCG

PRINCIPAL BANKERS

Industrial and Commercial Bank of China
Standard Chartered Bank

AUDITORS

CCIF CPA Limited
20/F Sunning Plaza
10 Hysan Avenue
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
26/F., Tesbury Centre
28 Queen's Road East
Wanchai
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

Mr. Zhong Houtai, aged 50, 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, Fujian Nansholin Pharmaceutical (formerly known as 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 53, 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.

Mr. Chong Hoi Fung, aged 36, 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.

Mr. Sun Daquan, aged 67, 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.

Independent Non-executive Directors

Mr. Pei Renjiu, aged 41, 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.

Mr. Li Kai Ming, aged 63, 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. Mr. Cheung Chuen, aged 33, 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 seven 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

Mr. Chow Chi Wa, aged 39. Mr. Chow holds a Master Degree in Corporate Governance. He is a Certified Public Accountant of the Hong Kong Institute of Certified Public Accountants, a fellow member of The Association of Chartered Certified Accountants. He is also an associate of both The Hong Kong Institute of Company Secretaries and The Institute of Chartered Secretaries and Administrators. Mr. Chow has about 17 years of working experience related to finance and accounting. He joined the Group in March 2007.

Mr. Guo Wenjing, aged 63, 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所瑋N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.

Mr. Lin Xinlong, aged 60, 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.

Mr. Ye Wenren, aged 46, 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.

Mr. Jin Shushan, aged 66, 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.

Mr. Huang Jinshu, aged 33, 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.

Miss. Lin Aiping, aged 38, 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.

Mr. Yu Xiangbin, aged 41, 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. One of his essays 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（南京軍區福州軍醫院醫務部）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.

Mr. Chen Lunbin, aged 33, 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.

Mr. Huang Chenglan, aged 56, 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:

Mr. Hou Yunde, aged 77, 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.

Mr. Ma Yonghua, aged 71, 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）.

Mr. Wang Faping, aged 41, 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.

Mr. Huang Ziqiang, aged 66, 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.

Mr. Xu Rongqing, aged 44, 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.

Mr. Ding Jian, aged 53, 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 2005 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 2006.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The activities of its subsidiaries are set out in Note 16 to the financial statements.

RESULTS

The Group's results for the year ended 31 December 2006 are set out in the consolidated income statement on page 34 of this Annual Report.

DIVIDENDS

The Board recommend the payment of a final dividend of HK$0.038 (2005: Nil) per share for the year ended 31 December 2006 ,subject to shareholders' approval at the forthcoming Annual General Meeting to be held on 31 May 2007, will be payable to the shareholders whose names appear on the Register of Members of the Company on 15 June 2007. No interim dividend was declared for the six months ended 30 June 2006. (2005: 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 13 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. The share option scheme is effective for a term of ten years from 3 November 2003. The following table discloses movements in the Company's Share Option Scheme during the year:

		Number of share options							
Category of participant	**Date of grant**	**Outstanding as at 1 Jan 2006**	**Granted during the year**	**Exercised during the year**	**Lapsed during the year**	**Outstanding as at 31 Dec 2006**	**Exercisable period**	**Exercise price per share** HK$	**Market value per share at date of grant of options** HK$
Consultant	1 Nov 2006	–	2,000,000	–	–	2,000,000	1 Nov 2006 to 31 Oct 2008	0.57	0.72
Total			2,000,000	–	–	2,000,000			

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 23 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:

	2006	2005
	%	%
Percentage of purchases:		
From the largest supplier	**18**	21
From the five largest suppliers	**64**	66
Percentage of turnover:		
From the largest customer	**7**	5
From the five largest customers	**28**	21

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 (resigned on 14 March 2007)

Independent Non Executive Directors

Mr. Pei Renjiu
Mr. Li Kai Ming
Mr. Cheung Chuen

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

DIRECTORS' SERVICE CONTRACT

Each of the executive Directors has entered into a service contract with the Company for an initial fixed term of 3 years commencing from 24 November 2003, and will continue thereafter until terminated by not less than 3 months' notice in writing served by either party on the other, which notice shall not expire until after the fixed term. Each of these executive Directors is entitled to the respective basic salary set out below (subject to an annual increment after the first anniversary of the commencement date of the respective service contracts at the discretion of the Directors of not more than 10% of the annual salary immediately prior to such increase). In addition, for the financial year ending 31 December 2006 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	**2006 Salary**
Mr. Zhong Houtai	HK$456,000
Mr. Zhong Houyao	HK$60,000
Mr. Chong Hoi Fung	HK$0
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 Articles 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 9 to 14 of this Annual Report.

DISCLOSURE OF INTERESTS

Directors' Interest in Share Capital

As at 31 December 2006, 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 2006.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2006, 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 2006, 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 2006.

CONNECTED AND RELATED PARTY TRANSACTIONS

During the year ended 31 December 2006, 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 2006 was approximately HK$807,000 (2005: HK$737,000). 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 23 to 31 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 2006 Annual Report of the Company.

AUDIT COMMITTEE

The Annual Report of the Group for the year ended 31 December 2006 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 23 to 31.

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

23 April 2007

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 2006, the Group has applied the principles and complied with most of the code provisions and recommended best practices prescribed in the 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

As at 31 December 2006, 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 the 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 the 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 CG Code, but they are subject to retirement in rotation at the annual general meeting of the Company according to the Articles 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 less than one-third) shall retire from office by rotation.

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 2006, the Company held 4 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)*	4/4
Mr. Zhong Houyao	2/4
Mr. Chong Hoi Fung	1/4
Mr. Sun Daquan	4/4
Mr. Chai Chung Wai	4/4
Independent non-Executive Directors	
Mr. Cheung Chuen	2/4
Mr. Pei Renjiu	2/4
Mr. Li Kai Ming	2/4

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) of the Listing Rules. In addition, Mr. Chai Chung Wai, an executive Director, and Mr. Chow Chi Wa, the chief financial officer are qualified accountants 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 ("Model Code") as set out in Appendix 10 of the Listing Rules 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 to, inter alia, review the audited financial statements for the year ended 31 December 2006. 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 Company 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. Other members of the remuneration committee include Mr. Pei Renjiu and Mr. Cheung Chuen, both are 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 2006, the remuneration committee has held its first meeting on 20 April 2006 to define its terms of reference, to review the existing remuneration packages of each Directors and senior management 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 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 22 to the financial statements on pages 67 to 69 of this annual report. Such incentive schemes enable the eligible persons to obtain an ownership interest in the 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 AUDIT

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, the audit committee and CCIF Corporate Consultancy Limited have reviewed the effectiveness of the Group's material internal controls. The Board and the audit committee are satisfied that, based on information furnished to it and on its own observations, the present internal controls of the Group are satisfactory and will make further improvements.

Auditors' Remuneration

During the year ended 31 December 2006, 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:

	2006 **HK$'000**
Audit services	480,000
Non-audit services	
Taxation advisory services	–
Review on 2006 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.

CCIF

CCIF CPA LIMITED
20/F Sunning Plaza
10 Hysan Avenue
Causeway Bay Hong Kong

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

We have audited the consolidated financial statements of Broad Intelligence International Pharmaceutical Holdings Limited (the "Company") set out on pages 34 to 79, which comprise the consolidated and company balance sheets as at 31 December 2006, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. This report is made 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 the report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2006 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

CCIF CPA Limited
Certified Public Accountants
Hong Kong 23 April 2007

Chan Wai Dune, Charles
Practising Certificate Number P00712

Consolidated Income Statement

For the year ended 31 December 2006

	Note	2006 HK$'000	2005 HK$'000
Turnover			
Sales of pharmaceutical products	3	**342,232**	259,832
Cost of sales		**(205,251)**	(156,120)
Gross profit		**136,981**	103,712
Other revenue	3	**4,580**	3,086
Selling and distribution expenses		**(21,325)**	(9,723)
General and administrative expenses		**(19,918)**	(17,871)
Operating profits		**100,318**	79,204
Finance costs	4	**–**	(2)
Profit before taxation	5	**100,318**	79,202
Income tax	6	**(16,391)**	(13,198)
Profit attributable to equity shareholders of the Company	7	**83,927**	66,004
Dividends	8	**–**	–
Earnings per share	9		
– Basic		**HK20.98 cents**	HK16.5 cents
– Diluted		**HK20.94 cents**	N/A

The notes on pages 38 to 79 form an integral part of these financial statements.

Balance Sheets

At 31 December 2006

		The Group		The Company	
		2006	2005	**2006**	2005
	Note	**HK$'000**	HK$'000	**HK$'000**	HK$'000
NON-CURRENT ASSETS					
Property, plant and equipment	13	**148,990**	93,685	**169**	254
Prepaid lease payments	14	**3,315**	3,320	**–**	–
Intangible asset	15	**85,252**	71,929	**–**	–
Investment in subsidiaries	16	**–**	–	**186,533**	190,445
		237,557	168,934	**186,702**	190,699
CURRENT ASSETS					
Inventories	18	**11,016**	7,461	**–**	–
Trade receivables	19	**86,176**	70,045	**–**	–
Prepayments, deposits and other receivable		**467**	468	**461**	456
Cash and bank balances		**156,039**	139,327	**321**	500
		253,698	217,301	**782**	956
CURRENT LIABILITIES					
Trade payables	20	**22,546**	18,158	**–**	–
Accruals and other payables		**25,810**	23,707	**620**	602
Taxation payable		**3,984**	4,117	**–**	–
Amount due to a director		**2,419**	–	**–**	–
		54,759	45,982	**620**	602
NET CURRENT ASSETS		**198,939**	171,319	**162**	354
NET ASSETS		**436,496**	340,253	**186,864**	191,053
Represented by:					
SHARE CAPITAL	21	**40,000**	40,000	**40,000**	40,000
RESERVES	23	**396,496**	300,253	**146,864**	151,053
SHAREHOLDERS' EQUITY		**436,496**	340,253	**186,864**	191,053

Approved and authorised for issue by the board of directors on 23 April 2007.

On behalf of the board

Zhong Houtai
Director

Sun Daquan
Director

The notes on pages 38 to 79 form an integral part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2006

	Share capital HK$'000	Share premium HK$'000	Statutory reserve HK$'000	General reserve HK$'000	Special reserve HK$'000	Exchange reserve HK$'000	Share option reserve HK$'000	Retained profits HK$'000	Total HK$'000
As at 1 January 2005	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 translation financial statements of overseas subsidiaries	–	–	–	–	–	4,104	–	–	4,104
As at 31 December 2005 and 1 January 2006	40,000	27,944	9,906	20,117	19,608	4,104	–	218,574	340,253
Profit attributable to shareholders	–	–	–	–	–	–	–	83,927	83,927
Transfer to reserve	–	–	–	4,640	–	–	–	(4,640)	–
Exchange differences arising from translation financial statements of overseas subsidiaries	–	–	–	–	–	11,825	–	–	11,825
Recognition of equity-settled share-based payment	–	–	–	–	–	–	491	–	491
As at 31 December 2006	**40,000**	**27,944**	**9,906**	**24,757**	**19,608**	**15,929**	**491**	**297,861**	**436,496**

The notes on pages 38 to 79 form an integral part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2006

	2006 HK$'000	2005 HK$'000
Cash flows from operating activities		
Profit before taxation	**100,318**	79,202
Adjustment for:		
Interest income	**(1,174)**	(693)
Amortisation of prepaid lease payments	**144**	183
Amortisation of intangible assets	**11,328**	5,328
Depreciation	**7,638**	6,382
Reversal of revaluation on prepaid lease payments	**–**	(712)
Share-based payment expenses	**491**	–
Operating profit before working capital changes	**118,745**	89,690
Increase in inventories	**(3,555)**	(1,223)
Increase in trade receivables	**(16,131)**	(33,825)
Decrease in prepayments, deposits and other receivable	**1**	12,853
Increase in trade payables	**4,388**	9,026
Increase in accruals and other payables	**2,103**	3,781
Increase in amount due to a director	**2,419**	–
Cash generated from operation	**107,970**	80,302
PRC enterprise income tax paid	**(16,683)**	(11,533)
Net cash generated from operating activities	**91,287**	68,769
Investing activities		
Purchase of property, plant and equipment	**(59,357)**	(47,174)
Addition to prepaid lease payment	**(9)**	(630)
Purchase of intangible asset	**(22,000)**	(65,962)
Interest received	**1,174**	693
Net cash used in investing activities	**(80,192)**	(113,073)
Net increase/(decrease) in cash and cash equivalents	**11,095**	(44,304)
Cash and cash equivalents at beginning of the year	**139,327**	180,605
Effect of foreign exchange rate changes, net	**5,617**	3,026
Cash and cash equivalents at end of the year	**156,039**	139,327
Analysis of the balances of cash and cash equivalents		
Cash and bank balances	**156,039**	139,327

The notes on pages 38 to 79 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. SIGNIFICANT 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 disclosure 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. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period (see note 31).

The HKICPA has issued a number of new and revised HKFRSs that are effective or available for early adoption for the current accounting period of the Group and the Company. The adoption of the new HKFRSs had no material effect on how the results for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Basis of preparation of financial statements

The consolidated financial statements for the year ended 31 December 2006 comprise the Company and its subsidiaries.

The measurement basis used in the preparation of the financial statements is the historical cost basis 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.

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.

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 29.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

An investment in a 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.

(d) Goodwill

Goodwill represents the excess of the cost of a business combination over the Group's interest in the net fair value of the acquiree's identifiable 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 net 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 during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Property, plant and equipment

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

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

Buildings situated on leasehold land	Over the shorter of the term of the lease or 20 years
Leasehold improvement	20%
Office and other equipment	20%
Motor vehicles	10%
Plant and machinery	10%

Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

Gain or loss arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in income statement on the date of retirement or disposal.

(f) Intangible Asset

Patents

Purchased patents are stated in the balance sheet 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. Both the period and method of amortisation are reviewed annually.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Leased assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

(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.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Leased assets (Continued)

(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 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(h). Finance charges implicit in the lease payments are charged to income statement 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 charged to income statement in the accounting period in which they are incurred.

(iii) Operating lease charges

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to income statement 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 income statement as an integral part of the aggregate net lease payments made. Contingent rentals are charged to income statement 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.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) Impairment of assets

(i) Impairment of receivables

Current and non-current receivables that are stated at cost or amortised cost are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any such evidence exists, any impairment loss is determined and recognised as follows:

– For trade and other current receivables and other financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material.

  If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through income statement. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

(ii) Impairment of other assets

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
– prepaid lease payments
– 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.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) Impairment of assets (Continued)

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 income statement 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 income statement in the year in which the reversals are recognised.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Inventories

Inventories are stated at the lower of cost and net realisable value.

Cost is calculated using the weighted-average cost formula 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 expected costs of completion and the estimated costs necessary to make the sale. 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 any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(j) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less impairment losses for bad and doubtful debts (see note 2(h)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less impairment losses for bad and doubtful debts.

(k) Trade and other payables

Trade and other payables are initially recognised at fair value. Trade and other payables are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(l) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated cash flow statement.

(m) Employee benefits

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

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement 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 share option reserve within equity. The fair value is measured at grant date, 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 income statement 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).

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(m) Employee benefits (Continued)

(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.

(n) Share-based payment transactions

Equity-settled share-based payment transactions

Share options granted to employees

The accounting policy is set out in note 2 (m)(ii)

Share options granted to suppliers/consultants

Share options issued in exchange for goods or services are measured at the fair values of share options granted. The fair values of the goods or services received are recognised as expenses immediately, unless the goods or services quality for recognition as assets. Corresponding adjustment has been made to equity (share option reserve).

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(o) Income Tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in income statement except to the extent that they relate to items recognised directly in equity, in which case they are recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination) and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(o) Income Tax (Continued)

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  - the same taxable entity; or

  - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(p) Provision and Contingencies

Provisions are recognised for liabilities of uncertain timing or amount when the Group or the Company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected 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.

(q) Revenue Recognition

Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in income statement as follows:

(i) Sales of goods

Revenue is recognised when goods are delivered at the customers' premises which is taken to be the point in time when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

(ii) Interest income

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

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(r) Foreign Currency Translation

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated of the foreign exchange rates ruling at the balance sheet date. Exchange gains and losses are recognised in income statement.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was determined.

The results of foreign operations are translated into Hong Kong Dollar at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Balance sheet items are translated into Hong Kong Dollar at the foreign exchange rates ruling at the balance sheet date. The resulting exchange differences are recognised directly in a separate component of equity.

On disposal of a foreign operation, the cumulative amount of the exchange differences recognised in equity which relate to that foreign operation is included in the calculation of the profit or loss on disposal.

(s) Related parties

For the purposes of these financial statements, a party is considered to be related to the Group if:

(i) the party has the ability, directly or indirectly through one or more intermediaries, to control the Group or exercise significant influence over the Group in making financial and operating policy decisions, or has joint control over the Group;

(ii) the Group and the party are subject to common control;

(iii) the party is an associate of the Group or a joint venture in which the Group is a venturer;

(iv) the party is a member of key management personnel of the Group or the Group's parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(s) Related parties (Continued)

(v) the party is a close family member of a party referred to in (i) or a an entity under the control, joint control or significant influence of such individuals; or

(vi) the party is a post-employment benefit plan which is for the benefit of employees of the Group or of any entity that is a related party of the Group.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

(t) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

In accordance with the Group's internal financial reporting system, the Group has chosen business segment information as the primary reporting format and geographical segment information as the secondary reporting format for the purposes of these financial statements.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. For example, segment assets may include inventories, trade receivables and property, plant and equipment. Segment revenue, expenses, assets, and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between group entities within a single segment. Inter-segment pricing is based on similar terms as those available to other external parties.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets (both tangible and intangible) that are expected to be used for more than one period.

Unallocated items mainly comprise financial and corporate assets, interest-bearing loans, borrowings, tax balances, corporate and financing expenses.

3. TURNOVER AND OTHER REVENUE

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

Turnover and other revenue consisted of:

	2006	2005
	HK$'000	HK$'000
Turnover		
Sales of pharmaceutical products	**342,232**	259,832
Other revenue		
Exchange gain	**3,406**	1,681
Interest income	**1,174**	693
Reversal of revaluation on prepaid lease payments	**–**	712
	4,580	3,086
Total revenue	**346,812**	262,918

4. FINANCE COSTS

	2006	2005
	HK$'000	HK$'000
Bank charges	**–**	2

5. PROFIT BEFORE TAXATION

The profit before taxation are stated after charging the following:

	2006	2005
	HK$'000	HK$'000
Amortisation of intangible assets	**11,328**	5,328
Amortisation of prepaid lease payments	**144**	183
Auditors' remuneration	**570**	590
Cost of inventories	**205,251**	156,120
Depreciation	**7,638**	6,382
Research and development costs	**101**	121
Staff costs (including directors' remuneration)		
Salaries and allowance	**5,189**	4,957
Contributions to retirement scheme	**807**	737
	5,996	5,694
Operating lease payment in respect of premises	**590**	329

Notes: Cost of inventories includes HK$6,139,000 (2005: HK$8,389,000) relating to staff costs and depreciation, which amount is also included in the respective total amounts disclosed separately above.

6. INCOME TAX

	2006	2005
	HK$'000	HK$'000
Current tax – PRC enterprise income tax		
Provision for the year	**16,391**	13,198

(i) Fujian Nanshaolin Pharmaceutical Co., Ltd. (formerly known as Fuqing Pharmaceutical Company Ltd), a wholly foreign owned enterprise, was subject to PRC enterprise income tax at a rate of 15% applicable to the company on the assessable profits for the year.

(ii) No provision for Hong Kong profits tax has been made as the Group had no assessable profits for the year (2005: Nil).

(iii) The Group had no significant unprovided deferred taxation arising during the year or at 31 December 2006 (2005: Nil).

6. INCOME TAX (Continued)

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

	2006 HK$'000	2005 HK$'000
Profit before taxation	**100,318**	79,202
Notional tax on profit before tax, calculated at the rates, applicable to profits in the countries concerned	**14,930**	11,784
Tax effect of non-taxable income	**(243)**	(85)
Tax effect of unrecognised tax losses	**821**	675
Temporary difference	**883**	824
Actual tax expense	**16,391**	13,198

7. PROFIT ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY

The consolidated profit attributable to equity shareholders of the Company includes a loss of approximately HK$4,680,000 (2005: a loss of HK$3,852,000) which has been dealt with in the financial statements of the Company.

8. DIVIDENDS

	2006 HK$'000	2005 HK$'000
Dividends payable to equity shareholders of the Company attributable to the year	**–**	–

Final dividend proposal after the balance sheet date of HK$16,720,000 (2005: Nil) at HK3.8 cents per share (2005: Nil) has not been recognised as a liability at the balance sheet date.

9. EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share for the year is based on the consolidated profit attributable to equity shareholders of approximately HK$83,927,000 (2005: HK$66,004,000) and the weighted-average number of 400,000,000 (2005: 400,000,000) ordinary shares in issue during the year.

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of HK$83,927,000 and the weighted average number of ordinary shares of 400,768,898 shares, calculated as follow:

Weighted average number of ordinary shares (diluted)

	2006 '000	2005 '000
Weighted average number of ordinary shares at 31 December	**400,000**	400,000
Effect of deemed issued of shares under the Company's share option scheme for nil consideration	**769**	–
Weighted average number of ordinary shares (diluted) at 31 December	**400,769**	400,000

Diluted earnings per share is not presented for 2005 as there were no dilutive potential ordinary shares during the year ended 31 December 2005.

10. STAFF RETIREMENT BENEFITS

The Group has arranged its Hong Kong employees to join the Mandatory Provident Fund Scheme (the "MPF Scheme"), under the Hong Kong Mandatory Provident Fund Schemes Ordinance under the jurisdiction of the Hong Kong Employment Ordinance. The MPF Scheme is a defined contribution retirement plan managed by independent trustees. 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. Contributions to plan vest immediately.

The employees of the Group's subsidiary in the PRC are members of a state-sponsored retirement plan, which is a defined contribution retirement plan operated by the local government in the 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 the PRC and are charged to the 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 the PRC.

The contributions paid for the year were approximately HK$807,000 (2005: HK$737,000). As at 31 December 2006, there were no material forfeitures available to offset the Group's future contributions (2005: Nil).

11. DIRECTORS' REMUNERATION

The directors of the Company were members of the senior management of the Group during the year ended 31 December 2006 and 2005, directors' remuneration disclosed pursuant to section 161 of the Hong Kong Companies Ordinance is as follows:

	For the year ended 31 December 2006				
	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	–	456	25	17	498
Chai Chung Wai	–	650	–	12	662
Zhong Houyao	–	60	–	–	60
Chong Hoi Fung	–	–	–	–	–
Sun Daquan	–	60	–	–	60
Independent non-executive directors					
Pei Renjiu	30	–	–	–	30
Li Kai Ming	30	–	–	–	30
Cheung Chuen	45	–	–	–	45
	105	1,226	25	29	1,385

	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

12. INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, two (2005: all) are directors whose emoluments are disclosed in note 11. The aggregate of the emoluments in respect of the other three individuals (2005: nil) are as follows:

	2006	2005
	HK$'000	HK$'000
Basic salaries and allowances	**194**	–
Bonuses	**132**	–
Contributions to retirement scheme	**26**	–
	352	–

The emoluments of the three individuals with the highest emoluments are below RMB1,020,000 (equivalent of HK$1,000,000). The emoluments of all the five highest paid individuals (including directors and other employees) for the year ended 31 December 2005 are directors of the Company, the details of which is disclosed in note 11.

During the year, no emoluments had been paid by the Group to the directors or the five highest paid individuals as an inducement to join or upon joining the Group, or as compensation for loss of office. No directors waived or agreed to waive any emoluments during the year.

13. PROPERTY, PLANT AND EQUIPMENT

The Group

	Buildings	Leasehold improvement	Plant and machinery	Office and other equipment	Motor vehicles	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Cost or valuation						
At 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 and 1 January 2006	59,017	289	47,192	1,824	1,317	109,639
Exchange adjustments	2,360	–	1,888	67	53	4,368
Additions	46,000	–	12,086	1,271	–	59,357
At 31 December 2006	107,377	289	61,166	3,162	1,370	173,364
Accumulated depreciation						
At 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 and 1 January 2006	6,332	116	8,587	414	505	15,954
Exchange adjustments	307	–	432	20	23	782
Charge for the year	2,708	58	4,419	332	121	7,638
At 31 December 2006	9,347	174	13,438	766	649	24,374
Net book value						
At 31 December 2006	**98,030**	**115**	**47,728**	**2,396**	**721**	**148,990**
At 31 December 2005	52,685	173	38,605	1,410	812	93,685

13. PROPERTY, PLANT AND EQUIPMENT (Continued)

The Company

	Leasehold improvement HK$'000	Office and other equipment HK$'000	Total HK$'000
Cost			
At 1 January 2005, 31 December 2005, 1 January 2006 and 31 December 2006	289	134	423
Accumulated depreciation			
At 1 January 2005	58	27	85
Charge for the year	57	27	84
At 31 December 2005 and 1 January 2006	115	54	169
Charge for the year	58	27	85
At 31 December 2006	173	81	254
Net book value			
At 31 December 2006	**116**	**53**	**169**
At 31 December 2005	174	80	254

14. PREPAID LEASE PAYMENTS

	The Group	
	2006	2005
	HK$'000	HK$'000
Beginning of the year	**3,320**	2,821
Exchange adjustments	**130**	52
Additions	**9**	630
Amortisation	**(144)**	(183)
End of the year	**3,315**	3,320

The prepaid lease payments represent prepayment of lease premium for land are situated in the PRC under medium-term leases.

15. INTANGIBLE ASSET

	The Group	
	2006	2005
	HK$'000	HK$'000
Patents		
Cost		
At beginning of the year	**77,308**	11,132
Exchange adjustments	**3,093**	214
Additions	**22,000**	65,962
At end of the year	**102,401**	77,308
Accumulated amortisation		
At beginning of the year	**5,379**	–
Exchange adjustments	**442**	51
Amortisation	**11,328**	5,328
At end of the year	**17,149**	5,379
Net book value		
At end of the year	**85,252**	71,929

16. INVESTMENT IN SUBSIDIARIES

	The Company	
	2006	2005
	HK$'000	HK$'000
Unlisted shares, at cost	**134,065**	134,065
Due from subsidiaries	**52,468**	56,380
	186,533	190,445

Amounts due from subsidiaries are unsecured, non-interest bearing and repayable on demand.

Details of subsidiaries as at 31 December 2006 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 Nanshaolin Pharmaceutical Co., Ltd. ("Fujian Nanshaolin") (Formerly known as Fujian Fuqing Pharmaceutical Company Limited)	PRC/PRC	Ordinary	RMB21,000,000	–	100%	Manufacture, sale, research and development of pharmaceutical products

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

17. NEGATIVE GOODWILL

	The Group	
	2006	2005
	HK$'000	HK$'000
Gross amount		
At beginning of the year	**–**	1,612
Derecognised during the year	**–**	(1,612)
At end of the year	**–**	–
Released to income		
At beginning of the year	**–**	859
Derecognised during the year	**–**	(859)
At end of the year	**–**	–
Carrying amount		
At end of the year	**–**	–

18. INVENTORIES

	The Group	
	2006	2005
	HK$'000	HK$'000
Raw material	**6,596**	4,870
Work in progress	**2,585**	–
Finished goods	**1,835**	2,591
Total	**11,016**	7,461

19. TRADE RECEIVABLES

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

The ageing analysis of trade receivables is as follows:

	The Group	
	2006	2005
	HK$'000	HK$'000
0 to 30 days	**47,880**	35,923
31 to 60 days	**31,748**	34,122
61 to 90 days	**6,548**	–
	86,176	70,045

20. TRADE PAYABLES

The ageing analysis of accounts payables is as follows:

	The Group	
	2006	2005
	HK$'000	HK$'000
0 to 30 days	**22,492**	18,158
31 to 60 days	**41**	–
61 to 90 days	**13**	–
	22,546	18,158

21. SHARE CAPITAL

The Company

	Number of shares		Amount	
	2006	2005	**2006**	2005
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

22. 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.

22. 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 until 31 December 2005.

(a) The terms and conditions of the grants that existed during the years are as follows, whereby all options are settled by physical delivery of shares:

	Number of instruments	**Vesting conditions**	**Contractual life of options**
Option granted to a consultant	2,000,000 shares	No vesting conditions	2 years

(b) The number and weighted average exercise prices of share options are as follows:

	2006 Weighted average exercise price	**2006** Number of options '000	2005 Weighted average exercise price	2005 Number of options '000
Outstanding at the beginning of the year	**–**	**–**	–	–
Granted during the year	**HK$0.57**	**2,000**	–	–
Outstanding at the end of the year	**HK$0.57**	**2,000**	–	–
Exercisable at the end of the year	**HK$0.57**	**2,000**	–	–

22. SHARE OPTION SCHEME (Continued)

(c) Fair value of share options and assumptions

The fair value of services received in return for share options granted is measured by reference to the fair value of share options granted. The estimate of the fair value of the share options granted is measured based on a Black-Scholes option pricing model ("Black-Scholes OPM"). The contractual life of the share option is used as an input into this model. Expectations of early exercise are incorporated into the Black-Scholes OPM.

Fair value of share options and assumptions	**2006**	2005
Fair value per share at measurement date	**HK$0.2455**	N/A
Market value per share at the date of grant of options	**HK$0.72**	N/A
Exercise price per share	**HK$0.57**	N/A
Expected volatility (expressed as weighted average volatility used in the modelling under Black-Scholes OPM)	**58.25%**	N/A
Option life (expressed as weighted average life used in the modelling under Black-Scholes OPM)	**2 years**	N/A
Expected dividends	**–**	N/A
Risk-free interest rate (based on Exchange Fund Notes)	**3.65%**	N/A

The expected volatility is based on the historic volatility (calculated based on the weighted average remaining life of the share options), adjusted for any expected changes to future volatility based on publicly available information. Expected dividends are based on historical dividends.

Share options were granted under a service condition. This condition has not been taken into account in the grant date fair value measurement of the services received. There were no market conditions associated with the share options grants.

23. RESERVES

(a) The Group

	Share premium	Statutory reserve	General reserve	Special reserve (note c)	Exchange reserve	Share option reserve	Retained profit	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
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 translation of financial statements of overseas subsidiaries	–	–	–	–	4,104	–	–	4,104
As at 31 December 2005 and 1 January 2006	27,944	9,906	20,117	19,608	4,104	–	218,574	300,253
Profit attributable to shareholders	–	–	–	–	–	–	83,927	83,927
Transfer to reserve	–	–	4,640	–	–	–	(4,640)	–
Exchange differences arising from translation of financial statements of overseas subsidiaries	–	–	–	–	11,825	–	–	11,825
Recognition of equity-settled share-based payment	**–**	**–**	**–**	**–**	**–**	**491**	**–**	**491**
As at 31 December 2006	**27,944**	**9,906**	**24,757**	**19,608**	**15,929**	**491**	**297,861**	**396,496**

23. RESERVES (Continued)

(b) The Company

	Share premium HK$'000	Contributed surplus HK$'000	Share option reserve HK$'000	(Accumulated losses) HK$'000	Total HK$'000
As at 1 January 2005	27,944	133,865	–	(6,904)	154,905
Loss attributable to shareholders	–	–	–	(3,852)	(3,852)
As at 31 December 2005 and 1 January 2006	27,944	133,865	–	(10,756)	151,053
Loss attributable to shareholders	–	–	–	(4,680)	(4,680)
Recognition of equity-settled share-based payment	–	–	491	–	491
As at 31 December 2006	**27,944**	**133,865**	**491**	**(15,436)**	**146,864**

(c) Nature and purpose of reserves

(i) Share premium

Under the Companies Law (revised) of the Cayman Island, the share premium account of the Company is distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed the Company will be in a position to pay off its debts and they fall due in the ordinary course of business.

23. RESERVES (Continued)

(c) Nature and purpose of reserves (Continued)

(ii) Statutory reserve

Fujian Nanshaolin, 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 Fujian Nanshaolin and the board of directors has determined that no further appropriation is necessary unless there is an increase in share capital of Fujian Nanshaolin.

(iii) General reserve

General reserve represents enterprise expansion fund which is non-distributable. Appropriations to such reserve is made out of net profit after taxation of the statutory financial statements of the PRC subsidiaries while the amount and allocation basis are decided by its board of directors annually. The enterprise expansion fund is used for expanding the capital base of the PRC subsidiaries by means of capitalisation issue.

(iv) Special reserve

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.

(v) Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policies set out in note 2(r).

23. RESERVES (Continued)

(c) Nature and purpose of reserves (Continued)

(vi) Share option reserve

The share option reserve of the Company and the Group arises on the grant of share options to directors of the Company, suppliers of goods or services to the Group and consultant of the Group. The reserve is dealt with in accordance with the accounting policies set out in note 2(n).

(vii) Contributed surplus

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.

(d) Distributable reserves of the Company

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 2006, the Company's reserves available for distribution to shareholders amounted to approximately HK$146,373,000 (2005: HK$151,053,000) 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 (2005: HK$27,944,000) and contributed surplus of HK$133,865,000 (2005: HK$133,865,000), less accumulated losses of HK$15,436,000 (2005: HK$10,756,000), 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.

24. 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 presented here.

25. FINANCIAL INSTRUMENTS

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the Group's business. These risks are limited by the Group's financial management policies and practices described below.

(a) Fair values

The carrying amounts of the cash and bank deposits, trade and other receivables and payables, and short-term bank loans and balances with related parties approximate their fair values because of the short maturity of these instruments.

(b) 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.

In respect of trade and other receivables, credit evaluations are performed on all customers requiring credit over a certain amount. These receivables are due within 90 days from the date of billing. Debtors with balances that are more than 3 months overdue are requested to settle all outstanding balances before any further credit is granted. Normally the Group does not obtain collateral from customers.

(c) 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.

25. FINANCIAL INSTRUMENTS (Continued)

(d) 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.

(e) 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. COMMITMENTS

(a) Capital commitments

	2006 **HK$'000**	2005 HK$'000
Capital expenditure in respect of land lease payments in PRC contracted for but not provided in the financial statements	**500**	500

26. COMMITMENTS (Continued)

(b) Operating lease commitments

As at 31 December 2006, the Group had commitments for future minimum lease payments in respect of properties under non-cancellable operating leases which fall due as follows:

	2006	2005
	HK$'000	HK$'000
Within one year	**742**	7

Significant leasing arrangements in respect of land held under operating leases are described in note 14.

27. 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 11.

28. IMMEDIATE AND ULTIMATE HOLDING COMPANY

At 31 December 2006, the directors consider the immediate and ultimate controlling party of the Company to be Elite Achieve Limited, which is incorporated in the British Virgin Islands. This entity does not produce financial statements available for public use.

29. CRITICAL 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.

30. POST BALANCE SHEET EVENTS

On 14 February 2007, Elite Achieve Limited, a company wholly and beneficially owned by Mr. Zhong Houtai, an executive Director and the chairman of the Board entered into (i) the Placing Agreement with the Company and Galaxy China Opportunities Fund, ("the Purchaser"), a third party independent of the Company and connected persons of the Company, pursuant to which the Seller agreed to sell and the Purchaser agreed to buy 40,000,000 shares of the Company ("the Sale Shares") at the price of HK$0.88 per Sale Share and (ii) the Subscription Agreement with the Company and the Purchaser, pursuant to which the Company has conditionally agreed to allot and issue 40,000,000 new Shares to the Seller at the price of HK$0.88 per Subscription Share.

The price per Sale Share of HK$0.88 represents (i) a discount of approximately 18.52% to the closing price of HK$1.08 per share as quoted on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 9 February 2007, being the last day of trading of the shares on the Stock Exchange (the "Last Trading Day"); (ii) a discount of approximately 12.00% to the average closing price of HK$1.00 per share as quoted on the Stock Exchange for the last five trading days up to and including the Last Trading Day. The net proceeds of the placement of HK$35,200,000 was used for additional working capital of the Group.

The placing of 40,000,000 shares was completed on 15 February 2007. The issued and fully paid share capital has been increased by HK$4,000,000.

31. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2006

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended 31 December 2006 and which have not been adopted in these financial statements.

The Group is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Group's results of operations and financial position.

In addition, the following developments may result in new or amended disclosures in the financial statements:

The Group has not early applied the following new standards, amendments and interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these new standards, amendments or interpretations will not have material impact on the results and financial position of the Group.

HKAS 1 (Amendment)	Capital Disclosures[1]
HKFRS 7	Financial Instruments: Disclosures[1]
HKFRS 8	Operating Segments[2]
HK(IFRIC) – Int-7	Applying the Restatement Approach under HKAS29 Financial Reporting in Hyperinflationary Economies[3]
HK(IFRIC) – Int-8	Scope of HKFRS2[4]
HK(IFRIC) – Int-9	Reassessment of Embedded Derivatives[5]
HK(IFRIC) – Int-10	Interim Financial Reporting and Impairment[6]
HK(IFRIC) – Int-11	HKFRS 2 – Group and Treasury Share Transactions[7]
HK(IFRIC) – Int-12	Service Concession Arrangements[8]

1 Effective for annual periods beginning on or after 1 January 2007.

2 Effective for annual periods beginning on or after 1 January 2009.

3 Effective for annual periods beginning on or after 1 March 2006.

4 Effective for annual periods beginning on or after 1 May 2006.

5 Effective for annual periods beginning on or after 1 June 2006.

6 Effective for annual periods beginning on or after 1 November 2006.

7 Effective for annual periods beginning on or after 1 March 2007.

8 Effective for annual periods beginning on or after 1 January 2008.

Financial Summary

RESULTS

	For the year ended 31 December				
	2006	2005	2004	2003	2002
			(restated)		
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Turnover	**342,232**	259,832	233,897	203,520	146,743
Profit before taxation	**100,318**	79,202	81,076	68,114	50,182
Taxation	**(16,391)**	(13,198)	(13,448)	(5,679)	(3,941)
Net profit for the year	**83,927**	66,004	67,628	62,435	46,241

ASSETS AND LIABILITIES

	At 31 December				
	2006	2005	2004	2003	2002
			(restated)		
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Total assets	**491,255**	386,235	300,840	232,350	102,838
Total liabilities	**(54,759)**	(45,982)	(31,448)	(30,731)	(31,398)
Shareholders' funds	**436,496**	340,253	269,392	201,619	71,440

Notes:

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